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# WITNESS

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# Interesting Times of the Indian Real Estate Sector: A Glimpse of Investments and Government Initiatives

■ Guranpreet Sarna

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Real Estate in India is one of the oldest and globally acclaimed sectors of the world. It is estimated that real estate sector will reach a market size equivalent to 1 trillion dollars by the year 2030. By the year 2025, it is anticipated that real estate industry will contribute around 13% of the GDP of the country. Further, the opening up of Foreign Direct Investment (“FDI”) has contributed to the overall development of the industry. In addition, the FDI flow in the year of 2018-2019 has stood around 1.2 billion dollars.

Further, there are four cornerstones of this sector namely housing, retail, commercial and hospitality. However, these sectors have experienced a bumpy ride in the past decade due to numerous challenges faced by them. Land Acquisition costs, lack of title, lack of a developed market, lending rates, liquidity issue, time-consuming clearances/ approvals and red-tapism are some of the challenges faced by this sector. On the positive side, new reforms are anticipated in the next budget from this government to change the real

sector ecosystem. On the contrary the policing and reforms via acts like Insolvency and Bankruptcy Code, 2016 and Real Estate (Regulation and Development) Act, 2016 have further burdened and created pressure on this sector which is resulting in countless litigations against the project and delaying the completion time. Further, the real estate sector seems to be on a downfall with the S&P BSE Realty index declining 4% in the last year and 2 % in the last six month.

There has been major investments and developments along with various government initiatives to benefit this sector. Blackstone which is a global investment company along with Embassy Group which is a realty group have also launched India’s first Real Estate Investment Trust (“REIT”) which has an estimated issue value of around 5,000 crores. It is estimated to have the largest portfolio size in Asia of around 33 million square feet. REIT’s is an investment scheme by which investment companies can own and operate rent-yielding assets of real estate sector. Securities Exchange Board of India (“SEBI”) to facilitate these type of transactions have come up with REIT Regulations in the year 2014 to facilitate setting up of these trusts



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and also assist in listing of these trusts. In April 2019, Embassy Office Park (which is a joint initiative of Blackstone and Embassy Group) raised around 662million dollars becoming the first Indian REIT listing. The response to the stock market listing of this instrument was overwhelming as it offers a fixed return from a pool of rent-yielding assets, along with the prospect of capital appreciation. The Embassy Office Parks REIT has given nearly 24% return since its listing. However, interest income and rental income are taxable along with capital gains tax on transfer of units. Reduction in such taxes may further encourage investors to invest in such vehicles.

Another major real estate investment has again been initiated by the Blackstone Group which has acquired 50 percent of the Indiabulls Real Estate's commercial properties in March, 2018 and has now signed the term sheet to further acquire the 50 percent of their remaining stake. This deal is part of Indiabulls strategy to exit real estate sector and focus on providing financial services and is also seeking to merge with Laxmi Vilas Bank. This move of Blackstone will strengthen its position in India and will make it the largest commercial property owner in this country. The portfolio primarily includes one Indiabulls Tower and Indiabulls Finance Centre in Mumbai and one in Gurugram. Blackstone had also acquired the developers' Chennai based commercial property in 2018 and is growing its bandwidth in the Indian Real Estate sector with a full swing. In another arrangement, Blackstone and K Raheja Corp, have finalized a plan to



raise about \$500 million through REIT listing in November 2019.

One cannot talk about real sector in India without discussing about the DLF Group. In a closely contested auction organized by the Haryana State Industrial and Infrastructure Development Corporation ("HSIIDC") admeasuring around 11.76 acres of land in Gurugram for an estimated amount of Rupees 1496 crores. The base price per acre was around Rs 127 crores, which has surpassed all the earlier benchmarks. Top developers of the country namely Indiabulls Real Estate, Emaar Group, Embassy Group, Bharti Realty and RMZ showed interest in the land parcel auctioned by the HSIIDC. The second largest bidder was Bharti Realty, which stood at around Rupees 1446 crores. The said 11.76 acres acquired by

DLF is estimated to have leasable potential of 2.3 million square feet. However, industry experts anticipate that DLF would be required to lease spaces in the range of Rs 150 to 160 square feet a month in comparison to the market trend of Rs 110 square feet in the vicinity to reach the breakeven, given the high price of the bid.

Various initiatives have been taken by the government as well to encourage the development in the real estate sector. The Union Cabinet has approved setting up of a Rs. 60,000 crores fund i.e. National Urban Housing Fund ("NUHF") to facilitate the implementation and execution of the Pradhan Mantri Awas Yojna (Urban) Mission to ensure that every poor living in the urban areas get a home by the year 2022. New autonomous



body by the name of Building Materials and Technology Promotion Council will be set up under the Ministry of Housing and Urban Affairs by NUHF. Under the Pradhan Mantri Awas Yojna (Urban) Mission 8.09 million houses have been sanctioned up to May 2019. These government schemes ensure low cost financing as well as significant tax benefits for such projects. Also, the government offers more TDR/FSI packages as incentives.

The year 2019, has seen a lot of joint investments wherein large players have developed projects with small developers and land owners. The projects which are stuck due to lack of funding require the assistance of large developers to complete the project. This equation is likely to work wonders in the current situation wherein there is paucity of funds in completion of the real estate projects. It has also attracted the attention of global

players like NikkoAM-StraitsTrading Asia, Eastspring Investments, North Carolina Fund, and Sentry Global who are looking to invest in India. According to Anarock, over the next three years' listing around 150 million square feet of rent-yielding office properties, 25 billion dollars can be raised through REITs. The year 2019 has also been the year for government initiatives on mid-level and affordable housing while luxury housing is a niche industry and will continue to move slowly. Depending on the supply in the market, the market can further stabilize in all sectors of housing. Also this year has seen a remarkable transition to new concepts such as co-living, co-working, student housing and senior living. The real estate sector is all set to pass its litmus test posed by the various investments, initiatives, changing trends in the market and hopefully will thrive in the long run, despite the minor setbacks.<sup>iv</sup>



**Guranpreet Sarna** is an Associate Partner with the Firm and has more than 10 years of experience. His practice areas are Projects and Infrastructure, Project Finance and Capital Market. He is a commerce graduate, LLB and an LLM from University of Warwick. Apart from being a part of some major Infrastructure projects, he is proficient in EPC/ PPP projects.