Real Estate in India

"Assessing the Potential, Navigating Challenges"

July 2023 – New Delhi

The Associated Chambers of Commerce and Industry of India

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Deepak Sood
Secretary General
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MESSAGE

The real estate sector, which is linked to over 250 ancillary industries, plays a key role in the country's economic development. Cities have enormous potential as engines of economic and social development, creating jobs and generating wealth through economies of scale. For orderly economic development, cities must be sustained by a high level of urban productivity with innovation. Therefore, the design of cities and towns with a view to developing inclusive and sustainable communities is important. The main objective of urban planning is to make a city or town more livable by improving the quality of life for its residents.

In order to bring about a significant transformation in the lives of urban population with an inclusive, participatory and sustainable approach, the government has increased its focus on urban development by setting up a comprehensive programme for planned urban development. The Government of India has been supportive to the growth and development of the Real Estate sector by addressing various issues through various policy implementations.

The sustainability and growth focus of the programme needs to be reassessed, though. In view of the continuing urbanization, demand for housing and associated infrastructure in India continues to increase rapidly alongside population growth. Accordingly, our real estate sector needs to keep pace with it. A conducive policy environment, modern infrastructure, and a favourable investment climate are needed to ensure the interdependence of growth in the real estate sector with other sectors of the economy.

ASSOCHAM jointly with Resurgent India has come out with this report on the subject highlighting various aspects of the Real Estate Industry. We hope that the contents of the report will provide valuable insights to policymakers, investors and industry stakeholders and the deliberations at the conference will further help in laying the roadmap for future growth and development Real Estate industry in its journey during Amrit Kaal.

Deepak Sood

Jyoti Prakash Gadia
MD & CEO
Resurgent India

MESSAGE

Over the course of the last eight years, India has made significant strides in elevating its standing in the Global Real Estate Transparency Index. The ascent can be attributed to a series of well-crafted and effective regulatory reforms, enhancing accessibility to comprehensive and accurate market data, and the implementation of progressive environmental initiatives.

The real estate industry in India, much like in many other countries, exhibits a stark contrast between prominent players targeting the affluent market and smaller counterparts catering to the more modest segment. While larger companies enjoy higher pricing power and better profit margins by catering to high-end clientele, smaller enterprises struggle to keep pace.

Amidst prevailing market conditions, smaller to medium-sized real estate firms find themselves treading cautiously when it comes to transferring increased costs to consumers. This apprehension stems from the potential repercussions such a move might have on demand, particularly in a buyer's market, where customers hold considerable sway. Striking a balance between covering expenses and maintaining affordability necessitates strategic planning and adaptability.

Implementing forward-thinking policies and regulatory changes, such as reforms in floor space index (FSI) regulations, will help reshape the real estate landscape and create a more equitable environment. These reforms could lead to a drop in land prices, opening up doors to more accessible housing options for a wider spectrum of the population.

Looking beyond localities, the Delhi Master Plan 2041 sets an ambitious vision to transform the nation's capital into an environmentally sustainable metropolis. The Delhi Master Plan 2041 provides stakeholders with a clear roadmap, streamlining regulations related to land and property usage, and facilitating greater flexibility in floor area ratio (FAR) and parking requirements.

The synergy between reforms and sustainability emerges as a driving force behind a more inclusive and resilient real estate sector. By leveraging reforms to bridge the gap between larger and smaller players, while simultaneously prioritizing sustainability in urban planning, we can envision a future where the real estate landscape thrives on diversity, innovation, and equilibrium. It is through this transformative journey that cities like Delhi can transcend their current state and evolve into models of sustainable urban living for the world to emulate.

Jyoti Prakash Gadia

Real Estate in India

Assessing the Potential, Navigating Challenges

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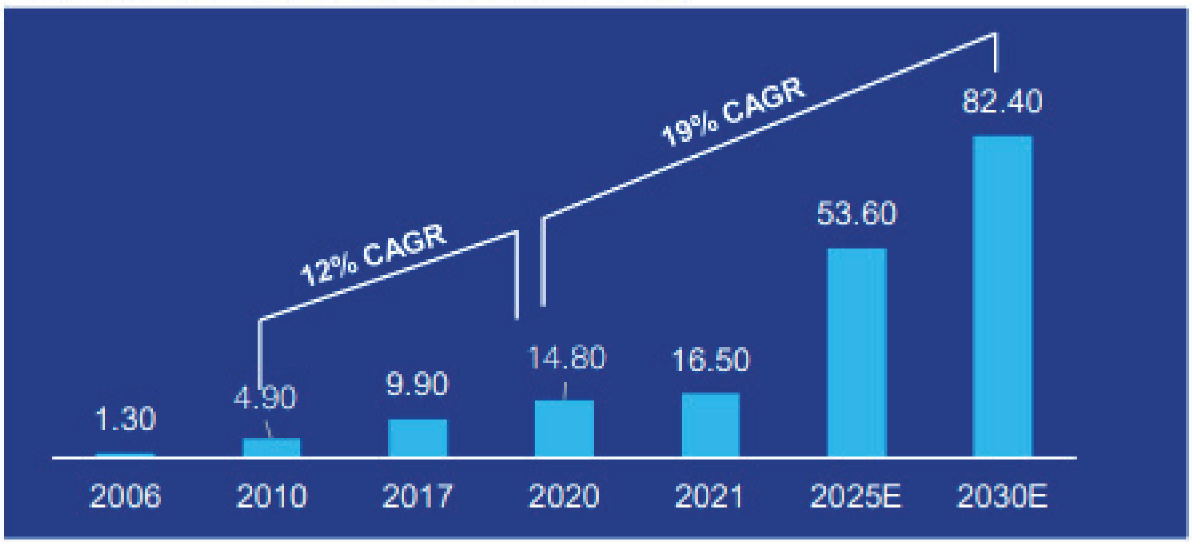
Chapter 1: A Brief Overview

Over the past decade, the expansion of the real estate sector has been effectively supported by the expansion of the corporate sector and the need for commercial premises, as well as urban and semi-urban housing. In India, real estate is the second largest source of employment opportunities, surpassed only by the agriculture sector.

It is projected to reach a value of US$ 1 trillion by 2030 and would contribute 13% to the country's GDP by 2025. The sector is benefiting from rapid urbanization, with an estimated 542.7 million people expected to live in urban areas by 2025 and 675.5 million by 2035. Construction, which includes development activities, is the third-largest recipient of foreign direct investment (FDI), attracting US$ 55.50 billion from April 2000 to December 2022.

The Indian government's 'Housing for All' initiative aims to attract an investment of US$ 1.3 trillion in the housing sector by 2025. Over the past eight years, India's Global Real Estate Transparency Index ranking has improved from 39 to 36, reflecting regulatory reforms, improved market data, and environmental initiatives.

Real estate market size (INR trillions)



Government Initiatives

The Government of India, in collaboration with state governments, has implemented several initiatives to promote development in the real estate sector. These initiatives include:

1. The Smart City Project, aiming to build 100 smart cities, presents a significant opportunity for real estate companies.

2. In the Union Budget 2023-24, the Finance Ministry has allocated Rs. 79,000 crore for the PM Awas Yojana, representing a 66% increase compared to the previous year.

3. The Union Budget 2021-22 extended tax deductions of up to Rs. 1.5 lakh on interest on housing loans and a tax holiday for affordable housing projects until the end of the fiscal year 2021-22.

4. The Atmanirbhar Bharat 3.0 package, announced in November 2020, included income tax relief measures for real estate developers and homebuyers for the primary purchase/sale of residential units valued up to Rs. 2 crores from November 12, 2020, to June 30, 2021.

5. The Union Cabinet provided for the establishment of a Rs. 25,000 crore alternative investment fund (AIF) to revive around 1,600 stalled housing projects across major cities in the country.

6. The government has created the Affordable Housing Fund (AHF) within the National Housing Bank (NHB) with an initial corpus of Rs. 10,000 crores. This fund utilizes the priority sector lending shortfall of banks/financial institutions for microfinancing of housing finance companies (HFCs).

7. As of December 31, 2022, India has formally approved 425 special economic zones (SEZs), with 270 of them being operational as of January 2023. The majority of these SEZs are in the IT/BPM sector.

Investments/developments

The real estate market in India is expected to witness significant expansion, reaching Rs. 65,000 crores by 2040, a substantial increase from Rs. 12,000 crores in 2019. The industry is projected to achieve a market size of US$ 1 trillion by 2030, growing from US$ 200 billion in 2021, and making a 13% contribution to the country's GDP by 2025. Additionally, there is notable growth in the retail, hospitality, and commercial real estate sectors, which are crucial for meeting India's growing infrastructure needs. However, the current rate of housing construction falls short, with approximately three houses built per 1,000 people annually, while the required rate is five houses per 1,000 population. Consequently, there is currently a shortage of around 10 million housing units in urban areas. To accommodate the increasing urban population, an additional 25 million units of affordable housing will be needed by 2030.

Recent Trend:

1. Residential sales growth: North Bangalore, Pune, Mumbai, and NCR (National Capital Region) has experienced significant growth in residential sales. During the first half of 2022, these regions recorded a 3-9% year-on-year increase in residential sales.

2. Housing inventory: The supply of available housing inventory increased by 1% in the third quarter of 2022, reaching 7.85 lahks (785,000) units compared to 7.63 lahks (763,000) units in the second quarter of 2021.

3. Overall residential sales: In the third quarter of 2022, there were 83,220 units sold, showing a 12% surge compared to 74,330 units sold in the third quarter of 2021. This represents a 61% year-on-year increase and a 3% quarter-on-quarter increase.

4. Increase in home loan interest rates: Despite the rise in interest rates on home loans, which were at their highest since the first half of 2013, a total of 1,58,705 (158,705) units were sold in the first half of 2022, indicating a 19% rise over the first half of 2021.

5. Funds raised by Indian companies: By early November 2022, Indian companies raised INR3.5 trillion (3.5 trillion Indian Rupees) through infrastructure and real estate investment trusts (REITs).

6. Share of top-listed developers: The share of the top-listed developers in the Indian residential market is expected to increase to 29% in the fiscal year 2024, up from 25% in the fiscal year 2021. This growth is driven by a strong pipeline for residential project launches.

7. Housing units sold in Q2 CY22: In the second quarter of calendar year 2022, 74,330 housing units were sold, showing a 5% increase compared to the previous quarter.

8. New home launches in CY22: A total of 431,510 new homes were launched in the calendar year 2022, indicating a significant increase of 101% compared to the previous year.

9. Average costs of flats: Ahmedabad witnessed the highest growth in average costs of flats, with the average cost rising to Rs. 3,500-3,700 (US$ 42.75-US$ 45.19) per square foot, representing an 8% year-on-year increase. Pune and Chennai recorded the highest annual appreciation of 9% each.

10. Real estate trends in 2022: After two years affected by COVID-19, Tier 2 and Tier 3 cities have emerged as major real estate trends in 2022.

11. The asset mix in the portfolios of the investors has been witnessing a change owing to the paradigm shift from traditional asset classes to newer classes including logistics and data centres. This change is primarily driven by factors including increasing focus on home ownership by millennials owing to work from home ultimately leading to higher demand in tier II and III cities, with a higher focus on health and well-being amenities.

Chapter 2: Real Estate Market Potential: Domestic Demand and Growth Matrix

Real Estate Sector:

Residential Space: According to recent a study, the top eight cities in India witnessed a surge in sales, reaching the highest level in nine years, with a total of 308,940 units sold. Additionally, the real estate sector in India recorded land deals of over 1,700 acres in the first nine months of FY22 across these cities.

Commercial Space: There are only a few players operating across India in the commercial real estate sector. Between 2017 and 2021, foreign investments in this sector amounted to US$10.3 billion.

Retail Space: The demand for retail real estate is expected to receive a boost from foreign direct investment (FDI) in multi-brand retail. In 2022, the retail real estate segment attracted institutional investments worth US$492 million.

Hospitality Space: In FY19, the number of hotel rooms in India increased by 5.4% compared to the previous year, totalling 133,359 rooms by the end of FY19. It is projected that the hospitality sector will witness an annual investment of US$0.5-0.6 billion during 2018-2022, with a total investment reaching US$2.8 billion by 2022.

Special Economic Zones (SEZs): Developers anticipate a surge in demand for office spaces within SEZs after the replacement of the existing SEZs Act. As of February 2022, India has 425 formally approved SEZs, and as of January 13, 2023, 270 SEZs are operational in the country.

A report by a property brokerage firm showed that sales of luxury apartments, priced over Rs 1.5 crore, stood at 25,680 units across seven major cities during January-June 2022. The Mumbai Metropolitan Region accounted for more than half of these sales. The report underlined the fact that the percentage of luxury properties in overall sales was only 7 per cent in the pre-pandemic year of 2019. This percentage increased to 14 per cent in the first 6 months of 2022.

On the other hand, real estate companies launching high-end housing projects are selling units in such projects as hotcakes and are able to sell off the entire projects within days of launch.

High-end luxury has already made a strong and decisive turnaround; it is now aiming to head toward a whole new era of growth in the year 2023. Sector experts are of the opinion that the luxury property sales recorded in 2022 were only a precursor to the things to unfold in the future.

According to a recent survey conducted, a larger number of HNIs are proposing to buy luxury property in the next two years. This primarily has to do with the fact that the demerits of other asset classes were exposed to investors during the pandemic period, which reaffirmed their traditional belief in the merits of property as an investment class. They are now eyeing bigger, better, technology-enabled homes that offer uber-luxury amenities and can be perfectly functional in the capacity of a home office or home gym.

Enabled by a much higher purchasing power to the steep rupee fall — the Indian currency has breached the 82-mark against the US dollar — NRIs are also viewing this as a great opportunity to build bigger and better assets back home. Highly favoured in NRIs' list is the luxury real estate market of Bangalore, India's Silicon City, which is likely to get the major action of the positive changes on this front.

Another factor that gives the luxury housing segment an edge over the affordable segment is its immunity to interest rate changes. While increasing home loan rates may hamper the growth of the highly incentivized affordable housing segment in the country, no such negative effect is going to be seen in the luxury housing segment, which is by and large immune to the effects of the interest rate change.

Several niche sectors in India are expected to offer growth opportunities in the coming years. These sectors include healthcare, senior citizen housing, hotels, service apartments, and smaller office spaces. Here are the key points:

1. **Healthcare:** The healthcare market in India is projected to reach a value of US$ 372 billion in the next few years. To meet the global average of 2.6 hospital beds per 1,000 people, India needs to add 2 million beds.

2. **Senior citizen housing:** The rise of nuclear families and urbanization has led to the development of townships catering to the elderly. The senior citizen housing segment in India has the potential to reach a market size of US$ 7.7 billion by 2030, as per the Ministry of Commerce and Industry.

Ahmedabad	▪ Upcoming office space likely to boost hospitality segment.
Bengaluru	▪ Corporate clients expected to provide steady growth to room demand.
Chennai	▪ Emerging as promising commercial destination with Chennai-Bengaluru Industrial Corridor - likely to witness strong demand.
Hyderabad	▪ Room demand is expected to be driven by commercial and office space projects in the city.
Kolkata	▪ Projects like Light Rail Transport System, Monorail, Eco-Park, and Airport expansion are likely to boost travel, which will result in increase in demand for the hotel industry.
Mumbai	▪ Improved infrastructure, new airport terminal and upcoming airport in Navi Mumbai is expected to drive hotel industry's growth.
NCR	▪ In 2022, housing sales in the NCR surged 67% to reach 58,460 units compared with the same period last year.
Pune	▪ IT parks are attracting global players and increasing traffic. New business units are likely to increase business conferences and events, which in turn will boost the demand for hotels.

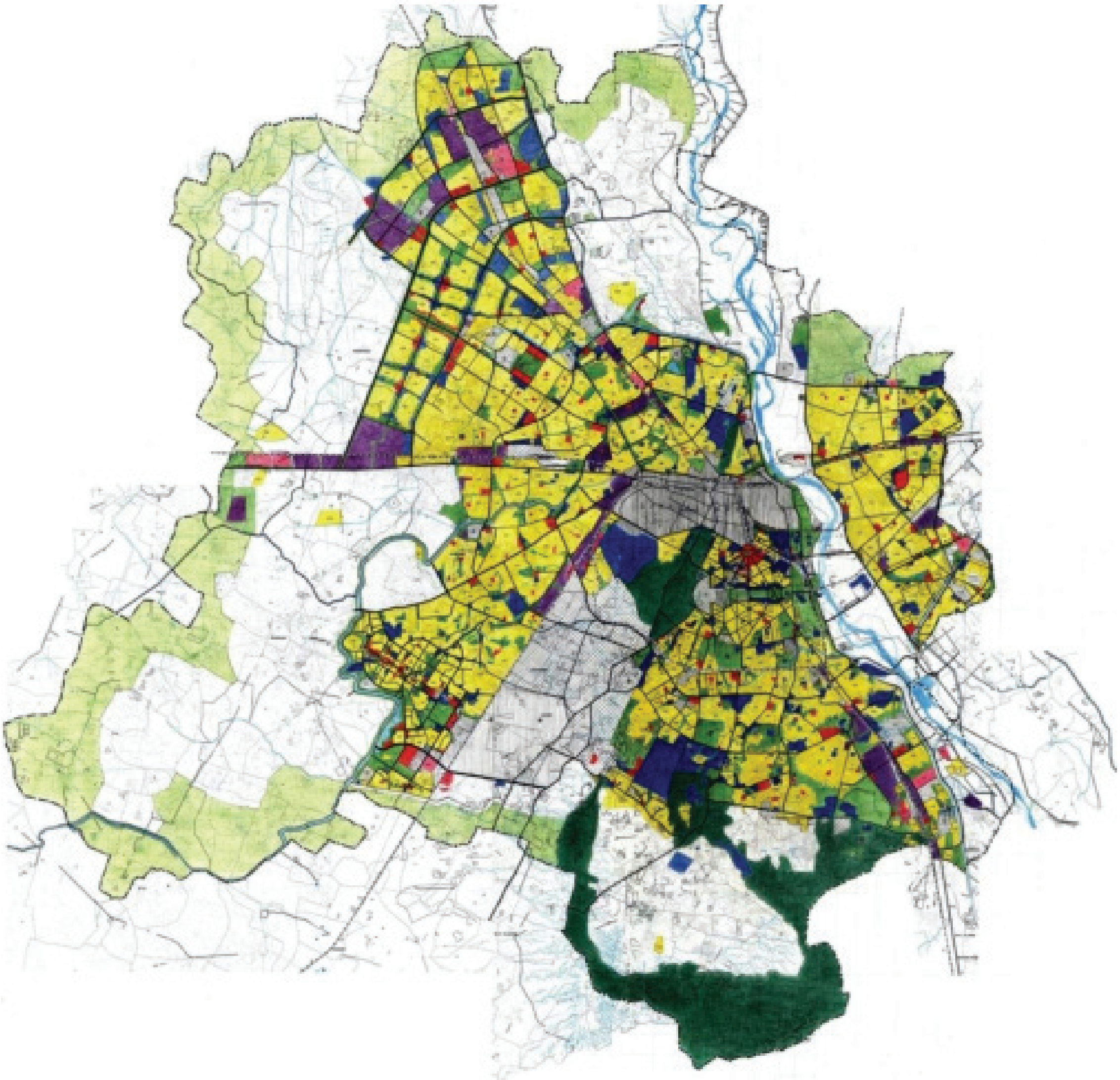
3. **Hotels:** With an expected increase in foreign tourist arrivals (FTAs) to 15.3 million by 2025, the demand for hotels in India is set to rise. Additionally, religious tourism represents a significant untapped market, accounting for nearly 60% of domestic tourism.

4. **Service apartments:** The growth in the number of tourists in India has created a demand for service apartments. This demand is likely to continue growing, providing opportunities for the unorganized sector.

5. **Smaller office spaces:** As remote work and hybrid work models become more prevalent, many companies are opting for smaller office spaces. This shift is helping revitalize the real estate sector, which experienced a slowdown due to the COVID-19 pandemic.

Overall, these niche sectors offer promising growth prospects, driven by various factors such as market demand, demographic trends, and evolving work patterns.

Chapter 3: Delhi Master Plan 2041



The Delhi Master Plan 2041 aims to transform Delhi into an environmentally sustainable city that offers affordable, safe, and high-quality living conditions, while also fostering economic, creative, and cultural development. It provides stakeholders with clear policies regarding their land and properties, simplifies regulations related to premises usage and activities, offers flexibility in floor area ratio (FAR) usage and parking requirements, and allows customization of future developments to meet the needs of the people.

The outreach efforts for the new master plan involve various stakeholders such as schools, universities, residents' welfare associations, civil society groups, campaigns, traders, market associations, environmental experts, industry groups, and professional bodies.

As the fourth master plan for Delhi, the Master Plan 2041 presents a development perspective for the national capital for the next 20 years, from 2021 to 2041. However, until the vision document for the next two decades is implemented, the Delhi Master Plan of 2021 will remain in effect.

As the focal point of the larger urban agglomeration of the National Capital Region (NCR), Delhi is a significant economic centre with a large migrant population. Migrants are expected to contribute to around 41 per cent of the population growth during the plan period, highlighting the need for new housing types and innovative solutions to address the requirements of different income groups.

To address these needs and other areas of concern, MPD-2041 has been formulated with a focus on the environment (green-blue infrastructure), economic, physical, and social development, as well as effective mobility management as key elements of the plan.

Preparing for exigencies

The plan has derived its set of learnings from the COVID-19 pandemic, demonstrating the need to create self-contained and mixed-use areas with a decentralized infrastructure. To address pandemic-like situations, the plan has emphasized mixed-use development and vertical mixing of compatible uses within plots. This will bring offices and homes in close vicinity to facilitate self-sufficient isolation zones in case required.

The plan to create multi-facility plots, particularly in dense unplanned areas, that can temporarily be repurposed along with other government facilities aids in the future preparation to deal with emergencies.

Promoting better habitat design and green-rated developments to improve ventilation addresses the steps to tackle air-borne diseases. Such policy-level initiatives will enhance the liveability quotient of the city and equip us to deal with health emergencies.

Addressing housing shortage

The plan outlines a comprehensive framework to address the housing shortage and meet the projected housing requirements through improvement in existing stock as well as the creation of new inventory.

Using the model of land pooling for large-scale greenfield development of housing will significantly enhance the supply and also unlock the potential of these identified land-pooling areas. This will further pave the way for improvements in the infrastructure of the identified land pooling areas through planned transit networks for connectivity. Small-format housing (40-60 sq m) shall be encouraged amid a paucity of land.

The focus on the development of adequate affordable rental housing to support the migrant population is another highlight of the plan. The affordable rental housing stock is a step in meeting the government's objective of "housing for all".

The plan advocates private sector participation in this initiative, with the Delhi Development Authority (DDA) acting as a facilitator.

The proposal to create affordable public rental housing by DDA, and public agencies, on public lands in the vicinity of activity centres will also improve supply.

The Centre's approval of the Model Tenancy Act will only complement this by unlocking housing stock for rental purposes.

Incentivizing the private sector to implement rental housing or other non-ownership formats, including serviced apartments and worker housing, is a welcome step towards providing an enabling environment for such developments.

Permitting industrial areas and warehousing/freight complexes for the development of affordable rental housing units by utilizing 15 per cent additional FAR, promoting rental housing as part of group housing projects, and encouraging such housing in all greenfield, reconstruction and regeneration projects in the city are part of incentives for private sector participation.

Emulating the example of metropolitan cities across the world, the plan promotes affordable rental housing within the city and closer to workplaces. This ensures housing availability for varied income groups, given the high cost of land in the city.

Transit-oriented development–improved quality of living.

The two-volume MPD 2041, with a sector-wise focus on economy, environment, public spaces, heritage, mobility and infrastructure, also includes strategies for spatial development, to guide the type and intensity of development in various parts of the national capital, through land pooling and transit-oriented development (TOD) policies.

The plan to create compact, walkable, mixed-use developments within influence zones of mass transit is expected to serve multiple objectives. Transit-oriented development (TOD) will aid in unlocking the latent economic potential of an area as well as land values.

The development of strategic economic centres around mass transit projects will pave the way for new value-creating opportunities for real estate. The policy will spur redevelopment and densification of strategic areas in the city and improve public transportation.

While the huge investment in the city's well-entrenched metro infrastructure can be capitalized, the strategy will lead to a marked improvement in the quality of living by reducing the need to travel long distances. This will also attract a high demand for real estate in such areas while yielding huge benefits for the environment.

TOD policy will be applied to influence zones identified by DDA providing higher FAR norms and mixed-use in such areas. The high development potential of such areas will lead to the creation of well-planned growth centres and derive economic benefits for the city.

Land pooling:

The land pooling policy in the Delhi Master Plan 2041 involves the pooling of land parcels owned by individuals, groups of owners, or builders. The Delhi Development Authority (DDA) will develop the pooled land and return it to the original owners. However, one of the main challenges faced in implementing this policy is the lack of contiguous land parcels, which hinders the development of pooled land. Recent reports suggest that while a significant proportion of landowners are willing to participate, the fragmented nature of the pooled land makes it difficult to create contiguous areas for development.

One of the key advantages of the land pooling policy is that it allows landowners to retain ownership of their land, reducing the likelihood of legal disputes. Unlike other land acquisition schemes, land pooling protects the rights of landowners and involves a participatory approach. Furthermore, since there is no acquisition of land involved, the overall cost of implementing such schemes is significantly lower.

Regeneration policy:

The Delhi Master Plan 2041 includes a significant focus on the regeneration policy, which aims to address the aging and unsafe building stock in certain areas and enhance the quality of life for residents. The strategy involves using regeneration as a planning and design tool to renew these buildings and improve living conditions. The draft MPD-2041 specifically targets the urban regeneration of buildings constructed over five decades ago or earlier. By incorporating provisions for regeneration, the plan aims to facilitate the redevelopment or reconstruction of old and dilapidated structures, offering enhanced Floor Area Ratio (FAR) to improve the living conditions of residents.

In summary, the regeneration policy is a key component of the Delhi Master Plan 2041, aiming to enhance civic infrastructure in areas that have been established for several decades and require regeneration. The draft MPD-2041 includes provisions for urban regeneration, particularly targeting buildings constructed over five decades ago or earlier. The plan is expected to be notified by April 2023, and public input in the form of suggestions and objections has been invited.

Moving to a 24x7 city

Promoting a 24-hour city by identifying precincts for continuous work, cultural activity and entertainment at night to attract tourists and locals is a welcome initiative.

This will yield economic benefits by optimal utilisation of spaces for different activities, reduce congestion through staggered activities and improve safety.

Fostering a night-time economy, a concept largely prevalent in developed cities of Europe and the United States, will give the necessary push to Delhi's creative and cultural industries, and regenerate spaces, while making the city more dynamic and vibrant.

Preservation and rejuvenation of the city's rich heritage, outlined as a key plan objective, will help in culture lending impetus to the economy.

Formulating strategies to utilise this cultural capital through initiatives like cultural festivals, food and heritage walks will give the much-needed boost to maintain these assets.

Changing economic needs

The need to address changing business needs with growth in the knowledge economy has been highlighted in the plan. The high thrust laid on encouraging a start-up and innovation culture has created a plethora of such ventures in the new-age economy. To operate flexibly, such firms have a high preference for co-working spaces that provide modern office spaces replete with various amenities.

Permitting co-working spaces on industrial plots up to 10 per cent of the FAR without any use conversion will facilitate operations of such innovation clusters in the economy. Developing new industrial areas (proposed for development by DSIIDC and/or developed in land pooling areas) as hubs of the knowledge economy (with business parks, media clusters, and R&D centres) will address the changing economic needs of the city.

Permitting the conversion of industrial plots to warehouses within industrial use zones as per development control norms will cater to the rising e-commerce demand in the economy. This will strengthen NCR's position as a key redistribution centre, given its seamless connectivity.

Managing mobility

The plan's focus on shared mobility, parking management and making the city walkable are welcome initiatives. The huge increase in the number of vehicles (643 per thousand population in 2019-20 from 317 in 2005-06) calls for the need to address the increased demand for parking.

Using parking charges to disincentivise the use of private transport in areas with adequate public transport, dynamic pricing for peak and off-peak periods, and on- and off-street parking are among the measures to decongest areas.

Mechanised stack parking to maximise utilization is also expected to aid the capacity. Focus on demand management of existing parking by re-organising parking facilities and maximising their use is a fitting approach taken to address the concerns related to parking in the city.

Tackling pollution

The plan provides a comprehensive framework for green-blue infrastructure to enhance liveability. Some of the steps include addressing the inequitable distribution of greens in the city, switching to greener fuels for public transport, and promoting clean industries and low-carbon technologies.

Regulatory measures like congestion pricing to encourage the use of public transport is also a step in this direction. Checking the discharge of wastewater and industrial effluents in the Yamuna and steps to improve water quality are other measures discussed in the plan.

Including waste reuse and recycling practices in development schemes will help in making the city cleaner. Encouraging green-blue features within plots and buildings in all development projects and green ratings to reduce energy consumption are positive for the environment.

Pertinent Challenges

Though the plan provides an exhaustive roadmap for the city's development, it will have to be backed by adequate monitoring. Being the national capital, Delhi has a unique governance structure that often leads to institutional complexity.

Multi-agency synchronization between municipal authorities, local bodies, DDA, state and central governments will go a long way in bringing this master plan to fruition.

The plan to monitor the on-ground progress of various policies and conduct a review every five years for any modifications is a positive step.

The proposal to set up three monitoring committees – environmental sustainability committee, built environment committee and city vitality committee – and have a procedure to track and report annual progress to an apex committee will aid enforcement.

The Delhi Master Plan 2041 aims to encompass diverse aspects of urban development, such as revitalizing old areas, providing affordable rental housing, promoting walkability and non-motorized transport, integrating green-blue infrastructure, and fostering a thriving night-time economy. By drawing on the Haryana Master Plan and incorporating the Affordable Housing Scheme, the Delhi Master Plan 2041 can further enhance the liveability and affordability of the city.

The key takeaways:

- Nine different programs and schemes to beautiful the road network in Delhi
- Construction of 26 new underpasses and flyovers
- Launch of 1,600 new electric buses
- Development of free world-class ISBTs
- In the next ten years, agencies making roads will have to maintain them for ten years
- By the end of the next year (financial), every footpath in the city will be fixed
- Regular washing of dust piles on roadside plants
- Regular painting of central verge and footpaths
- 210 anti-smog guns and 70 mechanical road sweeping machines will be bought for road cleaning and anti-dust operation.

Additional Updates:

- Allocation of Rs 320 crore for building three unique double-decker flyovers - from Bhajanpura to Yamuna Vihar, Azadpur to Rani Jhansi intersections, and from Saket to Pul Prahaladpur.
- ISBT Anand Vihar and Sarai Kale Khan will be built on the lines of the airport.
- An ISBT of international standards will be built in Dwarka too.
- Dwarka will also get the first multi-level bus depot with six floors.
- Najafgarh and Nehru Place will get new bus terminals.
- Nine new bus depots in East Vinod Nagar, Narela, Chhatarpur, Burari, Kapashera, etc.
- Mohalla bus scheme for last mile connectivity, for which the FM announced the launch of 100 e-buses in 2023-24, 2,180 in the next two years.

Chapter 4: Government Initiatives to Boost The Real Estate Sector

The government of India has taken proactive measures to stimulate the real estate market and enhance the investment environment. Recognizing the importance of a thriving real estate sector for economic growth and providing affordable housing solutions, the government has introduced a range of incentives and initiatives. These measures, including tax reductions and subsidies for homebuyers, have played a crucial role in revitalizing the real estate market, attracting investors, and creating favourable conditions for both developers and buyers. By promoting affordability, simplifying taxation, and incentivizing investments, these initiatives have contributed to a more vibrant and dynamic real estate landscape in the country.

The real estate sector in India has been prospering due to various government policies. Here are some key policies that have contributed to its growth:

1. **Housing for economically weaker sections:** The government approved the development of Affordable Rental Housing Complexes (AHRCs) for urban migrants and the poor under the Pradhan Mantri Awas Yojana - Urban (PMAY-U). Additionally, a significant number of houses have been sanctioned and completed under the PMAY-U, benefiting the urban poor.

2. **Foreign Direct Investment (FDI):** The government has introduced favourable policies to attract FDI in the real estate sector. This includes allowing 100% FDI in townships and settlements development projects, reducing the minimum capitalization for FDI investment, and permitting 100% FDI in single-brand retail trading and construction development without government approvals. These measures have facilitated capital inflow and boosted urbanization.

3. **Govt-backed Stress Fund:** The Special Window for Completion of Construction of Affordable and Mid-Income Housing (SWAMIH) has supported housing projects, leading to increased sales and collection of dues. Investments worth billions of rupees have been cleared for multiple projects, ensuring their completion and benefitting homebuyers.

4. **Real Estate Investment Trusts (REITs):** The introduction of REITs in the non-residential segment has opened up investment channels for both commercial and infrastructure sectors. India's first REIT, Embassy Office Parks, was launched, raising substantial funds. The lowering of the minimum application value for REITs has made them more accessible to small and retail investors, further stimulating investment in the real estate sector.

5. **Stamp Duty reductions:** The Ministry of Housing and Urban Affairs recommended states to reduce stamp duty on property transactions to boost real estate activity, generate revenue, and support eco-

nomic growth. Some states, such as Maharashtra, implemented zero stamp duty on housing sales for a limited period, providing additional incentives for homebuyers.

6. **J&K's New Land Law:** The application of the Real Estate (Regulation & Development) Act, 2016 in the union territory of Jammu & Kashmir allows any Indian citizen to buy non-agricultural land and property, expanding the market and attracting more buyers.

7. **Construction Premiums:** In Maharashtra, construction premiums and levies accounted for a significant portion of the project cost. To encourage the real estate sector during the pandemic, these premiums and levies were halved for a year, reducing the financial burden on builders and facilitating construction activities.

8. **Green Building Movement:** India has made significant progress in promoting green buildings, with numerous registered green building projects. GEM (Green and Eco-friendly Movement) is a Green Initiative of ASSOCHAM to care for Mother Earth. ASSOCHAM executes the **"GEM Green Building Certification Program" with the objective to complement India's Sustainability Movement and take it to the next level to promote environment-friendly green building design and construction. GEM has been designed for the sustainable design and development of buildings and related developments. These government policies have collectively created a favourable environment for the real estate sector in India, attracting investments, promoting affordable housing, and stimulating economic growth.**

The government can establish a low-cost debt fund that caters to the capital requirements of the real estate developer community. This fund could provide priority debt financing and reduce lending costs for developers. Similar to the 'Special Window' fund approved by the Union Cabinet in 2019, this initiative would help alleviate the burden on developers and facilitate the completion of stalled housing projects in a reasonable time.

Such a low-cost governmental fund would provide relief to developers that are stuck with projects for want of capital and improve the housing supply which would benefit scores of Indian consumers. Moreover, since the real estate sector is intrinsically linked with 270+ allied industries, this last-mile funding initiative could help propel growth in other major sectors of the Indian economy as well.

Chapter 5: Challenges Plaguing The Real Estate Industry

The RERA Act is intended to create a fair environment for all parties involved in the real estate sector, including buyers, developers, promoters, and agents. However, despite its many benefits, the Act does need to be revisited.

1. **Absence of rules for delayed project approvals:** While RERA penalizes developers for delayed project deliveries, the majority of project delays occur during the process of acquiring approvals and clearances from various authorities. Currently, developers need to obtain numerous approvals, which can take 1-2 years on average. The Act does not hold government agencies accountable for these delays, placing the entire responsibility on developers. There is a lack of strict policies to enforce timelines or expedite the approval process.

2. **Lack of a single-window approval mechanism:** RERA does not provide a streamlined process for obtaining timely permissions from statutory authorities for real estate projects. Developers face the challenge of acquiring approvals from various agencies, which is cumbersome and time-consuming. Different subject matters fall under different regulatory bodies and municipalities, making the process complex. Implementing a single-window clearance system would simplify the approval process and facilitate project registration.

3. **Lack of strict deadlines:** The central government has been lenient with states regarding the deadline for drafting RERA rules and compliance with the central regulations. Many states that met the deadline have diluted certain rules, undermining the objective of strengthening the real estate sector.

4. **Ambiguity over state-specific content:** RERA drafts in various states lack clarity in certain provisions. For example, rules framed by different states do not specify the form and content of audit certificates to be issued by architects, engineers, and chartered accountants. This ambiguity may lead to overlapping roles and inconsistent verdicts. Some states also fail to provide detailed information about the required paperwork and fees for real estate agent registration.

5. **Lack of technological know-how:** In some regions, there is a lack of awareness about RERA, particularly in smaller cities where lesser-known developers operate. Additionally, people may lack the necessary computing skills to complete the online registration process. Thorough outreach programs conducted by the central and state governments are needed to educate stakeholders in non-metropolitan cities about the project registration process under RERA.

6. **Tedious registration process:** In certain states, such as Haryana, there are multiple Real Estate Regulatory Authorities with variations in the application process. This makes the application process cumbersome for developers with multiple projects in the state. Lengthy forms, including detailed

project reports and online forms, require repetitive information. Simplifying and streamlining the application process based on feedback from the market would make it more user-friendly.

Addressing these challenges and implementing feedback from the market promptly would help improve the effectiveness and efficiency of the RERA application process.

GST Issues:

The real estate sector has indeed been severely impacted by the COVID-19 pandemic, and it continues to face challenges in terms of economic and pandemic-related issues. One ongoing concern in the sector is the levying of Goods and Services Tax (GST) on the transfer of development rights (TDR). TDR refers to an arrangement where the landowner transfers the development rights of land to a developer in exchange for cash or a portion of the constructed flats.

Under GST law, immovable property is generally not subject to GST. Since land is considered immovable, it is argued that TDR, being a right attached to the land, should also be treated as immovable property and therefore exempt from GST. However, the government has taken the position that TDR should be treated as a service liable to GST. This has led to higher costs for buyers due to the GST charged on TDR transactions.

Another contentious issue in the real estate sector is the transfer of the Floor Space Index (FSI). FSI represents the maximum permissible floor area that can be constructed on a given plot of land. In some cases, developers may surrender land rights to local municipal authorities in exchange for additional FSI. Currently, GST is levied on such grants of FSI, which developers are required to pay.

Critics argue that FSI should not be considered a service subject to GST. They contend that FSI is merely permission granted to undertake construction within specified limits, and therefore should not be treated as a taxable service. Nevertheless, as of now, GST remains applicable to FSI issued by local authorities or subsequently sold by others.

Another area of contention is the denial of input tax credit (ITC) for the construction of immovable assets. Generally, taxpayers are not allowed to claim ITC for GST paid on inward procurements related to the construction of immovable property. This becomes problematic for businesses that heavily rely on such properties, such as hotels, resorts, commercially rented properties, and theatres. Disallowing ITC for construction-related procurements can be detrimental to these businesses. The Orissa High Court, in the Safari Retreats case, held that ITC related to construction should be allowed for businesses. However, the matter is still pending before the Supreme Court, and many industry players are hesitant to claim ITC on the construction of immovable property.

The introduction of GST aimed to streamline compliance and eliminate the cascading of taxes. However, the issues mentioned above have led to concerns that the intended purpose of GST has not been fully realized in the real estate sector.

Stalled projects:

A real estate consultancy report reveals that approximately 500,000 homes worth Rs 4.48 lakh crore are currently stalled in seven metro cities. The majority (77%) of these projects are in the National Capital Region (NCR) and the Mumbai Metropolitan Region (MMR). Pune and Kolkata account for 9% and 5% respectively, while the remaining 9% is distributed among Bengaluru, Chennai, and Hyderabad. Specifically, NCR has 240,610 stalled or delayed units worth over Rs 1.81 lakh crore, followed by MMR with 128,870 units worth about Rs 1.84 lakh crore. Bengaluru has 26,030 units worth over Rs 28,072 crore, Hyderabad has 11,450 units worth over Rs 11,310 crore, and Chennai has the lowest number of stalled homes among the top seven cities, with 5,190 units worth around Rs 3,731 crore. As of June 1, 2022, there were over 35,000 real estate projects in the country, with only a fraction of them completed.

The challenges posed by stalled real estate projects have significant financial and legal implications for customers, builders, and banks. Customers who have invested in such projects may face financial losses, damaged credit scores, and legal battles. Builders experience financial difficulties, including cash flow problems and reputation damage, while banks face non-performing assets, asset quality deterioration, liquidity concerns, and potential financial losses.

One of the key factors contributing to stalled projects is a lack of funding, particularly in the last mile of project completion. This final stage of funding is often the most challenging to secure, and many developers struggle to obtain it, resulting in project delays.

The government has taken steps to address these issues, including the creation of a real estate regulator and the introduction of the Insolvency and Bankruptcy Code. However, collaborative efforts from private developers are crucial in dealing with the problem of stalled projects.

Developers are exploring various strategies to cope with stressed assets, such as forming alliances with financially stable builders to complete delayed projects. Additionally, a 14-member committee established by the Union Housing and Urban Affairs Ministry aims to revitalize stagnant real estate projects, devise strategies for timely completion, and propose comprehensive solutions.

Stressed real estate projects face challenges due to development approvals, liquidity crunch, lower sales than projected, and strained cash flows. To address this, Alternative Investment Funds (AIF) can offer a viable solution for all stakeholders.

Approximately 70% of stressed projects require recapitalization or last-mile funding, which an AIF can provide through partnerships, asset sales, or loan takeover by ARC funds. By deploying investments into the projects, completing them, and selling off the inventory, the overall cash flow can improve significantly.

For stressed developers, raising capital alone may not be easy. An AIF can bridge the gap by attracting funding from institutional and retail investors, offering a viable exit strategy. They can act as a central axis, bringing stakeholders together and paving the way for the recovery of stressed real estate in India.

Funding challenges with real estate projects:

As of 2022, India's mortgage penetration stands at 13 per cent of the GDP, which is significantly lower than the average mortgage-to-GDP ratio of 20-30 per cent in other Asian economies. Moreover, 60 per cent of the ongoing Corporate Insolvency Resolution Processes (CIRPs) belong to real estate, renting, and business activities. This data highlights the challenges faced by the real estate sector in India, compounded by the fact that year-on-year credit growth to the industry has consistently declined over the past 9 years.

The pace of Credit Growth has slowed down:

Year	SCB's Exposure to Real Estate (Rs. crore)	% Growth
2022	2,799,945	10.86
2021	2,525,591	8.20
2020	2,334,125	9.22
2019	2,137,166	13.61
2018	1,881,097	14.52
2017	1,642,548	14.20
2016	1,438,317	13.79
2015	1,264,031	15.44
2014	1,095,012	18.62

The slowdown in the US and Europe, major sources of demand, has caused a decline in the overall demand for office space in India. This trend is evident in the US office market, where the vacancy rate reached 17.8% in the 1st quarter of this year—the highest in 30 years. Furthermore, approximately 14% of India's office space is owned by REITs. Although the inventory overhang has decreased to around 33%, it remains above the pre-pandemic levels of about 30% in 2019-20, indicating ongoing challenges in the real estate market.

The real estate market in India has also witnessed the underperformance of listed REITs, which has further impacted investor confidence and the overall market sentiment.

REIT	Listing Price	LTP	% Change	Underperformance vis-a-vis Nifty
Embassy Office REIT	315	308	-2.22	72
Brookfield REIT	269	269	0.00	77
Mindscape REIT	304	305	0.33	30

Disbursals by HFCs to Builders and Individuals have come down.

(In Rs. Crore)

HFC	Disbursements FY 18	Disbursements FY 19	Disbursements FY 20	Disbursements FY 21	Disbursements FY 22
Housing Loan to Individuals	224,292.00	224,356.00	188,233.00	190,994.00	259,270.00
Housing Loan to Builders	71,727.00	55,458.00	24,017.00	14,788.00	22,953.00

Chapter 6: Key Findings

As of 2022, the mortgage penetration in India was at 13 per cent of the GDP, which was notably below the average mortgage-to-GDP ratio of 20-30 per cent observed in other Asian economies. This data emphasizes the difficulties encountered by the real estate sector in India, further exacerbated by the consistent decline in year-on-year credit growth in the industry over the past 9 years. Additionally, around 60 per cent of the ongoing Corporate Insolvency Resolution Processes (CIRPs) are related to sectors such as real estate, renting, and business activities.

The slowdown in the US and Europe, which are major sources of demand, has led to a decline in overall demand for office space in India. This is further reflected in the U.S. office market, where the vacancy rate reached 17.8% in the 1st quarter of this year—the highest in 30 years. Additionally, around 14 per cent of India's office space is owned by REITs. Although the inventory overhang has reduced to around 33%, it still remains above the pre-pandemic levels of about 30% in 2019-20, indicating lingering challenges in the real estate market.

Restrictive floor space index regulations have artificially reduced the effective supply of land, contributing to as much as 50% of the total cost of building apartment complexes in megacities like Delhi and Mumbai. Construction costs have risen by 28% compared to pre-pandemic levels, while the Housing Price Index (HPI) has increased by 21% during the same period.

Small to medium-sized real estate companies fear passing on increased costs to consumers as it may adversely affect demand, resulting in a challenging situation for them in a buyer's market.

Larger real estate companies, catering to the higher end of the market with premium homes and higher margins, have more pricing power than smaller players, which mainly operate in the lower-end segment. Consequently, smaller companies struggle to take up new housing projects, leading to a contraction in India's construction sector and delaying any potential revival.

The denial of input tax credits (ITC) under the GST is a significant regulatory issue impacting the real estate sector, increasing the cost of homes and reducing demand. Government intervention is crucial to address regulatory hurdles, particularly regarding ITC, to mitigate the impact of increased home prices and sustain demand.

Reforms in floor space index regulations can effectively increase land supply, leading to lower land prices and more affordable housing options.

Over the past eight years, India's Global Real Estate Transparency Index ranking has improved from 39 to 36, reflecting regulatory reforms, improved market data, and environmental initiatives. Residential sales have already seen a significant increase following the Covid-19 period. The housing market, a significant driver of growth in the real estate sector, is poised for a remarkable year ahead.

About ASSOCHAM

The Knowledge Architect of Corporate India

The Associated Chambers of Commerce & Industry of India (ASSOCHAM) is the country's oldest apex chamber. It brings in actionable insights to strengthen the Indian ecosystem, leveraging its network of more than 4,50,000 members, of which MSMEs represent a large segment. With a strong presence in states, and key cities globally, ASSOCHAM also has more than 400 associations, federations, and regional chambers in its fold.

Aligned with the vision of creating a New India, ASSOCHAM works as a conduit between the industry and the Government. The Chamber is an agile and forward-looking institution, leading various initiatives to enhance the global competitiveness of the Indian industry, while strengthening the domestic ecosystem.

With more than 100 national and regional sector councils, ASSOCHAM is an impactful representative of the Indian industry. These Councils are led by well-known industry leaders, academicians, economists and independent professionals. The Chamber focuses on aligning critical needs and interests of the industry with the growth aspirations of the nation.

ASSOCHAM is driving four strategic priorities – Sustainability, Empowerment, Entrepreneurship and Digitisation. The Chamber believes that affirmative action in these areas would help drive an inclusive and sustainable socio-economic growth for the country.

ASSOCHAM is working hand in hand with the government, regulators, and national and international think tanks to contribute to the policy making process and share vital feedback on implementation of decisions of far-reaching consequences. In line with its focus on being future-ready, the Chamber is building a strong network of knowledge architects. Thus, ASSOCHAM is all set to redefine the dynamics of growth and development in the technology-driven 'Knowledge-Based Economy. The Chamber aims to empower stakeholders in the Indian economy by inculcating knowledge that will be the catalyst of growth in the dynamic global environment.

The Chamber also supports civil society through citizenship programmes, to drive inclusive development. ASSOCHAM's member network leads initiatives in various segments such as empowerment, healthcare, education and skilling, hygiene, affirmative action, road safety, livelihood, life skills, sustainability, to name a few.

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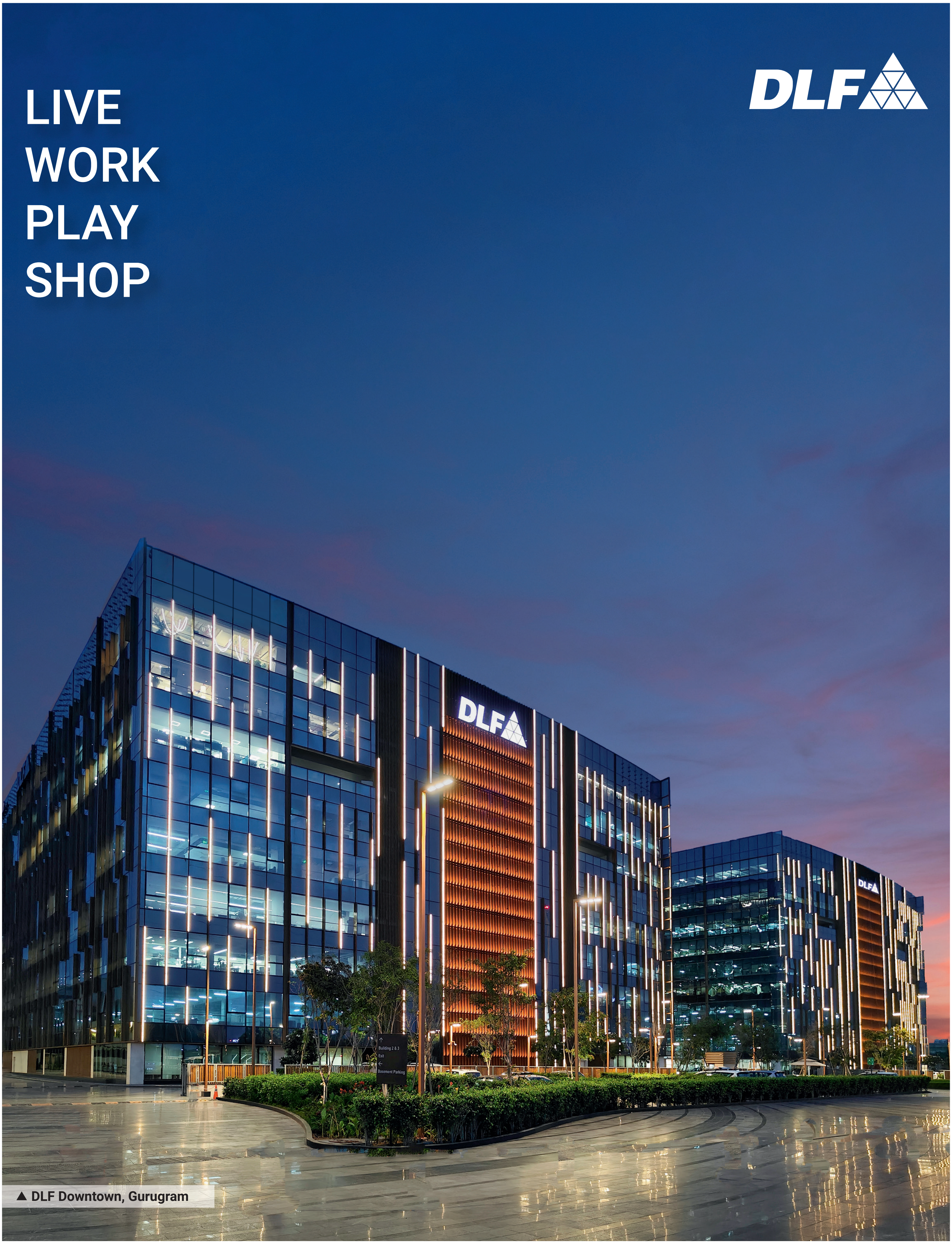

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