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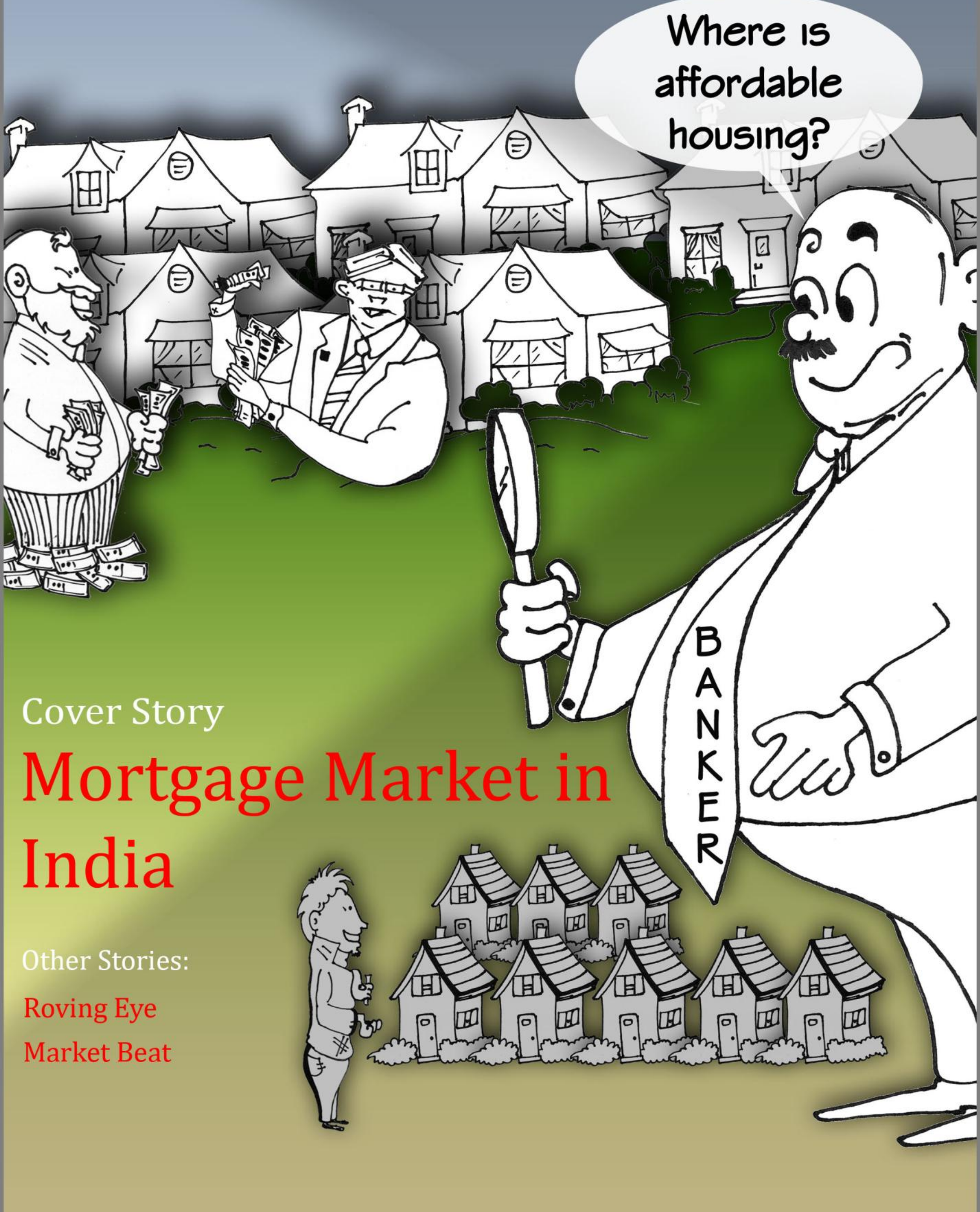
Real State of Estate

A BOV thought leadership initiative



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Black Olive Ventures ("BOV") presents to you the seventh edition of the 'Real State of Estate', a monthly newsletter, shared with select clients and friends. The newsletter is focused on cutting edge "Thought Leadership" and the trends based on the happenings largely in the NCR and India that affect the real estate sector, i.e., macro-economic changes, infrastructure development, policy changes and major transactions. This newsletter, we hope, will generate debate on live issues and will help observe any Paradigm Shifts in the sector much in advance. We encourage our readers to be the fountainhead of ideas, contribute in creating lead stories and share feedback so as to enable, change, collective learning and ideation.

Roving Eye

Enemy defeated, kingdom won but the race goes on!

While Modi's victory has fuelled a zillion aspirations, the real fight of putting the nation back to growth remains. As the country looks forward to the budget in 2nd Quarter of FY 2014 – 2015, there is a large list of reforms that the real estate industry will want of this government, more so as this time the government can't use the 'coalition pressure' excuse.

For real estate (largely a state subject) a strong central leadership can fuel demand by facilitating decisions which in turn can attract investment and put more money in people's pocket. It can incent the state government and increase performance pressure so as to focus on development of infrastructure, better urban management etc., however these are all indirect measures.

The main culprit for the real estate industry and in way of providing affordable housing has been the high taxation in real estate industry. According to CREDAI as much as 40% of the cost of production goes away in taxes alone. Centre can do a lot in this regard. One long standing demand of the industry has been to provide 100% waiver of income tax for purchase of 1st home by any individual. This will give a tremendous boost to housing and real estate sector. Imagine if this were to be implemented, even without a change in the price of houses, for an end user the houses will become cheaper by 30% (those in higher tax slabs). Retrograde service tax on commercial leasing must go away as we are among 15 nations that levy a service tax on commercial rent. REITs legislation must be notified soon. Also the AIF – II (minimum) invest limit of ₹ 1.0 Cr. per individual/entry must be brought down to 25 lacs or below. These measures will not only boost investment in real estate but also benefit 278 downstream industries.

While the list can be endless and it may take 6 – 12 months for shoots of recovery to come. We hope that Mr Prime Minister's office listens to the demand of real estate industry this time so that *"Achhe din jaldi se aa jayen"*

Sunil Agarwal

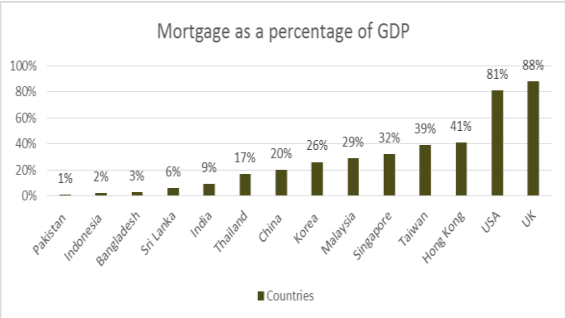
Managing Director

Black Olive Ventures

Mortgage Market in India

Mortgage largely provides us an opportunity to finance the purchase or develop real estate. Mortgages in India and other developing countries are one of the key indicators of growth of an economy. The impact of the real estate industry affects about 278 allied industries.

Total outstanding mortgages in India are at ₹ 8,264 billion. This may seem a large number, however it is relatively small as compared to other countries of similar economic and demographic profiles. This amounts only 9% of the GDP, as compared to 20% for of China and far less than 80% of U.S.A and U.K. The share of mortgage as a percentage of GDP has constantly risen to its current levels from 3.4% in 2001. Going forward the industry is looking at 20% y-o-y growth which is significantly higher than the growth of GDP giving clear indications that the mortgage market size will grow to mid-20's in the next 7-10 years and will compare to that of China.



As per the report of Technical Group on Urban Housing shortage in India (2012 – 17), India needs 18.8 million housing units in the cities alone, out of which 95% are in the EWS/LIG categories. There is looming housing shortage in Rural India as well, where 76% of the country's population resides. The rural housing shortage was estimated at 43.9 million in 2012. Hence, the major focus is to develop low cost, safe and affordable housing to meet the demand of the country.

A survey by the planning commission has shown that 66% of the households in India construct home using their own resources, 9% using institutional finance and the remaining depend on non-institutional sources like family, friends and money lenders. The current financing mechanism prevalent in the country does not target the LIG & EWS also most of the lenders like FMCG industry are present only in large urban centres. This leaves a wide scope of growth for mortgage industry in India into EWS & LIG segments and smaller towns.

Growth of Housing Finance

In India major revolution in housing finance took place in the last one and half decade. This is demonstrated by housing finance statistics that captures the magnitude of change from the year 2000. The outstanding housing loans of HFCs and SCBs are given below-

Amount in INR Cr.

Institutions/Date	March 31, 2000	March 31, 2013
Housing Finance Companies	25,326	2,85,711
Scheduled Commercial Banks	18,524	4,62,200
Total	43,851	7,47,911

The above data indicates an overall growth of 1,605.58%, which translate to a CAGR of 24.38%

The growth in the housing finance market was triggered by a number of factors such as-

•Tax rebates in the housing loans

•Falling interest rates

•Greater amount of professionalism in the banking as well as real estate development sectors.

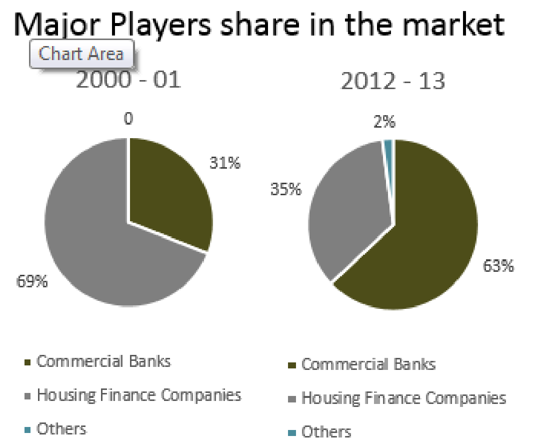
•Increase in LTV upto 80-90%

•FDI upto 100% allowed since 2005

•Introduction of Subvention scheme (80:20), in 2008

•Introduction of Reverse Mortgage Loan, in 2007

The share of the players in the market has also seen a drastic change. Commercial banks have become dominating players. This is majorly due to availability of low cost deposits and better branch network. Commercial banks found housing finance attractive due to lower interest rate regime, rising disposal income, stable property prices and fiscal incentives. The Scheduled Commercial Banks currently hold 60% – 65 % (approx.) of the share in the housing finance market. However, the HFC's are also growing and is indicative of the strength of their focused approach, targeting of special customer segments, relatively superior customer service, and significant growth plans. In fact growth of SCB's in mortgage industry has slowed considerably over last few years.



Performance of the Mortgage Market

Housing Finance Companies (HFC)

•Number of registered HFC's increased from 54 as on FY ending 2012 to 56 as on FY ending 2013.

•Number of branches/offices of registered HFC's was increased from 1,659 as on FY ending 2012 to 2,065 as on FY ending 2013.

•Total outstanding loan portfolio as on FY ending 2013 was ₹ 3,90,217 cr., with an annual growth rate of 29.35% over FY ending 2012.

•Share of outstanding housing loans to outstanding total loans was increased to 74.43% as on FY ending 2013 from 73.66% as on FY ending 2012.

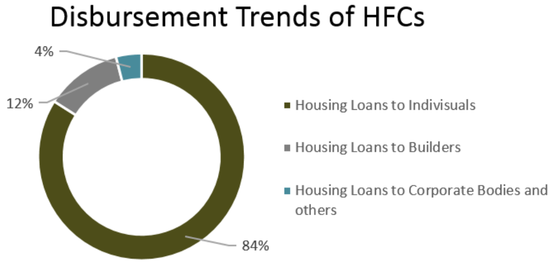
- The Summary of key financial indicators of HFC's is given below

Particulars	2011	2012	Growth %	2013	Growth %
					Amount in INR Cr.
Paid up Capital	5,168	5,403	4.55%	5,541	2.93%
Free Reserve	29,658	34,658	16.86%	48,019	19.23%
Net owned Funds(NOF)	32,731	37,103	13.36%	51,027	18.01%
Public Deposits	28,694	35,476	23.64%	44,179	16.83%
Outstanding Homeloans	1,86,438	2,22,225	19.20%	2,90,427	18.02%

- Borrowers' type-wise disbursement trend of housing loans by HFC's

•Total disbursement of ₹ 1,06,135 cr. Growth of 34% over 2011 - 12

•Out of total for the year 2012 – 13, 84% of the housing loans were to individuals, 12 % to builders and 4% to corporate bodies.



Scheduled Commercial Banks (SCB's)

During the last decade, SCBs have assumed a significant role as the largest institutional sources for providing mortgage loans. The outstanding housing loan of SCB's has increased from ₹ 3,06,307 Cr. on of end of March 2010 to ₹ 4,62,200 Cr. at the end of March 2013, indicating a growth of over 14.7 per cent on a year-on-year basis.

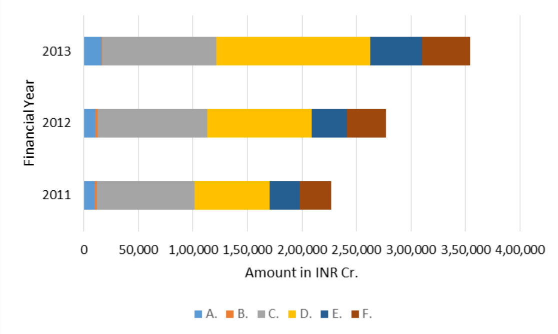
Year	2010	2011	2012	2013
				Amount in INR Cr.
O/s Gross Bank Credit	33,45,169	40,75,647	43,79,300	49,98,400
O/s Housing Loan	3,06,307	3,45,931	4,03,400	4,62,200
% of Housing Loan to Gross Bank Credit	9.16%	8.49%	9.21%	9.25%

Sources of Finance

The HFCs primarily depend on loans from banks and financial institutions, beside their own funds – Equity and Reserves. HFCs borrow money through bonds and debentures, inter corporate deposits, commercial paper, subordinate debt and fixed deposits.

	Particulars	2010 - 2011	2011 - 12		2012 - 13	
		Amount	Amount	Growth%	Amount	Growth%
A.	Natiopnal Housing Bank	9,861	10,641	8%	15,863	49%
B.	Foreign Government, Foreign Authority and Foreign Citizen or Person	2,326	1,801	-23%	1,059	-41%
C.	Banks	89,178	1,00,663	8%	1,04,236	4%
D.	Debentures secured by mortgage of immovable properties or convertible debentures	68,713	96,032	40%	1,41,257	47%
i.	Of the above, debentures sub	13,885	22,821	64%	35,526	56%
ii.	Debentures subscribed by oth	54,829	73,210	34%	1,05,731	44%
E.	Others	27,944	32,183	15%	47,553	48%
F.	Public Deposits	28,694	35,476	24%	44,179	25%

Sources of funds for HFCs below provides a graphical representation of the borrowings of the HFCs in the last three years, till March 31, 2013



It is interesting to note that banks have been steadily increasing their exposure to the mortgage market however at a slower rate recently. Banks do direct lending in the market and indirectly they invest in the debentures of HFCs. Simultaneously, FDI investments in HFCs has showed a decline of 23% and 41% in 2011-2012 and 2012 – 2013 respectively. The decline in FDI is due to the overall decline in FDI inflow to the country. This situation may reverse due to the initiatives taken by new regime at the union government level in days to come.

Other Mortgage Product

Subvention Scheme

The Subvention Scheme has been a part of the residential real estate market for almost seven years. Around 200 developers across the country along with lending institutions have been trying to attract home buyers with the scheme. The scheme was very popular, it was marketed as the 80:20 scheme with the buyer to pay 20% amount upfront with EMIs of 80% to start after possession giving significant comfort to the buyer by not having to pay rent & EMI simultaneously, however cost of home would be more. It was a win –win recipe for all, the buyer, builder and banker.

However this scheme evolved to one of the classical cases of misleading marketing. In this scheme the EMIs till the possession were to be paid by the developer. In a typical agreement the developer would cap his liability to two to three years. Delays in the project would result in the EMI burden to fall on the buyer irrespective to the stage of completion. This forced RBI to step in & bar banks from giving loans for upfront payment of under construction property, bring an end to this speculative practice. HFCs however are still allowed to do subvention.

Reverse Mortgage

In 2007, NHB conceptualized Reverse Mortgage Loan (RML) and formulated the operational guidelines for RMLs. This enabled the Scheduled Commercial Banks and HFCs to extend RML to senior citizens and avail monthly stream of income against mortgage of his/her house.

As on March 31, 2013, 24 Banks and 2 HFCs have launched the RML Scheme and an amount of ₹ 1,711 crore have been sanctioned to 7,519 senior citizen borrowers.

India has the potential for a significant market for reverse mortgage if its economy continues at its current pace of growth, leading to increase in prosperity, real estate prices, disposable incomes, life expectancy and decrease in fertility rates in the population.

Despite the potential for reverse mortgage, there are several issues that may slow its spread and prevent it from evolving into a reliable and acceptable means of income generation. It is a complex instrument and exposes the typical uninformed elderly borrower to fears of a debt burden, eviction and inability to leave a legacy behind by way of a bequest. Also currently Indians want their kids to inherit their property. This has also prevented Reverse Mortgage from being a success in India.

Microfinance for Housing

Microfinance has been prevalent in India from a long time. An attempt was made to formalize this market segment in 2007, a bill was introduced in the parliament which could not become an act due to dissolution of parliament in 2009. A revised bill was introduced in 2012. Microfinance had a total outstanding of ₹ 330 Billion in 2010 and reduced to ₹ 220 Billion in 2012. This was due to the Microfinance institutes lending at an unrealistic rate of 3% per annum, basically subsidizing bank lending to self-help groups.

New microfinance bill has the following salient features:

- Defines microfinance much more widely than micro-credit; it includes savings, insurance and money transfers.
- It firmly places RBI as the regulatory authority
- It has taken in account the concern of customer grievances and customer protection issues

The major issues concerning to the pricing constraints of MFIs are –

- Lack of income documentation
- Instability and Informality of Income
- Lack of housing collateral
- Systematic risks associated with subsidized housing

New Developments in the Indian Housing Sector

•Rajiv Rinn Yojna: The Scheme envisages the provision of a fixed interest subsidy of 5% on interest charged on the admissible loan amount to EWS and LIG segments to enable them to buy or construct a new house or for carrying out additions.

•The Credit Risk Guarantee Fund for Low Income Housing: This fund was set up and registered by Government of India on 1 May 2012. This is managed by the NHB, and provides default guarantee for housing loans up to ₹ 5 lakh that are sanctioned and disbursed by the lending institutions without any collateral security or third-party guarantees and for new borrowers in the EWS/LIG category in urban areas.

•National Housing Bank in association with Genworth, Asian Development Bank and International Finance Corporation has set up India's Mortgage Guarantee Company - India Mortgage Guarantee Corporation Pvt Ltd. will offer mortgage guarantees against borrower defaults on housing loans from mortgage lenders and will help expand access to housing in India.

Last Budget

Following were the provisions in the 2013 – 14 interim Union Budget for improving housing finance -

•₹ 6000 Cr. to be allowed for Rural Housing Fund

•NHB to set up Urban Housing Bank Fund and ₹ 2,000 Cr will be allocated in this regard

•Interest subvention of 1% continued for low income housing (In the scheme NHB will refinance loan pools from HFC's & Scheduled Commercial Banks that have loan amounts of less than 15L with the cost of dwelling units less than 25L)

•Existing exemption from service tax for low cost housing & single residential units to continue

Conclusion

The potential of the housing sector is under-utilized in the country. The housing sector contribution to the GDP is likely to increase as it offers a strong business case for both lenders and builders. The market has not shown supply responses and does not reflect the nature of growing demand amongst specific segments. The major focus of the market should be to develop affordable housing for LIG/EWS as almost 90% of the shortage of housing is from this segment. To fulfil the demand of the market innovative financial products and technologies such as the Reverse Mortgage and Mortgage Guarantee (MG) can prove to be the important factors. Mortgage Guarantee is being explored by a newly set up Indian Mortgage Guarantee Company (IMGC) under the regulatory framework of RBI. IMGC is expected to provide stability in the mortgage market across the country. Capital inflows in the housing sector through Foreign Direct Investment (FDI) and External Commercial Borrowings (ECB) route will improve both supply of funds as well as standards and qualities of lending and construction. The challenge is to mitigate the housing needs of the country through various developments and financial initiatives. In this process of developing housing for all, the government's role towards provision of affordable housing by introducing sponsored schemes and programs will be crucial.

As already highlighted above mortgage market growth is also a function of economic growth. While phase-I of the market growth i.e. entry to big markets and upper end of the market has been achieved, the challenge of making cheap mortgage available to lower income groups and across smaller geographies remains. It is not easy to crack this puzzle though mortgages may continue to grow for some years due to demographical growth, the real challenge is far form being addressed. Frankly we do not have the answer, but a push from government (tax reforms) and stable micro credit / cooperate bank may have the answer.

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- National Housing Bank Report on Trend and Progress of Housing in India (2013)
- Union Budget (2013-14)

Market Beat

GDP	$1.84 Tn (Nominal - 2012-13)	Total FDI	$ 28.00 Bn (FY 13-14)		01.May.14	Min	Max	31.May.14
Per Capita Income	$ 1,580 (2012-13)	FDI in Real Estate	$ 0.48 Bn (FY 12-13)	Brent Crude	$ 105.70	$ 103.37	$ 109.89	$ 108.63
Gross Ext. Debt	$ 379.1 Bn (2012-13)	Residential Sales	76,793 units (Q12014)	US$	₹ 60.22	₹ 58.28	₹ 60.22	₹ 59.18
Current a/c Deficit	$ 4.2 Bn (Q3 2013-14)	NCR. Inventory Overhang	55 months (Q12014)	Euro	₹ 83.52	₹ 79.49	₹ 83.76	₹ 80.68
Fiscal Deficit	$ 80.08Bn (2013-14)	Commercial Leasing	8.2 Mn sqft (Q4 FY 13-14)	Gold (24K, 10 gm)	₹ 28,780	₹ 28,740	₹ 30,040	₹ 29,910

RG Stone to open 10 hospitals in 3 years, to invest ₹ 100 Cr.

Super-speciality RG Stone Urology and Laparoscopy Hospital will open 10 new centres in 3 years with an investment of ₹ 100 crore. The hospital chain is expecting a turnover of up to ₹ 135 crore in the financial year 2014-15, 10-15 per cent growth. RG Stone has 17 hospitals across the country. It had a turnover of ₹ 110 crore in the last fiscal.

Supertech Verdict impact: Land prices likely to zoom 20% in Noida

Realty developers in Noida, on the outskirts of the national capital, are set to take a hit of up to ₹ 9,000 crore, thanks to a recent Allahabad High Court order that bars them from using about 30 million square feet of floor space available to them in their existing projects under a liberal floor area ratio (FAR) regime.

Embassy-Blackstone joint venture buys majority stake in Bangalore business park

Real estate developer Embassy Group and private equity firm Blackstone have completed acquisition of majority stake in a 106 acre business park in Bangalore for nearly ₹ 1,200 crore. Embassy Office Parks - an equal joint venture between Embassy Group and funds managed by Blackstone Group - has completed the acquisition of business park named 'Vrindavan Tech Village', Embassy group said in a statement.

Tata Realty and Infrastructure, Ferrovial SA may join hands for Navi Mumbai airport bid

The Tata group's deepening interest in India's civil aviation sector has now widened to include seeking to build Mumbai's second airport. But its holdings in two proposed airlines may mean it will need to keep its stake low in airport ventures because of conflict-of-interest issues.

Affordable housing company VBHC raises funds via rights issue

Value and Budget Housing Corp. Pvt Ltd (VBHC), started by entrepreneurs Jaithirth Rao and P.S. Jayakumar, has raised ₹ 65 crore through a rights issue. Investors, including the Carlyle Group and International Finance Corp., part of the World Bank Group, have subscribed to the issue, along with a few other wealthy investors.

Tata Housing to invest ₹ 450 crore on housing project at Kolkata

Realty firm Tata Housing will invest about ₹ 450 crore over the next four years to develop a new housing project in Kolkata. This is the company's second project in Kolkata, Tata Housing said in a statement.

Oberoi Realty raises Rs.750 cr via NCDs for Tata land payment

Oberoi realty Ltd has raised ₹ 750 crore by selling non-convertible debentures (NCDs) to part-fund its purchase of a 25-acre land parcel in suburban Mumbai. The Mumbai-based developer had emerged as the highest bidder for the piece of land in Borivali that was auctioned by Tata Steel Ltd. Oberoi Realty had agreed to buy the land for ₹ 1,155 crore.

Tata Housing to invest $400mn to develop township in Sri Lanka

Tata group's realty firm Tata Housing today announced its foray into Sri Lanka with an investment of over $400 million (about ₹ 2,400 crore) to develop a township project at Colombo.

PE investments in realty highest since 2009

Property buyers are shying away from the market and builders are stuck with a large inventory of unsold property. This usual realty gloom-and-doom story now has a new twist. Private equity investors seem to see an opportunity in real-estate, and in the first quarter of 2014 bet ₹ 2,800 crore on property investments, close to 2.5 times the amount they invested in the same period last year, according to a report by real estate advisory firm Cushman & Wakefield.

Ansal Properties to invest ₹ 130 crore on SEZ development in Greater Noida

Realty firm Ansal Properties and Infrastructure has revived its plan to develop a 75-acre IT special economic zone (SEZ) in Greater Noida and will invest about ₹ 130 crore over the next three years on construction. The IT SEZ was notified by the Commerce Ministry in 2006, but the company was going slow in the development of SEZ project due to global economic slowdown.

Mahindra Lifespace inks ₹ 650-cr land deal

Peninsula Land on Thursday acquired a five-acre property from Great Eastern Mill Spinning & Weaving company limited and Mahindra Lifespace Developers Ltd for about ₹ 650 crore. Cushman & Wakefield's capital market group provided transaction advisory for this sale. The land is located in Byculla in Mumbai.

ICICI Bank cuts home loan rates by 10 bps

ICICI Bank, the country's largest private sector lender, has reduced home loan rates by up to 10 basis points (bps) for loans up to ₹ 75 lakh. Under the new scheme, which will be offered till June 30 for new customers, interest on home loans up to ₹ 75 lakh will be charged at 10.15 per cent or 15 bps over the base rate.

DLF to move SC as Compat upholds ₹ 630-cr CCI fine

In a major setback for realty major DLF, the Competition Appellate Tribunal (Compat) on Monday upheld the 2011 order of the Competition Commission of India holding the company guilty of abusing its dominant market position with regard to a residential society in Gurgaon. DLF will now have to pay the penalty of ₹ 630 crore levied by CCI along with 9% interest. In a statement, the company said it was still studying the order but would appeal against it in the Supreme Court.

Mumbai-based PE firm to invest ₹ 100 crore in Casa Grande

Mumbai-based private equity firm Avenue Venture Real Estate Fund proposes to invest up to ₹ 100 crore in city-based developer Casa Grande. "Casa Grande today announced that Avenue Venture Real Estate Fund plans to invest up to ₹ 100 crore in equity at project level ventures, out of which ₹ 53 crore has already been invested over two projects, Casa Grande said in a statement.

DLF Emporio raises ₹ 525 crore from CMB

DLF Emporio Limited, a subsidiary of DLF Limited, has successfully mobilized 525 crore rupees from issuance of India's first Commercial Mortgage Backed Security (CMBS).

ASK Group raises ₹500 crore in 15 months for residential projects

Diversified financial services firm the ASK Group has raised ₹500 crore in structured debt over the last 15 months for investment into five residential projects in four cities. This has taken the fund corpus currently managed by the ASK Group to ₹2,150 crore.

Brys Group gives ₹ 330 crore construction contract to UAE's ACC

Realty firm Brys Group has given a ₹ 330-crore contract to UAE-based Arabian Construction Company for the development of 81-storey tower in Noida. Brys Group is developing a super luxury project on Noida Expressway which is spread over 7.5 acres and comprises 291 flats at an investment of about ₹ 850 crore.

Mahindra earns ₹ 324 cr from Byculla deal

Real estate developer Mahindra Lifespace Developers recently announced that it has received ₹ 324.95 crore from the sale of a five-acre property in the Byculla area of the Mumbai.

DDA lines up largest-ever offer of 27,000 flats

Four years after its last housing scheme had Delhiites stampeding to apply, Delhi Development Authority (DDA) will soon be coming out with its largest-ever offering of 27,000 flats. This marks a substantial increase from the 16,118 flats offered in 2010.

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