

Residential
Real Estate In India

**CHALLENGES AND
FUTURE-PROOFING
STRATEGIES FOR
DEVELOPERS**

CBRE RESEARCH | AUGUST 2021

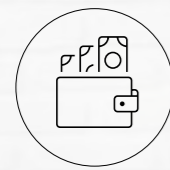


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SUMMARY

ECONOMIC INDICATORS



Per Capita Income

1.48x ▲
(Between Mar 2010-Dec 2020)



Repo Rate

4.0% ▼
(Lowest in over a decade)



Lending Rate

6.7-6.9% ▼
(Lowest in over a decade)



Construction Sector

8%
(Share in Indian GDP)



Alternate Investment Funding

32,000x ▲
(Increase in funds raised between Dec 2012 and Dec 2020)



Nifty50

2.8x ▲
(Increase between Mar 2010-Mar 2021)



FDI in Construction Development

INR 26,084 cr ▲
(Between Apr 2000-Mar 2021)



Special Liquidity Scheme

INR 30,000 cr
(For NBFCs, HFCs and MFIs in FY 2021)



Partial Credit Guarantee Scheme

INR 45,000 cr
(For NBFCs, HFCs and MFIs in FY 2021)

RESIDENTIAL REAL ESTATE INDICATORS



Residential Sales

75% ▲
(H1 2021 vs H1 2020)



Organised Stock

2.8 mn units ▲
(Up 2.8x since 2010)



Price Escalation

5% CAGR ▲
(2010-20)



Unsold Inventory

4.3 lac ▼
(As of June 2021)



SWAMIH-approved Projects

204
Entailing INR 17,500 cr investment
(As of May 2021)



RERA-registered Projects

63,215
(As of Mar 2021)



NBFC Loans to CRE

INR 1.3 lac cr
(FY 2020)



Sectoral Deployment of Gross Bank Credit to CRE

INR 2.4 lac cr
(As of Mar 2021)



PMAY(U)

INR 95,777 cr
(Central assistance released till 31 Mar 2021)



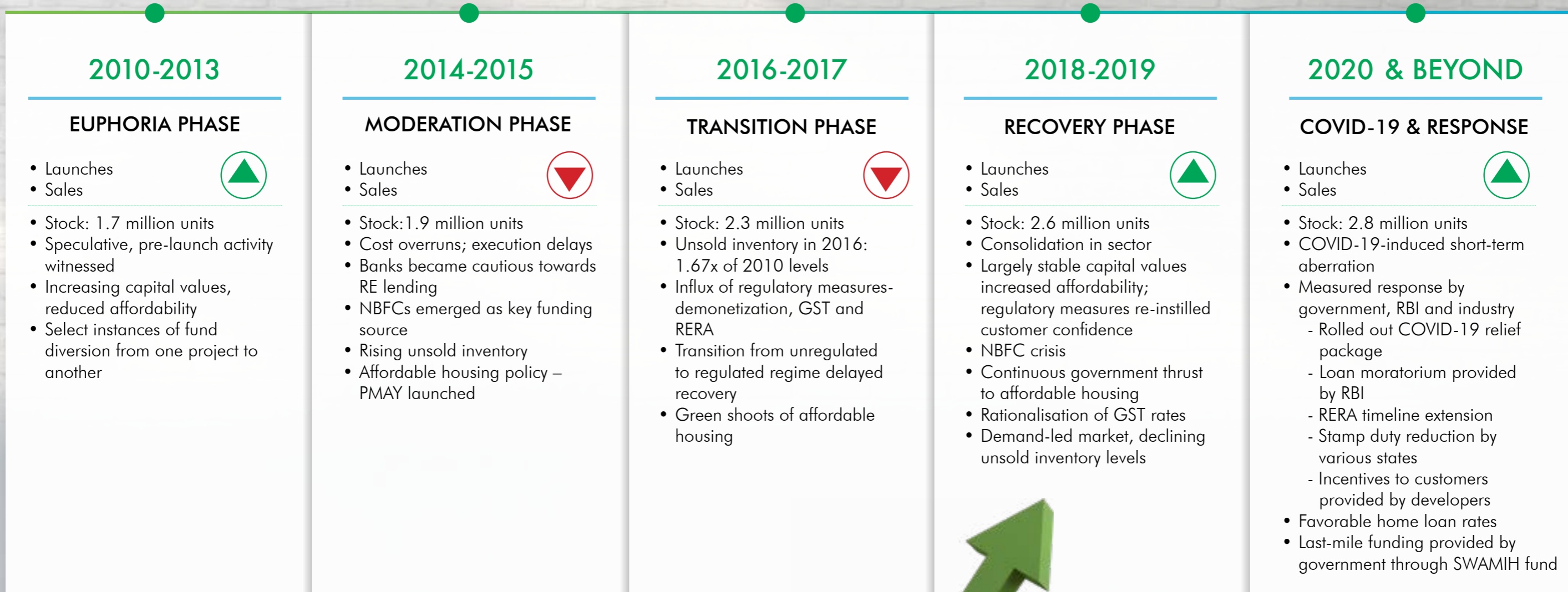
CLSS(U)

INR 36,095 cr
(Interest subsidy released till 31 Mar 2021 covering 15.96 lac beneficiaries)

List of abbreviations:

FDI: Foreign Direct Investment
 SWAMIH: Special Window for Funding Stalled Affordable and Mid-Income Housing Projects
 NBFC: Non-banking Financial Companies
 HFC: Housing Finance Companies
 MFI: Micro Finance Institutions
 PMAY(U): Pradhan Mantri Awas Yojana - Urban
 RERA: Real Estate Regulatory Authority
 CRE: Commercial Real Estate
 CLSS(U): Credit-Linked Subsidy Scheme - Urban

01 RESIDENTIAL REAL ESTATE IN INDIA: 'RE'CAPPING THE DECADE



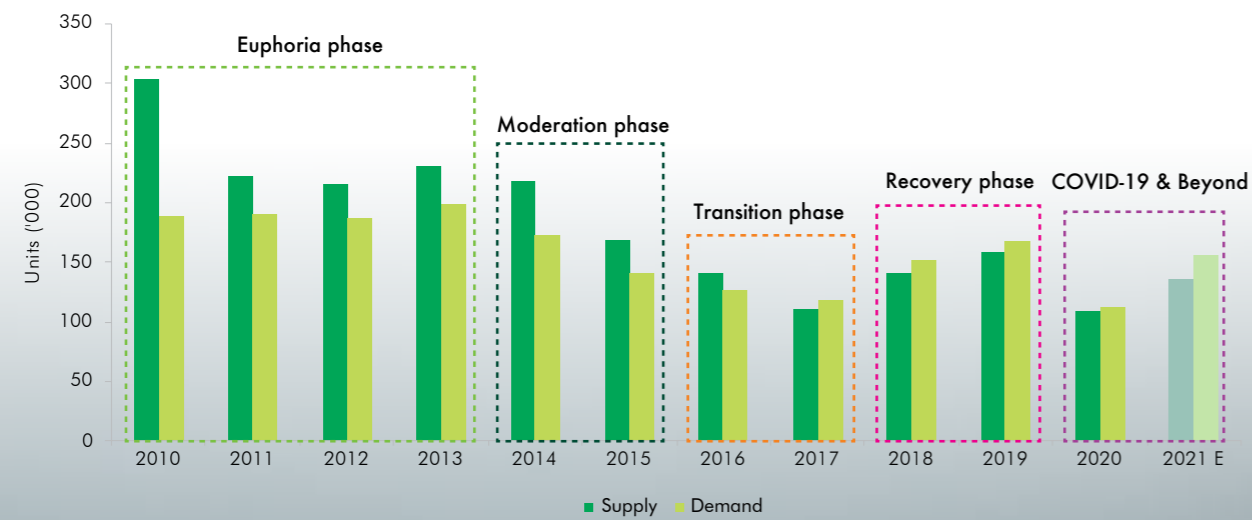
Source: CBRE Research, Q2 2021



Current dynamics: What is the demand-supply play?

The year 2020 was a year of recalibration and the impact of COVID-19 was felt by residential real estate as well, with both sales and new launches slowing down as caution pervaded the market. However, green shoots of recovery became clearly visible as housing sales in the top seven cities of India in Q4 2020 increased by a staggering 73% on a q-o-q basis. The demand in 2020 was primarily driven by Pune accounting for almost 23% of the total sales across these cities. It was closely followed by Bangalore (19%), Delhi-NCR (18%) and Mumbai (18%). The recovery continued in H1 2021 as well, as sales recorded a strong 75% growth on a y-o-y basis, albeit on a lower base. Pune accounted for an approximately 26% share, followed by Mumbai (19%). It was closely followed by Hyderabad and Delhi-NCR with 18% and 17% shares respectively.

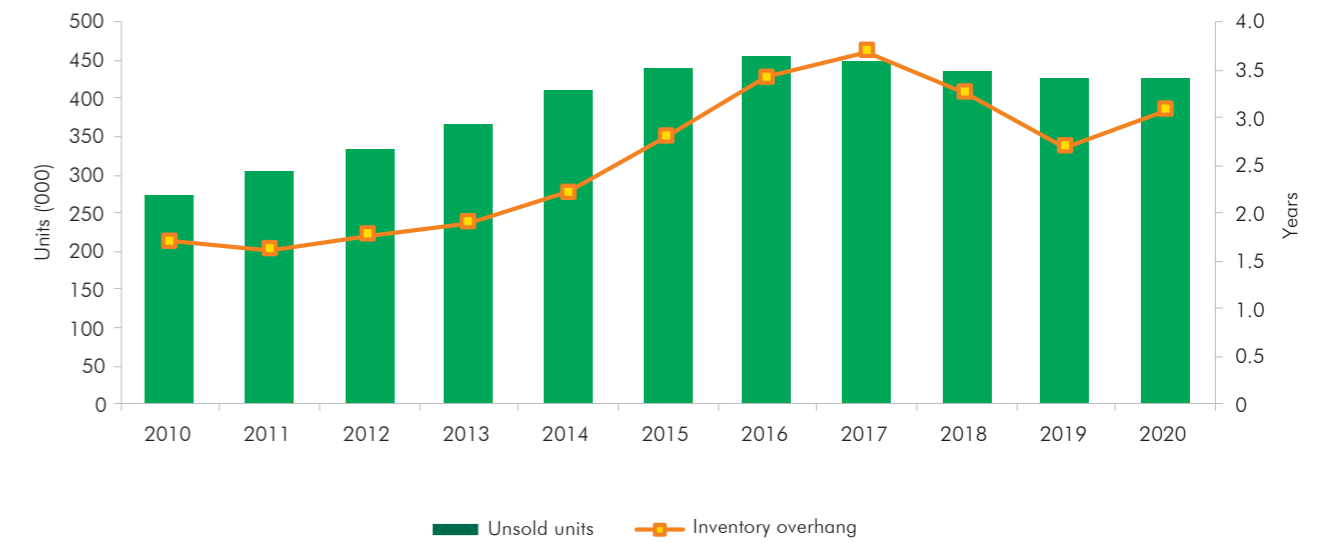
Figure 1.1 India Residential Supply and Demand Trends¹



Source: CBRE Research, Q2 2021

1. Constitutes data for top seven cities in India namely, Delhi-NCR, MMR, Bengaluru, Pune, Chennai, Hyderabad and Kolkata

Figure 1.2 Unsold Inventory and Inventory Overhang Trends



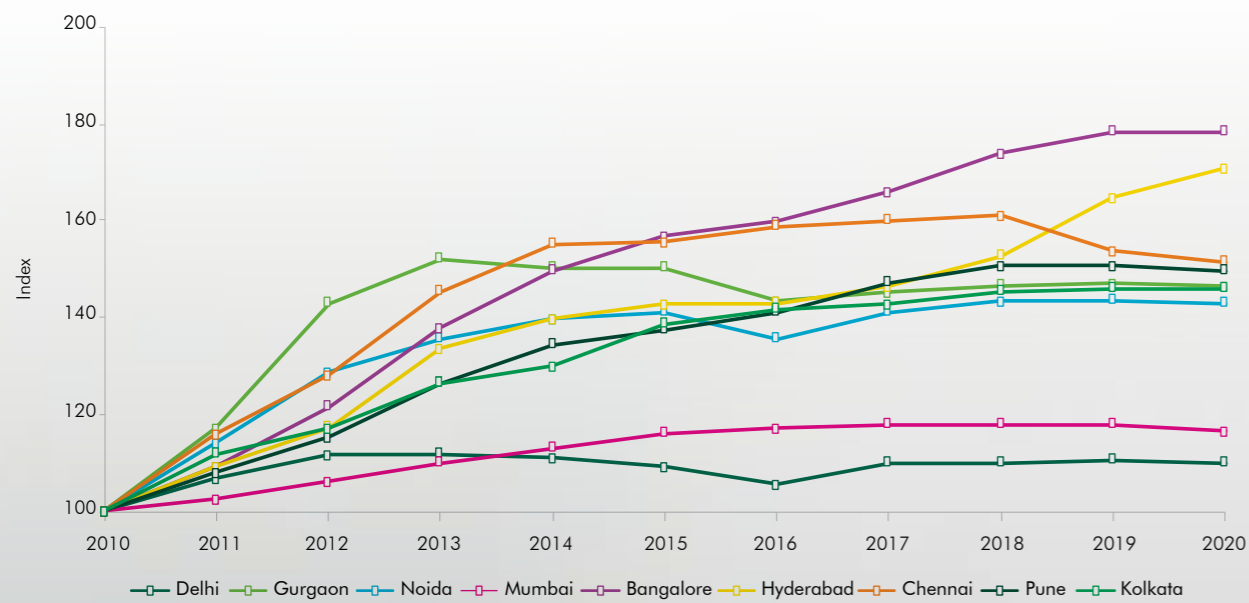
Source: CBRE Research, Q2 2021

02 HOW DID WE MOVE INTO THE RECOVERY PHASE?

2.1 Housing affordability at its highest in over a decade

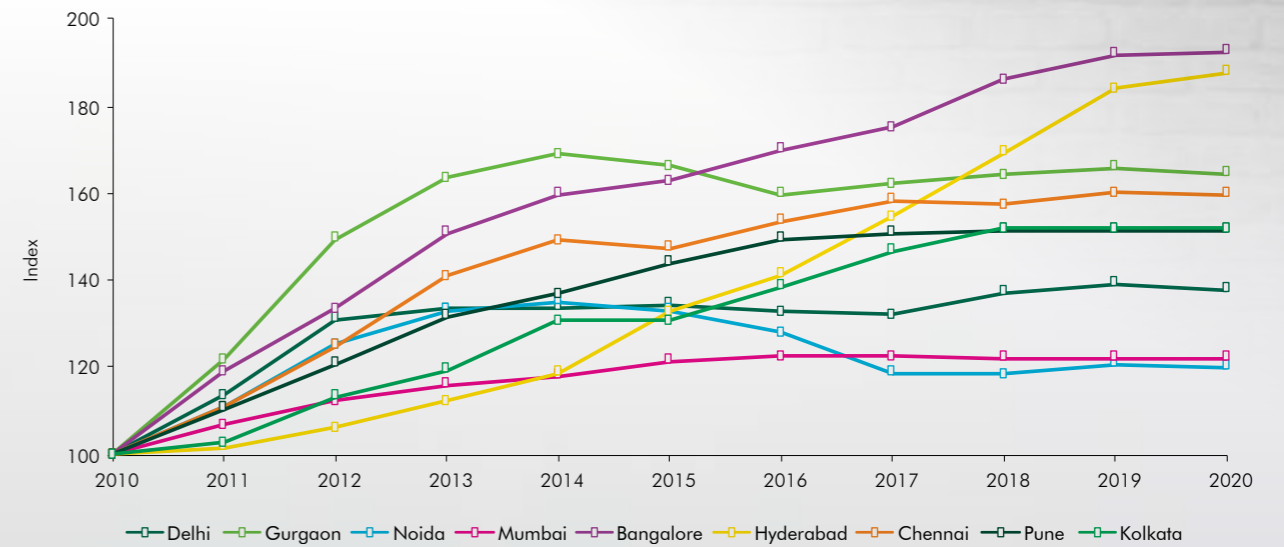
Property prices have remained largely range-bound...

Figure 2.1 Property Price Trends 2010-20 (High-end Segment)



Source: CBRE Research, Q2 2021

Figure 2.2 Property Price Trends 2010-20 (Mid Segment)



Source: CBRE Research, Q2 2021

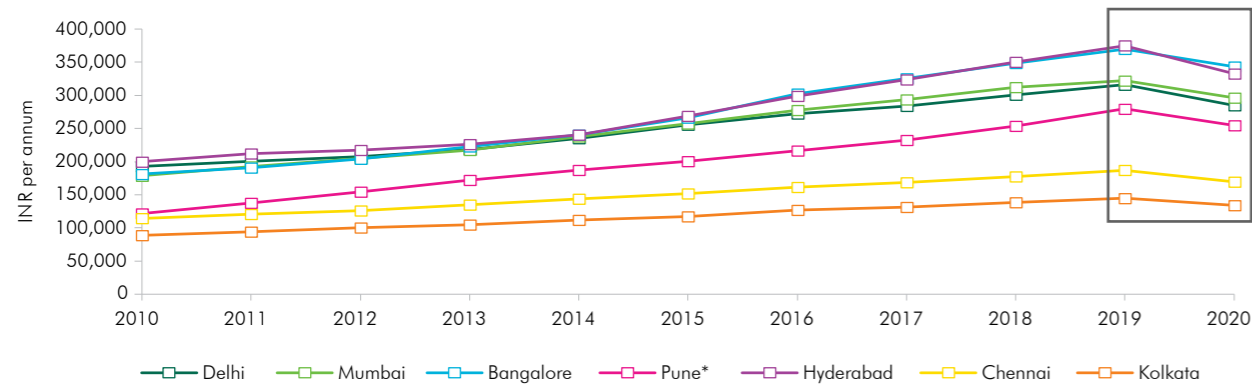


Property prices have grown at a CAGR of 1-6% across the high-end segment and at around 2-7% across the mid segment since 2010, with Hyderabad, Bangalore and Pune recording growth at the higher end of the range (albeit at a lower base when compared to regions such as Delhi-NCR and MMR).

Per capita income has been on the rise...

Figure 2.3 Per Capita GDP (At Constant Prices)

COVID-19 Impact



Source: Oxford Economics; CBRE Research, Q2 2021

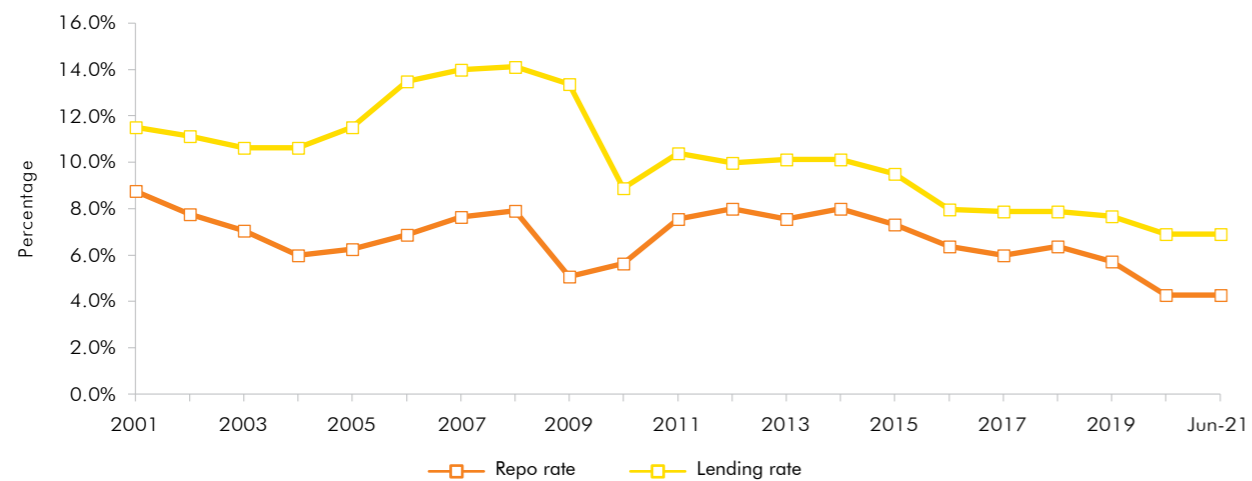
*For Pune, the data pertains to per capita nominal gross value added (at current prices), sourced from the Economic Survey of Maharashtra

Per capita GDP (constant local currency terms) grew at a CAGR of 4% between 2010 and 2020. The growth in GDP per capita for the top seven cities was above the national average of 5.3%, with Bangalore reporting the highest CAGR (6.6%). Also, except Hyderabad, the growth in per capita GDP during 2015-20 outpaced the growth in property prices across the top Indian cities during the same period, thereby improving overall affordability.

...Coupled with historic low lending rates

With a view to rein in inflation and create a favourable lending environment, the central bank has been on a repo rate cutting spree over the past two years. The **repo rate was gradually brought down to 4.0% in May 2020 from 6.25% in February 2019** and has remained at 4.0% for over a year now. This, along with the continuous intervention through liquidity measures announced by the RBI to push banks to transmit the benefits of reduction in repo rates to customers, has resulted in lending rates reducing to 6.9%*.

Figure 2.4 Repo Rate and Lending Rate Trends²



Source: DBIE, RBI; CBRE Research, Q2 2021

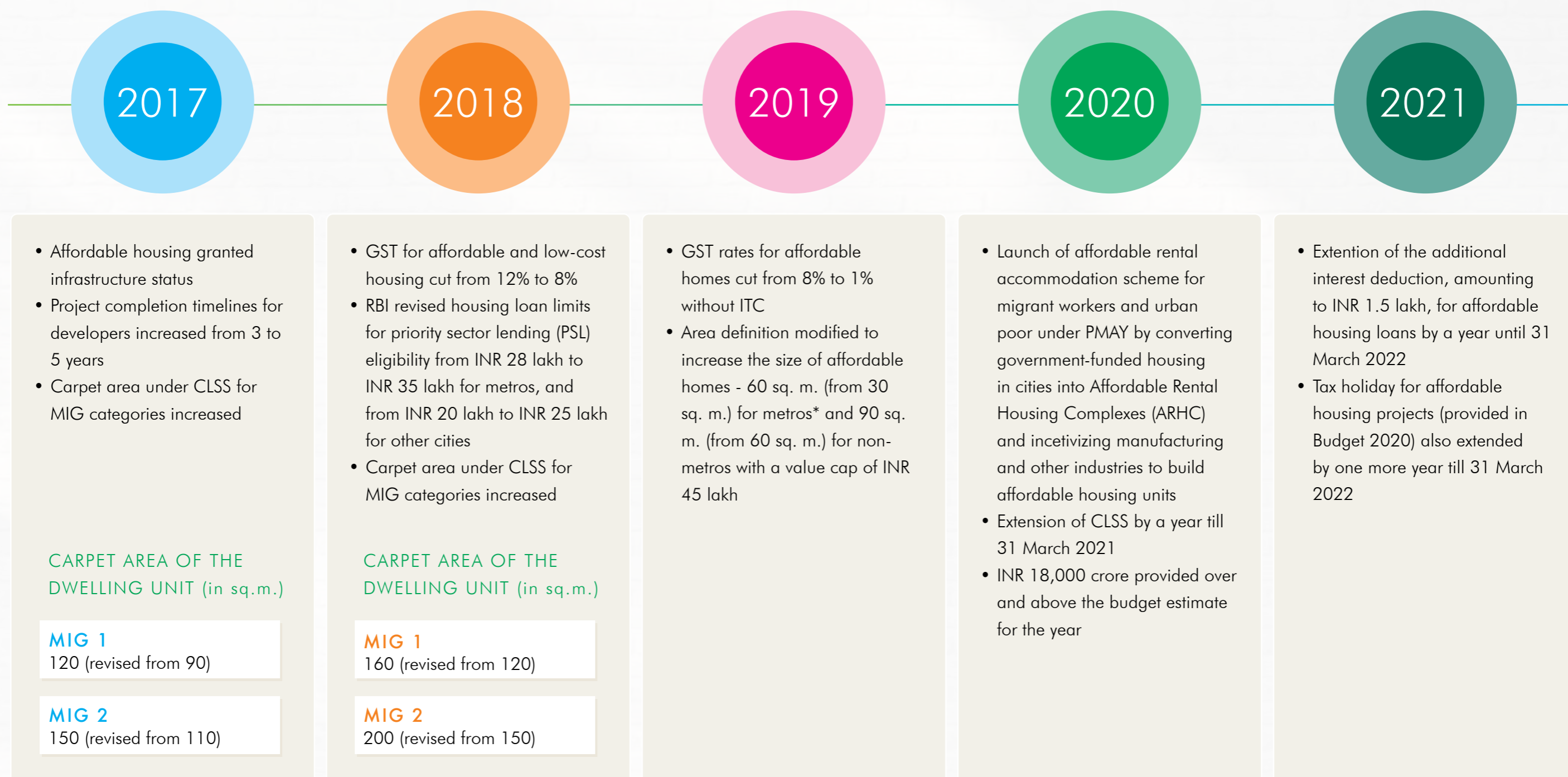
2. Annual average values considered to depict annual data

2.2 Regular policy interventions; special focus on affordable housing

Over the past few years, the government has proactively undertaken steps to lift and streamline the real estate sector. The key steps undertaken include the passage of RERA and constant amendments in GST slabs (for example, reduction of GST on under-construction projects from 12% to 5% without Input Tax Credit or ITC).

Affordable housing, particularly, has experienced amplified emphasis from the government due to its potential to drive the growth of the residential segment in the country. The government's efforts include various steps to ease both supply and demand side issues impacting the affordable housing segment in India.

Figure 2.5 A Timeline of Key Policy Initiatives for the Affordable Housing Segment



*Metro cities include Bengaluru, Chennai, Delhi NCR (limited to Delhi, Noida, Greater Noida, Ghaziabad, Gurgaon, Faridabad), Hyderabad, Kolkata and Mumbai (whole of MMR).
Source: MoHUA; CBRE Research, Q2 2021

2.3 No wait-and-watch approach: Targeted policies by the Centre to arrest the impact of COVID-19 on residential real estate

Following are some of the key policy measures that were announced by the central government throughout 2020 and during the first quarter of 2021:

FINANCE MINISTRY / CENTRAL GOVERNMENT

A fully guaranteed special liquidity scheme worth INR 30,000 crore for NBFCs, MFIs and HFCs.

INR 45,000 crore partial guarantee scheme (PCGS) for NBFCs, MFIs and HFCs.

Introduction of an affordable rental accommodation scheme for migrant workers and urban poor under PMAY.

Extension of the CLSS for MIG category by a year till 31 March 2021.

Six-month extension of registration and completion dates for all RERA-registered projects whose registration was expiring on or after 25 March 2020.

Norms for the SWAMIH fund relaxed by way of reducing the IRR to 12% from the previous 15%.

Announced INR 18,000 crore outlay for PMAY-Urban, over and above INR 8,000 crore already allocated under the Union Budget.

Increased the differential between circle rate and agreement value in real estate income tax to 20% from the earlier 10%. This was valid on primary sales of residential units of up to INR 2 crore, until 30 June 2020.

Source: Finance Ministry; CBRE Research, Q2 2021

RESERVE BANK OF INDIA

Three-month moratorium on EMIs of all term loans and working capital as on 1 March 2020; applicable to all lending institutions, including NBFCs. The period was excluded from the 90-day period for non-performing asset (NPA) classification. Interest payment on working capital outstanding as on 1 March 2020 was also deferred by three months. This moratorium was extended by another three months, up to 31 August 2020. The resolution framework could be invoked before 31 December 2020; the plan needs to be implemented within 180 days from the date of invocation.

Rationalized risk weightage norms on individual housing loans by linking them only with loan to value ratios for all new loans sanctioned by 31 March 2022.

Created resolution framework for COVID-19-related stress to allow one-time restructuring of loans of 26 stressed sectors, including real estate and construction.

Special refinance facilities worth INR 50,000 crore for NABARD (INR 25,000 crore), SIDBI (INR 15,000 crore) and NHB (INR 10,000 crore).

Additional standing liquidity facility (ASLF) of INR 5,000 crore to NHB for one year at repo rate, over and above INR 10,000 crore provided earlier.

Released a regulatory framework for NBFCs. Under the framework, a four-layer structure is proposed with increasing levels of regulation. The layers are Base Layer (BL), Middle Layer (ML), Upper Layer (UL) and Top Layer (TL). The Base Layer will have the lowest layer of regulation and the Top Layer the highest.

Source: RBI; CBRE Research, Q2 2021

UNION BUDGET 2021-22

BOOST TO AFFORDABLE HOUSING



1

In the July 2019 budget, the government had provided an additional deduction of interest, amounting to INR 1.5 lakh, for loans taken to purchase an affordable house. This has been extended by one more year i.e. until 31 March 2022.

2

To spur the supply side, the tax holiday for affordable housing projects (provided in Budget 2020) was also extended by one more year till 31 March 2022.

3

Tax exemption for notified Affordable Rental Housing Projects.

FINANCING AND EASE OF DOING BUSINESS

Constitution of an Asset Reconstruction Company and Asset Management Company to consolidate and take over the existing stressed debt and then manage and dispose of the assets to Alternate Investment Funds and other potential investors.



For NBFCs with minimum asset size of INR 100 crore, the minimum loan size eligible for debt recovery under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002, to be reduced from INR 50 lakh to INR 20 lakh.

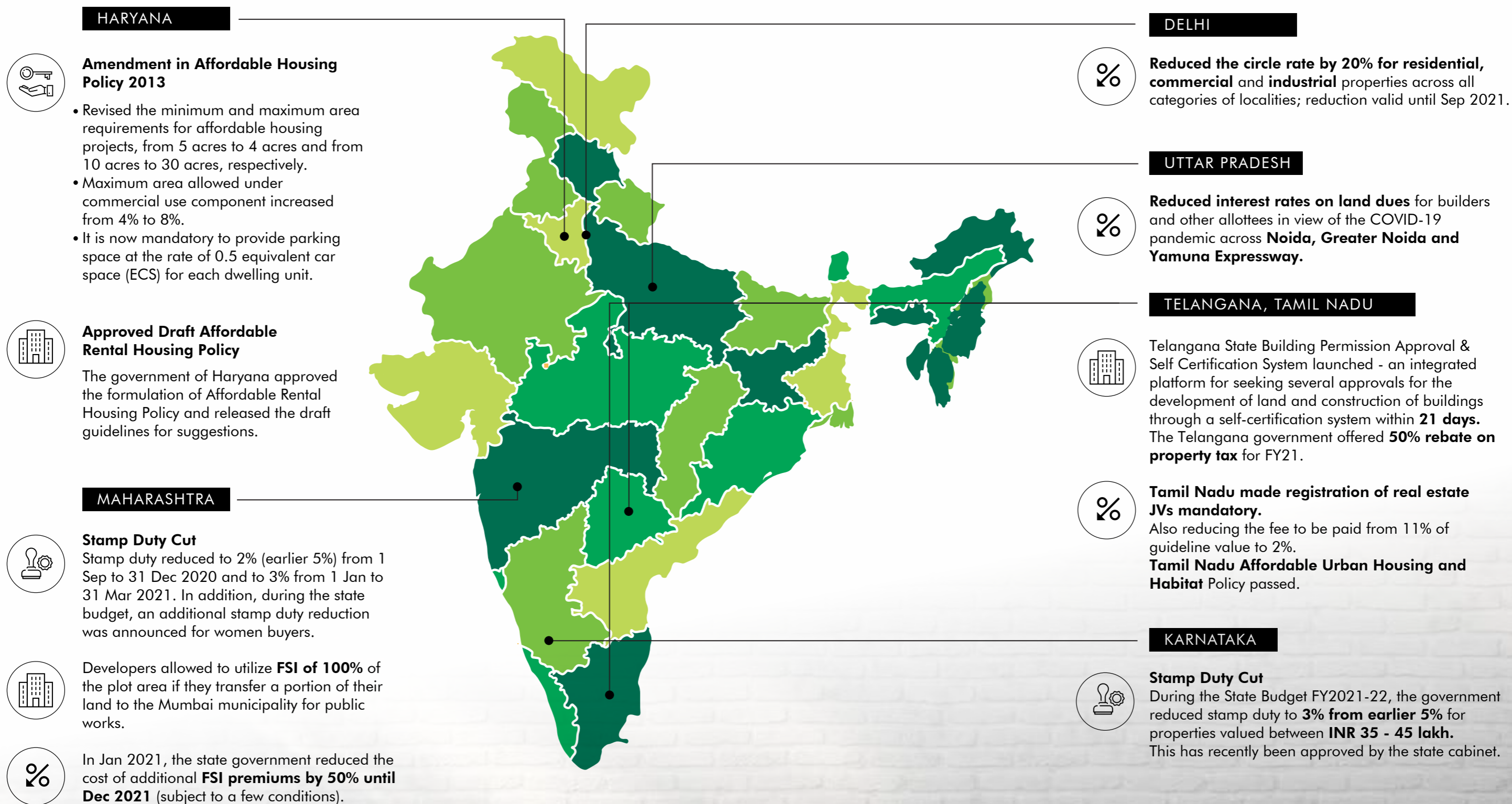
Source: Union Budget Speech FY2021-22; CBRE Research, Q2 2021

In addition to the aforementioned reforms to stem the impact of the COVID-19 pandemic on the residential sector, the government has also recently approved the **Model Tenancy Act, 2021**. Enacted in June 2021, the act aims to overhaul the legal framework surrounding the rental housing market of India.



2.4 States also responded with COVID-19-specific measures to revive demand

In addition to the measures announced by the central government, most states have also undertaken steps to spur the growth of residential real estate:



Source: State government websites; CBRE Research, Q2 2021

03 WHAT ARE THE ROADBLOCKS? CHALLENGES FACED BY THE RESIDENTIAL REAL ESTATE SECTOR

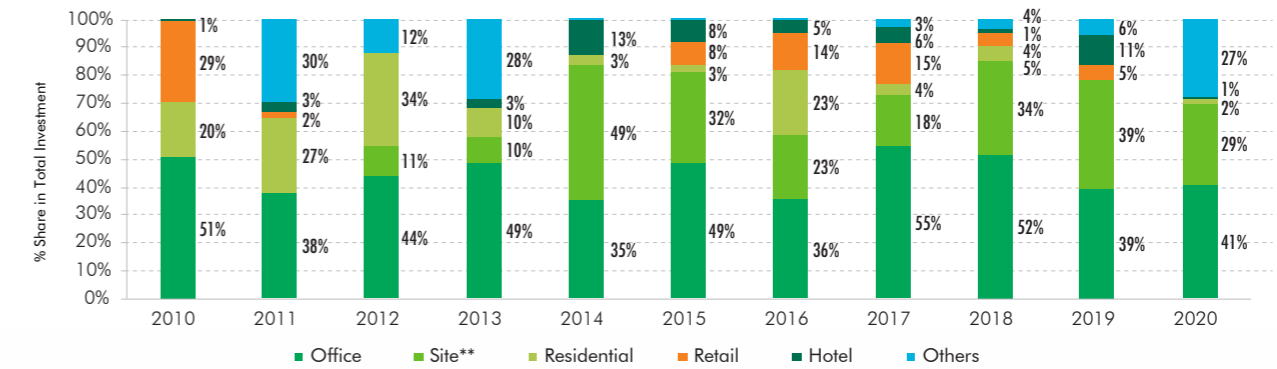
Although the residential sector is witnessing green shoots of recovery, developers are still navigating through issues such as limited availability of credit, tax and regulation complexities, construction delays due to labor shortage caused by reverse migration (though abated to a large extent), higher input costs leading to rising construction costs; highly leveraged balance sheets of several developers have added another layer of challenge for the sector.

3.1 Funding constraints

Preference for commercial office space by institutional investors

The office sector remains the mainstay for institutional investments in CRE in India, with an average share of 45% in total equity investments between 2010 and 2020. While the residential sector used to be one of the preferred investment avenues for institutional investors, especially during 2010-13; investor interest started waning as sales became sluggish and developers witnessed a test of their project execution capabilities. The share of the residential sector in total investments in CRE in India remained low thereafter (barring 2016) as the sector entered a phase of sluggishness.

Figure 3.1: Institutional Funding to CRE*



Source: Real Capital Analytics, CBRE Research, Q2 2021

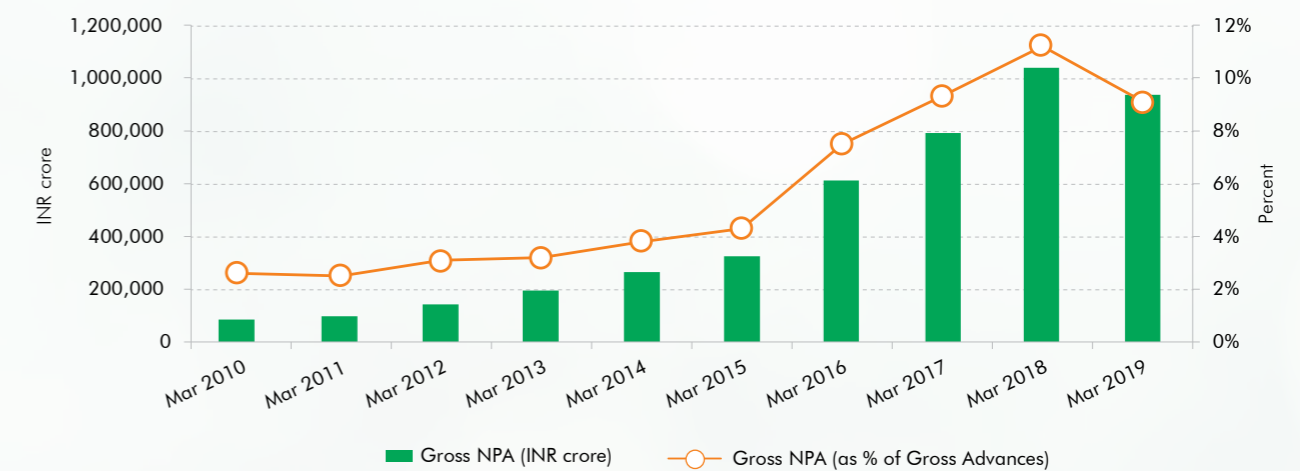
*Includes only equity level investments; doesn't include debt deals

**Site could include investments in any development types namely, office, residential, retail, I&L and hotels

Banks took a step back in providing lending amidst rising NPAs in the banking industry...

The Indian banking industry's balance sheet has been under stress too as gross NPAs increased from 2.5% as of March 2011 to 11.2% (peak) as of March 2018, post which the situation has showed some signs of improvement. The higher percentage of gross NPAs and greater capital buffer requirements coupled with the high risk weightage assigned to RE by the RBI resulted in a reduction in bank lending to the sector.

Figure 3.2: NPA Trends of Scheduled Commercial Banks

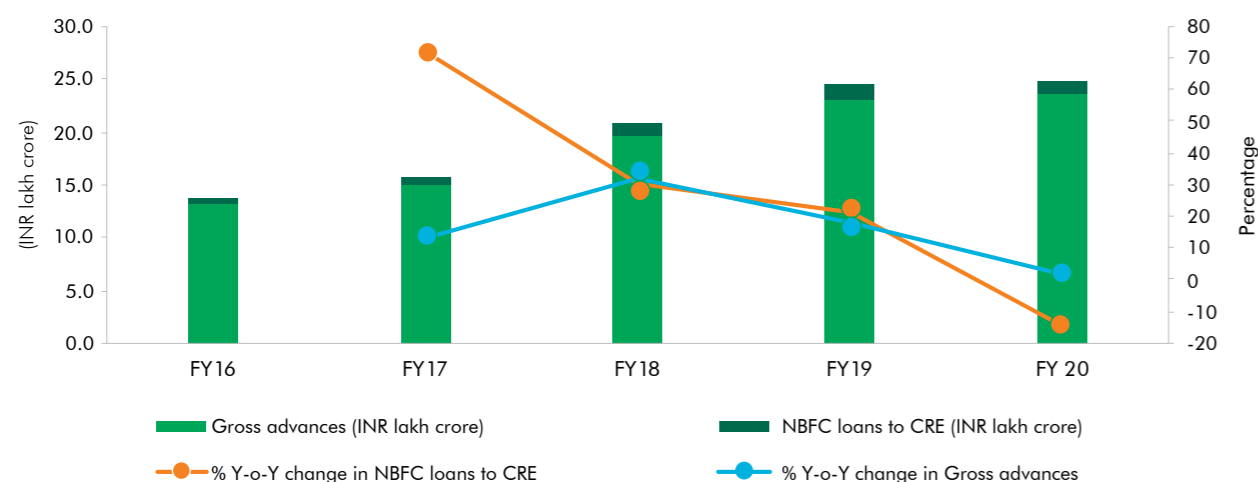


Source: RBI; CBRE Research, Q2 2021

NBFCs tightened their funding; disbursements/refinancing activity to remain slow

The most popular route of funding for residential assets in the past few years was structured debt, with funds and NBFCs providing funding against collateral. However, the Infrastructure Leasing & Finance Services' (IL&FS) default on its credit obligations snowballed into a liquidity crisis in 2018, resulting in funds drying up to a large extent towards the end of 2018. The growth of NBFC loans to CRE declined from a staggering 72.2% in FY2017 to 21.2% in FY2019. The continued decline resulted in a de-growth of 14.8% in FY2020, even before the COVID-19 pandemic hit the economy.

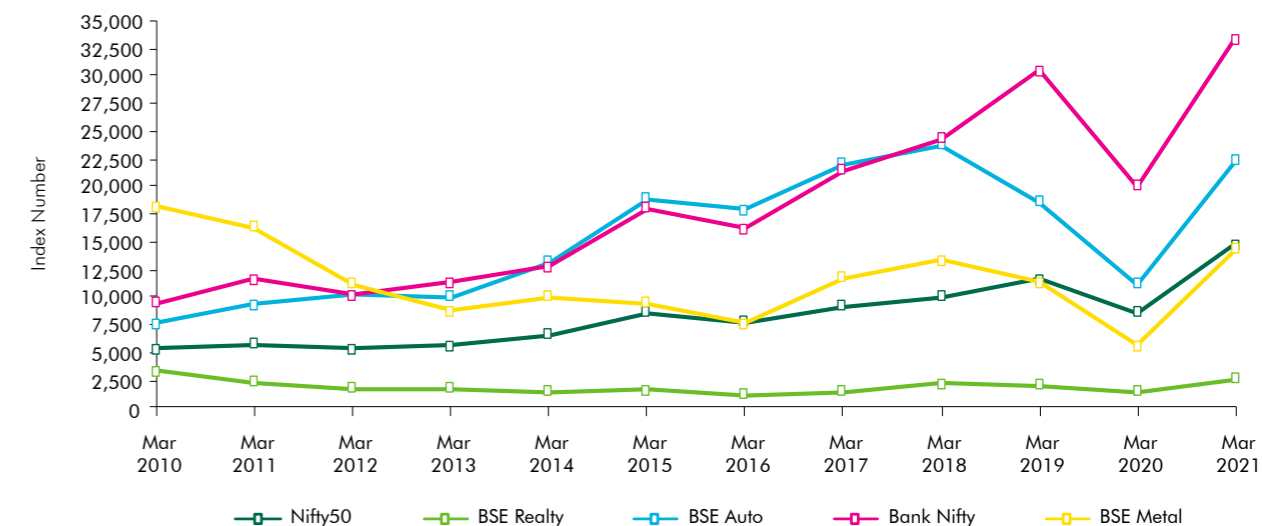
Figure 3.3: NBFC Lending to Commercial Real Estate



Source: Credit to Various Sectors by NBFCs, RBI; CBRE Research, Q2 2021

Subdued response from capital markets; REIT route remains unavailable

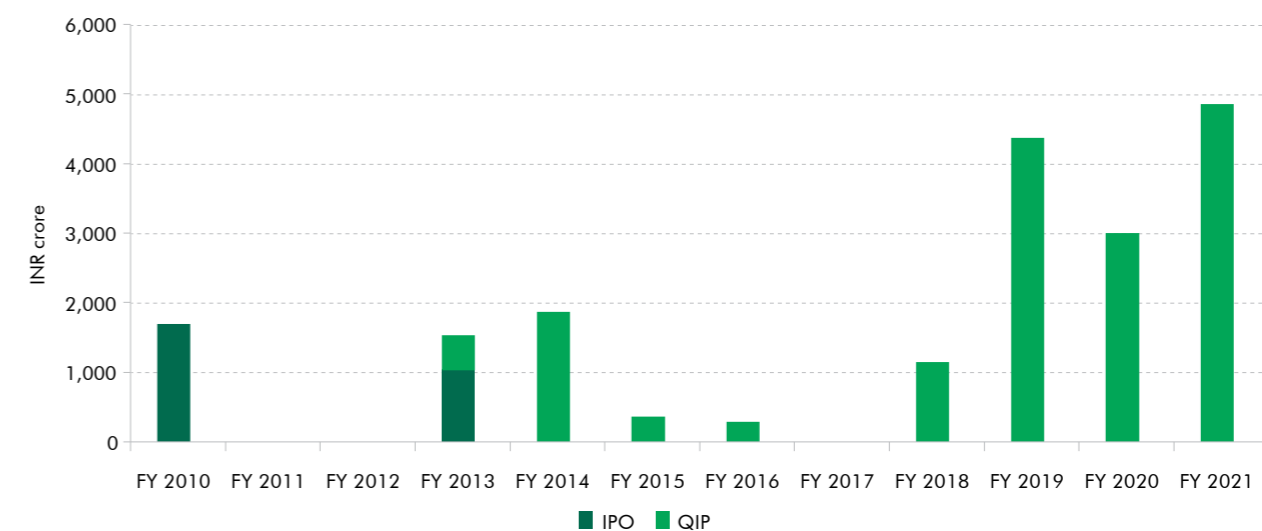
Figure 3.4: Performance of Key Capital Market Indices



Source: BSE and NSE; CBRE Research, Q2 2021

Between 2010 and March 2021, India's capital markets witnessed multiple periods of bull and bear phases. On a long-term trend basis, some of the key benchmark indices (Nifty50, BSE Auto and Nifty Bank) have outperformed the BSE Realty Index since March 2010. Furthermore, only a handful of real estate companies were able to raise funds through the primary market in the past decade.

Figure 3.5: Capital Raising Activity by Top 10 Developers through the Primary Market



Source: SEBI, BSE and NSE; CBRE Research, Q2 2021

However, some of the prominent tier-I national level developers in the industry or players with a strong regional footprint and execution track record, such as DLF, Godrej, Prestige, Phoenix Mills and Oberoi Realty, amongst others, have been able to take advantage of the ample liquidity available in the financial system. Five major players have cumulatively raised over INR 12,200 crore through the qualified institutional placement (QIP) route in the past three fiscal years alone. In addition, Lodha Developers recently raised INR 2,500 crore through an IPO that was launched in April 2021 and was fully subscribed. Furthermore, Shriram Properties has also announced plans to raise INR 800 crore in FY22 through the IPO route.

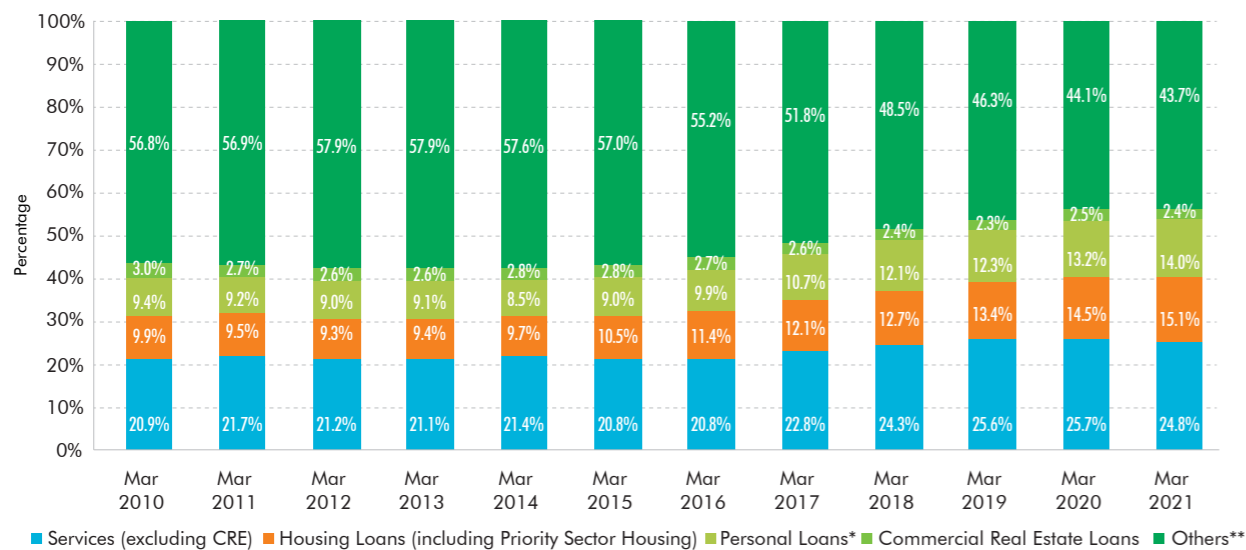


What are the sources of finance available to developers today?

Banks expected to remain selective

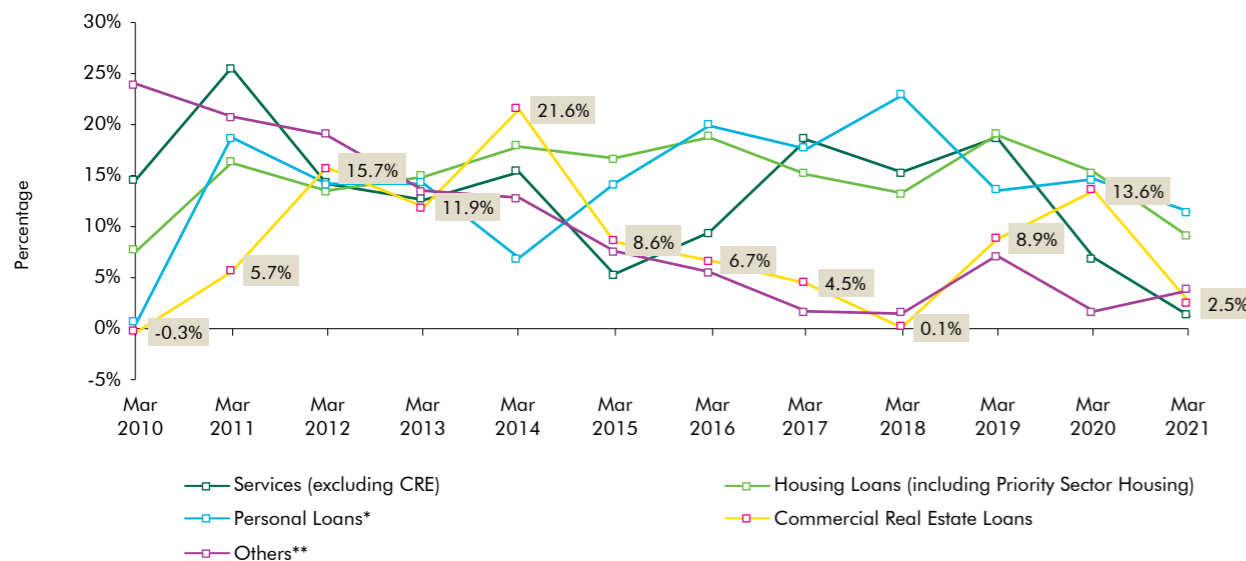
Banks in India remain reluctant to lend to developers for most projects, and while they may offer the cheapest source of finance but restrictions by the RBI have done little to help developers gain access to bank credit. While banks lend at about 11-13% (or lower for tier-I developers), obtaining funding from them is difficult; especially for smaller developers / those in tier II and III cities. **Scheduled commercial banks have been selective and lent to only creditworthy projects backed by prominent developers, resulting in limited options for new / smaller developers – a scenario that is unlikely to change soon, especially post COVID-19.**

Figure 3.6: Sectoral Deployment of Gross Bank Credit



Source: RBI; CBRE Research, Q2 2021
 *Personal loans exclude housing loans
 **Others include Agriculture & Allied activities and Industry (MSME and Large)

Figure 3.7: Sectoral Deployment of Gross Bank Credit - Annual Growth (%)



Source: RBI; CBRE Research, Q2 2021

NBFCs to remain cautious, disbursements to be selective

Amidst a scenario of shrinking book sizes, rating downgrades and rising borrowing costs, the pandemic has accentuated the problems for NBFCs to disburse fresh loans. The pandemic has had an impact on collection efficiencies, thereby resulting in stressed assets which in turn will mean that NBFCs will continue to exert caution while lending and refinancing. Most of the incremental lending by NBFCs to real estate is likely to remain in the senior debt space, with a majority of the focus remaining on strengthening their balance sheets.

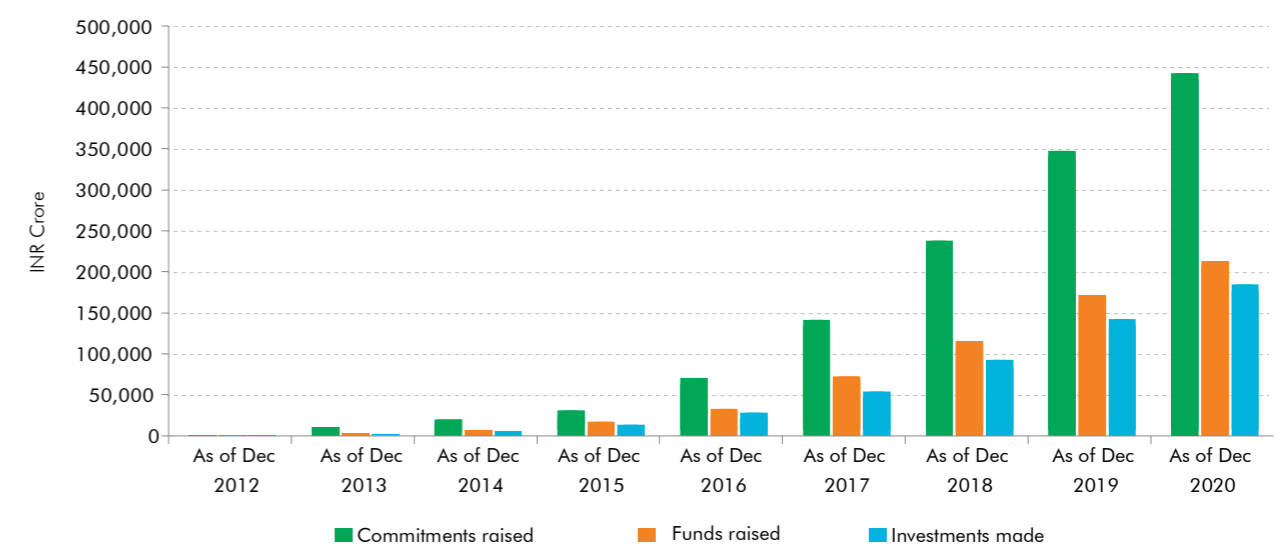
Stressed assets estimate for NBFCs	% share in AUM* Mar 2021 (E)	Collection efficiency % Dec 2020	Stressed assets % Mar 2021(E)
Home Finance	35-40	98-99	0.8-2
Vehicle Finance	20-25	90-95	9-10
MSMEs	10-15	80-85	7.8-8
Unsecured Loans	3-5	80-85	9.5-10
Real Estate	10-15	75-80	15-20

Source: CRISIL, February 2021; CBRE Research, Q2 2021
 * Assets Under Management

Special situation / opportunistic funds to emerge stronger

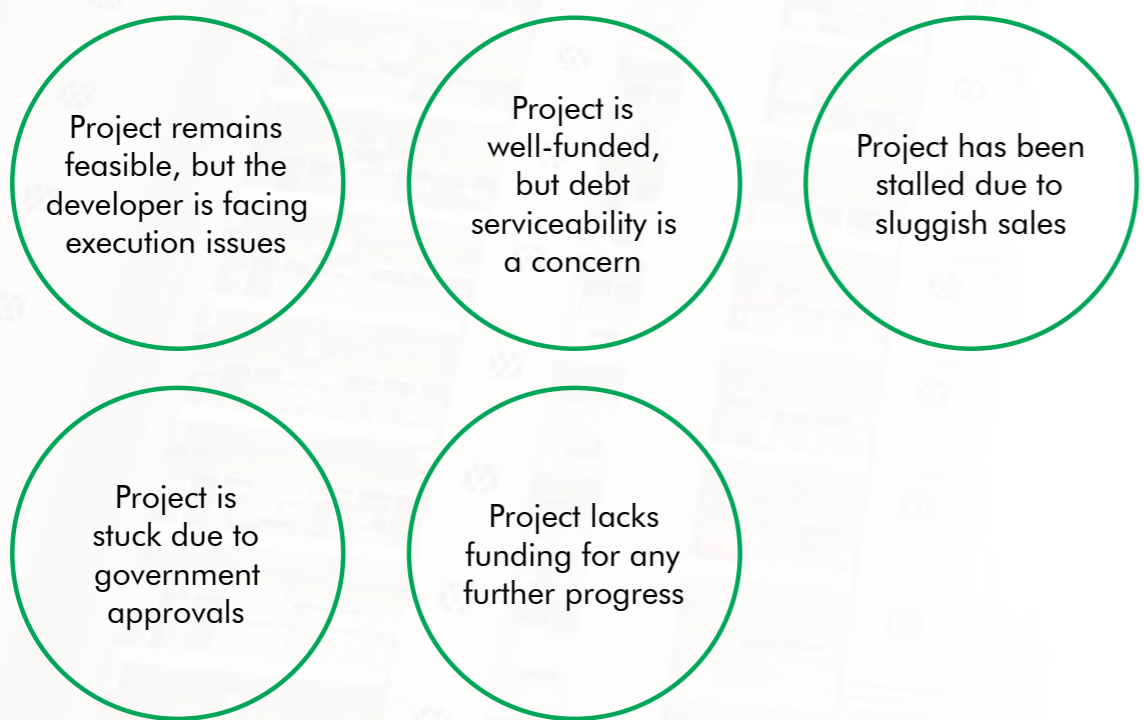
The sources of funding for residential real estate remain limited, selective and expensive. With a prolonged period of sluggish sales activity, many residential projects have been witnessing delays / stalled construction due to limited infusion of funds. It has been a challenging task for developers to raise funds, especially last-mile funding, for nearly complete projects, resulting in several of these remaining stalled. This is where special situation funds / AIFs have been active. Many of them are contemplating various strategies to deploy funds in real estate in order to ensure that their capital is preserved, the downside risk is mitigated, returns on investments are maximized and projects sail through; leading to successful exits.

Figure 3.8: Alternative Investment Funds' Activity across Sectors / Industries



Source: SEBI; CBRE Research, Q2 2021

What types of projects do these funds evaluate?



How are these AIFs / special situation funds operating?

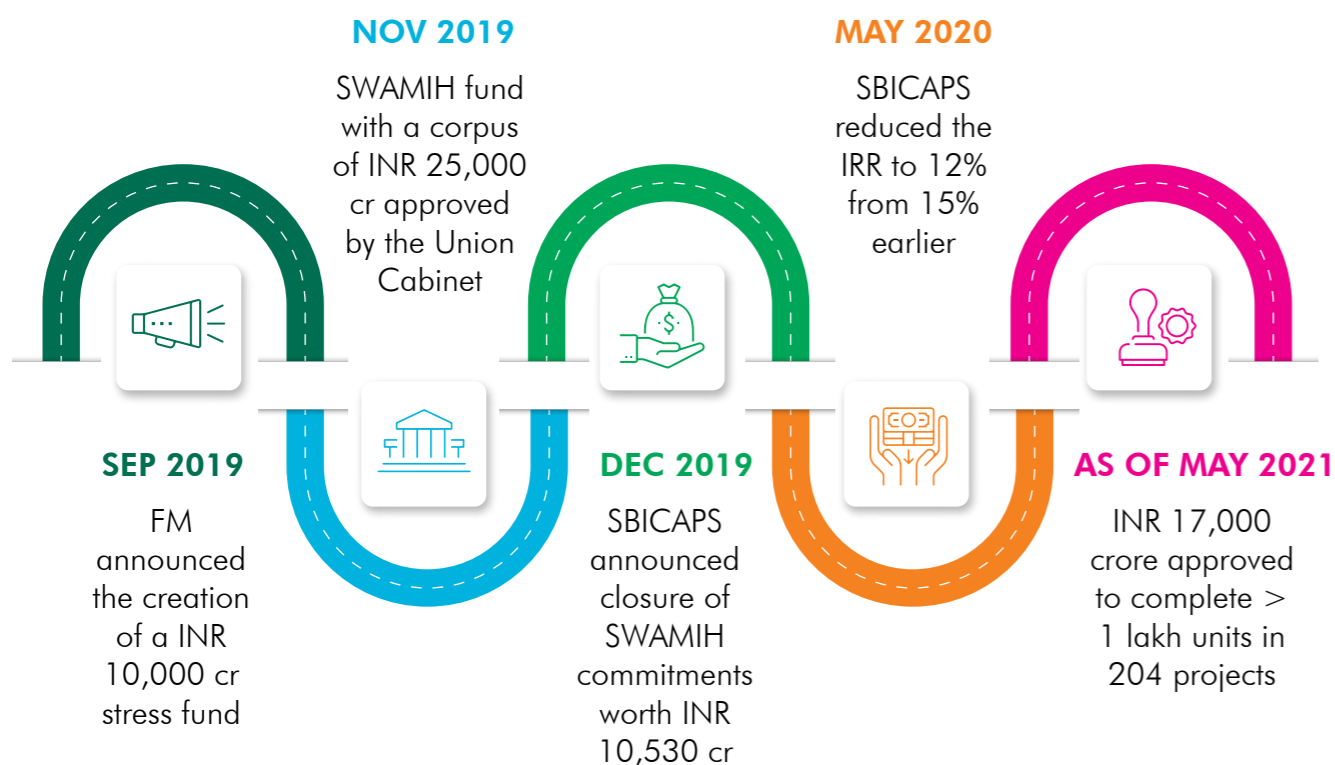
AIFs/special situation funds are not new to Indian residential RE, but since the NBFC funding crisis in 2018, they have gained greater prominence. Their focus has primarily been on mid and affordable housing segments, with major inclination towards metros and tier-I cities. Furthermore, top developers with proven execution records and sound financials continue to be high on their priority.

- 1 Financial institutions preferring the AIF route over floating NBFCs to lend to residential real estate
- 2 First-lien/senior debt gaining prominence, wherein a creditor gets paid back on priority before any other category of lenders
- 3 Debt for asset swaps (DAS) gaining momentum as lenders avoid NPAs
- 4 Loan against property (LAP) with land / asset being kept as an additional mortgage / security
- 5 AIFs deploying funds through existing lenders (typically NBFCs) rather than directly lending to real estate developers
- 6 Structured/mezzanine debt is widely adopted, involving regular fixed coupon along with equity kicker in the form of inventory or revenue share in the project
- 7 Piggyback mortgage strategy as well as cherry-picking of assets and loan portfolios gaining traction
- 8 Cash-flows / customer receivables discounting also being explored by many lenders to mitigate risk and protect capital



Government AIF: SWAMIH fund for last-mile funding

With the aim to help developers gain access to last-mile funding for stalled projects across affordable and mid-income housing categories, a special fund – SWAMIH worth around INR 10,000 crore - was announced by the central government in September 2019.



Source: Ministry of Finance, GOI and SBI Capital Markets; CBRE Research, Q2 2021

The SWAMIH fund largely functions on the principle of attaining first charge on the projects that it funds; however, being a government fund, its aim remains evaluating and financing the maximum number of projects, in order to deepen its reach within the stressed assets of the residential sector.

Implementation status of the SWAMIH fund as of May 2021

The fund will deliver about 17 housing projects consisting of more than 6,000 homes by March 2022. The fund has already been able to help complete Rivali Park Wintergreen project (with 708 units) in the suburbs of Mumbai that received occupation certificate in May 2021. Another project with about 600 units in Rewadi is also likely to be delivered soon.

Stage	No. of Deals	Deal Size (INR Crore)	Total Units
Final Approval	72	>6,500	>44,100
Preliminary Approval	132	>11,000	>72,500
Total	204	>17,500	>116,600

Source: Ministry of Finance, GOI and SBI Capital Markets; CBRE Research, Q2 2021

Why should investors look at residential RE?

- Global RE dry powder**
USD 2.2 tn
(As of March 2021; highest ever)
- Fund-raising activity**
- Residential sales, end-user activity**
- Unsold inventory, speculative activity**
- Government support, strength of regulatory environment**
- Interest rates (both for borrowers and home loans)**

With over USD 2.2 trillion of dry powder available globally to be deployed into the real estate sector, the time seems opportune for investors to consider revaluation/reallocation towards the Indian RE sector, especially at a time when the sector is riding high on strong fundamentals, government support and end-user activity.

Source: CBRE Research, Q2 2021

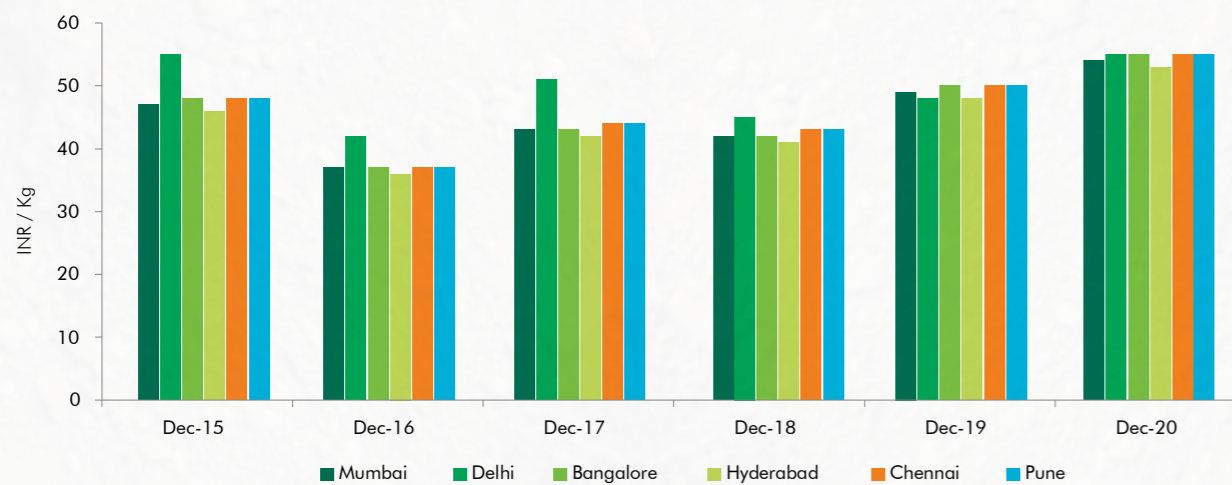


3.2 Operational Constraints

Increasing input / construction costs

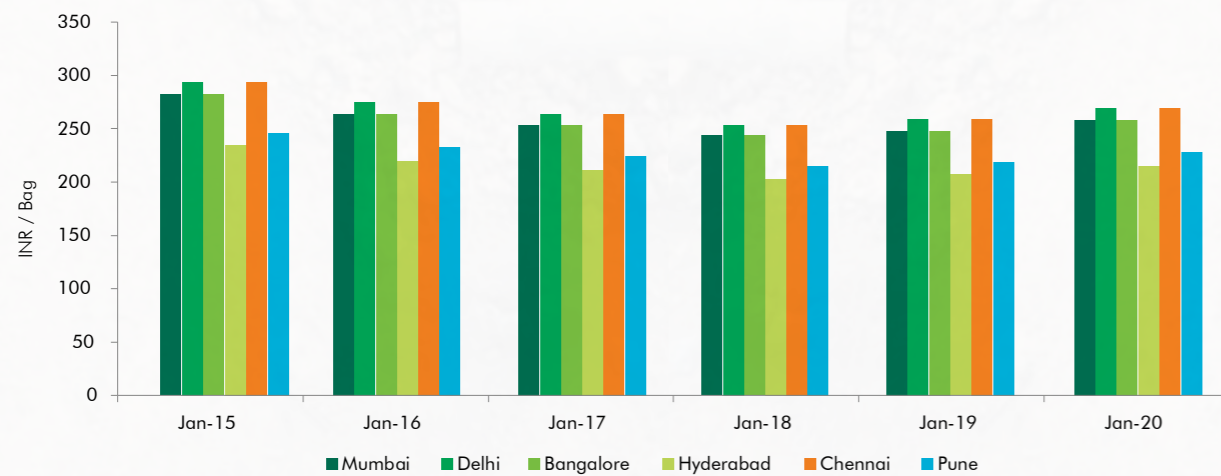
Key materials such as steel, cement, copper, aluminum etc. which have a direct bearing on construction costs have witnessed a significant increase in recent months. In addition, labour cost (and now availability) and logistical constraints have exerted pressure on costs. The COVID-19 pandemic has had another direct bearing on the cost in terms of the health, hygiene and sanitization requirements. Input material contractors have also been facing cashflow issues as restarting multiple projects around the same time has added pressure on construction costs.

Figure 3.9: Steel Price Trends (2015-2020)



Source: CBRE Research, Q2 2021

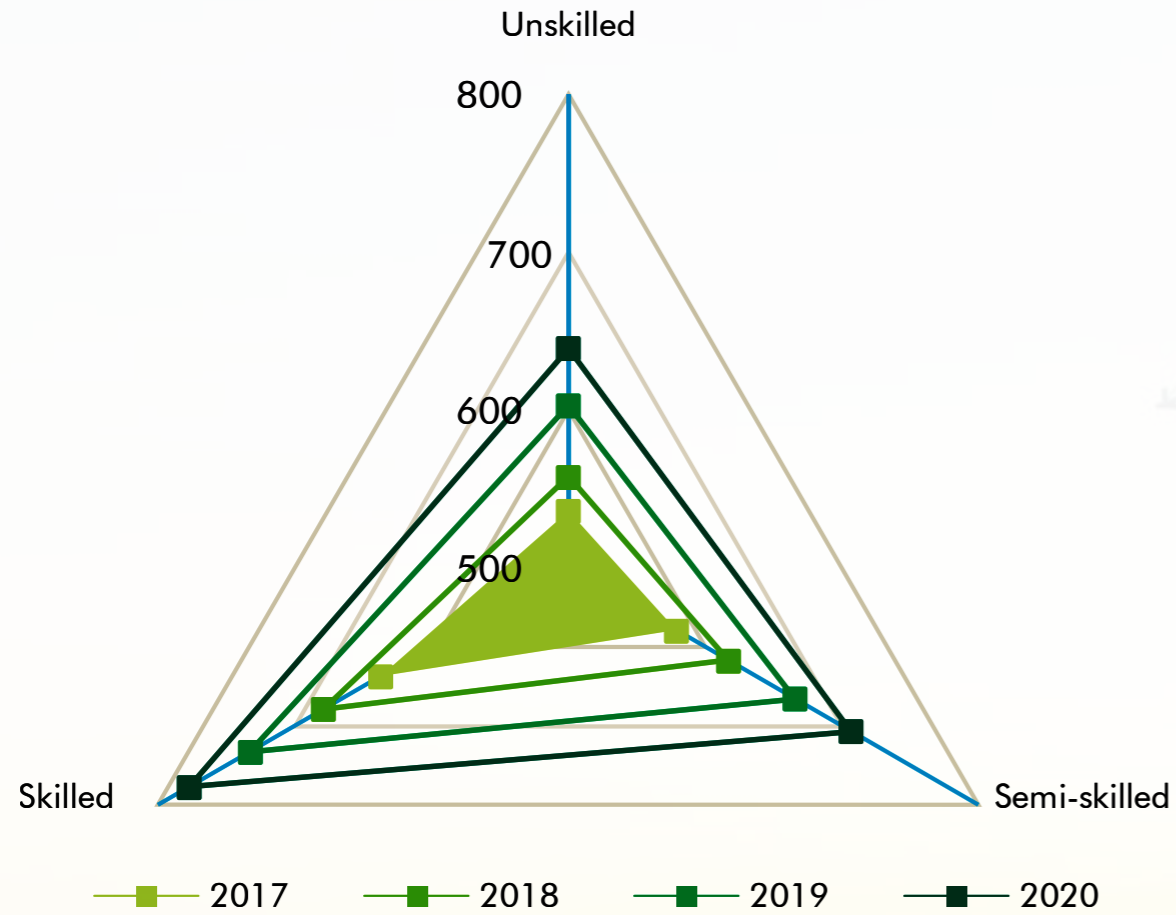
Figure 3.10: Cement Price Trends (2015-2020)



Source: CBRE Research, Q2 2021



Figure 3-11: India-level Labour Rate Trends (2015-20)



Source: Chief Labour Commissioner; CBRE Research, Q2 2021

The COVID-19-induced lockdown led to a mass reverse labour migration from the cities to small towns and rural areas (a similar situation was witnessed during the second COVID-19 wave). The 'Unlock India' initiative saw gradual resumption of construction activity across states; however, during the first few months of the unlock phase, the industry continued to face shortage of labour despite the adoption of government-mandated health and safety measures on sites. The sluggish return of the migrant labour to cities and the ordeal faced by them during the lockdown prompted the government to propose new initiatives. These included ARHCs in urban areas, creation of a national database for migrant and unorganized labour and amendment to the current labour laws and daily wage structure.



3.3 Regulatory Constraints

Cumbersome / lengthy approval processes

The sector faces delays in terms of project completion and delivery as a project has to go through multiple government agencies for liaising, from land acquisition to commencement of construction. This approval process could take six to nine months or even more.

Approval timelines for a real estate project in India³

Project stage	Key approvals at each project stage	Approximate time taken
Approvals for obtaining license	Ownership certificate	15 - 60 days
	Land use conversion	6-8 months
	NOC from pollution control board/ environment clearance	9-12 months
	Development license	12-18 months
Approval of building plans and other clearances before work commences at site	Road access clearance before building plan approval	4-6 months
	AAI height NOC (before building plan approval)	3-5 months
	Building layout approval	2-3 months (might take more if there are multiple levels of scrutiny)
	Commencement Certificate	15 days - 1 month
Approvals during construction	Electrical load / electric connection	45 days for a mid-level project 60 days for a large project
	Permission for sewer connection	15 - 30 days for a mid-level project 30 - 60 days for a large project
	Permission for water connection	15 - 30 days for a mid-level project 30 - 60 days for a large project
	Consent to establish work at site	2 - 3 months
Occupation Certificate	-	1 - 2 months (might take more if there are multiple levels of scrutiny / inspections)

Note - These are indicative ranges; actual timelines may vary from state to state, project to project and authority to authority.

Source: CBRE Research, Q2 2021
3. Streamlining Approvals for Real Estate Projects, NAREDCO, CBRE Research

High tax on input materials

The GST on key construction material such as marble, tiles, glass and prefabricated structural components, etc. varies between 12-18% for certain input materials. This results in a cascading tax impact on developing housing units and dents the bottom-line, translating into higher unit prices for end-users.

GST rates for key construction materials



Source: CBDT; CBRE Research, Q2 2021

While there is a noticeable improvement in the overall Ease of Doing Business Ranking, key parameters such as registering a property, paying taxes, enforcing contracts, and resolving insolvency still need attention.

Country	EODB Global Rank		Dealing with Construction Permits		Registering Property		Getting Credit		Paying Taxes		Enforcing Contracts		Resolving Insolvency / Closing a business	
	2020	2011	2020	2011	2020	2011	2020	2011	2020	2011	2020	2011	2020	2011
New Zealand	1	3	7	5	2	3	1	2	9	26	23	9	36	16
Singapore	2	1	5	2	21	15	37	6	7	4	1	13	27	2
Hong Kong SAR, China	3	2	1	1	51	56	37	2	2	3	31	2	45	15
Denmark	4	6	4	10	11	30	48	15	8	13	14	30	6	5
Korea, Rep.	5	16	12	22	40	74	67	15	21	49	2	5	11	13
United States	6	5	24	27	39	12	4	6	25	62	17	8	2	14
Georgia	7	12	21	7	5	2	15	15	14	61	12	41	64	105
United Kingdom	8	4	23	16	41	22	37	2	27	16	34	23	14	7
Norway	9	8	22	65	15	8	94	46	34	18	3	4	5	4
Sweden	10	14	31	20	9	15	80	72	31	39	39	52	17	18
Malaysia	12	21	2	108	33	60	37	1	80	23	35	59	40	55
Australia	14	10	11	63	42	35	4	6	28	48	6	16	20	12
United Arab Emirates	16	40	3	26	10	4	48	72	30	5	9	134	80	143
Thailand	21	19	34	12	67	19	48	72	68	91	37	25	24	46
Germany	22	22	30	18	76	67	48	93	46	88	13	6	4	35
Russian Federation	28	123	26	182	12	51	25	89	58	105	21	18	57	103
Japan	29	18	18	44	43	59	94	15	51	112	50	19	3	1
China	31	79	33	181	28	38	80	65	105	114	5	15	51	68
France	32	26	52	19	99	142	104	46	61	55	16	7	26	44
India	63	134	27	177	154	94	25	32	115	164	163	182	52	134
Vietnam	70	78	25	62	64	43	25	15	109	124	68	31	122	124
Indonesia	73	121	110	60	106	98	48	116	81	130	139	154	38	142
South Africa	84	34	98	52	108	91	80	2	54	24	102	85	68	74
Philippines	95	148	85	156	120	102	132	128	95	124	152	118	65	153
Brazil	124	127	170	112	133	122	104	89	184	152	58	98	77	132

Note - Ease of Doing Business 2020 is a report published by The World Bank to 'Compare Business Regulation in 190 Economies'.

■ High Income ■ Upper Middle Income ■ Lower Middle Income ■ Low Income

Source: Doing Business, The World Bank; CBRE Research, Q2 2021

04 COMBATING THE STRESS: FUTURE-PROOFING DEVELOPER PORTFOLIOS

4.1 Managing Financial Constraints

Focus on project completions; accelerate sales velocity

Amidst the COVID-19 pandemic, developers across the country opted for various types of discounts and additional schemes, specifically in Q2 and Q3 2020, to attract buyers and revive cashflows via residential sales. Since the fundamentals of the residential sector remain strong (attractive mortgage rates, steady capital values, attractive developer schemes), ensuring timely completions to maintain a steady cashflow stream is an important source of self-financing for RE developers.

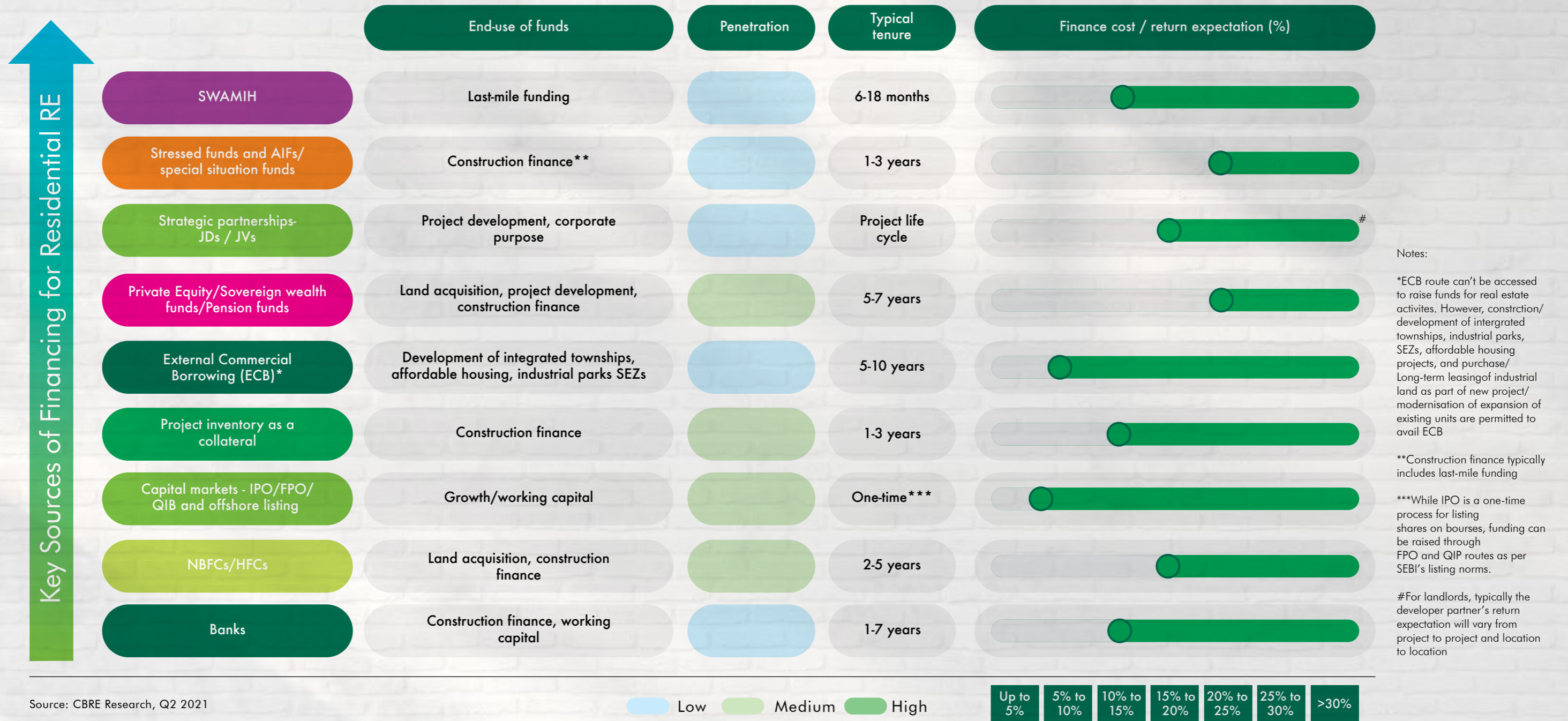


DEVELOPER CATEGORY (TIER)	DISCOUNTS (ON BSP / LUMP SUM)	WAIVER OF CHARGES	MARKETING SCHEMES
TIER 1	<ul style="list-style-type: none"> • Up to 5% on BSP • INR 5 lakh on lumpsum • Up to INR 300/ sq. ft. on BSP 	<ul style="list-style-type: none"> • Club membership • Floor rise (select projects) 	<ul style="list-style-type: none"> • Flexible payment plans (10:90, 20:80) • Partial waiver on stamp duty & registration cost • 100% booking amount refund
TIER 2	<ul style="list-style-type: none"> • Up to 7% on BSP • Up to INR 10 lakh on lumpsum • Up to INR 600/sq. ft. on BSP 	<ul style="list-style-type: none"> • Floor rise (select projects) • Club membership • EDC / IDC • Car parking • CAM 	<ul style="list-style-type: none"> • Flexible payment plans (10:90, 20:80) • No interest till possession • Online booking discount • Booking amount as low as INR 50,000 • Deferment of EMI for 6-12 months

Due diligence, project viability critical to access funding

The NBFC liquidity crisis has brought due diligence by investors into sharper focus. Investors are increasingly becoming selective in their investments, with only projects that display financial viability / profitability being considered for funding. The need for due diligence is even greater in stressed assets, where Asset Reconstruction Companies (ARCs) and AIFs are active. As funding is expected to get more selective in the current scenario, it would thereby lead to tighter lending mechanisms being adopted by these investors as most of them would exercise caution and focus on quality projects rather than on balance sheet expansion.

Fig 4.1: What are the Sources of Funding Available to Residential Real Estate Developers Today?



Target to achieve financial closure to ensure project viability

Currently, developers raise funds either through the equity route such as the developer's own equity, the lender's equity, private equity, private banks or through debt finance; and by factoring in project cashflows. To ensure that a project remains viable and sustainable in these uncertain times, it is important that developers pay extra attention to parameters such as debt management, interest cost management and cashflow management to achieve timely delivery of projects.

4.2 Managing Operational Constraints

Technology can help reduce costs and timelines

The residential sector is still in the initial stages of technological innovation. Improvements in construction techniques and adoption of tech can help accelerate timelines, improve quality and, in the long run, reduce costs. Though a switch to construction techniques such as pre-cast, partial factory manufacturing is moving in the right direction, there has been little success in the reduction of construction cost (limited economies of scale). Developers should consider investing in these construction technologies to ensure timely completions, particularly because near-ready projects tend to generate greater end-user interest and also because regulatory bodies are imposing penalties on missing construction deadlines.

Figure 4.2: Tech Enhancement across the Construction Cycle of a Residential Building



Building Design

- Design collaboration software such as BIM enables developers to test the constructability of a building in advance, thereby minimizing errors.
- Augmented Reality (AR)/Virtual Reality (VR) are helping designers develop, share and review building designs in a virtual environment on desktops and mobile devices.

Site Management

- Data analytics helping developers in areas such as construction monitoring, benchmarking etc.
- Quality checks and audits being handled remotely through apps.
- Increased use of CCTV cameras, tracking devices and drones to track movement on site and reduce footfalls.

Construction Techniques

- Growing use of prefabricated walls, beams and structures (such as staircases, lobbies, etc.), MIVAN shuttering etc.

Interior Fit-Outs

- Snap-fit designs can be used by developers as they make it easier to install joinery elements, which can be fabricated offsite.
- Developers can also opt for 'dry fixing' of tiles/stones.



Source: CBRE Research, Q2 2020

Better project management for smoothening input price volatility

As of December 2020, reinforcement steel prices in the top cities of India grew by an average of 11% y-o-y on account of a rise in global steel prices, shortfall in domestic supply of iron ore and growth in domestic demand for steel. Prices of cement across all major Indian cities witnessed a y-o-y increase of 4-5% in Q4 2020 owing to a rise in fuel costs. Having more robust project management techniques for identifying the materials/components responsible for price rise, including appropriate contingencies and contractual conditions for future projects, would allow for better management around such volatilities.

The COVID-19 factor: What are the softer aspects that are expected to change?

The complexities created by the COVID-19 pandemic have led to fundamental changes in the way all stakeholders have been functioning. The 'Stay at Home' chant has led to several developers going back to the basics and redrawing their project plans as consumer needs evolve, while at the same time contract and labour management practices are undergoing a transformation in view of health and supply chain disruption risks.

Figure 4.3: Key Trends Shaping the Residential Sector Post COVID-19



Demand for bigger homes on the rise

The continued work from home practices, widespread adoption of hybrid working* among corporates and online schooling is now resulting in a growing demand for bigger homes so as to incorporate home offices and classrooms.



Home layouts undergoing a change

Changing work and study preferences are fast translating into developers going back to the drawing board and coming up with flexible home designs to keep up with the changing times.



Consumer demand moving towards peripheral locations

As the need for long commutes reduces with the advent of hybrid working, we are witnessing growing instances of residential demand moving towards peripheral locations with good infrastructure which often offer higher ticket sizes at relatively competitive capital values.



Preference for green and smart homes

Continued time at home is likely to lead to higher power bills, thereby translating into demand for sustainable homes as well as for smart solutions that lead to greater efficiencies in terms of both operations and costs.



Revamped contract management practices

Due to growing project complexities, contractual obligations and practices are changing so as to minimise disputes. These changes range from inclusion of pandemic clauses in contracts to modification of existing terms to take into account future risks and disruptions.



Reassessment of labour management practices

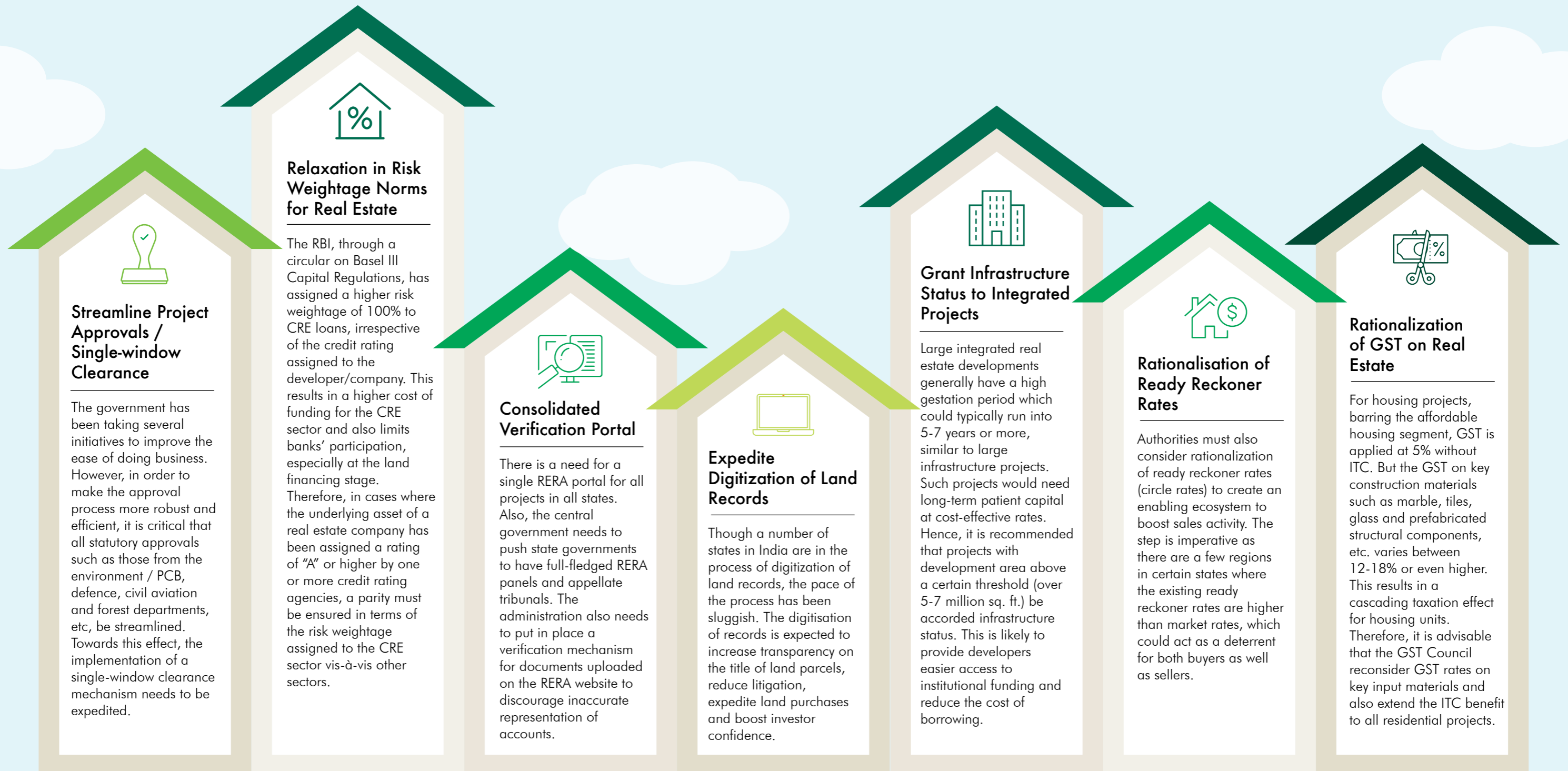
Developers are going the extra mile to create a safe space for their labour pool. The new practices include creating extensive sanitization plans, making labour rosters to ensure social distancing at sites and developing training modules on COVID-19 safety measures.

Source: CBRE Research, Q2 2021

* Hybrid working is a workplace strategy that involves a mix of work-from-anywhere practices (including home) and work from office; these practices usually differ from corporate to corporate



4.3 Regulatory Enablers



Source: CBRE Research, Q2 2021

04 IN AND POST THE PANDEMIC: THE WAY FORWARD

Ten-point strategy for risk mitigation, resilience and sustainable business

As the industry adapts to the new normal, it would have to deploy capital, resources and capabilities in the most economical, effective and efficient manner. Further, stakeholders; especially developers would also have to foresee and plan for any future disruption to workforce and project delivery. Here is a ten-point strategy that CBRE feels can assist developers to emerge stronger and resilient post the pandemic and in the long term:

Embrace strong corporate governance culture / inculcate ESG model

Manage regulatory risks and ensure compliance at all times

Expand development portfolio through a mix of organic and inorganic routes

Accelerate adoption of modern construction technologies and materials; adapt to changes (in project design**, construction and project management) that arise post COVID-19

Recalibrate procurement and collaborate with suppliers, contractors and consultants to ensure better supply chain management, especially post the pandemic

Invest in technology, R&D, digitisation and innovation to ensure business continuity amidst disruptions

Invest in upgrading labour force skillset and ensure better predictability of labour availability

Ensure financial closure before launching a project and maintain financial discipline

Timely delivery to create brand loyalty; provide add-on services* to ensure a sense of safety in these uncertain times

Diversify development portfolio mix across segments and regions / realign portfolio with market dynamics and RE cycles

* Facilities such as oxygen cylinders, concentrators, better healthcare facilities within premises

** Changes in apartment layouts to include provisions for study/work-from-home layout, fast internet connections, on-demand meeting rooms within society complexes

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