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Changing dimensions of Indian real estate sector- A panoramic study

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Abstract
The real estate industry in India has seen lot of reformation both at the buyers end as well as the sellers end. The LPG reformations post 1991, Pre-recession period before 2008, Stagflation trend in the overall economy thereafter, Recovery, the sustenance post-Demonetization and RERA implementation are the factors which led the Real estate industry to evolve into a major industry in the economy. The present study is conceptual in nature giving a brief insight into the Real Estate industry in India.

Keywords: Real Estate, supply and demand, affordability

Introduction
Real Estate Industry, in the post-RERA age, has seen consolidation and enhanced lending. Government has encouraged development of affordable housing by various schemes for the end-users [consumers], however, the cost of receiving permissions is still very high and the same needs to be rationalised for effective policy implementation. On the demand side, commercial real estate has witnessed higher traction in the recent two quarters thanks to the increase in demand from the shared-space community. The residential supply needs to compress and rationalise primarily due to the delays in execution & slack in residential transactions, mainly driven by perception of oversupply without differentiating between "real" deliverable supplies and "perceived" supply most of which is undeliverable, stalled or delayed. Key to success is to adopt radical innovations in Business Models, enabling Blue Ocean Space.

Fund Raising Options by Developers
Domestic Corporate Houses
As the land prices in the Tier I cities have always moved upward, land was regarded as a safe investment which, regardless of how it was used, would produce capital gains far above the inflation rate. It was thus common for companies in the manufacturing and service industries to acquire real estate even though they themselves were completely unrelated to property rental or real estate investment, seeking collateral value and tax benefits from depreciated assets, and expecting unrealized gains to absorb business risk. Acquisition of real estate as an asset was further encouraged as part of a diversification strategy in the investment portfolio of these corporate houses.
As these real estate possessions are classified as fixed assets held for the company's own business purposes, it becomes feasible recent moves to increase real estate liquidity often involve the conversion of corporate real estate into commercial use. The corporate houses in India are also demonstrating a shift from ownership to leasing. With the advent of MNCs into the country, a growing number of companies no longer see real estate ownership as an absolute necessity.
From the perspective of companies who want to sell off assets, securitization schemes provide a greater diversity of alternatives to liquidate real estate. This has been greatly encouraged by corporate restructuring and a return to focusing on core competencies. Thus, there seems an opportunity to tap the corporate houses who have a large corpus of real estate and are willing to trade this asset for want liquidity.

FDIs/FIIs
Post liberalization, the investment opportunities in real estate for the FDIs and FIIs have greatly opened up. Foreign investors can now purchase commercial development projects (under construction) over 50,000 sq m (540,000 sq ft), or plotted residential developments with a minimum size of 10 hectares. Foreign investors may purchase an equity stake in an unlisted real estate company and thereby partner in its growth plans across asset classes and cities. Listed real estate companies also offer good liquid investment opportunities routed into designated special purpose vehicles that hold the asset(s) being developed, thereby reducing risk. These investors look for innovative financial products to suit their investing needs.

Financial Institutions – Real Estate Mutual Funds
Major financial institutions such as ICICI, HDFC, IL&FS and Kotak Mahindra have all launched real estate funds, either as joint ventures or sole investors. Most institutional funds operate on a pan-Indian basis, and are increasingly looking at opportunities in Tier III cities, in order to gain "first mover advantage".

Private Equity/Venture Capital Funds
As per the Securities and Exchange Board of India (SEBI), Foreign Venture Capital Investors (FVCIs) may invest in real estate assets, within the framework of SEBI. This has paved the way for capital infusion into the market and a significant weight of foreign capital is now chasing Indian real estate. Indirect real estate investments are made into a pooled investment fund; such funds are usually created in partnership with domestic developers or financial institutions. Such VC firms, partnered with developers form a potential client base, keen to invest in the real estate sector.

Real ESTATE and Financing Trends in India
Securitization and CMBS
From the perspective of companies who want to sell off assets, securitization schemes provide a greater diversity of alternatives to liquidate real estate. Securitization is primarily used by the corporate houses to convert the corporate real estate to commercial real estate.

Realty Funds/ Realty Mutual Funds in India
Initiated by SEBI, the REMFs true potential would be tapped only after the setting up of REITs, as they infuse confidence among investors by serving as custodians of title deeds. (REITs pool various real estate assets, including warehouses, buildings, industrial estates and parks, malls, commercial and residential premises and get listed on the stock exchange to enable investors to buy and sell. They afford an opportunity to diversify the portfolio within that limited sense as well. However, SEBI has not allowed the creation of REITs in India as yet, though REITs are well established in the more mature real estate markets.) Currently the REMFs in the Indian market are targeted at the HNIS and corporate investors.

Benefits
Some of the benefits of having real estate in your portfolio are as follows:

Diversification Value
The positive aspects of diversifying your portfolio in terms of asset allocation are well documented. Real estate returns have relatively low correlations with other asset classes (traditional investment vehicles such as stocks and bonds), which adds to the diversification of your portfolio. (To read more about diversifying, see Achieving Optimal Asset Allocation, Introduction To Diversification, The Importance Of Diversification and A Guide To Portfolio Construction.)

1. Yield Enhancement
As part of a portfolio, real estate allows you to achieve higher returns for a given level of portfolio risk. Similarly, by adding real estate to a portfolio you could maintain your portfolio returns while decreasing risk.

2. Inflation Hedge
Real estate returns are directly linked to the rents that are received from tenants. Some leases contain provisions for rent increases to be indexed to inflation. In other cases, rental rates are increased whenever a lease term expires and the tenant is renewed. Either way, real estate income tends to increase faster in inflationary environments, allowing an investor to maintain its real returns. (To find out more about inflation, see All About Inflation, The Importance Of Inflation And GDP and Curbing The Effects Of Inflation.)

3. Ability to Influence Performance
In previous chapters we've noted that real estate is a tangible asset. As a result, an investor can do things to a property to increase its value or improve its performance. Examples of such activities include: replacing a leaky roof, improving the exterior and re-tenanting the building with higher quality tenants. An investor has a greater degree of control over the performance of a real estate investment than other types of investments.

Other Considerations
Real estate also has some characteristics that require special consideration when making an investment decision:

- **Costly to Buy, Sell and Operate**

For transactions in the private real estate market, transaction costs are significant when compared to other investment classes. It is usually more efficient to purchase larger real estate assets because you can spread the transaction costs over a larger asset base. Real estate is also costly to operate because it is tangible and requires ongoing maintenance.

- **Requires Management**

With some exceptions, real estate requires ongoing management at two levels. First, you require property management to deal with the day-to-day operation of the property. Second, you need strategic management of the property to consider the longer term market position of the investment. Sometimes the management functions are combined and handled by one group. Management comes at a cost; even if it is handled by the owner, it will require time and resources.

- **Difficult to Acquire**

It can be a challenge to build a meaningful, diversified real estate portfolio. Purchases need to be made in a variety of geographical locations and across asset classes, which can be out of reach for many investors. You can, however, purchase units in a private pool or a public security, and these units are typically backed by a diverse portfolio.

- **Cyclical (Leasing Market)**

Not unlike other asset classes, real estate is cyclical. Real estate has two cycles: the leasing market cycle and the investment market cycle. The leasing market consists of the market for space in real estate properties. As with most markets, conditions of the leasing market are dictated by the supply side, which is the amount of space available (or, vacancies), and the demand side, which is the amount of space required by tenants. If demand for space increases, then vacancies will decrease, and the resulting scarcity of space will cause an increase in market rents. Once rents reach economic levels, it becomes profitable for developers to construct additional space so that supply can meet demand.

- **Cyclical (Investment Market)**

The real estate investment market moves in a different cycle than the leasing market. On the demand side of the investment market are investors who have capital to invest in real estate. The supply side consists of properties that are brought to market by their owners. If the supply of capital seeking real estate investments is plentiful, then property prices increase. As prices increase, additional properties are brought to market to meet demand.

Although the leasing and investment market have independent cycles, one does tend to influence the other. For instance, if the leasing market is in decline, then growth in rents should decrease. Faced with decreasing rental growth, real estate investors might view real estate prices as being too high and might therefore stop making additional purchases. If capital seeking real estate decreases, then prices decrease to force equilibrium.

Although timing the market is not advisable, you should be aware of the stage of the market when you are making your purchase and consider how the property will perform as it moves through the cycles.

- **Performance Measurement**

In the private market there is no high quality benchmark to which you can compare your portfolio results. Similarly, it is difficult to measure risk relative to the market. Risk and return are easy to determine in the stock market but measuring real estate performance is much more challenging.

Real estate scams and how home buyers can avoid them

Real estate scams run the entire gamut, from legal frauds and fly-by-night operators to false promises and buy-one-get-something-free offers.

The Indian real estate sector is growing, and so are the scams and frauds associated with it. Consumers now-a-days are more informed, but ironically are still susceptible to scams. Real estate scams run the entire gamut, from legal frauds and fly-by-night operators to false promises and untenable buy-one-get-something-free offers.

"It is a double whammy for gullible real estate investors because justice for fraud victims is long drawn and uncertain, due to the complex nature of disputes in this sector. The absence of an industry watchdog compounds the matter further," informs Bank Bazaar, a multi-brand financial product comparison platform.

Here is a rundown of scams typically plaguing the Indian real estate market that investors need to keep an eye out for:

False Promises

With increasing competition in real estate, builders are trying to lure as many buyers in the initial phase of a project to meet their funding requirements. Advertisements with false promises are part of it. A Gurgaon-based real estate developer was recently accused by over 700 investors of embezzling more than Rs 1,000 crore in a real estate project. The developer had assured investors of 12% returns on the invested money until possession, but the cheques given by the company bounced. To worsen matters, investors faced inordinate project delays, grinding their property investment dreams into dust.

Assured Rental Returns

Many builders market their projects by assuring a fixed rental income from properties. Some builders even publish fake rental listings of various projects over the internet. If the prospective buyer does not conduct his own research, he may actually believe that the property once bought can be easily rented out for a fixed monthly income. But, in all reality, once the purchase is over, rentals are hard to come by, leaving the investor in a lurch. As for the builder, the unscrupulous variety vanishes without leaving behind a mud trail.

Title Frauds

This happens with both individual sellers and developers. There have been cases where scammers have duplicated title deeds of vacant or disputed projects and sold them to innocent buyers. "By the time the fraud is detected, the scammer is far out of sight, counting the wads of money he has made. A related genre of real estate fraud is where buyers purchase their dream home only to later come to know that the project does not include that part of land the builder had specified as theirs when they booked it,".

Deliberate Delays

Project delays and disappearing builders are another common occurrence in real estate fraud. One strategy unscrupulous builders resort to is to delay project completion deliberately until they get requisite number of buyers. Yet others divert the money pooled from one project to another, delaying both projects in the process. Many new and existing builders have left a trail of gullible buyers who have just purchase agreements to show and are kept on wait while they pay huge rentals.

Deviation from Approved Plans

Many projects when completed take several deviations from the approved plan in terms of common areas. This possesses a huge challenge for many buyers who have to compromise on common amenities, spaces, promised luxuries and even on core project amenities like dedicated parking space despite having made additional payments for the same.

Delayed Aprovals

There are many cases reported where buyers are left wringing their hands in despair even after possession, since several sanctions for utilities like electricity connection, water connection, etc. We're pending. Issues like plot in unauthorized layout or sub-divided land, building with land use violation, setback violations, floor area violations, etc. detected after agreement formalities and construction have commenced could lead to delay in other downstream approvals and title registration.

Top Tips for Real Estate Buyers

For property purchasers, who invest their personal savings in any realty project, no amount of caution is too much. Here are certain precautions one must take while purchasing property:

Hire services of a legal advisor

It is imperative to hire the services of a legal advisor and discuss all property-related documents with him before signing on the dotted line with the builder. "With the advisor's help, ensure that all government approvals are in place. If the builder fails to show you the complete set of approvals or only has partial approvals in place, think twice before investing in such a project,"

Check builder's background

Make sure you do your own background check and research on the builder and their credibility. Use the power of the internet and social media to your advantage. Check their completed projects list, track records and ensure that they are members of real estate bodies like CREDAI.

Seek personal references

Reputation management of builders is so aggressive that they are quick to circumvent any negative opinion online, or even threaten consumers who are forming pressure groups against them. Seeking personal recommendations is a good way of separating the wheat from the chaff.

Choose bank-approved projects

If any leading banks have approved the project, chances of fraud are relatively lower since banks perform their own background check and due diligence before coming on board as home financing partners.

Get assurances in black and white

There is a sea of difference between builder advertisements and legally enforceable assurances when it comes to ensuring you are getting what you are paying for. "Many builders actually include disclaimers on their marketing brochures to the effect that all projected amenities and images are only indicative and may or may not represent the builders' actual obligations to the buyer. So, if your builder is promising something, get the assurance communicated in black and white,"

Delay clauses

Before signing the sale agreement with the builder, ensure that there is a delay clause in the agreement and that the construction stages with timeframes are clearly included in it, along with a copy of the approved plan. Keep a regular tab on the progress of the project. In current times, many developers have built goodwill from a fistful of good projects initially, only to default on projects launched later. Some are even known to use browbeating tactics by intimidating investors or by inserting a clause in their agreement forbidding them from publishing anything unfavorable about them. Thus, a healthy dose of caution can go a long way in protecting your property investment from frauds and scams that proliferate in the real estate industry today.

Five key regulatory reforms are working in tandem to bring in the next wave of transformation in the sector Rera

- Aims at increasing transparency and accountability
- Out of the total 35 states and UTs, more than 55 per cent of the states and UTs had no Appellate Tribunal

GST

- Replaced the multilayered taxation system with a unified tax economy
- Implementation of GST garnered a mixed view from various stakeholders from the real estate sector

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- Directed the realty firms to shift from the Percentage Completion Method to project completion method
- The change is expected to have an impact in the short-term only, till developers get comfortable with new standard introduced

IBC

- Instills a sense of urgency among all stakeholders to resolve bad loans that have plagued the balance sheet of banks
- At the end of 2017, developers accounted for USD20 billion worth of stressed bank loans

REITs

- Aims at providing avenues for fund raising and alternative investments
- Over 20 billion worth of REITable office stocks, remains underutilised.

Key Highlights of the Rera Act

The most positive aspect of this Act is that it provides a unified legal regime for the purchase of flats; apartments, etc., and seeks to standardize the practice across the country. Below are certain key highlights of the Act:

Establishment of the Regulatory Authority

The absence of a proper regulator (like the Securities Exchange Board of India for the capital markets) in the real estate sector, was long felt. The Act establishes Real Estate Regulatory Authority in each state and union territory. Its functions include protection of the interests of the stakeholders, accumulating data at a designated repository and creating a robust grievance redressal system. To prevent time lags, the authority has been mandated to dispose applications within a maximum period of 60 days; and the same may be extended only if a reason is recorded for the delay. Further, the Real Estate Appellate Authority (REAT) shall be the appropriate forum for appeals.

Compulsory Registration

According to the central act, every real estate project (where the total area to be developed exceeds 500 sq mtrs or more than 8 apartments is proposed to be developed in any phase), must be registered with its respective state's RERA. Existing projects where the completion certificate (CC) or occupancy certificate (OC) has not been issued, are also required to comply with the registration requirements under the Act. While applying for registration, promoters are required to provide detailed information on the project e.g. land status, details of the promoter, approvals, schedule of completion, etc. Only when registration is completed and other approvals (construction related) are in place, can the project be marketed.

Reserve Account

One of the primary reasons for delay of projects was that funds collected from one project, would invariably be diverted to fund new, different projects. To prevent such a diversion, promoters are now required to park 70% of all project receivables into a separate reserve account. The proceeds of such account can only be used towards land and construction expenses and will be required to be certified by a professional.

Continual Disclosures by Promoters

After the implementation of the Act, home buyers will be able to monitor the progress of the project on the RERA website since promoters will be required to make periodic submissions to the regulator regarding the progress of the project.

Title representation

Promoters are now required to make a positive warranty on his right title and interest on the land, which can be used later against him by the home buyer, should any title defect be discovered. Additionally, they are required to obtain insurance against the title and construction of the projects, proceeds of which shall go to the allottee upon execution of the agreement of sale.

Standardization of Sale Agreement

The Act prescribes a standard model sale agreement to be entered into between promoters and homebuyers. Typically, promoters insert punitive clauses against home buyers which penalised them for any default while similar defaults by the promoter attracted negligible or no penalty. Such penal clauses could well be a thing of the past and home buyers can look forward to more balanced agreements in the future.

Penalty

To ensure that violation of the Act is not taken lightly, stiff monetary penalty (up to 10% of the project cost) and imprisonment has been prescribed against violators.

Impact of Rera on Real Estate Industry

- Initial backlog
- Increased project cost
- Tight liquidity
- Rise in cost of capital
- Consolidation
- Increase in project launch time

Initially, a lot of work is to be done to get the existing and new project registered. Details such as status of each project executed in last 5 years, promoter details, detailed execution plans, etc., needs to be prepared.

With the advent of RERA, specialised forums such as the State Real Estate Regulatory Authority and the Real Estate Appellate Tribunal, will be established for the resolution of disputes pertaining to home buying and the aggrieved party will have no recourse to other consumer forums and civil courts, on such matters. While the RERA sets the groundwork for fast-tracking dispute resolution, the litmus test for its success, will depend on the timely setting up of these new dispute resolution bodies and how these disputes are resolved expeditiously with a degree of finality.

Conclusion

Real Estate industry is one of the fast growing industries in India. The reason for this being the real estate perceived as an investment avenue by the people across various income levels and sections. The developers have worked out different avenues to initially raise money to carry out the real estate ventures with ease. The RERA being the watchdog have a lot of precautionary measures been taken to protect the real estate investors. The RERA needs support through the other ancillary bodies to strengthen the Real Estate industry to be functionally very strong and protect the larger interest of the real estate buyers.

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