

Real Estate Newsletter

Perspective on Indian Real Estate

— *Indian Market Trends*

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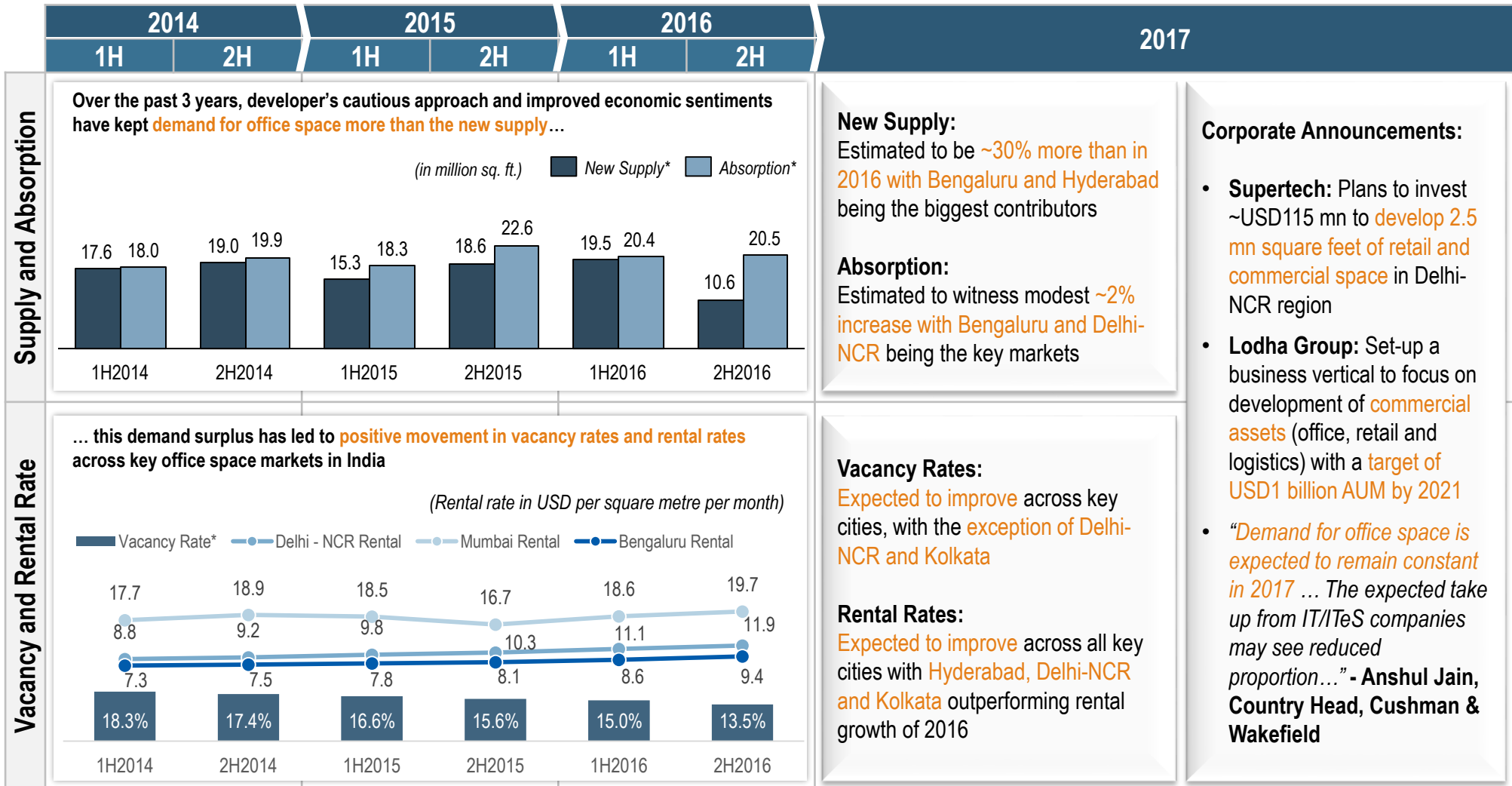
Policy Initiatives

Recent policy initiatives such as RE regulation act, GST tax reform and strong steps for resolving bank NPAs are likely to make Indian market attractive for investors

	2014 - 2015	2016		2017	
		1H	2H	1Q	2Q
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"> Multiple states notified the draft rules and passed the regulations to meet the deadline for compliance – 1 May 2017 	<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
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 	
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 loans for low and middle income groups, to promote affordable housing in India 	<ul style="list-style-type: none"> Government amended Indian banking regulation law to give RBI more powers to resolve NPA issue RBI identified 12 large debt defaulters and instructed banks to push these accounts for insolvency
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) to become effective from 1 July, potentially simplifying the Indian indirect tax structure

Asset Overview: Office

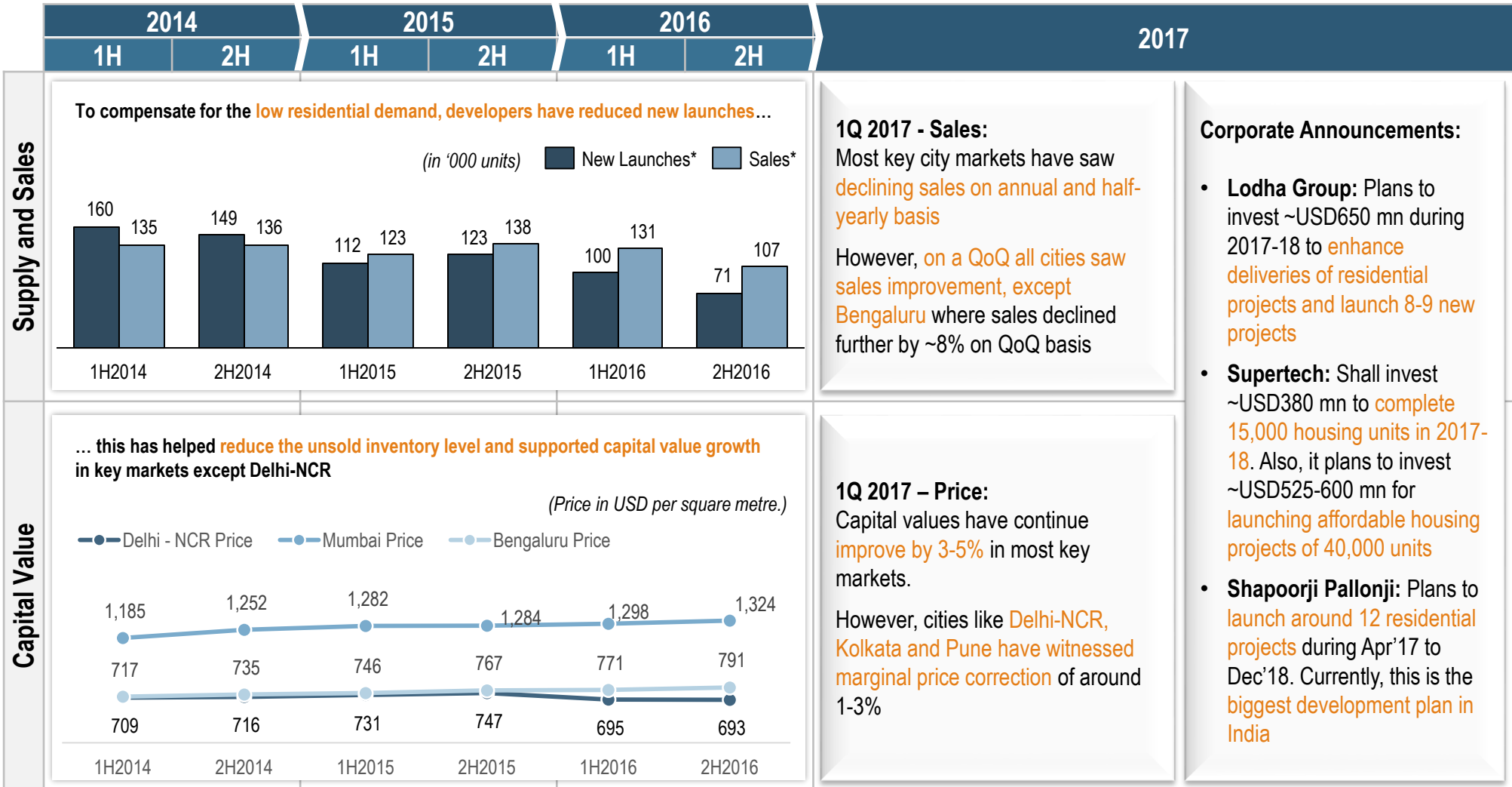
Office space demand may remain unchanged over 2016-17, but new launches are likely to witness high growth in expectation of increased future demand



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

Asset Overview: Residential

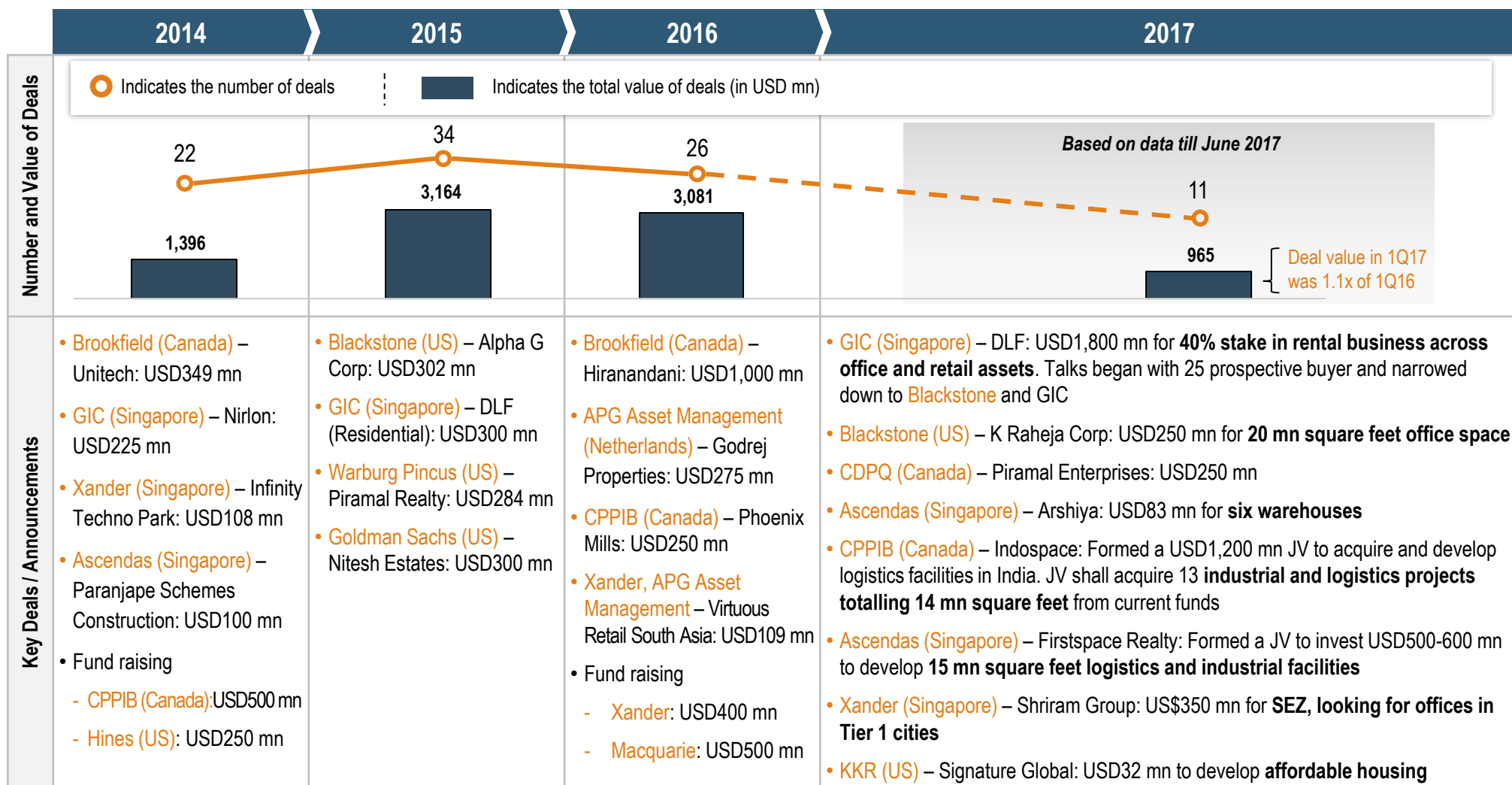
Since 1Q 2017, residential segment has started displaying signs of recovery, encouraging developers such as Lodha and Supertech to commit large investments



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

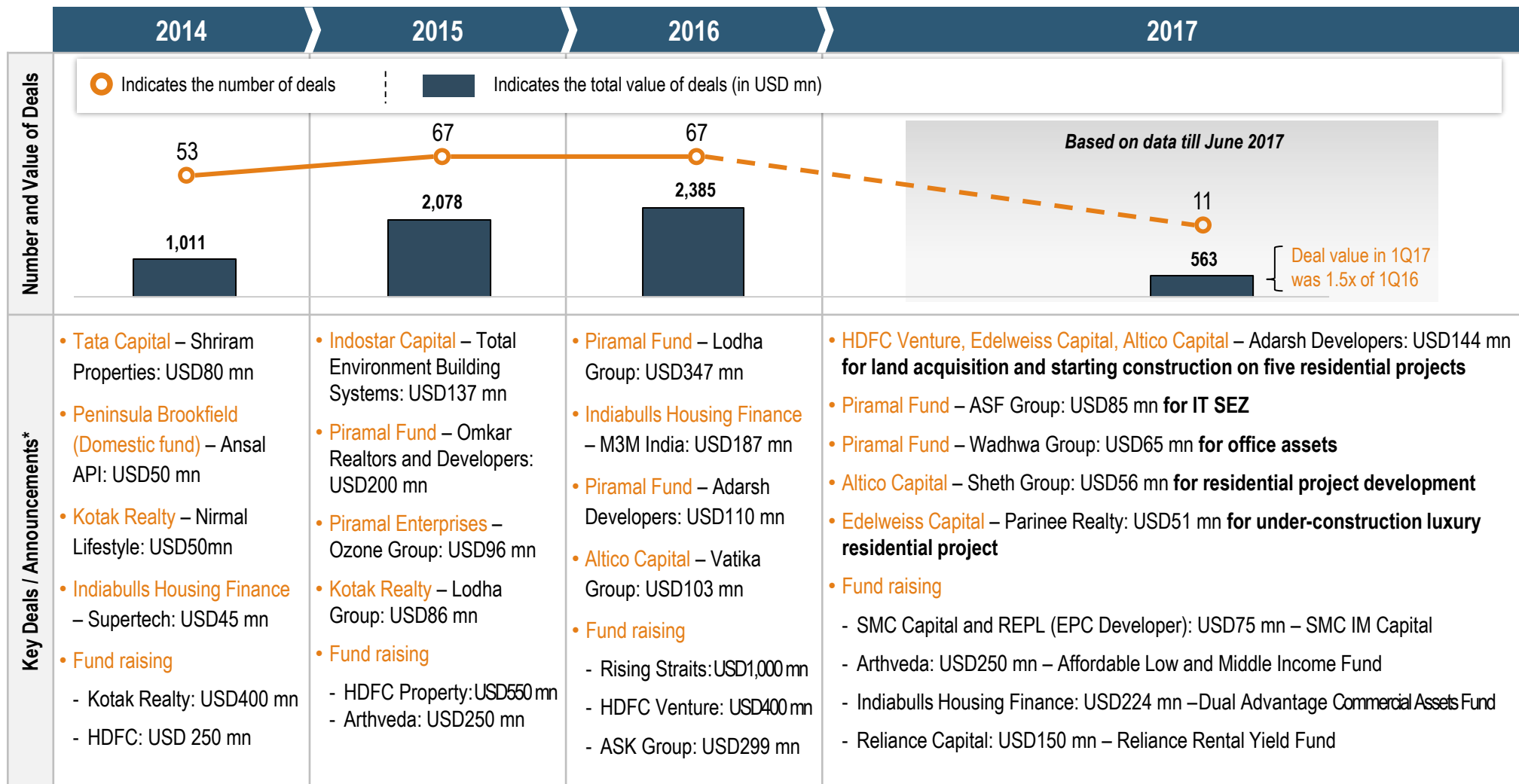
Capital Landscape: Equity – Foreign Investments

Major foreign investors such as GIC, Blackstone, CPPIB and Ascendas have focused on commercial assets, specially logistics



Capital Landscape: Equity - Domestic Investments

In 2017, domestic investors have continued to focus on residential projects which is in contrast to their foreign counterparts



*PE investments indicate deals by India-dedicated funds

Capital Landscape: REITs

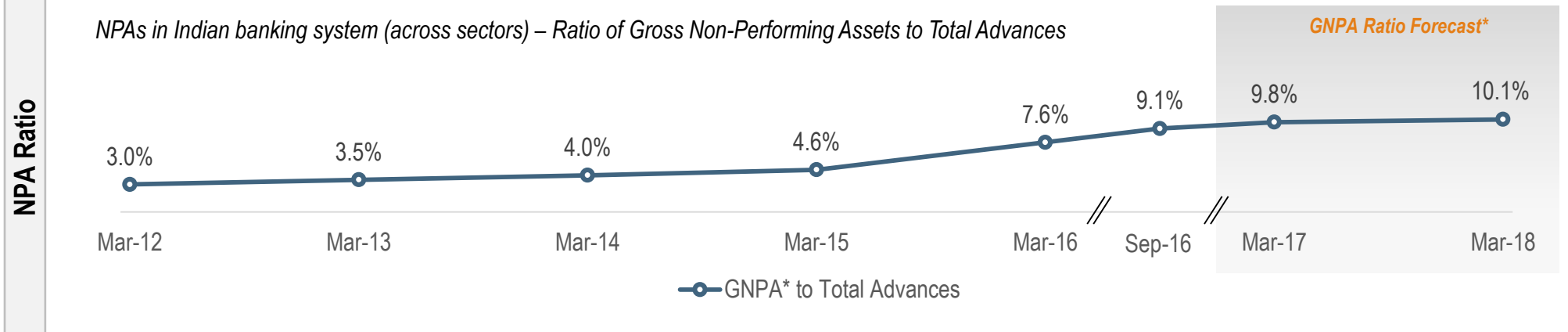
Recently, Indian financial institutions have been allowed to invest in REITs, thus providing capital support for launching REITs

		2014 - 2015		2016		2017		
				1H	2H	1Q	2Q	
Regulatory	Regulation Introduced <ul style="list-style-type: none"> 'Real Estate Investment Trusts Regulations, 2014' introduced 			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 <ul style="list-style-type: none"> Mutual funds allowed to invest up to 5% of their NAV in a single REIT, with maximum REIT exposure restricted at 10% of NAV 		Investments by Banks Allowed <ul style="list-style-type: none"> Indian Central Bank (RBI) allowed Indian banks to invest in REITs within their umbrella limit of 20% of their Net-Owned Funds This umbrella limit of 20% includes bank's investments in equity-linked mutual funds, venture capital funds and stocks
	Taxation Relaxed <ul style="list-style-type: none"> Dividend distribution tax on REITs abolished 					Investments by Insurance Cos. <ul style="list-style-type: none"> Insurance companies allowed to invest up to 3% of their funds in REITs with maximum holding in a single REIT restricted to 5% 		
Investors	<ul style="list-style-type: none"> Even though REIT Regulations were introduced in 2014, 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) is looking to launch REIT by end-2017 K. Raheja Corp is consolidating its office assets and may be considering launching an office REIT 		<ul style="list-style-type: none"> Post approval by RBI, mutual fund houses are altering their schemes to allow investments in to REITs and InvITs <ul style="list-style-type: none"> DSP Blackrock MF altered two schemes Birla Sun Life MF altered 12 schemes ICICI Prudential MF altered three schemes

Capital Landscape: Debt – NPAs in Banking System

Government and central bank have increased pace to resolve the NPA issue and global PE investors seem keen to capitalize this opportunistic investment area

	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"> Jan-17: RBI announced that it expects NPAs to increase further May-17: Banking Regulation Act, 1949 amended to give RBI more powers to resolve NPA issue. RBI now has the power to give directions to banks in India to initiate insolvency process against debt defaulters Jun-17: RBI identified 12 key defaulters (together account for 25% of the total NPAs) for resolution by initiating insolvency proceedings under the Insolvency and Bankruptcy Code (2016) <ul style="list-style-type: none"> The lenders to these defaulters shall finalise the resolution plan within six months, failing which insolvency proceedings shall be initiated



*Forecast as per RBI's 'Financial Stability Report', December 2016

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Dream up the future.