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National Conference

Changing Dynamics of Real Estate for Viksit Bharat

- Opportunities and Challenges -

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Deepak Sood
Secretary General, ASSOCHAM

MESSAGE

As our country moves towards becoming a developed one, the Real Estate sector has become of utmost importance on the national agenda. In India, the real estate industry is the second largest source of employment opportunities, second only to the agriculture sector. Cities have great potential to drive economic and social progress, as they can create employment opportunities and generate prosperity through economies of scale. They need to be sustained through the high urban productivity for the country's economic growth. Therefore, we must design cities and towns to create communities that are inclusive and sustainable. Urban planning aims to enhance the quality of life for residents and create more livable cities and towns.

The phenomenon of urbanization in India has become a prominent and irreversible force, playing a pivotal role in propelling national economic development and alleviating poverty. With ongoing urbanization, the demand for housing in India is ever-increasing alongside the growing population, housing for all needs to keep pace with it. Technological advancements have revolutionized the real estate sector, bringing about significant changes and improvements. The integration of technology has streamlined processes, making buying, selling, and renting properties more efficient than ever before. The advent of virtual reality, Artificial Intelligence, blockchain, etc have advanced the prospects for potential buyers to make informed decisions based on accurate market trends and property valuations.

The Government of India has been supportive to the growth and development of the real estate sector in India, and it has been addressing various issues through policy interventions and reforms from time to time. The Real Estate Regulatory Authority-RERA has significantly enhanced the operational performance of the sector by promoting greater transparency and trust. However, there is a need to re-look at sustainable and growth-oriented functioning. As India undergoes rapid urbanization and development, the real estate industry is primed for continued innovation and expansion, positioning it as a dynamic and essential component of the country's growth narrative.

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 of Real Estate industry in its journey towards becoming a Viksit Bharat.

Deepak Sood

Jyoti P Gadia

Managing Director, Resurgent India Limited

MESSAGE

The prospects for India's real estate sector are promising, fueled by a confluence of shifting demographics, rapid technological advancements, and supportive policy measures. The real estate market is poised to offer a myriad of opportunities for investors across various asset classes, bolstered by strong domestic and international economic fundamentals that are likely to propel India's economic growth over the next decade.

However, the sector continues to grapple with significant challenges, particularly in terms of finance, transparency, and credibility. Stakeholders often face difficulties in obtaining accurate project information due to ambiguous property titles, unclear land records, and non-standardized processes. Developers are entangled in a web of funding issues, sanction delays, and lengthy approval procedures, complicating project initiation. Inadequate financing further hampers growth, leading to project delays, increased costs, and diminished viability.

The government has made notable strides in reforming and streamlining the real estate sector through initiatives like the Real Estate (Regulation and Development) Act (RERA), which has significantly improved transparency and accountability. Additionally, various funding schemes and financial support measures have been introduced to alleviate liquidity issues. Nevertheless, achieving a fully transparent and efficient market requires collaboration among all stakeholders—developers, financial institutions, regulators, and consumers.

This report provides an insightful overview of the crucial role that the real estate sector will play in the Vikisit Bharat plan by 2047. It explores how strategic investments, policy reforms, and collaborative efforts among stakeholders can drive sustainable growth, enhance transparency, and improve financial viability, positioning real estate as a cornerstone of India's economic development in the coming decades.

As ASSOCHAM organizes the National Conference on 'Changing Dynamics of Real Estate for Vikisit Bharat- Opportunities and Challenges,' I extend my congratulations and best wishes for a successful event.

Jyoti P Gadia

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Chapter 1
Viksit Bharat Real Estate: Present and Beyond

Viksit Bharat embodies the Indian government's ambitious vision to transform the nation into a developed country by the centenary of its independence in 2047. It is an all-encompassing development initiative launched by the Government of India to accelerate advancements in critical sectors. This ambitious scheme emphasizes upgrading infrastructure, nurturing innovation and entrepreneurship, enhancing manufacturing capabilities, and fostering sustainable development. Under the Viksit Bharat umbrella, the real estate sector has emerged as a key driver of economic growth, substantially contributing to GDP and generating employment opportunities.

India's real estate market is currently valued at ₹24 lakh crores, with the residential and commercial sectors accounting for 80% and 20% of this market, respectively.

Residential Segment

- **Supply and Demand:** Within the residential sector, a significant portion of the current supply (61%) consists of homes priced above ₹45 lakhs. This indicates a trend towards more expensive housing options.
- **Average Home Area:** There is an annual increase of 11% in the average home area, showing a preference for larger living spaces.
- **Homeownership Aspirations:** Out of the 40 crore people in India who do not yet own a home, 28 crore are actively seeking to purchase one. This strong demand is projected to add 7 crore more housing units by 2030, according to CREDAI.
- **Future Projections:** By 2030, it's anticipated that over 87.4% of the housing demand will be for homes costing more than ₹45 lakhs. This reflects the growing aspirations and economic capacity of Indian homebuyers.

Commercial Real Estate Market

- **Market Size and Growth:** The estimated size of India's commercial real estate market is USD 40.71 billion in 2024. It is projected to reach USD 106.05 billion by 2029, with a compound annual growth rate (CAGR) of 21.10% during the forecast period (2024-2029).

- **Market Characteristics:** The Indian commercial real estate market is partially fragmented and highly competitive. The retail real estate sector is attracting global institutional investors due to robust office space take-up, decreasing vacancy levels, and rising rentals.

- **Market Consolidation:** The retail real estate market is undergoing consolidation, with smaller developers merging with larger ones or exiting the market.

Emerging Alternate Asset Classes

Warehousing Industrial & Logistics

- **Current Stock:** 150+ million sq. ft. of Grade A stock across India.

Data Centres

- **Existing and Upcoming:** 11 million sq. ft. across India, with an additional 13 million sq. ft. expected to be added in the next 3 years.

Co-Living

- **Projected Growth:** 5.7 million beds by 2025, representing a 36% increase from the current capacity.

Student Housing

- **Future Demand:** An additional 6 lakh beds are expected to be needed in the next 3-4 years.

Akin to other major developed economies including China, Korea, and Japan, where their economic boom coincided with real estate's sharp trajectory, India needs to create an ecosystem that revolves around the growth of Indian real estate.

Real Estate under Viksit Bharat 2047

The Viksit Bharat 2047 initiative aims to transform India into a developed nation by 2047, coinciding with the 100th anniversary of India's independence. The government's comprehensive strategy focuses on multiple facets of development, including significant advancements in the real estate sector.

The Viksit Bharat 2047 initiative outlines an ambitious plan to transform India into a developed nation by 2047, with a significant focus on the development of townships. The key components of this vision focus on establishing world-class connectivity across India.

Smart City Mision:

The objective of SCM is to promote cities that provide core infrastructure and give a decent quality of life to its citizens, a clean and sustainable environment through the application of 'Smart' solutions.

Source:https://smartcities.gov.in/

The Smart Cities Mission (SCM) in India focuses on area-based and pan-city development, integrating technologies across six key areas including e-governance and urban mobility. The mission operated through Special Purpose Vehicles (SPVs), bypassing traditional city governance models and involving significant private sector participation. Approximately ₹2 lakh crore was allocated, emphasizing public-private partnerships to drive implementation. A Parliamentary Committee has recommended launching the next phase of the mission to continue its efforts.

The SPV model for India's Smart Cities Mission, although innovative, faced challenges due to its top-down approach and misalignment with the 74th Constitutional Amendment, particularly in governance. For instance, a smaller hilly town with an annual budget of under ₹100 crore was slated for projects worth over ₹2,500 crore, raising concerns about its relevance to the residents' needs. To enhance alignment and effectiveness, it may be beneficial to integrate more community feedback into the project planning phases and ensure that governance structures are more inclusive of local needs and stakeholders.

The Committee recommended amending provisions for Smart City Special Purpose Vehicles (SPVs) to ensure a fixed 3-year tenure for CEOs, full-time dedication without additional charges, and robust monitoring mechanisms involving local representatives for on-ground verification. Delays in the Smart City Projects are attributed to challenges such as the COVID-19 pandemic, multi-sectoral project demands, local issues with land and labor, irregularities in project implementation, and the inadequacy of the Geospatial Management Information System (GMIS).

Cities need to identify gaps where advanced technologies can be adopted to enhance urban development. This includes focusing on digital talent and skill improvement, cybersecurity, and real-time project assessment.

Green Buildings: Emphasis on sustainable building practices and green infrastructure is integral to PMAY. Promoting eco-friendly construction methods and materials aims to reduce the carbon footprint and enhance environmental sustainability. These practices include the use of energy-efficient designs, rainwater harvesting systems, and sustainable construction materials. Projects are encouraged to obtain green building certifications such as the Indian Green Building Council (IGBC) Certification, Green Rating for Integrated Habitat Assessment (GRIHA), and Leadership in Energy and Environmental Design (LEED) certification, which ensure adherence to high environmental standards.

Renewable Energy: Integrating renewable energy sources into residential and commercial projects is prioritized under PMAY to create energy-efficient and sustainable communities. This includes installing solar panels, promoting solar water heating systems, and using wind energy to ensure that the housing projects contribute to reducing overall energy consumption and reliance on non-renewable energy sources. These initiatives help in building self-sustaining communities that contribute positively to environmental conservation.

To meet the rising housing demand, projected to increase by 7 crore units by 2030, the sector should leverage the Pradhan Mantri Awas Yojana (PMAY) initiatives. Currently, 61% of housing supply is priced above ₹45 lakh, but future developments should focus on affordable housing to cater to the 28 crore Indians aspiring to own homes.

Chapter 2
Meeting Real Estate Needs for a Viksit Bharat

By 2047, India aims to have a highly advanced and developed real estate sector in both residential and commercial areas. To achieve this, effective policies, reforms, and a supportive environment for foreign investments are crucial. The real estate sector is on track to meet its goals, but several challenges must be addressed for smooth growth. Key issues include regulatory bottlenecks that require simplification and the removal of red tape, land acquisition processes that need to be made easier and more transparent, financial constraints that necessitate better access to funding and resources, and infrastructure improvements to support development. The government has established various regulatory bodies and launched initiatives to tackle these challenges and promote sustainable development in the real estate sector. With these efforts, the sector is poised to thrive and contribute to a developed India by 2047.

Real Estate (Regulation and Development) Act (RERA):

The Real Estate (Regulation and Development) Act (RERA) was established to enhance transparency, accountability, and efficiency in the real estate sector. It protects home buyers by ensuring the timely delivery of projects and adherence to promised specifications.

Benefits of RERA

RERA brings numerous advantages to the real estate sector, particularly for homebuyers. One of the key benefits is transparency for buyers. Builders are required to provide detailed and accurate information about their projects on their websites, including project layout and stage-wise completion status. This ensures that buyers have access to comprehensive information to make informed decisions.

Protection against overpricing is another significant advantage. Builders are restricted from charging buyers for super built-up areas, such as balconies and common areas. They can only charge for the actual carpet area, ensuring fair pricing for consumers.

RERA also emphasizes timely project completion. It imposes strict regulations on developers to ensure projects are completed on schedule. If a project is delayed, developers must pay an interest penalty to the buyers, set at 2% above the State Bank of India's lending rate.

Moreover, quality construction is a priority under RERA. The act ensures that properties are free of structural defects for a minimum of five years after possession has been given to the buyer. If any issues are found during this period, the developer is responsible for fixing them at no extra cost.

Another critical aspect of RERA is the regulation of funds. Developers must deposit 70% of the funds collected from buyers into a separate escrow account, which can only be used for the construction of the project. This prevents fund diversion and ensures that money is used appropriately.

Lastly, RERA provides a mechanism for the quick redressal of grievances. Each state has a RERA authority where buyers can lodge complaints against developers if they face issues with their real estate transactions.

Challenges of RERA

Project Delays

While RERA penalizes developers for delayed project deliveries, most delays occur during the process of acquiring approvals and clearances from various authorities. 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.

Navigating Bureaucracy

RERA does not provide a streamlined process for obtaining timely permissions from statutory authorities for real estate projects. Ambiguity over state-specific content also poses a challenge. RERA drafts in various states lack clarity in certain provisions, such as the form and content of audit certificates to be issued by architects, engineers, and chartered accountants. Residential real estate projects started after the implementation of RERA are experiencing an average delay of 14 months, compared to 24 months for projects started before RERA.

Other Challenges

Despite RERA's strict adherence to delivery timelines, developers often find convenient routes to escape existing provisions. The execution timeline itself is left to the discretion of the developer. The law is also ineffective in providing relief to homebuyers in cases where the project is stuck due to delays in securing various clearances from local authorities. Builders can get off the hook simply by pointing to bureaucratic red tape. Additionally, the law doesn’t put any onus on authorities to grant timely approvals. At times, final approvals get delayed as the builder violates norms or deviates from the original plans, but the law fails to make this distinction to put the responsibility at the builder's doorstep. Furthermore, RERA does not have any provisions barring an errant developer from starting new projects until work on the delayed project is finished. It also does not capture the financial stability of a builder, which can indicate the firm's credibility in terms of project completion. Proper background verification of the developer should be provided on the website, including the total square feet delivered beforehand, to help buyers understand the profile of the developer before making a purchase decision.

Pradhan Mantri Awas Yojana (PMAY)

PMAY was launched to provide affordable housing to all urban poor by 2022. The Union Cabinet extended the PMAY-U scheme till December 31, 2024, to ensure the completion of the already sanctioned houses. This extension allows additional time for the completion of 40 lakh houses whose proposals were received late from various states and UTs. The scheme offers financial assistance for constructing or upgrading homes, focusing on urban areas to ensure housing for economically weaker sections, low-income groups, and middle-income groups.

Urban Component (As of 19/02/2024):

- **Demand:** 112.24 lakh houses
- **Sanctioned:** 118.63 lakh houses
- **Grounded:** 114.09 lakh houses
- **Completed:** 80.35 lakh houses

Gramin Component (As of 27/02/2024):

- **Ministry of Rural Development (MoRD) Target:** 2,95,00,000 houses
- **Registered:** 3,24,30,262 houses
- **Sanctioned:** 2,94,85,784 houses
- **Completed:** 2,57,21,462 houses

Pradhan Mantri Awas Yojana – Urban (PMAY-U), has been instrumental in facilitating homeownership among low-income groups. However, the tenure of these schemes has often been limited, as evidenced by the Credit Linked Subsidy Scheme (CLSS) and Low Income Group (LIG) categories, which concluded in March 2022. To genuinely enable home purchases through borrowing, a long-term provision of interest rate subvention for EWS and LIG housing is imperative. Extending these subsidies over a longer period would significantly mitigate the adverse effects of high interest rates on home affordability for low-income groups. Such a measure would play a crucial role in bridging the affordability gap and fostering greater inclusivity in home ownership, ultimately contributing to the broader goal of housing for all.

Special Window for Affordable and Mid-Income Housing (SWAMIH)

The Special Window for Affordable and Mid-Income Housing (SWAMIH) Fund, a government-backed initiative, has been crucial in resolving liquidity issues in the real estate sector, particularly during economic challenges. It provided financial support to stalled housing projects in the affordable and mid-income segments, unlocking over INR 35,000 crore in liquidity. This effort has facilitated the completion of numerous housing projects, spurred the growth of ancillary industries, and underscored the government's commitment to delivering affordable housing, benefiting both homebuyers and developers while promoting the overall development of India's housing sector.

SWAMIH Fund Achievements (As of February 2024)

- **Homes Delivered to Date:** 28,000+ homes
- **Projected Deliveries in the Next 3 Years:** 60,000+ homes

Introducing a second tranche of the SWAMIH fund with a corpus of ₹50,000 crore would be a strategic move to provide essential financial support for completing stalled projects. This increase is pivotal in addressing the liquidity challenges faced by the real estate sector, ensuring the timely completion of housing developments. By unlocking additional funds, both homebuyers and developers would greatly benefit, fostering confidence and stability in the market. This expansion not only aligns with the government's vision of affordable housing for all but also stimulates broader economic growth by revitalizing the real estate sector and associated industries.

Boosting Economic Growth with Strategic Real Estate Policies

The debt of the listed real estate developers has decreased significantly. The ratio of their debt to the total assets stands at about 20%, a considerable reduction from about 45% at the beginning of the pandemic. However, construction costs have risen by an average of 7% per year over the past decade, driven by increasing material and labor costs. Land prices in metro cities like Mumbai and Delhi are exorbitant, significantly increasing project costs.

Rationalizing these costs is necessary to help keep housing prices stable and affordable for a broader segment of the population. Implementing measures to streamline procurement, reduce taxes and tariffs, and promote sustainable practices can mitigate price fluctuations.

Acquiring land for real estate development in India is often complex and time-consuming, typically taking 6 months to 2 years due to the intricate legal and regulatory framework. Additionally, obtaining necessary approvals and permits can extend timelines by up to 12 months. To address these challenges, streamlining and digitizing land acquisition and approval processes, implementing a single-window clearance system, and leveraging technology like GIS and blockchain can significantly reduce delays. Government intervention through updated land records, clear land titling, and public-private partnerships can further facilitate smoother and faster land acquisition processes.

A thriving real estate sector acts as a catalyst for GDP growth. Due to its interconnectivity with other sectors, its performance has a multiplier effect on the overall economy. Therefore, policies aimed at nurturing real estate should be given the highest priority, recognizing its crucial role in driving sustained economic expansion.

As India charts its path for economic ascension over the next decade, the real estate sector stands out as a cornerstone for sustainable and sustained growth. The ripple effects of a robust real estate market extend far beyond infrastructure development, influencing employment generation and GDP growth. Thus, prioritizing the Indian real estate sector is not just a strategic imperative but a foundation for ushering in a new era of prosperity for the next 10-15 years and beyond.

Chapter 3
SM REITs

Small and Medium Real Estate Investment Trusts (SM REITs) are a new category introduced by the Securities and Exchange Board of India (SEBI) to democratize real estate investments for retail investors. These trusts pool at least ₹50 crores and issue units to a minimum of 200 investors. Aimed at regulating fractional ownership (Fractional Ownership Platforms or FOPs) of commercial and residential properties, SM REITs offer a structured approach to real estate investment. This regulatory framework enables investors to acquire partial stakes in properties through a market that provides liquidity and is driven by transparent pricing.

These investments can include both commercial and residential properties, providing a diversified portfolio for investors. Unlike traditional REITs, which often require substantial initial investments, SM REITs lower the entry barrier, making real estate investments more attainable for a broader audience.

The structure of SM REITs is designed to ensure investor protection and transparency. They are required to invest at least 95% of their assets in fully developed and revenue-generating properties, compared to 80% for larger REITs. This reduces the risk for investors by focusing on income-producing assets. Additionally, the minimum investment for SM REITs is set at ₹10 lakh, significantly lower than the previous thresholds for fractional ownership platforms, which were around ₹25 lakh. These trusts must also adhere to stringent disclosure and reporting requirements, including detailed information about the properties, lease agreements, and expected rental income, thereby fostering greater trust and confidence among investors

Present status and the potential

The fractional ownership market in India is currently estimated at around $500 million and is projected to grow over tenfold, exceeding $5 billion by 2030, according to a report by JLL. This growth is supported by the substantial office space available, with the total Grade A office supply standing at 980 million square feet (msf) and Grade B office space at 115 msf across the top seven cities as of December 2023. Within this landscape, ICRA estimates that approximately 52-53 msf of this office space is SM REIT-ready, representing 3% of Grade A and 20% of Grade B supplies. This indicates a healthy potential for SM REIT listings in the commercial office space.

At a capitalization rate (yield of a property) of 8-8.5%, these SM REIT-ready office spaces present a monetization opportunity of Rs. 67,000 – 71,000 crore across the top seven cities. Furthermore, the number of unit-holders for the three office REITs in India has shown an annual growth of 60-80% since listing. Similarly, SM REITs are projected to witness an increase in ownership base by up to 20 times in the next 4-5 years, according to Colliers India. However, REIT Regulations stipulate that any asset classified as 'infrastructure' is not considered 'real estate' or 'property' for the purposes of REITs. Therefore, SM REITs cannot invest in warehousing facilities classified as infrastructure, which require a minimum investment of Rs. 25 crore and a minimum area of 1 lakh sq. ft.

Despite this restriction, if such a warehouse is part of common infrastructure within composite real estate projects, industrial parks, or SEZs, SM REITs are permitted to make investments. As fractional ownership platforms (FOPs) become more formalized, they will gain wider market acceptance. Currently, the assets under management (AUM) for various FOPs are estimated at Rs. 5000 crore. This scenario benefits developers and property owners through easier monetization of large assets.

Fractional ownership platforms like Strata have already filed for licenses, while others such as hBits and WiseX are in the process of doing so. Most of these new properties will be situated in major cities like Delhi, Mumbai, and Bengaluru, indicating a significant shift and growth in the fractional ownership market and its integration into the real estate sector.

Comparison: REIT Vs SM REIT

Particulars	REITs	SM REITs
Minimum IPO investment	Rs. 10,000 - Rs. 15,000	Rs. 10 lakh
Asset size	Min. Rs 500 Crore	Rs 50 - Rs 500 Crore
Types of investments	Generally commercial properties	Commercial and residential properties
Concentration risk	Generally diversified	Probable concentration risk due to lower asset size
Value of units	Same across all units	Value and assets represented by units vary from scheme to scheme
Can they borrow?	Up to 49% of the value of assets	Up to 49% of the scheme's value
Investment in under-construction property?	Allowed up to 20% of assets	Not allowed
Distributing cash flows	90% of net cash flows to be distributed to unitholders	100% of net cash flows to be distributed to unitholders
Pay-out frequency	Half-yearly; most REITs do it quarterly	Quarterly
Listing on the Stock Exchange	Compulsory	Compulsory

Challenges with SM REIT

1. While residential assets are permissible for SM REITs, their lower rental yields will necessitate frequent flips and these complexities may steer SM REITs towards commercial assets.

2. One would need a seed capital of more than Rs. 25 Cr. (minimum mandated asset size is 50 crore for SM REITs) and an experienced team to start an SM REIT. It will be a lot more challenging for startups to take this up now.

3. As compared with FOPs, there is an additional cost of operations and a cost of blocked capital that is likely to have some impact on the business models of Investment Managers and may impact the returns.

Minimum Unit Holding Requirement

REITs	REITs
The sponsor(s) and sponsor group(s) shall collectively hold a minimum of 15% of the total units of the REIT for at least 3 years from the date of listing.	Applicable to the investment manager for the first 3 years from the date of listing: • For schemes without leverage: at least 5% of the total outstanding units. • For schemes with leverage: at least 15% of the total outstanding units. • The units in which holding is required to be maintained shall be unencumbered and lockedin.

4. The minimum unit-holding requirement for SM REITs could act as a deterrent from a scalability perspective.

5. The flexibility to invest in lower-yielding residential properties and to borrow (they can borrow up to 49% of the scheme's value) make them a risky asset class.

6. Trading volume in SM REITs is much lower than even an average small-cap stock. Any big trade can make REITs highly volatile, a development that can damage their low-risk investment image.

7. While the ticket size for SM REITs has reduced from the current ₹25 Lakh to ₹10 Lakh, this is still a large number. There is uncertainty about the liquidity of the SM REITs once they are listed on the exchange.

Chapter 4
Future of Stressed/Stalled Housing Projects

In India's major metro cities, approximately 500,000 homes valued at Rs 4.48 lakh crore are currently experiencing project delays. The most affected areas are the National Capital Region (NCR) and Mumbai Metropolitan Region (MMR), which account for 77% of these stalled projects. Specifically, NCR has about 240,610 units delayed, valued at over Rs 1.81 lakh crore, while MMR has 128,870 units worth approximately Rs 1.84 lakh crore.

The issue also extends to other major cities: Pune and Kolkata represent 9% and 5% of the stalled projects, respectively. In the southern metros, Bengaluru, Hyderabad, and Chennai share the remaining 9% of these projects, with Bengaluru experiencing delays in 26,030 units valued at over Rs 28,072 crore, Hyderabad with 11,450 units worth Rs 11,310 crore, and Chennai having the least impact among the top seven cities with 5,190 units worth approximately Rs 3,731 crore.

A significant portion of the delays are concentrated in Uttar Pradesh's Noida and Greater Noida, which together account for 35% of India’s stalled residential projects. This area alone has about 165,000 units, with a combined value of Rs 1.18 lakh crore stalled, reflecting broader challenges in the real estate sector across various regions of the country.

Stalled real estate projects present substantial financial and legal hurdles for all parties involvedIf the project fails to progress, not only is there a risk of losing these investments, but such situations could also lead to adverse effects on the customers' credit ratings, complicating their ability to obtain future financing. Moreover, should the developer declare bankruptcy, customers could be entangled in protracted legal disputes and face constraints on transferring their properties.

Builders, on the other hand, encounter severe setbacks from stalling projects. Slowed sales can precipitate liquidity issues, complicating their capacity to meet loan obligations and secure additional funding. The failure to advance projects not only leads to direct financial losses but can also tarnish builders' reputations, potentially jeopardizing their prospects for future projects.

A considerable portion of bank lending is tied up in project loans, and when these projects become stalled, mounting NPAs can affect the banks' profitability and their capacity to extend further credit.

Challenges Faced by Category B and C Builders

Category B and C builders face a unique set of challenges that distinguish them from their larger counterparts. One of the primary issues is limited financing options, which can significantly hinder their ability to complete ongoing projects or initiate new ones. Unlike larger developers, these smaller builders struggle to access the necessary funds, making project completion a formidable task.

Resource constraints further exacerbate their difficulties. With fewer resources at their disposal, including manpower, equipment, and materials, these builders often find it challenging to complete projects efficiently and within the planned budget. The lack of resources can lead to operational inefficiencies and budget overruns.

Additionally, smaller builders are more vulnerable to delays caused by unforeseen issues such as legal disputes, regulatory challenges, or labor shortages. These delays can increase the overall cost and extend project timelines, compounding the difficulties faced by smaller developers.

Market sentiment also plays a crucial role in the success of smaller builders. They are highly sensitive to market fluctuations, and a downturn can severely impact their ongoing projects. Financial uncertainties and reduced demand can lead to project delays and further financial strain.

Navigating the complex regulatory environment poses another significant challenge. The intricate real estate regulatory framework can be particularly daunting for smaller builders, who often lack the resources to employ experts capable of handling legal and regulatory issues efficiently. This can lead to additional delays and increased costs.

Finally, attracting investors is a persistent challenge for smaller builders. Investors tend to be cautious, preferring to invest in larger, more stable companies with proven track records. This preference leaves smaller builders at a disadvantage when it comes to securing the financial backing needed to move stalled projects forward.

Challenges of Metro City Projects

Real estate development in metro cities in India faces multiple challenges, significantly impacting the speed and cost of project completion. Acquiring land, for instance, is often a protracted process, taking anywhere from six months to two years due to a complex legal and regulatory environment. The high cost of land in major metro cities like Mumbai and Delhi further escalates the overall project costs.

Delays in obtaining necessary approvals and permits from various government agencies can extend project timelines by up to a year. This bureaucratic delay not only prolongs the completion of projects but also increases costs significantly. Additionally, the rising construction costs in India, which have grown by an average of 7% annually over the past decade, contribute to the financial burden on developers. The increased costs for materials, labor, and compliance with environmental regulations are key factors driving this rise.

The construction sector in India is also grappling with a shortage of skilled labor. According to a report by KPMG, there is a shortfall of approximately 4 million skilled workers. This shortage can lead to project delays and issues with construction quality, further complicating the development process. Inadequate infrastructure, especially in metro cities, adds another layer of complexity to development projects. To keep pace with its urban growth and ensure efficient project execution, India needs an estimated $1.5 trillion investment in infrastructure by 2030.

Navigating the legal and regulatory framework in real estate is another significant hurdle. The process can be cumbersome, taking anywhere from six months to two years. Frequent changes and ambiguities in regulations can lead to disputes and further delays, adding to the challenges faced by developers in the real estate sector.

The Future of Stalled Projects

Working Capital in Place of Term Funding/Construction Finance

The strategy of using working capital instead of traditional term funding or construction finance for real estate projects focuses on meeting the short-term financial needs necessary for completing construction. This approach involves short-term revolving working capital, which is controlled by the lending banks. The banks manage the "drawing power" based on sales and construction progress, verified by third-party valuers and chartered accountants. This method ensures that funding aligns closely with project needs and simplifies the repayment process through revenue generated from the project.

Increase in Sales Velocity Because of Assured Completion Timelines

The primary challenge in real estate sales is the commitment to completion and possession timelines, which often depend on the pace of sales. To mitigate risks, promoters typically promise extended timelines, which can in turn delay sales decisions and slow down the overall completion cycle. Having confirmed sources of funds would enable developers to set and meet definite timelines, leading to increased sales velocity.

Project-Based Funding as Against Promoter-Based Funding

Shifting from promoter-based to project performance-based funding addresses significant risks in real estate development. This approach ensures that funds are used solely for their intended project, minimizing the risk of diversion. It encourages a consortium of promoters to collaborate, enhancing transparency and corporate governance throughout the project's lifecycle. Moreover, this method ensures strict adherence to planned activities without deviations, leading to clearer operations and better outcomes. By focusing funding on project performance rather than on the individual promoters, risk management is more robust, aligning financial incentives with the successful completion and performance of the project.

Chapter 5
Commercial Real Estate in India

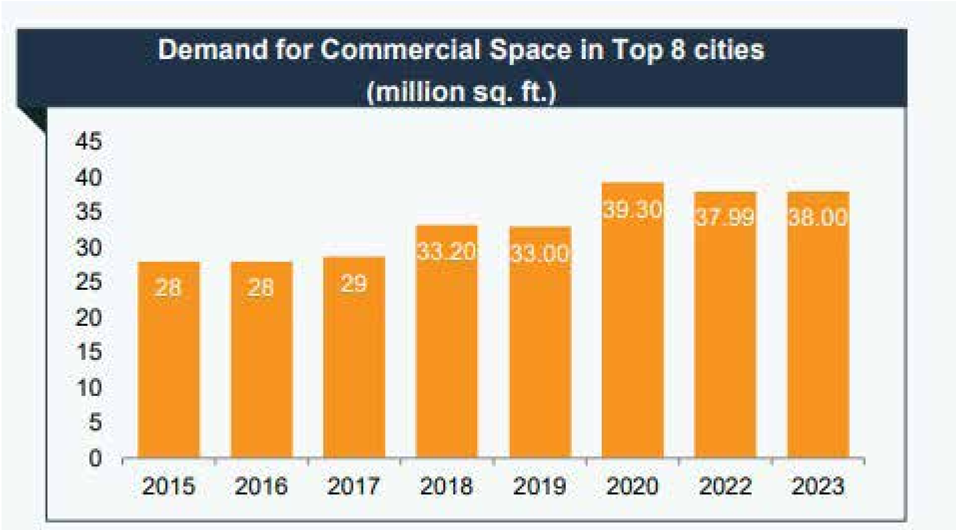
The commercial real estate market in India is poised for significant growth. It is estimated to be valued at USD 40.71 billion in 2024 and is expected to expand to USD 106.05 billion by 2029, demonstrating a robust compound annual growth rate (CAGR) of 21.10% during the forecast period from 2024 to 2029.

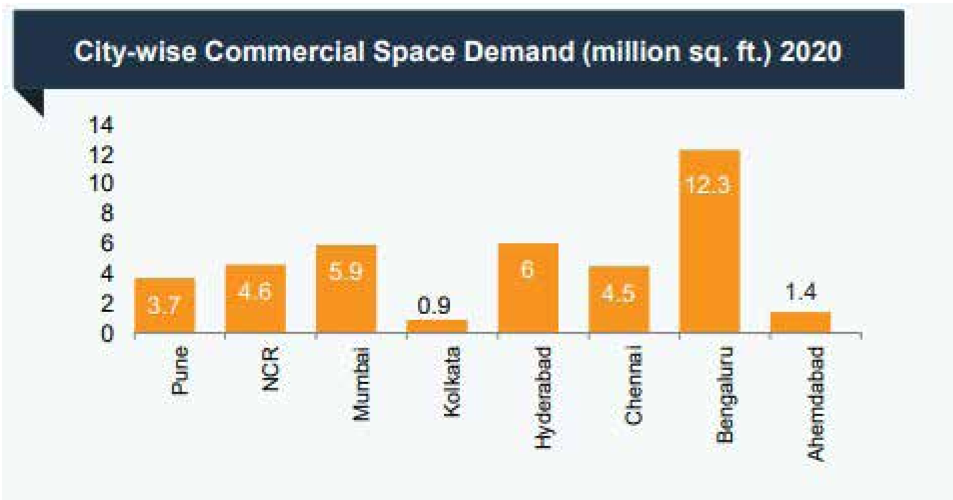
Key Highlights of the Commercial Real Estate Market in India:

- **Market Structure:** The market is predominantly controlled by a few large developers who have a pan-India presence. This concentration of market power influences trends and standards within the industry.
- **Business** Model Evolution: There has been a noticeable shift in the operating model from primarily focusing on sales to now emphasizing leasing and maintenance. This change reflects a more sustainable and steady revenue model for developers.
- **Rising Demand:** The demand for office space is anticipated to rise significantly. This increase is driven by several factors including the growth of flexible office spaces, the expansion of data centers, and the establishment of Global Capability Centers (GCCs) by multinational corporations. Additionally, sectors such as manufacturing and technology are also contributing to the heightened demand.

Key drivers

- Rapid growth in service sectors: IT/BPM, BFSI, and Telecom.
- Rising demand from MNCs.
- Demand for office space in tier II cities.

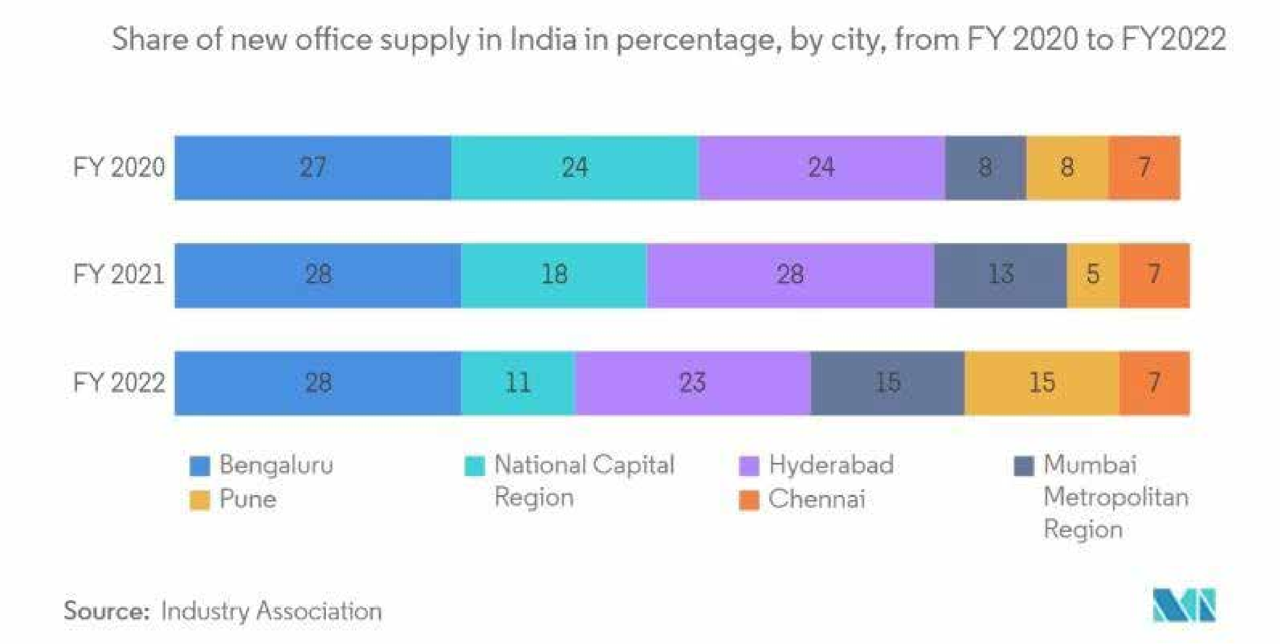




India Commercial Real Estate Market Trends

Office Space Demand Propels Market in India

Research by Colliers India reveals significant growth in the office space sector within six major cities, showing a 49% rise in supply to 32.8 million square feet from January to September, up from 22 million square feet during the same period last year. Despite a slight 1% drop in new office supply overall, notable variations were observed in specific cities. Mumbai's supply decreased by 16% to 1.8 million square feet, whereas Chennai's supply surged to 4.2 million square feet from 0.9 million. Furthermore, Delhi-NCR witnessed a substantial 133% increase, reaching 6.3 million square feet. The demand for office spaces across India remains on an upward trajectory.



Rising Demand for Flexible and Co-Working Spaces

Bengaluru leads tier-1 cities in the number of operational flex space centers, closely followed by Mumbai with 343 centers. Additionally, Bengaluru tops the charts for the highest number of leased flex seats, with Pune coming in next with 16,000 seats. In terms of flex seat transactions, the Delhi NCR region leads with 147 transactions, with Mumbai slightly behind at 133 transactions. The demand for flexible and co-working spaces continues to grow, predominantly driven by the information technology sector, startups, and the emerging tech sector, which alone accounts for 30% of the flex seat uptake in India. Startups represent 18% of the total uptake of flex and co-working spaces, highlighting a growing trend towards flexible work environments in the Indian office real estate market.

The Future of Commercial Real Estate in Vikshit Bharat

Looking ahead, Vikshit Bharat's commercial real estate landscape is set to experience unprecedented growth and innovation. The commercial real estate market, currently valued at USD 40.71 billion, is projected to grow to USD 106.05 billion by 2029, reflecting a compound annual growth rate (CAGR) of 21.10%. Major developers with a pan-India presence will continue to dominate, setting new industry standards and leading to a more structured and competitive environment. The transition from a sales-driven model to one focused on leasing and maintenance reflects a strategic shift towards sustainable revenue streams, attracting more institutional investors and fostering a stable and resilient market. The rising demand for office space, particularly from sectors like IT/BPM, BFSI, and manufacturing, coupled with the expansion of Global Capability Centers (GCCs), will be key growth drivers. Notably, the increased focus on tier II cities for office space development indicates a broader geographic spread of economic activity, enhancing regional development and mitigating the urban-rural divide.

Embracing Technological Advancements and Flexibility

Technological advancements such as artificial intelligence, virtual reality, and data analytics are set to revolutionize the commercial real estate market in Vikshit Bharat. These technologies will enable virtual property tours, streamline customer relationship management, and facilitate seamless online transactions, thereby enhancing communication between buyers and sellers. The demand for flexible and co-working spaces is expected to surge, with projections showing that Bengaluru, Mumbai, and Pune will lead this trend. For instance, Bengaluru currently has the highest number of operational flex space centers, with 343 centers, and leads in the number of leased flex seats. The tech sector, which accounts for 30% of the flex seat uptake, along with startups representing 18%, will drive this growth. The increasing preference for flexible work environments underscores a fundamental shift in office space utilization, promoting a dynamic and responsive commercial real estate sector.

Strategic Investments and Policy Support

Strategic investments and supportive policies will be crucial in sustaining the growth trajectory of Vikshit Bharat's commercial real estate market. The government's initiatives like Make in India, the Real Estate Regulatory Authority (RERA), and the implementation of GST have already bolstered the retail and hospitality sectors, attracting large-scale investments from institutional investors. Additionally, the projected USD 1.5 trillion investment in infrastructure by 2030 will further enhance the market's appeal, ensuring efficient project execution and robust urban growth. As the market evolves, the integration of advanced technologies and a focus on sustainable development will be crucial in addressing the challenges and capitalizing on the opportunities in Vikshit Bharat's commercial real estate sector.

Chapter 6
Housing Finance

Recent data reflect a shift towards more stringent regulatory requirements and a push for better financial discipline in the real estate sector post-RERA and IBC, with reduced dependency on debt and increased reliance on funding through customer advances.

Housing finance constitutes over half of India's secured loan book as of March 2023. By June 2023, PSU Banks led in home loan value and volume, followed by Private Banks. India's demographic profile favors the housing industry, driving growth in the housing finance market. Over the past two decades, housing loans in India have surged from 3.2% to 10.6% of GDP. Additionally, residential housing loans' share of total advances has increased from 8.6% to 14.2% over the past 11 years. Despite this growth, sales trends vary significantly across market segments. The luxury housing market, for instance, has thrived, with a 75% year-on-year increase in sales for apartments priced above Rs 4 crore in 2023. In contrast, the low-cost housing sector has struggled due to persistently low sales, primarily driven by low-profit margins for developers.

Household Income Allocations

Asset Class	India	USA	Europe	Japan	China
Equity	4.40%	39.10%	21.10%	17.80%	10.90%
Real Estate	28.40%	27.00%	19.30%	14.30%	69.20%
Fixed Income	47.80%	19.20%	50.20%	61.70%	17.60%
Cash/Deposits	17.90%	14.60%	5.50%	6.20%	2.20%
Others	1.50%	0.10%	3.90%	0.10%	0.10%

India's real estate investment allocation (28.4%) is considerably higher than in Europe, indicating a strong preference for property as a key asset class for wealth accumulation and security. This, coupled with the dominant inclination towards fixed-income investments (47.8%), underscores a conservative investment ethos in the Indian market.

Bank Lending Trends

Over the last two decades, housing loans as a percentage of GDP have significantly increased, rising from 3.2% to 10.6%. Additionally, the share of residential housing loans in total advances has grown from 8.6% to 14.2% over the past 11 years. This indicates a robust growth in the housing finance market, reflecting an increased focus on residential lending.

However, the pace of bank funding to real estate developers has shown a decline, with the growth rate dropping from 18.6% in 2014 to 10.8% in 2022. The share of commercial real estate (CRE) in total loans has remained relatively stable, hovering between 2.0% and 2.9%. CRE encompasses non-retail assets, including commercial buildings, IT buildings, and residential structures financed by banks for developers. This has led to a mismatch between builder priorities and market needs, particularly affecting the supply of low-cost housing where developers' margins are low. Consequently, there has been a persistent decline in sales in this segment, while luxury apartments priced at Rs 4 crore and above recorded a 75% year-on-year growth in sales in 2023.

Affordable Housing Finance Landscape:

The housing shortage in India is predominantly in the Low-Income Group (LIG) and Economically Weaker Section (EWS), comprising 95% of the deficit. Middle-income Group (MIG) and above account for only 5%. The primary reason for the deficit in EWS and LIG is the lack of affordable capital for quality housing. Households earning under INR 8 lakhs annually, many new to credit and from semi-urban/rural areas, are underserved by formal banking. Addressing this credit gap presents a significant opportunity for HFCs and NBFCs.

The supply of affordable housing priced below Rs 25 lakh and between Rs 25 to 45 lakh has declined by 20% since pre-pandemic times. The Planning Commission highlights an acute shortage in the Economically Weaker Sections (EWS) and Lower Income Group (LIG) segments, which comprise over 95% of the urban housing deficit. Despite the clear demand, only 11% of total private equity investments in residential real estate since 2011 have gone to affordable housing, indicating a lack of focus from investment funds.

Further exacerbating these issues, a 250-basis point increase in mortgage rates over the past two years has significantly reduced purchasing power for affordable housing buyers, resulting in a 14-15% drop in affordability. This highlights the growing financial challenges many homebuyers face in today's economic landscape.

Between fiscals 2018 and 2023, growth in the low-income housing segment was subdued, with a CAGR of 3%, compared to the overall housing loans' growth of 13%. This slowdown is attributed to economic challenges, the NBFC crisis, and the COVID-19 pandemic.

The housing finance market for low-income housing (loans up to ₹1.5 million) is, however, showing positive trends, poised for strong long-term growth. As of March 2023, this segment was valued at ₹4.3 trillion, representing 15% of the total housing finance market. Public Sector Banks (PSBs) lead with a 41% market share (₹1.8 trillion in outstanding loans), followed by Housing Finance Companies (HFCs) at 28% (₹1.2 trillion), and private banks at 21% (₹0.9 trillion). Multinational Corporations (MNCs) and Small Finance Banks together held a 7% share.

The lack of affordable capital remains a significant barrier, underscoring a substantial opportunity for Housing Finance Companies (HFCs) and Non-Banking Financial Companies (NBFCs) to innovate and expand their offerings. Despite the growing demand, the decline in affordable housing supply and minimal private equity investment highlight a critical gap that needs immediate attention. The rise in mortgage rates has further strained affordability, exacerbating the financial challenges faced by potential homebuyers. However, the promising trends in the low-income housing finance market for homebuyers remain a bright spot.

Chapter 7
Key Findings

India's real estate sector is primed for significant growth, essential to realizing the Vikshit Bharat vision. Strategic investments, policy reforms, and innovative financing solutions can unlock growth across various asset classes.

The Smart Cities Mission (SCM) in India, implemented via Special Purpose Vehicles (SPVs), bypasses traditional governance models to involve significant private sector participation. However, the SPV model's top-down approach has faced several challenges. For instance, allocating over ₹2,500 crore in projects to a smaller hilly town with an annual budget of under ₹100 crore raises relevance concerns. To enhance effectiveness, greater community feedback and inclusive governance structures are essential. Launching the mission's next phase should involve amendments to ensure fixed tenures for CEOs, full-time dedication, and robust monitoring mechanisms involving local representatives.

The Real Estate (Regulation and Development) Act (RERA) aims to streamline the real estate sector, but several challenges impede its effectiveness. Although RERA enforces delivery timelines, developers frequently exploit loopholes, and the law fails to hold them accountable for delays caused by bureaucratic red tape. Additionally, there is no provision to prevent developers from starting new projects before completing delayed ones, nor does RERA assess the financial stability of developers, which is crucial for project completion. These gaps highlight the need for stricter policies, timely approvals, and transparent developer profiles to protect homebuyers and ensure sector growth.

Small and Medium Real Estate Investment Trusts (SM REITs), a new category introduced by SEBI to democratize real estate investments for retail investors, are set to lower the entry barrier for investors. Unlike traditional REITs, SM REITs require a lower minimum investment and mandate that 95% of their assets be invested in fully developed, revenue-generating properties, which reduces risk. Despite their potential, SM REITs face significant challenges, including higher operational costs and liquidity concerns due to lower trading volumes. The fractional ownership market in India, estimated at $500 million, is projected to grow to over $5 billion by 2030, driven by substantial Grade A and B office space supply. The market's evolution, with FOPs gaining wider acceptance and more properties coming under SM REIT schemes, indicates a significant shift towards making real estate investments more accessible and diversified for retail investors.

Another area hindering the growth of the real estate sector is the increasing number of stalled projects due to a lack of finance, adequate support, and other operational challenges. Providing working capital loans instead of traditional term funding or construction finance, which focuses on short-term financial needs, can make financing these projects smoother. This method ensures that funding is aligned with project needs and simplifies repayment through project revenue. Likewise, shifting to project performance-based funding, rather than promoter-based funding, can address significant risks, ensuring that funds are used solely for the project.

Recent data highlight a shift towards stringent regulatory requirements and better financial discipline in the real estate sector post-RERA and IBC, with reduced debt dependency and increased reliance on customer advances. Housing finance constitutes over half of India's secured loan book as of March 2023, with PSU Banks leading in home loan value and volume. India's demographic profile favors the housing industry, driving growth in housing finance, which has surged from 3.2% to 10.6% of GDP over two decades. Residential housing loans' share of total advances has also grown from 8.6% to 14.2%. While the luxury housing market thrived with a 75% year-on-year sales increase for apartments priced above Rs 4 crore in 2023, the low-cost housing sector struggled due to low profit margins.

India's real estate investment allocation (28.4%) is higher than Europe's, indicating a strong preference for property as a key asset class. Despite robust growth in housing finance, bank funding to real estate developers has declined, affecting low-cost housing supply. The affordable housing market, primarily for LIG and EWS, faces significant deficits due to a lack of affordable capital, despite a clear demand. The housing finance market for low-income housing (valued at ₹4.3 trillion) shows positive long-term growth, led by PSBs. However, a 250-basis point increase in mortgage rates has reduced affordability by 14-15%. Addressing the credit gap presents a substantial opportunity for HFCs and NBFCs to innovate and expand offerings. Despite these challenges, the low-income housing finance market remains a bright spot.

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About ASSOCHAM

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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