

Real Estate Newsletter

Perspective on Indian Real Estate

— *Indian Market Trends*

September, 2017

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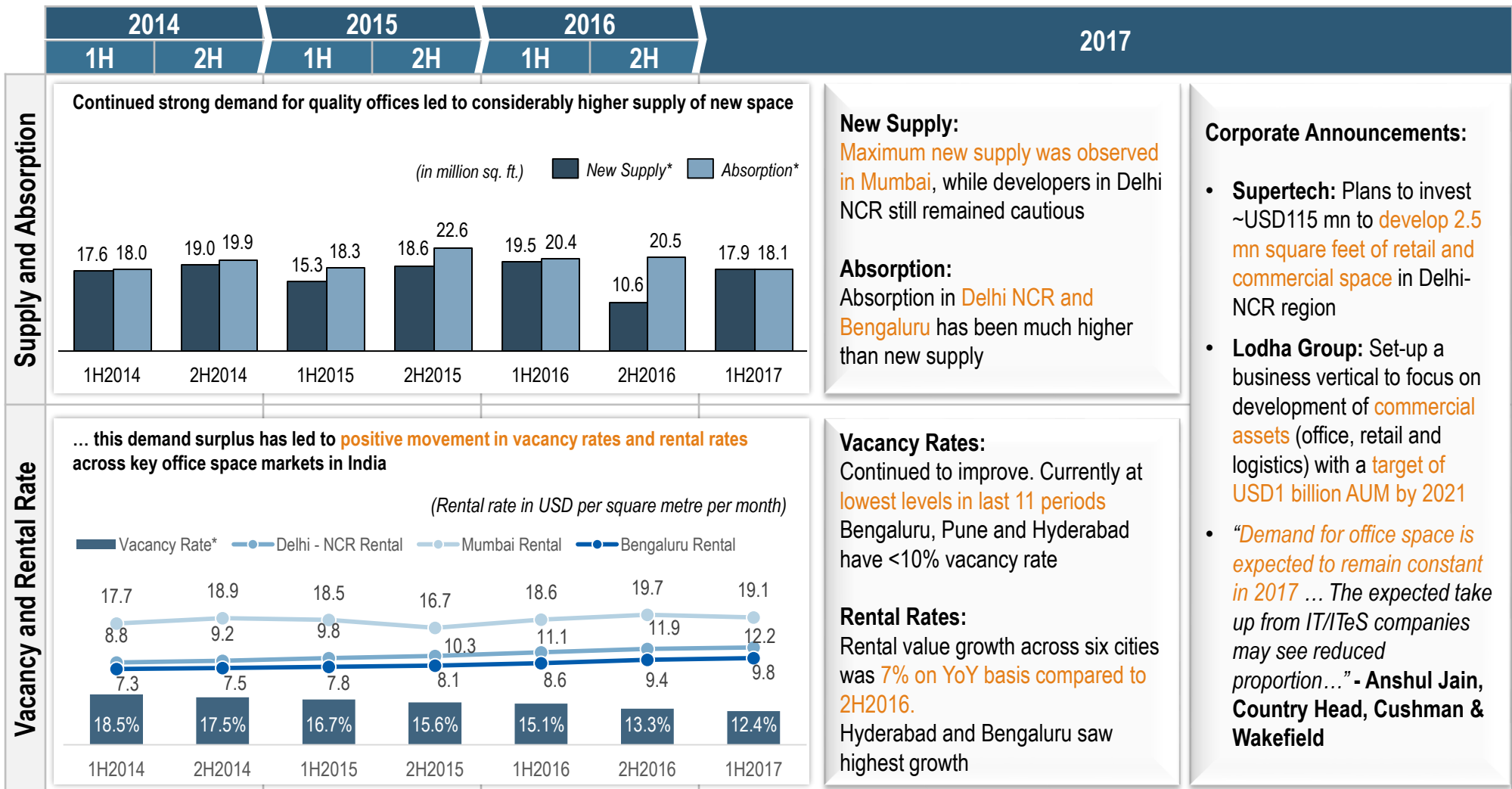
Policy Initiatives

Policy initiatives such as RERA and bank NPA resolution are being executed and are likely to make Indian market attractive for investors

	2014 - 2015	2016		2017	
		1H	2H	1H	2H
RE Regulation	<ul style="list-style-type: none"> SEBI introduced 'Real Estate Investment Trusts Regulations, 2014', expected to bring greater accountability, and reduce frauds and project delays 	<ul style="list-style-type: none"> Passed RERA - Real Estate (Regulation and Development) Act 2016 	<ul style="list-style-type: none"> Real estate sector impacted by demonetization due to high volume of cash transactions 	<ul style="list-style-type: none"> RERA becomes effective, however some states are yet to comply Some states have diluted the provisions of the central act, raising concerns 	<ul style="list-style-type: none"> States appointed regulators to ensure compliance to RERA Developers are trying to become organised and RERA compliant Consumers have complaints against faulty developers
Anti-Corruption	<ul style="list-style-type: none"> Benami Transactions (Prohibition) Amendment Bill, 2015 introduced to prohibit illegal ownership transactions 		<ul style="list-style-type: none"> Demonetization high value currency notes to remove 'black money' Benami Act 2016 becomes effective 	<ul style="list-style-type: none"> Income Tax department identified 400 transactions for conducting investigations under Benami Act Real estate assets estimated to be worth ~USD80 mn was linked in the transactions 	<ul style="list-style-type: none"> Income Tax department linked 381 properties estimated to be worth ~USD200 mn have been identified under Benami Act for further investigations and action
Banking System	<ul style="list-style-type: none"> Indian central bank (RBI) conducted asset quality review (AQR) of banks to ensure NPAs are recognized and provisioned 	<ul style="list-style-type: none"> Banks directed to recognise NPAs and make adequate provisions, resulting in steep rise in both GNPA and NNPA ratios 		<ul style="list-style-type: none"> Interest Subsidy Scheme for housing to promote affordable housing in India Govt. amended banking law to give RBI more powers to resolve NPAs RBI identified 12 large defaulters and asked banks to proceed for insolvency 	<ul style="list-style-type: none"> 9 out of 12 defaulters have been referred for insolvency proceedings RBI identified 40 more large defaulters for NPA resolution, majorly from infrastructure and power sector
Economic	<ul style="list-style-type: none"> Government relaxed rules for Foreign Direct Investment (FDI) in real estate Removed restrictive conditions of minimum area and capitalization amount 	<ul style="list-style-type: none"> Draft law for indirect tax reform - Goods and Service Tax (GST) released in Public domain in June 2016 Constitutional amendment bill passed to facilitate implementation of GST 			<ul style="list-style-type: none"> Goods and Service Tax (GST) became effective from 1 July, it is seen as single biggest tax reform to simplify the existing Indian indirect tax structure

Asset Overview: Office

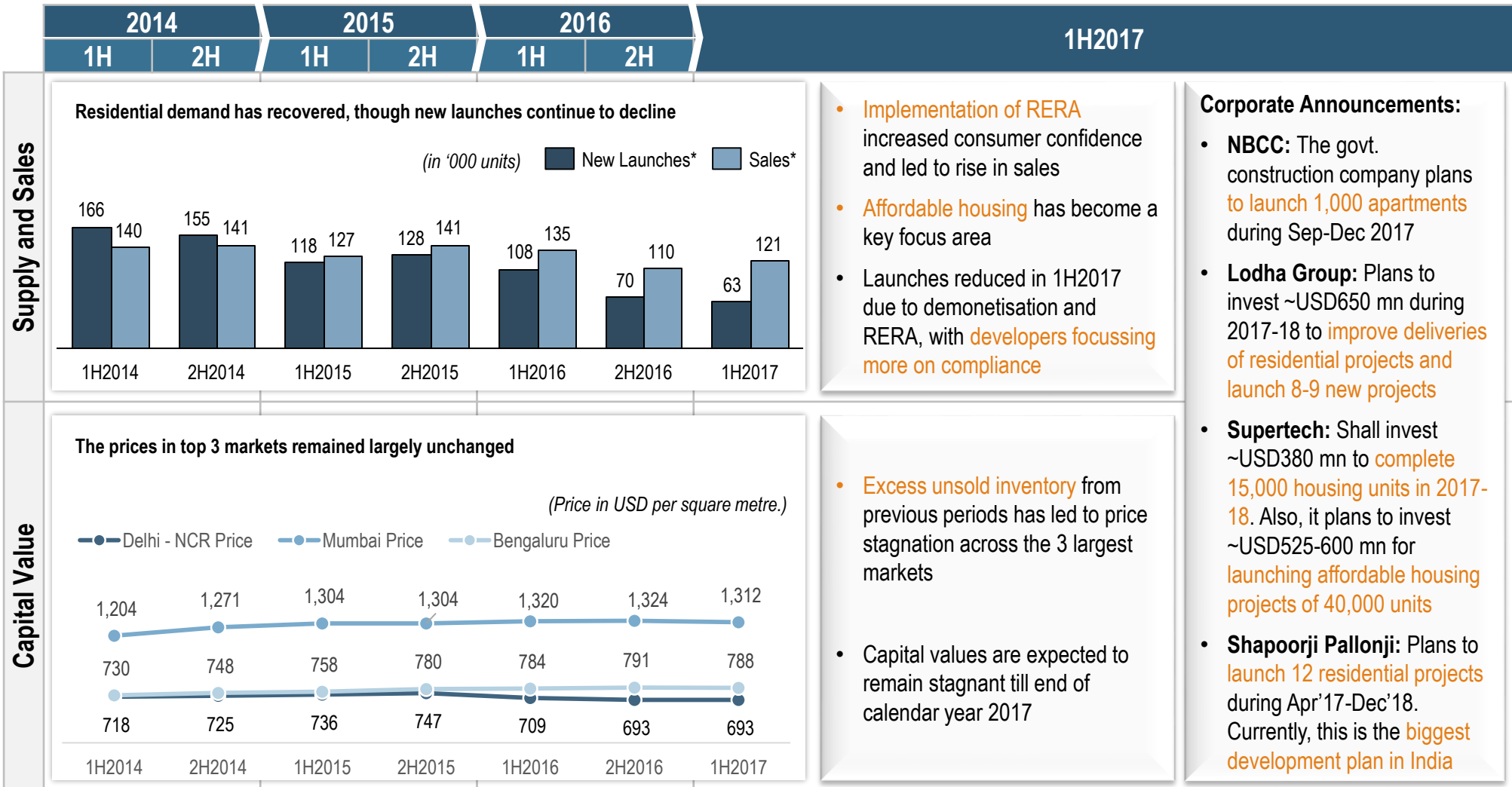
Office space demand has remained strong across key markets leading to rise in new supply and positive price movement



*Represents data for six cities: Delhi – NCR, Mumbai, Bengaluru, Pune, Chennai and Hyderabad

Asset Overview: Residential

Sales have started to recover supported by marginal price correction; large developers have announced significant investments



- **Implementation of RERA** increased consumer confidence and led to rise in sales
- **Affordable housing** has become a key focus area
- Launches reduced in 1H2017 due to demonetisation and RERA, with **developers focussing more on compliance**

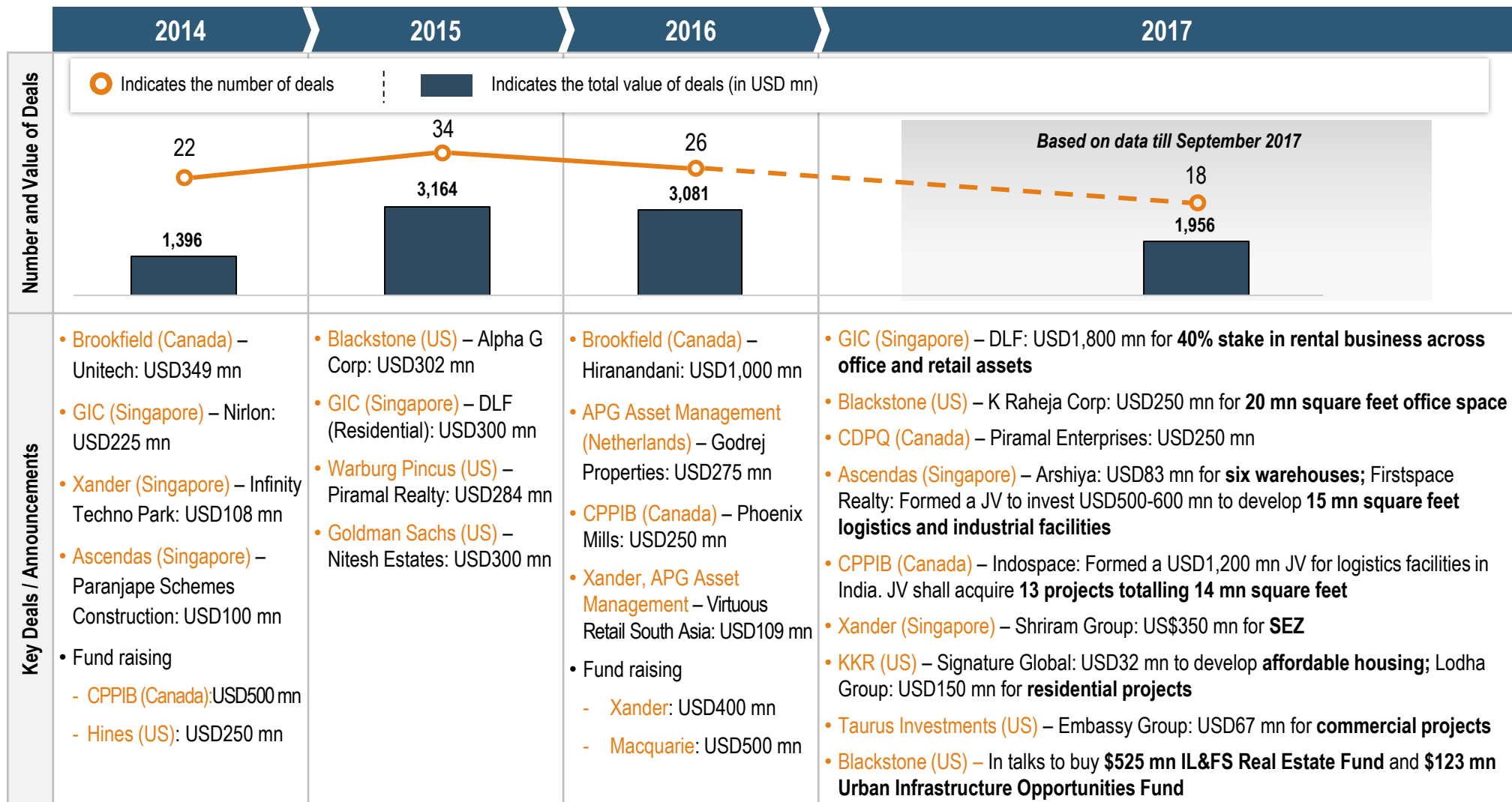
- Corporate Announcements:**
- **NBCC:** The govt. construction company plans to **launch 1,000 apartments** during Sep-Dec 2017
 - **Lodha Group:** Plans to invest ~USD650 mn during 2017-18 to **improve deliveries of residential projects and launch 8-9 new projects**
 - **Supertech:** Shall invest ~USD380 mn to **complete 15,000 housing units in 2017-18**. Also, it plans to invest ~USD525-600 mn for **launching affordable housing projects of 40,000 units**
 - **Shapoorji Pallonji:** Plans to **launch 12 residential projects** during Apr'17-Dec'18. Currently, this is the **biggest development plan in India**

- **Excess unsold inventory** from previous periods has led to price stagnation across the 3 largest markets
- Capital values are expected to remain stagnant till end of calendar year 2017

*Represents data for eight cities: Delhi – NCR, Mumbai, Bengaluru, Pune, Chennai, Hyderabad, Kolkata and Ahmedabad

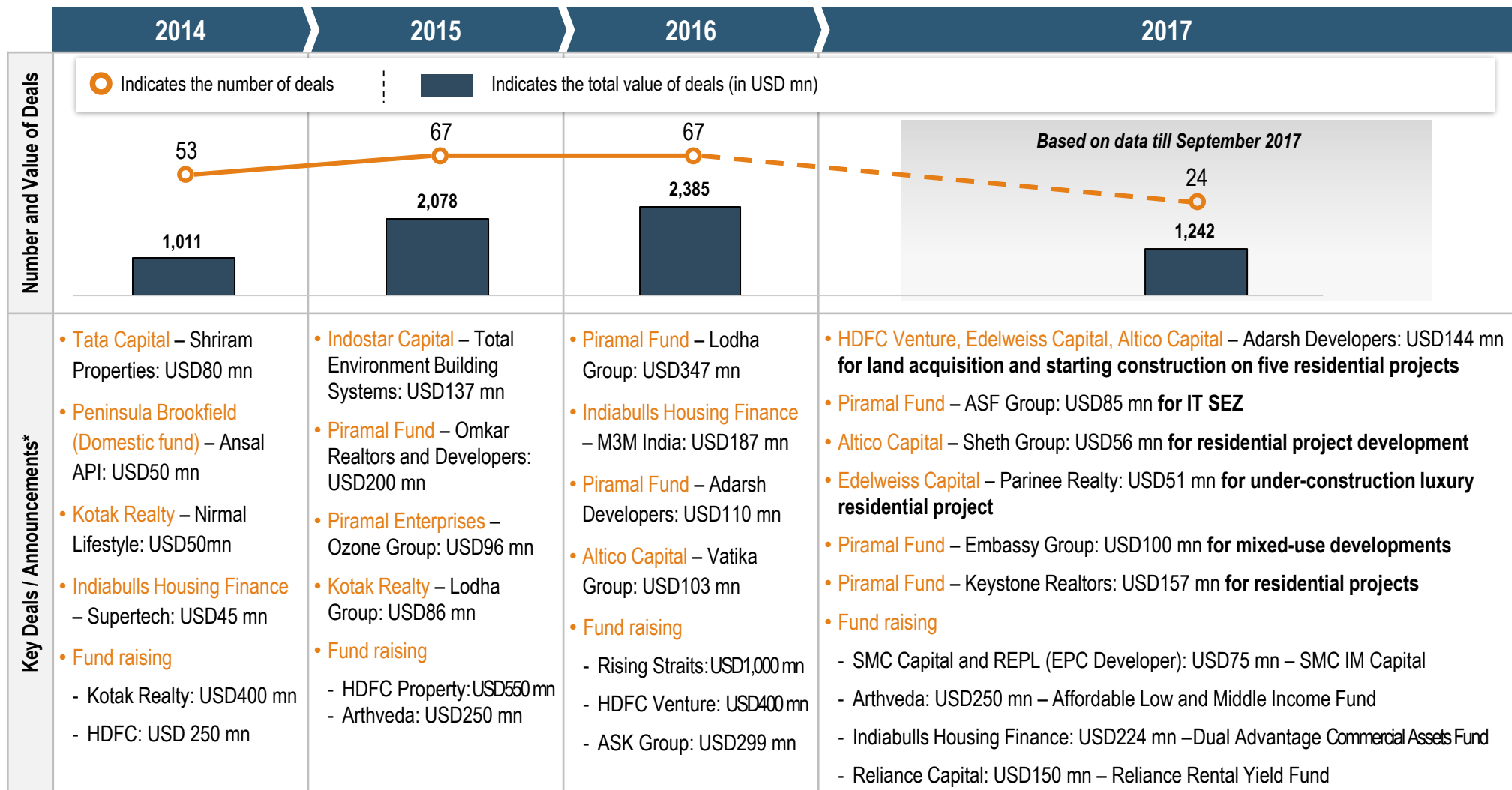
Capital Landscape: Equity – Foreign Investments

Major investors from Singapore, Canada and US have led investments focusing on commercial assets in India, specially logistics



Capital Landscape: Equity - Domestic Investments

Piramal has been a key domestic investor across asset classes. Overall, domestic deals have continued to focus on residential projects



*PE investments indicate deals by India-dedicated funds

Capital Landscape: REITs

During 2017, Indian central bank and securities market regulator made multiple regulatory relaxations to make REITs attractive for developers & investors

	2014 - 2015	2016		2017	
		1H	2H	1H	2H
Regulatory	Regulation Introduced <ul style="list-style-type: none"> 'Real Estate Investment Trusts Regulations, 2014' 	Operating Conditions Relaxed <ul style="list-style-type: none"> Limit on maximum number of sponsors raised to five Limit on investment in under-construction projects raised to 20% Foreign fund managers allowed to relocate to India as fund manager 		Investments by Mutual Funds Allowed <ul style="list-style-type: none"> Up to 5% of their NAV in a single REIT, with max. REIT exposure restricted at 10% of NAV 	Amended Investments by Banks <ul style="list-style-type: none"> RBI capped bank investments to 10% capital value of REIT
	Taxation Relaxed <ul style="list-style-type: none"> Dividend distribution tax on REITs abolished 			Investments by Insurance Cos. Allowed <ul style="list-style-type: none"> Up to 3% of their funds in REITs with max. holding in a single REIT restricted to 5% 	Allowed raising debt capital <ul style="list-style-type: none"> SEBI allowed REITs to raise capital by issuing debt securities
				Investments by Banks Allowed <ul style="list-style-type: none"> Within their umbrella limit of 20% of their Net-Owned Funds* 	Allowed single asset REITs <ul style="list-style-type: none"> Previously single asset could not hold more than 60% of REIT value
Investors	<ul style="list-style-type: none"> REIT Regulations were introduced in 2014, but no real estate developer or investor had shown interest in the initial two years Regulatory points such as dividend distribution tax and certain operating conditions made India REIT listings unattractive for investors 	<ul style="list-style-type: none"> GIC, CPPIB, Temasek, ADIA in talks with IndoSpace for launching ~USD2 bn logistics REIT Blackstone to launch ~USD0.6 bn office REIT with Embassy Group DLF plans to launch office REIT by mid-2018 Blackstone to launch second office REIT with Panchshil Realty Blackstone may consider listing its retail assets under REIT in future 	<ul style="list-style-type: none"> RMZ Corp (backed by Qatar Investment Authority) plans to launch REIT by end-2017 K. Raheja Corp may launch an office REIT 	<ul style="list-style-type: none"> No REIT listed yet. Industry players are still cautious and evaluating options Blackstone and Embassy Property Developments filed with SEBI (stock market regulator) to list their REIT by December 2017. Plan to raise up to USD 1 billion Next Orbit Ventures (India) and Interups (US) to launch India's first Hospitality REIT to be listed by January 2018, expected to raise ~USD 153 million 	

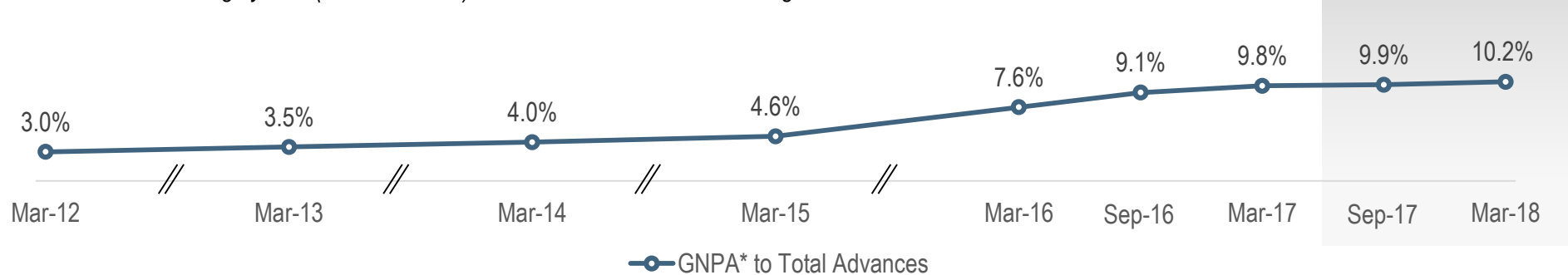
NOTE: *This umbrella limit of 20% includes bank's investments in equity-linked mutual funds, venture capital funds and stocks

Capital Landscape: Debt – NPAs in Banking System

Global asset managers are focusing on Indian NPA resolution plans as a lot stressed assets are available for investments

	2012 - 2014	2015	2016	2017
Key Events	<ul style="list-style-type: none"> Large portion of stressed loans accumulated due to default by large Indian companies Banks delayed the NPA / bad loan recognition to show good performance 	<ul style="list-style-type: none"> Aug-Nov 2015: RBI conducted Asset Quality Review - AQR of bank books to ensure NPAs are correctly recognized 	<ul style="list-style-type: none"> Banks directed to recognise NPAs and make adequate provisions, resulting in steep rise in both NPA ratio Global PE heavyweights formed JVs to focus on investments in Indian stressed assets <ul style="list-style-type: none"> - Brookfield, Apollo Global, Bain Capital, CPPIB, CDPQ and JC Flower & Co. 	<ul style="list-style-type: none"> May-17: Banking Regulation Act, 1949 amended to give RBI more powers to resolve NPA issue Jun-17: RBI identified 12 key defaulters (~25% of the total NPAs) for resolution by initiating insolvency proceedings under the Insolvency and Bankruptcy Code (2016) <ul style="list-style-type: none"> - Lender banks are finalising the resolution plan for each defaulter which could include loan restructuring or insolvency and sale of assets Aug-17: RBI identified 40 more large defaulters for NPA resolution, majorly from infrastructure and power sector Global asset managers have expressed interested - SSG Capital, Cerberus Capital, Pacific Alliance Group, Lone Star Funds, Oaktree Capital Blackstone acquired controlling stake in International Asset Reconstruction Co. (IARC), Mumbai

NPAs in Indian banking system (across sectors) – Ratio of Gross Non-Performing Assets to Total Advances



*Forecast as per RBI's 'Financial Stability Report', June 2017

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Dream up the future.