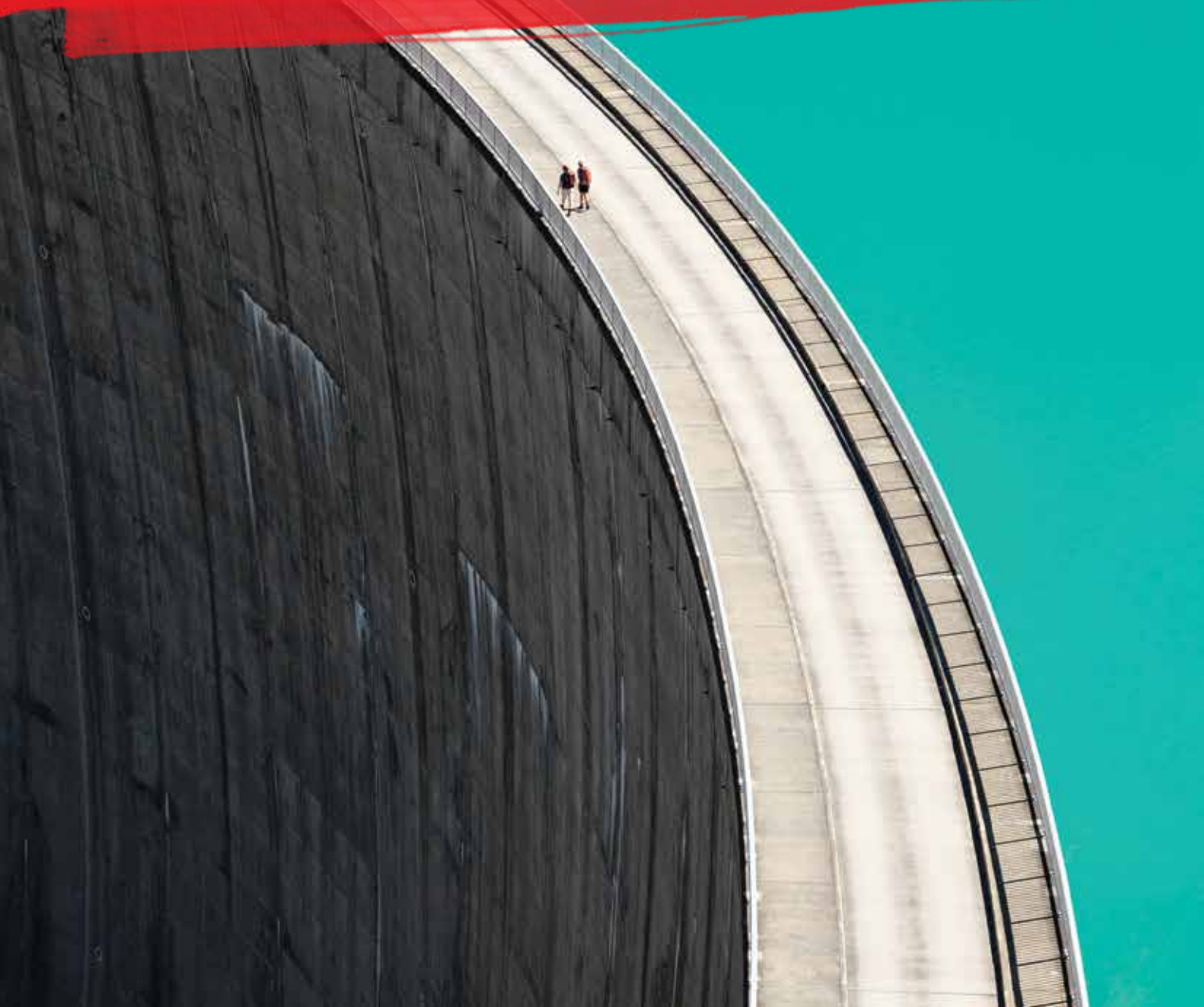




Achieve
Ambitions

Traversing through the epic, predicting the *curve*





CREDAI has been at the forefront of real estate industry as an advocate for best practices. I am happy that all the 23 states and 189 city chapters of CREDAI are engaged with their respective administrations to create practice compliant with Real Estate (Regulation and Development Act). The report being brought out by CREDAI and JLL together is an attempt to anticipate the market and regulatory trends within the real estate. I think the report will receive wide dissemination and will be found useful by real estate developers in imparting the right structures to their organizations and in adopting technologies for design, construction and marketing of real estate solutions suitable for the new and emerging India of 21st century.

M. Venkaiah Naidu
(M. Venkaiah Naidu)

New Delhi
09th March, 2018.



Message from the Chairman

The economic reform measures such as Demonetization, RERA and GST have introduced fundamental changes in the rules of the game for the real estate sector. On the other hand, boosting real estate investments is necessary to accelerate the GDP growth and to achieve the development goal of Housing for All. The issue, therefore, is what we as real estate developers can and must do to treat a turning point in the history of the nation into a beneficial opportunity.

The present report, co-authored with JLL addresses itself to precisely this task. The report uncovers new formats of development, technological advancements, organizational innovations and financial structuring which can all be effectively used to enhance the efficiency and competitiveness of our businesses to the next level.

It is apt that the report is being unveiled at CONCLAVE 2018 devoted to the theme of 'Embracing Change' I am confident that CREDAI members and other stakeholders would derive an enhanced vision of the imperatives for sustained and long term growth of their businesses.

Getamber Anand
Chairman, CREDAI



Message from the President

"CREDAI has been a votary of economic reforms especially those that strengthen the institutional structure in favour of competition, transparency and fair play. We have extended support for RERA and GST. CREDAI's primary commitment, however, is towards the real estate industry in terms of preparing ourselves for the new ecosystem so that our businesses continue to thrive and provide avenue for higher investment, employment and growth.

The present report jointly authored with JLL is being released at the Conclave 2018 with the objective of understanding the new opportunities in the real estate sector in the light of special requirements of the new economy. Structural transformation of our organizations focusing on maximizing the satisfaction of all Government and customers as intrinsic stakeholders is a necessary prerequisite to exploitation of the new opportunities. The report also deliberates on the employment of technology as an enabler for sustainable growth in an environment of continuous change.

The report and the Conclave 2018 are part of our constant pursuit of information and knowledge as critical elements in differentiating members of CREDAI from the rest of the real estate pack. I urge and invite all to use the report for wider dissemination and thought provocation within their organizations.

Jaxay Shah
President, CREDAI

Preface

The Winds of Change are blowing through an exciting time in India Realty. Be it in the implementation of policy reforms, bringing in globally accepted and locally implemented best practices, technology enablers, newer formats and opportunities or the influx of foreign capital. The consumer is also viewing real estate in a whole new light, which is a welcome change from the hitherto past outlook for the sector.

Change is a result of innovation, adaptability and improvement, ultimately driving progress. A number of factors are slowly but surely shaping the future of this industry. This paper attempts to forecast some of those key trends, which will be large change makers in order to transform the future of real estate.

A clear game-changer, RERA has played a key role in inducting best practice into the sector, evolving higher transparency and trust, along with compliances; and more importantly creating a platform for grievance resolution. Coupled with GST, this has improved the regulatory environment, in turn rationalizing prices and ensuring a setting in which only the compliant players will thrive. With an enormous push from the government, Affordable Housing will be a key driving force for residential markets in visible future. Pure equity investment structures are likely to come back to residential markets, leading to a positive prediction that PE investments in real estate may touch the USD 100 bn mark over the next 10 years. Time is also ripe for REITs to become our reality, with an estimated

314 mn sq ft of REIT-able stock readily available. Emerging alternative asset classes will provide developers, service providers and operators newer prospects to create solutions specific to India, while leveraging best of breed learnings from across the world. However, the most pivotal role will be played by Proptech - which is right at the convergence of property and technology, and given India's entrepreneurship ecosystem, has already made it bid. Blended with the IOT, AI, Automation and Blockchain, it will certainly render a mind-shifting transformation.

Evolution is inevitable and we need to accept that the old manner of doing business will need to adapt to a newer hierarchy of process and operations. Under such a scenario, change management, reputation and visionary acumen as displayed by the CREDAI leadership in paving the path for such a game changing conference will be a milestone, that is when history stands up to be counted. Certainly, it is time for the inflection and this report is an appropriate intervention in chronicling the trends which will pave the path for the new way.

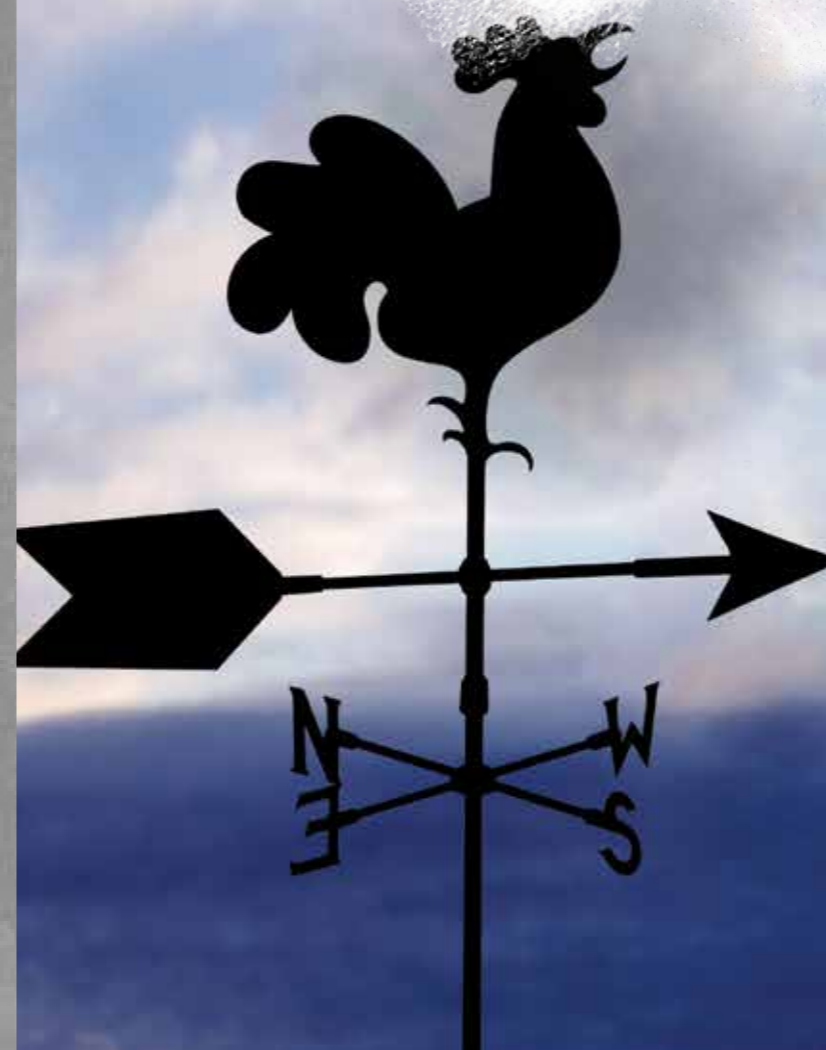
I hope you find this an interesting read!



Best regards,
Ramesh Nair
CEO & Country Head
JLL India
ramesh.nair@ap.jll.com

Joining the future dots - JLL's picture of a new real estate world

- Data will become more and more secular. All stakeholders will need to be 'Original' to make a mark.
- A single nodal agency to grant all government approvals will emerge.
- Technology will become the biggest enabler for the 'experience' of real estate.
- RERA will become the key body for conflict resolution.
- Institutional Investors of property assets will forge a long-term ownership-relationship with assets; each one embossing its own impression of built environment and aesthetics on it
- New large corporates will enter real estate
- A new ethical standard for brokers will emerge and only those passing the standard will be allowed RERA registration. We may see home-makers as brokers in the new professional markets!



RERA: The Key Architect of Consolidation

The enactment of The Real Estate Regulatory Act in 2016 was one of India's biggest and most awaited regulatory reforms with a far reaching impact on the real estate sector.

The Act came into effect on May 1, 2016 (69 of 92 sections notified) with the remaining provisions coming into force on May 1, 2017. The Government had set July 31, 2017 as the deadline for all states to put the infrastructure in place for the implementation of the Rules listed under the Act. However, the ground reality today could not be more different. Many states missed the implementation deadline and are still lagging behind in setting up processes and support infrastructure.

“*‘RERA is a big game changer as it is giving confidence to the home buyer to take the plunge and begin transactions again. Slowly developers have started becoming RERA compliant and we will see that as this process gains speed, the trust deficit will be rectified’*

Getamber Anand
Chairman, CREDAI

”

Key Highlights of RERA:

- Disputes between the buyer and the builder should be settled within 120 days.
- 70% of the money collected from buyers should be put in a separate account to meet project cost requirements and should be accessed upon achievement of project milestones and certified by accountants and engineers.
- Penalties on developers for delays in promised construction timelines and penal provisions for continuous default.
- All sales on carpet area basis with clear definition of carpet area included within the Act.
- Structural defect liability period of 5 years from handover of project.
- Along with developers and project registrations, brokers also need to be registered with specific projects to undertake project marketing and sales activities. Website to host detailed information related to profile and track record of promoters, details of litigations, project prospectus, details of apartments, plots and garages, registered agents and consultants, development plan, financial details of the promoters, status of approvals and projects etc.

Where are we now?

Bouquets

- Some states such as Maharashtra have taken the lead in RERA implementation with over 15,000 projects registered.
- Most actively selling projects have registered with the state RERA bodies and are following RERA guidelines in project advertising.
- Green shoots of recovery visible with RERA registered projects being preferred by buyers/end-users.

Brickbats

- Barring Mumbai and Pune, data from other states and cities is not readily available in the public domain. Many states are yet to establish processes and put support infrastructure in place.
- Slow state-level implementation has led to developers looking for guidance from informal channels.
- Lack of uniformity as the format of disclosures differs across states.
- Project level information is difficult to comprehend with incomplete/incorrect entries, reflecting lack of data verification prior to it getting uploaded on the RERA website.

What's in store for each of the stakeholders?

Developers

- Given that pre-launch of projects is now prohibited, developers need to self-fund land cost and ensure all approvals are in place before initiating sales process
- Investments in land and seeking approvals for construction prior to RERA registration will strengthen buyers' confidence in projects.
- Corporate developers and those with optimal financial prudence will have the advantage of increased participation from investors and will also benefit from improved sales
- Project registrations under RERA will help bridge the trust deficit between the buyers and developers
- RERA data will set the benchmark for developing future offerings in accordance with customer needs
- Developers with a strong financial backing will be likely to offer projects only after completion or after undertaking a substantial portion of construction in order to reduce liability under the act.

“*‘Shrinkage of market size and consolidation is expected.*

Rohit Raj Modi,
Vice President, CREDAI

”

- Larger developers may explore distressed opportunities in stalled/unfinished projects and tie-up with smaller developers to enter unexplored residential market offerings at attractive valuations
- Extensive disclosures under RERA will help attract more private equity investments in the asset class
- Smaller developers with poor corporate governance practices and inefficient financial management are unlikely to survive in the long run

Buyers

- RERA will provide an effective grievance redressal and conflict resolution mechanism outside of the myriad and long-drawn civil court procedures.
- Higher project-level disclosures will allow home buyers to make informed decisions
- Buyers will have the flexibility to exit delayed projects with nearly no financial loss
- The 5-year structural defect liability clause will ensure a better quality of civil construction as well as proactive developer support
- Penalty provisions to compensate for delays will help create an equitable relationship between the buyer and the developer
- **RERA registered projects are likely to see price appreciation in future and drive price growth in the market; however, market timing will be essential.**

Private Equity Investors/Lenders

- Transparency and disclosures under RERA will facilitate efficient due diligence and reduce non-performing loans given to investors who are unlikely to choose the right developer to partner.
- Higher partner and sector confidence will allow for return of equity participation
- Financial lenders will rework their financial agreements in accordance with RERA to adequately cover their financial exposure and debt repayments.
- RERA and revised Bankruptcy and Insolvency Code will allow for financial lenders to achieve timely and efficient financial closure even for stalled projects.



Points to Ponder

- Approval/state/local authorities responsible for project sanctions are not covered under RERA. How would a delay in later stages be accounted for in the overall project delay and who would be held accountable?
- Construction funding rates are higher than mortgage rates; putting pressure on developers. Infrastructure status to the sector can help lower the gap and aid debt-laden developers.
- Projects that have been completed or have received their completion certificate recently do not need RERA approval and hence developers are unlikely to register such projects. How do buyers of such projects get protection under the structural liability clause and other RERA provisions?

RERA: Agency for equitable justice; not unilateral punishment

In recent MahaRERA rulings, the regulator has taken a more inclusive and conflict-resolution driven approach. Instead of simply penalizing the developer, it has sought to bring the parties together to ensure that the project is delivered within a structured timeframe.

We expect the RERA bodies of other states also to adopt such an approach. This will ensure that concerns of both parties are resolved in an equitable manner and projects are delivered on time.

The real estate project Tanvi Eminence was stalled right since there was news of differences between the four promoters back in 2013. The MahaRERA Chairperson Gautam Chatterjee, directed promoters to complete the project by engaging in discussions with both the promoters and the welfare association members (formed by aggrieved buyers). Based on the agreement of both the parties an order was passed whereby developers are required to give possession of the flats on or before 31st December, 2019. In case of delay, the builder will be liable to pay interest on the investment made by the home buyers.

“Infrastructure status can reduce the gap between mortgage rates and construction funding rates

JLL View”

Crystal ball-gazing: RERA setting the future course

- More Joint Development agreements with revenue share rather than area share
- More Development Management models creating an asset-light model for larger developers
- Increased land transactions with distressed asset owners selling parcels to larger developers
- RERA and NCLT (National Company Law Tribunal) working together to resolve issues of insolvent or stalled projects
- Timely delivery of projects
- Consolidation in the developer industry; non-serious players to be shunted out
- Smaller developers in Tier 2 and 3 cities could tap into institutional funding, if they follow higher disclosure norms and efficient financial management

“Current RERA provisions have completely overlooked the accountability of Government offices as approvals are not yet under RERA

Jaxay Shah
President, CREDAI

GST: Impact on Residential Markets and Warehousing

India's biggest tax reform post-independence, namely, the Goods and Services Tax (GST) was implemented on July 1, 2017. The new tax system seeks to transform the Indian economy with its 'One Nation, One Market, One Tax' principle by incorporating a host of indirect taxes charged at tiered rates by the Centre and the States. The primary objective of GST is to simplify and bring uniformity in the complex tax structure on the supply of goods and services. **Real estate investors are expected to reap benefits from GST, with an overall reduction in residential pricing in the future, given developers are expected pass on the benefit of Input Tax Credit (ITC).**

Under the GST regime, all under-construction properties will be charged at 12% (excluding stamp duty and registration charges). It will not apply to completed and ready-to-move-in projects, as there are no indirect taxes applicable in the sale of such properties. The GST applicable for various projects can be understood thus:



| Nature of transaction | Tax rate under GST | Total agreement value (INR) | Taxable value (INR) | Tax under GST (INR) | Remarks |
|---|---|--|---------------------|--------------------------|--|
| Sale of a flat under a single agreement | 18% | 100 including land value | 66.67 | 12 (18%*66.67) | Deduction of one-third of the contract price towards land |
| Sale of an undeveloped plot | NA | 100 | Nil | Nil | Non-taxable supply under GST |
| Sale of a flat with separate agreements for land and construction portion | No tax on land value Construction portion taxable at 18% | 40 – towards land 60 – towards construction | Nil 60 | Nil 10.80 (18%*60) | While this should be the intention of the law, a strict reading should consider the entire value (100) to arrive at the taxable value of 66.67 as mentioned in 1 above |
| Sale of a flat post the receipt of OC or first occupancy | NA | 100 | Nil | Nil | Non-taxable supply under GST |

As far as the cost of land is concerned, most developers are of the opinion that taking one-third of the total contract value as the land value for deduction is not justified across all locations. This is supported by the fact that the cost of land could be as high as 50–60% of the total cost incurred in Tier I cities.

Impact on pricing for residential markets:

- The availability of Input Tax Credit (ITC) should ideally reduce the input costs for developers and they should be able to pass these benefits in the form of reduced prices.
- However, grey areas in certain parameters are acting as impediments to actual value creation by GST.



While the Central Government has clarified some of these aspects through specific press releases and FAQs, the effective dissemination of this information to the industry has been piecemeal and slow. This has led to lack of clarity among developers as they are currently unsure of exactly how much Input Tax Credit is available for their projects and what should, in turn, be the reduction in price for residential units. For most projects, the estimated benefit of Input Tax Credit (ITC) available under GST, may not exceed 3% of the overall construction cost

Impact on pricing: The general consensus is that the reduction in prices on account of GST will not be more than 3 to 4% in the near future. Prices will continue to remain dependent on demand and supply dynamics within micro-markets.

'The Goods and Service Tax (GST) Council in its 25th meeting, held on 18 January 2018, recommended rationalization of GST rates on various goods and services. The list included affordable and low-cost housing. The recommendations were accepted and included in the official gazette on 25 January 2018. Now GST would be charged at 8% on the total value of under-construction properties, which would be 4 percentage points less than the earlier effective rate of 12%. This will give a big boost to affordable housing and we see this sector dominate residential sales in the near future.

How the Anti-Profitteering Bill is relevant to Real Estate

A key feature of GST has been the Government's concerted efforts to convey that it is not a tool that will allow service and good providers to profit at the expense of the consumers. Anti-profitteering is thus an essential element and to this end, the GST National Anti-Profitteering Authority (NAA) has been established by the Government.

The real estate sector which, so far, has been at the receiving end of negative perceptions related to developer profits is also aligning itself to the spirit and ethos of GST. However, some practical issues remain and need to be addressed:

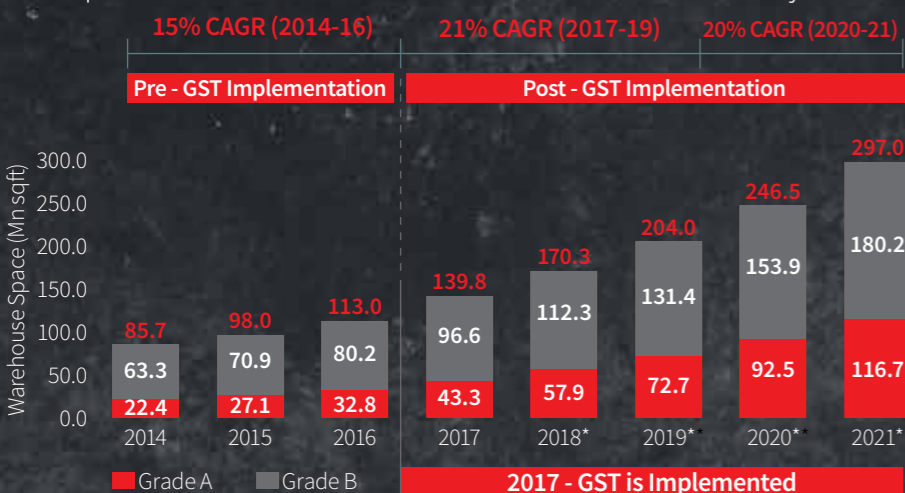
- How will a developer pass on the benefits of Input Tax Credits if other escalating costs are not allowed to

be offset? Currently, amongst other costs, cost of approvals (which can be substantial) is outside the purview of GST and in turn ITC.

- Developers need to exactly calculate the per unit benefit arising on account of the implementation of GST. This is based on multiple factors such as the percentage of construction completed, location of project, timing of the purchase of raw materials, change in the valuation method for computing taxable value, negotiations on price reduction from suppliers and amount of transition credit.
- How exactly should profits be allocated towards Input Tax Credit received? The methodology of doing this seems to be unclear.

IMPACT ON WAREHOUSING

Top 8 Cities - Grade A and Grade B Warehouse Stock Projections



Source: Industrial Services, JLL India Note: The future projections of stock for Grade A and B space is computed taking into consideration future supply of projects and market conditions in each city. The projections are cumulative total stock.

- **Increase in supply of warehousing stock:**
2017-19 will see substantial growth due to diminishing state boundaries
- **Hub and spoke model:**
This model is emerging with the proximity of raw materials and consumer markets as main consideration.
- **Efficient and larger warehouses:**
Large size, good quality, Grade A warehouses coming up.
- **Consolidation:**
Companies to re-structure their warehousing portfolio to bring in larger and 'supply-chain' efficient warehouses.
- **More organized logistics players:**
More organized players are expected to enter the sector.
- **Larger investments:**
Warehousing developers are investing in larger logistic parks and buying land at strategic locations. Private equity interest has also risen substantially in this asset class due its income-yielding ability and growing demand for this asset class from various industries such e-commerce, FMCG, auto components, etc.
- **Reduced cost to customers:**
Reduction in cascading taxes may lead to lower cost of production and distribution, which can be eventually passed on to consumers.

Emerging locations

While the top eight cities are witnessing tremendous growth; GST implementation ensures that in future the location for a project would be determined irrespective of state. As a result, Tier 2 cities are coming into focus. JLL has identified select cities (other than the top eight) and evaluated their potential to become the next growth centre of logistics.

“ Tier 2 cities are making their mark as next-generation warehousing destinations supported by important factors such as:

- Clients planning their warehousing distribution close to the manufacturing facilities
- Supply chain & distribution networks increasingly implying hub & spoke model
- Growing consumer & sourcing demand
- Ease in connectivity to major urban clusters as well as an enabling business environment

N Srinivas, MD
Industrial Services, JLL India

”

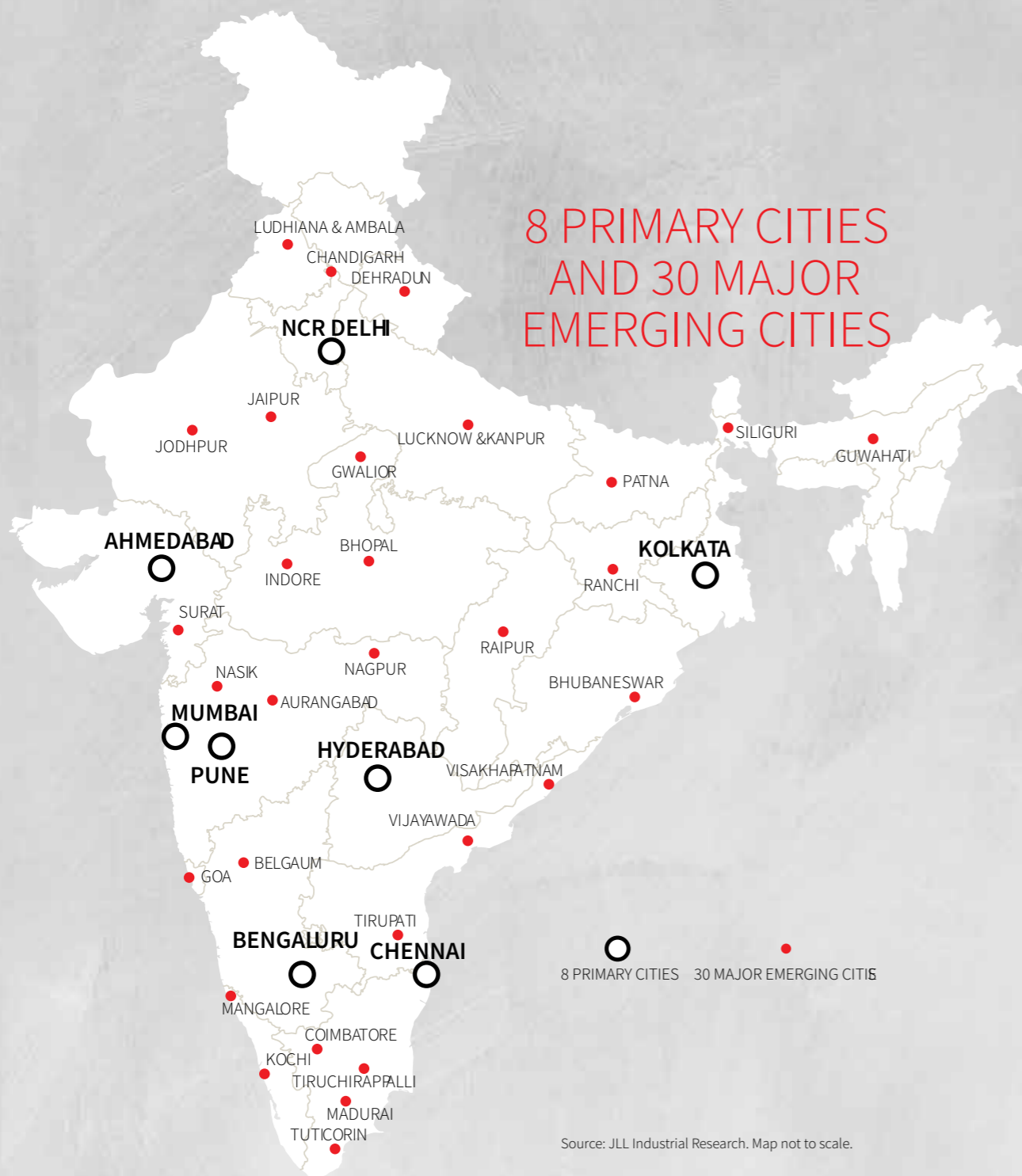
Relaxation of FDI: Opening newer investment avenues

With the objective of rendering greater transparency to the real estate sector and enabling it to meet its massive capital requirements, the Government has been introducing investor-friendly and streamlined policies from time-to-time.

India's real estate market is growing at a rapid pace and is expected to reach a market size of USD 180 bn by 2020 from USD 126 bn in 2015. The housing sector alone contributes 5–6 percent to the country's GDP, and from 2008 to 2020, the market size of this sector is expected to increase 11.2 percent. Regulatory reforms, steady demand generated due to rapid urbanization, rising household income and the emergence of nuclear families are some of its key drivers.

“As policy push drives real estate markets to become more and more transparent and organized, we believe the sector will become increasingly attractive for FDI”

Hardeep Dayal
COO Capital Markets, JLL India



Road Ahead with GST

- As grey areas start being cleared in residential markets, benefits of uniform taxation will be visible and should finally lead to rationalization in residential prices. However, deductions permissible for land will play a key role in determining prices in the major cities.
- Warehousing will witness growing Grade A stock, private and institutional backed development and a seamless market with more distributed networks resulting in an efficient supply chain.





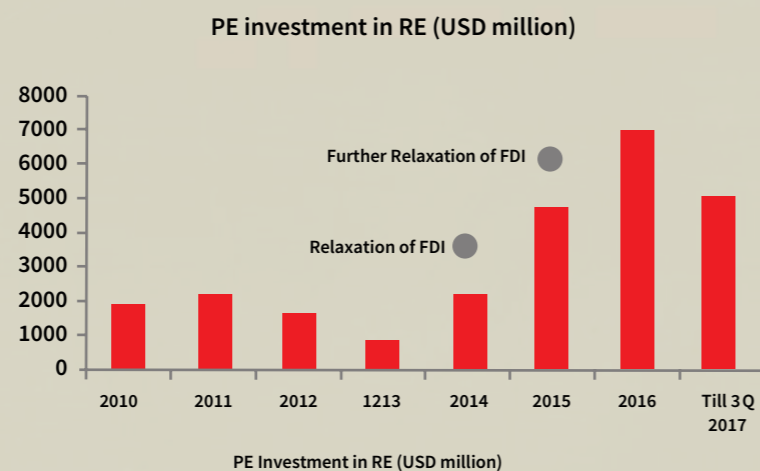
Policy Initiatives to Ease Foreign Direct Investment (FDI) inflow

- **2005:** Up to 100% FDI under automatic route in townships, housing and construction development projects was allowed. This reform opened up newer ways of funding and led to maturing of the industry in terms of business practices and product offerings. FDI inflows to the sector grew by over 150% y-o-y on an average from 2005 till FY2009-10
- **2014-15:** The Government eased FDI norms for the construction sector in 2014 followed by further relaxations in 2015, when minimum area requirements were removed and minimum lock-in periods were freed.
- **January, 2018:** The Government allowed 100% FDI under automatic route (without any government approval) in single brand retail trading and construction development segment (which includes townships, housing, built-up infrastructure).

A few years back, foreign investors were shying away from the Indian real estate sector due to uncertainty in yields and tenure of lock-in for investments coupled with a lack of transparency. In recent years, **increased transparency through regulatory reforms and adaption of modern designs and technology** for improved project execution and timely delivery, has led to investor confidence seeping back into Indian real estate.

“After a prolonged period of slowdown in the retail sector over the last few years, we saw a strong comeback with developers and investors increasingly betting on the sector

Pankaj Renjhen
MD Retail, JLL India



Policy Change is Driving Fund Flow

Post relaxation in FDI norms for single-brand retail investments by foreign companies at the beginning of 2018, some of the notable investments which were recorded in the retail sector are as follows:

- Swedish watch brand Daniel Wellington has opened its maiden store in Mumbai
- Chinese electronics major Xiaomi is planning to open company-owned stores in India
- British tech firm Dyson is likely to invest approx. INR 1,300 crore into its Indian operations over the next five years
- Swedish furniture retailer IKEA is expected to invest INR 3,000 crore in Maharashtra
- The Government has further raised FDI limits for townships projects to 100%, while real estate projects within the Special Economic Zone (SEZ) are also permitted 100% FDI. With these policies and relaxations in place, it is likely that the real estate sector will witness increased FDI investments in both short term and long term.

According to industry experts, regulatory reforms like RERA, GST, Benami Transactions Bill and Demonetisation have already paved the way for a consolidated, transparent and investor-friendly real estate sector. With further relaxation in FDI norms, the following impacts are likely to follow:

Foreign companies looking for geographic expansion, foreign private equity players and institutional investors from different disciplines are likely to consider Indian real estate sector as a potentially attractive investment opportunity

Higher interest among FDI investors is likely to result in **standardization of the quality of projects**

Impact of 100% FDI in real estate

Likely increase in competitiveness leading to better efficiency and innovations in the sector

- Private equity and debt investments in real estate increased by 12% year-on-year across 79 transactions in 2017
- Investments in retail projects in Tier 1 & 2 cities reached USD 6.19 bn from 2006-17
- Investment inflows in the residential sector since 2014 have been INR 59,000 cr; approximately 47% of the total invested money in real estate over the same period
- Private equity inflows in office & IT / ITeS segment for 2014-2017 YTD are 150% higher than the previous seven years' inflows combined.
- In the hospitality sector, strategic investors are interested in acquiring operational hotels.

Source: JLL Research



Joining the Future Dots

Increased transparency and accessibility in the Indian real estate segment is a growing pace of FDI flows into the sector. Developers, in order to attract funding, have revamped their accounting and management systems to meet due diligence standards and thereby the realty market is expected to witness an upward rise in the number of investments in 2018. A growing number of foreign brands entering the market is also likely to result in consolidation wherein small-scale local players may receive the required support for growth. 100% FDI relaxation is expected to improve ease of doing business with higher FDI inflows resulting in growth of investment across established and emerging real estate asset classes, employment and income.

Private equity investments in real estate are estimated to grow to USD 100 bn by 2026 with Tier 1 & 2 cities being the prime beneficiaries.

Key Investment trends that are likely to dominate the future of the real estate asset classes are enumerated as follows:

- The office segment is likely to remain active in terms of attracting investments. Limited core asset portfolios and reducing yields are likely to result in higher investments for brown-field / build to core developments.
- Retail investors are increasingly focusing on emerging retail destinations (Tier 2 & 3) over metros due to better growth prospects. These (Tier 2 & 3) cities have witnessed a much higher investment (USD 6,192 mn) compared to Tier 1 metro cities (USD 1,296 mn) from 2006-2017. We expect new investment opportunities to continue in Tier 2 and 3 cities.
- Due to lack of high-quality retail mall assets across cities, investors have adopted a multi-fold approach and have started investing in a portfolio of assets through green-field and brown-field projects.
- According to industry estimates, India's retail market is expected to grow at 60% to reach US\$ 1.1 trillion by 2020, fueled by factors like rising incomes and lifestyle changes by the middle class and increased digital connectivity.
- The slowdown in the residential sector over the last few years has resulted in a liquidity crunch. However, with stringent regulations and increased transparency, pure equity investment structures are likely to come back.
- Affordable housing is now a major theme among investors. With ample policy support, numerous projects are being launched in this sector and FDI will find its way here.
- The hospitality industry is showing signs of revival and with large hotel operator-investor partnerships already underway, we expect that private equity players will look to this sector for strategic investments.
- Warehousing and logistics destinations in the country will also be attractive to foreign investors as post GST the sector is getting more organized.
- There exists a vast untapped potential in India for alternative asset classes, such as senior living and student housing projects. We believe that these newer assets are going to be explored much more actively by investors as they look towards expanding their footprint beyond conventional real estate asset classes.

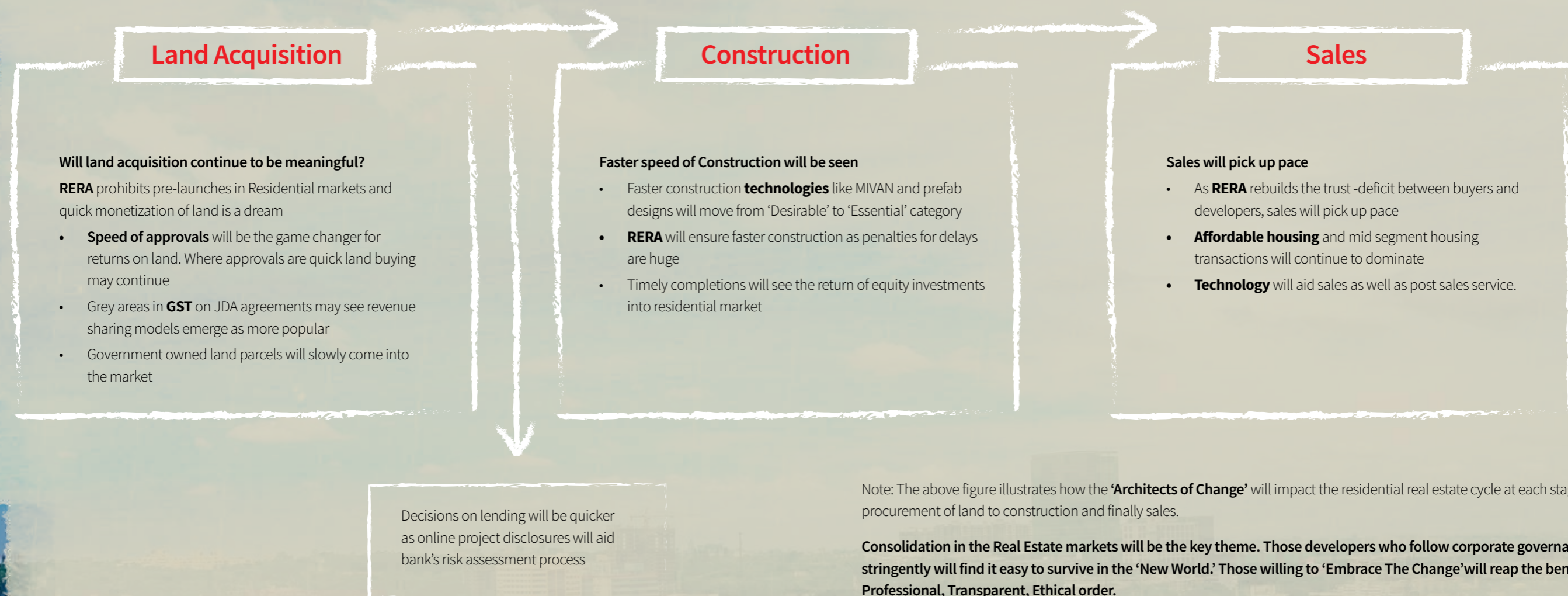
“

100% FDI through direct route will open up India as a global retail market. It will also make way for some of the international trade practices to enter into Indian real estate

Amit Modi
Vice President, CREDAI-Western UP

”

How the Architects of Change will impact the real estate life cycle



Note: The above figure illustrates how the 'Architects of Change' will impact the residential real estate cycle at each stage, from procurement of land to construction and finally sales.

Consolidation in the Real Estate markets will be the key theme. Those developers who follow corporate governance stringently will find it easy to survive in the 'New World.' Those willing to 'Embrace The Change' will reap the benefits of a more Professional, Transparent, Ethical order.

Affordable housing: Policy initiatives to bear fruit

Affordable housing projects launched by private developers have significantly contributed to the decline in urban housing shortage in the last five years. Although, the urban housing shortage remains substantial (12 mn homes), it is clear that active participation from private developers could help in tackling the issue.

Category of beneficiaries based on annual household income

| Category of Beneficiary | Annual Household Income |
|-----------------------------------|--------------------------------|
| Economically Weaker Section (EWS) | Up to INR 3,00,000 |
| Low Income Group (LIG) | INR 3,00,001 to INR 6,00,000 |
| Middle Income Group (MIG I) | INR 6,00,001 to INR 12,00,000 |
| Middle Income Group (MIG II) | INR 12,00,001 to INR 18,00,000 |

Category of Beneficiaries and allotment of maximum carpet area

| Category of Beneficiary | Maximum Carpet Area |
|-------------------------|---|
| EWS | Up to 30 sq. m. |
| LIG | Up to 60 sq. m. |
| MIG I | Up to 120 sq. m. (revised on 27.11.2017) |
| MIG II | Up to 150 sq. m.(revised on 27.11.2017) |

Source: Ministry of Housing & Urban Affairs

“Some mechanism for bank funding of land has to be put in place for affordable housing to really take off”

Jaxay Shah
President, CREDAI



The 30 sq m limit will only be applicable within the corporation limits of the four major metros (Delhi, Mumbai, Bengaluru and Chennai). For fringe areas of these metros and all other cities, it will be 60 sq m carpet area. This will effectively serve to increase the number of projects falling under this segment. The Government has been consistent in its efforts towards addressing the need for affordable housing through the following initiatives :

- According infrastructure status to this segment in the previous budget
 - Increasing the quantum of beneficiaries in Credit Linked Subsidy Scheme (CLSS) under Pradhan Mantri Awas Yojana (PMAY)
 - Expanding the carpet area and re-defining income definitions
 - Providing incentives to the affordable housing segment, including categorizing this segment as a priority sector for the purpose of bank lending, providing huge interest subventions and direct cash subsidies.
- With a view to incentivizing the affordable housing sector and as a part

“Affordable Housing and Healthcare are going to be the biggest change drivers for real estate in the future.

The challenge for Affordable Housing currently is to get a bidding system for the PPP model which will not be questionable.”

Getamber Anand
Chairman, CREDAI

of the broader objective of ‘Housing for All’, the Finance Bill 2016 introduced Section 80-IBA which provided for a 100% deduction in respect of the profits and gains derived from developing and building specific housing projects subject to conditions specified.

“Lot has been done by the government for the sector, but we will need to wait a bit longer to see the fruitful results of these changes as developers are currently in a handicapped position with many stressed assets.”

Rohit Raj Modi
Vice President, CREDAI

- In the 2018-19 Annual Budget, the Government announced that it would create a dedicated ‘Affordable Housing Fund’ in collaboration with the National Housing Bank (NHB), taking another step towards realizing its ambition of achieving ‘Housing for All’ by 2022.
- As per Ministry of Housing and Urban Affairs, 468 acres of government land of merged printing presses across locations including Rashtrapati Bhavan, Minto Road and Mayapuri in New Delhi, Nashik and Temple Street in Kolkata will be redeveloped for construction of affordable housing and other government buildings.



Construction technology

Use of economic and sustainable technologies for better housing in rural and urban areas is an urgent requirement considering spiraling construction costs. This usage of technology for efficient and affordable housing should be done through:

- Developers adopting cost-effective construction techniques – they have immense potential in driving down huge chunks of building budgets to make it more reasonable
- Government subsidizing the green materials used for development of housing so as to encourage sustainability
- If houses are built without reference to last mile connectivity issues, affordable housing development will take place only in the fringes. Inhabitants of affordable homes need easier access to work through proper infrastructure. This continues to be a challenge for the success of affordable housing in India and needs to be addressed in the future.

The reasons for the shortage in affordable housing on the supply side are:

- Lack of availability of urban land: Likely to be addressed through increased supply of government land parcels
- Rising construction costs and small regulatory issues: Construction technology to aid faster construction at lower costs in the future
- A massive migration of rural population to urban areas: This will continue to be a challenge in the near future.
- The lack of access to home finance for low-income groups continues to be the critical demand side constraint. Policy interventions will be key in aiding easier access to home finance for this income group.

Major recent investments in affordable housing

- Mumbai-based BSE-listed Arihant Superstructure Ltd plans to invest INR 4,000 cr in the next seven years to develop affordable housing in Mumbai and Jodhpur.
- Piramal Finance Ltd, a unit of Piramal Enterprises Ltd, plans to focus on investments in affordable and mid-income housing projects across major cities with an initial investment pipeline of INR 3,000 cr.
- International Finance Corporation, the investment arm of World Bank, has agreed to invest approximately INR 485 cr in L&T Housing Finance Ltd, a subsidiary of L&T Finance Holdings Ltd. This will be used to finance developers of affordable housing.
- Mahindra Lifespace has partnered with HDFC Capital Advisors to jointly invest INR 500 cr over the next three years to develop affordable housing projects.
- Prestige Estates Projects and HDFC Capital Advisors to jointly invest INR 2,500 cr in low and mid-income housing projects.

The Road Ahead

Lower risk weights on loans for affordable housing, tax exemptions for developers burdened with completed unsold inventory, amendment of section 80-IBA for relaxing the condition of period of completion of a project, funding incentives and central assistance for affordable housing projects have all led to the belief that in future too, policy support will be ample for Affordable Housing to garner greater success.



REITs – A Step towards Enhancing Liquidity

REITs are the next logical step of evolution for real estate assets as they provide access to public markets and an exit to private equity investors. The popularly perceived ‘illiquid’ real estate sector will soon witness enhanced liquidity once this instrument is launched in India. Increasing participation by foreign investors who had been quite active in

picking up marquee, income-yielding assets in commercial markets, propelled the need for greater transparency and a broad-based public market through exchange-traded units. Moreover, as institutional investor presence increased in the country’s real estate sector, it became imperative for the Government and the securities regulator to create an enabling environment for REITs to materialise.

Key Drivers for REIT listings:

- Global fund manager, Blackstone is the biggest owner of commercial real estate in the country and is a frontrunner in helping make REITs a reality in India.
- Private equity inflows in the commercial office space for 2014-2017 are 150% higher than the previous seven years’ inflows combined.
- 314 mn sq ft of speculative Grade A office stock is held under single ownership/lease only model; this is more than 62% of total Grade A office stock across the top seven cities.
- New investments chasing brownfield/ build to core strategy through platform level tie-ups between established commercial office developers and global PE players.
- Yields in Indian property markets are still in the 8-9% range for quality assets; which is very attractive compared to other Asian markets and gives good margins for REIT listings.
- Sectors such as retail, hospitality and hospitals are also gaining momentum creating room for a diversified REIT portfolio.

| Key Issues | Current status (2015 till date) |
|--|---|
| Investment criteria | <ul style="list-style-type: none">• 80% in income generating assets• 20% in under-construction property• Allowed to invest in unlisted shares• Hospitality, hospitals also allowed to be considered under REITs |
| Investment Vehicles | <ul style="list-style-type: none">• Two-tier structure with concept of Holdco (Holding Company) introduced in 2016• Crossholdings of REIT in HoldCo and SPV in HoldCo to the extent of 50% each; but in line with safeguards under the existing regulations• Single asset REITs allowed |
| Public Market Listing | <ul style="list-style-type: none">• Equity rules remain same• Qualified Institutional Placement (QIP) allowed to enable meeting the minimum public float norms of 25%• Allowed to issue debt securities too |
| Restrictions on foreign investors | <ul style="list-style-type: none">• Foreign Exchange Management Act (FEMA) rules relaxed to allow for FII/QIP participation |
| Rules for Sponsor and REIT Manager | <ul style="list-style-type: none">• Concept of ‘Sponsor Group’ removing the limit on number of sponsors |
| Related Party Transactions | <ul style="list-style-type: none">• Rationalisation of shareholder consent for related party transactions |
| Rules for Sponsor and REIT Manager Taxation Matters | <ul style="list-style-type: none">• Full pass-through status for income, dividend distribution |

Where are we now?

- Larger private equity players have built up a sizeable portfolio of assets, acquired over the past 5-6 years at attractive valuations.
- No REIT listings yet.
- Many private equity-developer platforms are firming up plans, but early days yet.
- Commercial office REITs are likely to come first.

What's in store?

- Typically, conventional asset classes form the first movers of REIT markets
- Globally, the US and Singapore markets have their biggest REITs in the commercial and retail asset classes.
- Expect Prime Grade office portfolios in India to look at REITs now that most of the taxation concerns have been addressed.
- Success of the first REIT is likely to set the tone for others
- Expect higher participation from institutional players – banks, pension funds, etc., both Indian and Global
- Smaller portfolios to be acquired by larger private equity players or platforms to diversify their real estate assets.

Points to Ponder:

- Stamp duty rates are not consistent and still quite high in many states. They take away from value creation for REITs.
- Allow for the 'Sponsor Group' definition to be relaxed suitably to allow banks, airlines and even corporates to undertake REIT listings. Safeguards can be made in the investment manager definition.
- Current 30% tax for domestic investors likely to impact their participation
- Current budgetary announcement on Long Term Capital Gains Tax will further reduce real returns for investors
- India's 10-year bond yields are at 7.6%; making them seemingly as attractive as potential REIT yields in India

Look out for:

- The first REIT likely to be launched by the Embassy-Blackstone partnership
- Falling bond yields that could make REITs more attractive
- Office REITs may pave the way for Retail asset REITs in the second phase
- Higher private equity investment interest in alternative assets such as senior living, student housing. Create a long-term strategy to strengthen development portfolios in those asset classes.



Technology: The architect for enabling policy changes

Across the globe, technology is rapidly changing the way we live and do business. Over the next few years, it is likely to permeate into almost every function within the corporate sector. In its ongoing efforts, the Government has recently announced an allocation of INR 3,073 crore in the 2018-19 budget for the Department of Science and Technology to focus on emerging areas like Big Data Analytics, Artificial Intelligence (AI), Internet of Things (IoT) and Blockchain.

The Government is actively promoting the use of existing and emerging technology in city management and governance. It was a crucial criterion in the Smart Cities initiative with even states undertaking local reforms and utilizing information technology to improve administrative efficiency.

The real estate sector is no exception to this technology revolution and some notable technology-driven innovative solutions are already being developed that are acting as agents of change for business practices, processes and customer experiences.

Recently, the BMC became the first civic body in the country to make the development plan reservations available on its mobile app. They have made use of Geographic Information System (GIS) a system used for capturing, managing and presenting geographic data

Digitization, predictive analysis and automation:

- With RERA in place, technology is already being actively used in the dissemination of residential data in the public domain. In future, more data is expected to be digitized and made available.
- Government portals such as **data.gov.in** are organizing and delivering various data points in areas

like infrastructure, water resources, housing, economy, labour and employment, finance, etc., in easy to consume formats. Such initiatives, in turn, provide valuable insights when combined with other industry-specific data points.

- Some states are already working towards developing a database of land transactions that are recorded and updated on the platform immediately





Source: ET Realty, 27/02/2018

- **Land records digitization** is an important initiative, given it is one of the major reasons of lengthy due diligence time required by the developers, investors and buyers owing to the fact that these records are the most critical legal documents of ownership.
- **Predictive analytics** on consumer behaviour in terms of spending patterns and time spent is being used

by retailers as well as mall owners for creating a better buyer experience.

- Various developers are already adopting chatbots that assist potential customers when they visit the website of a developer. With improvements in AI, the use of chatbots is expected to gain momentum in the future.

We now look at some recent technological advancements that can create a massive positive impact on the real estate sector.



Virtual reality:

Virtual reality, a combination of architecture design and gaming technology offers a simulated experience. Many companies have devised solutions for creating virtual tours of project sites where buyers can explore the project simulating the experience of being physically present at the location. They can even rearrange objects on site. This is helping real estate online portal owners to virtually take their prospective customers to customised property visits without having to accompany them.

Here's how it can impact major real estate asset classes:

Residential:

- Utility as a marketing tool.
- By offering 360° views in residential projects, as a supplement to regular photos and videos.
- Realistic depiction of the finished apartment with alternative layouts to visualize the final living space.

Retail:

- Potential retailers and investors can get a sense of the space under consideration and also the surrounding layout. For instance, if a retail brand is looking at taking up space in a particular high street, they could use virtual reality. With this, they would not need to visit the high street physically and could get a view of the property as well as the high street sitting in their offices.

Charting the future:

- Virtual reality is expected to become cheaper and thus could be used more frequently.
- More advanced solutions could be offered in this space, providing an enhanced experience to the user



Drones:

- With a widespread usage the USA and many European countries, drones can create 3D images and videos of offices, commercial submarkets and surroundings, enabling clients to gain a better understanding of the project.
- With similar applications in the residential space, drones can facilitate a bird's eye view of the surroundings to potential residential buyers. They can also be used to track the progress of construction of projects.
- They can be used to highlight property features like landscaping, pools, walking paths, backyards, internal spaces, flooring etc.
- They could also be used in analytical fields such as catchment analysis for commercial viability of office and retail projects and traffic analysis by understanding vehicle density in a particular area.

3D Printers:

- This technology is still relatively expensive and at a nascent stage currently, costs could come down in the future, improving its use in the real estate sector.
- 3D printers are already in use in building homes in countries like the USA. In the next few years, these could be used in India in the construction of buildings, with huge implications for creating affordable homes and creating significant savings on costs, labour and time.



However, in India, in order to operate a drone, permits and other operational requirements as per The Office of the Director General of Civil Aviation (DGCA) are mandatory. Thus, due to safety concerns, it is not easy to secure permissions. Future course of regulatory regimen will determine the frequency of the use of drones.

Building information modeling:

- Largely for applications in construction methodologies, building information modeling is a technology that could be useful for large projects, used as a tool for managing both physical as well as functional information.
- It is an intelligent model-based process giving a 3D perspective for the creation and management of project-level data. This includes the entire period of the project life cycle.
- It could aid in visualizing building level components and suggest any changes before commencing the actual construction, thus saving costs and time.
- With the addition of data to the model, a holistic view of the entire project is also possible. It could soon become a necessity for every project.

Integrated Workplace Management System (IWMS):

- This software platform enables organizations to manage their real estate portfolios through a mix of planning and analytics tools.
- This platform has cross-linkages with all real estate functions such as facilities management, energy efficiency, sustainability management and financial management. It can help optimize costs and reduce inefficiencies, improve productivity for properties and human resources and also increase the lifecycle of the assets.



Some more technologies are enabling different workflow management and ease of information sharing, retrieval and validation. They are likely to have a long-lasting impact on the overall real estate business. We look at two such technologies.

Internet of Things:

A large network of connected objects using the internet backbone, thus allowing for simultaneous as well as real-time data sharing between all these devices has useful implications for the real estate sector.

| | | |
|--|--------------------------------------|--|
| | Construction | Sensors could be used right from the construction stage of projects, where the use of equipment like cranes can be tracked to understand the efficiency, utilization, idle time and so on. It also could be used for keeping track of construction supply and monitoring equipment for maintenance issues. |
| | Retail | Retail stores could make use of sensors for shelves to replenish stock promptly after getting alerts when the stock gets over. |
| | Office | In offices, devices can be used to monitor the temperature, lighting levels, aiding in energy management and efficiency and this can extend to the entire building. It can also become useful in lowering usage of power. |
| | Residential | In apartments too, in some places, there are devices, sensor-driven lights in place. In the future, apartments are expected to be filled with smart devices right from washing machines, refrigerators right up to security systems. |
| | Waste Management | Useful in areas like waste management where sensors are put in bins providing information on when the bin has reached full capacity. Thus, the collectors of trash can follow a proactive approach here instead of a reactive one. |
| | Smart parking and traffic management | Devices in parking lots could provide information on the availability of parking spaces providing a real-time update to drivers via an app, saving time. In smart cities, use of sensors to collect data on traffic helps in providing a viable route to drivers and reducing overall congestion. |
| | Video Surveillance and safety | With the Internet of things, footage of a property can be viewed from any location. Security alerts too could be sent to owners on handphones. Data can be collected to improve security systems. |



Blockchain:

- A revolutionary technology that is now attracting a lot of attention due to its usage as an online ledger for tracking transaction history across multiple assets.
- It has recently gained prominence due to its use in bitcoin transactions.
- Mainly a digital ledger, where information held on a blockchain exists as a network of nodes. The data on this ledger is accessible to every computer on the network and thus allows for data sharing.
- This technology could have far reaching uses, such as in the opaque world of land records which is an area in dire need of such technology.
- This technology could also be used in property transactions. Currently, there is a need for the physical presence of all parties involved in transactions,

including brokers, bankers and lawyers. Smart contracts via blockchain would offer a convenient automated solution reducing costs involved, and ensuring greater efficiency.

- Progress made on deals could be tracked via blockchain. In the future, investors, occupiers and landlords could make use of this. There is also certain reliability with blockchain because it is virtually impregnable to tampering. Thus authenticity of contracts, records, and data would be guaranteed.

The use of technology is going to be ubiquitous in the future, bringing about significant positive changes in its wake. This would also have far reaching impact on the nature of jobs in the market, future workplaces, smart cities, construction technologies, client experiences and interactions and modes of transactions amongst many other things. It would be prudent for everyone to embrace emerging technologies and derive immense benefits to their business.

According to Ashok Jayakumar, CIO, JLL India, "It is an exciting time to be in the sector with the number of innovations we keep seeing that will alter the way of conducting business in this sector. "

“ Technology will play a major role in sales, after-sales, as well as backend support for transactions. However, developers will find it difficult to incorporate construction technology effectively if the costs of technology do not come down
Getamber Anand
Chairman, CREDAI **”**

Alternatives – A Promising Future

Unlike Western countries where alternative segments have gained maturity, India provides an opportunity for developers, service providers and operators to create solutions specific to India while leveraging learnings from across the world. Given

that these segments have been largely unexplored within the Indian realty construct, the time has come to examine the potential they have to offer. For asset management entities and funds, alternatives are emerging segments

providing the possibility of high returns (much higher than the established assets of office, retail and residential) when planned and executed correctly.

Why Alternatives?

For developers, alternatives offer diversification from the current turbulence in the traditional RE sector

Key Drivers:

Senior Living

- Growing nuclear families
- Increasing wealth among a particular class of senior citizens
- Increasing desire for independence and privacy amongst seniors

Over 100 mn seniors in India today

Will grow to 170 mn in 2025

240 mn by 2050

Student Housing

- India has approximately 34 million students in the higher education space
- The country has seen a steady rise in the number of students, growing at a high CAGR of 9.2% since almost a decade
- The ten leading states in terms of number of students in the higher education space experience an unmet demand to the tune of 30-60% for Student Housing



Healthcare

- The Indian healthcare market, which is worth around USD 100 bn, is likely to grow at a CAGR of 23% to USD 280 bn by 2020.

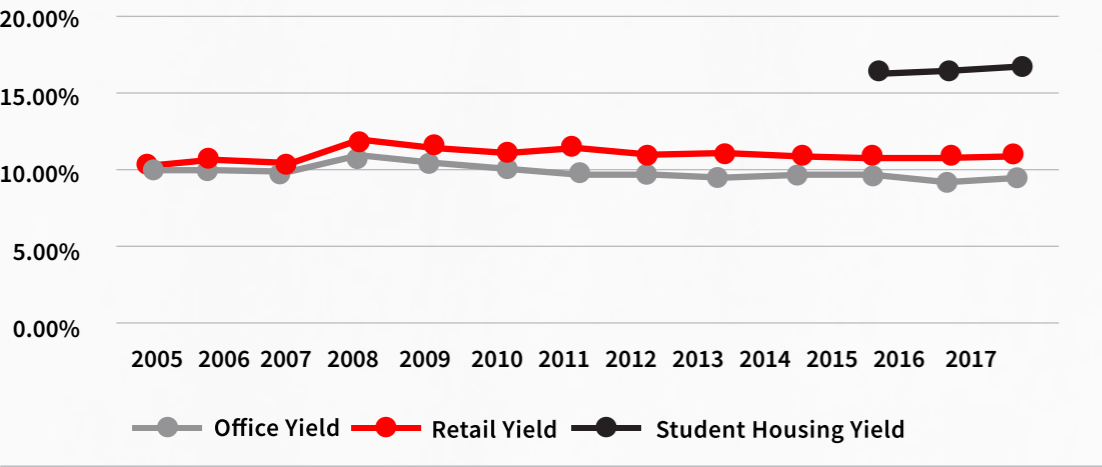
As of April 2017, medical tourism market in India is USD 3.0 bn. Medical tourism is expected to reach USD 6.0 bn by 2018 adding to the demand, as the number of medical tourists will have grown by 50% in just one year.

Source: www.ibef.org

Huge Returns potential: Student housing promises attractive rental yields, at approximately 15-18% and EBITDA margins of 30-35%

Source: JLL Report-Student Housing, A New Dawn in Indian Real Estate

COMMERCIAL AND RETAIL YIELD IN INDIA



(Source: JLL Student Housing Report: 'Student Housing, A New Dawn in Indian Real Estate')

Success stories in developed nations

- According to Global research reports published by JLL, the student housing market in the UK records high occupancy rates of approximately 95%.
- Globally, the total stock of student housing is valued at USD 200 billion.
- The transacted value for student housing in the US grew 2.8 times (2014-15) and 1.4 times (2015-16) pointing to a bright future.

Recommendations for boosting the Alternatives Sector

Adopting a two-step process combining:

Step 1: A clear definition for Senior Living and Student Housing units by the Government, to help in formulating a policy for Student Housing and Senior Living.

Step 2: Allocation of funds for development of appropriate asset class, as per such a definition. (The two-step process was implemented very successfully in the Affordable Housing segment, with huge policy support, post a clear definition of Affordable Housing)

- Universities could look to tie up with developers to develop their land holdings into student housing spaces.
- Introduction of 100% FDI in the Healthcare sector: 100% FDI is permitted through automatic route for greenfield projects. For brownfield project investments, upto 100% FDI is permitted under the government route. This will help this industry become more structured and will also give a boost to the private players.



| Segment | Catalyst for Growth | Challenges | Project Essentials |
|-----------------|---|---|---|
| Senior Living | <ul style="list-style-type: none"> Relaxation of FDI restrictions on investments Increasing 60+ population Untapped demand Emerging customer segment with specialised needs Growing demand for projects with better security, healthcare and community living Quality supply addition expected from existing players and in collaboration with international players | <ul style="list-style-type: none"> Significant reduction in purchasing power post-retirement in a majority of cases Unavailability of trained workforce Low acceptance rate from potential customers in smaller cities Positioning such projects as aspirational project Requires specialised healthcare facilities | <ul style="list-style-type: none"> Security Healthcare accessibility Location close to established area Presence of social amenities Connectivity Catering to different necessities of the elderly population-yoga and meditation parks, spaces for pets etc. |
| Student Housing | <ul style="list-style-type: none"> Growing number of colleges and universities Limited availability of Grade A student housing projects Increasing traction from investors and operators. Developers such as IndeCampus, Campusville, Youthville plans to scale up their existing capacity by close to 100% annually for the next 4-5 years. Student preference for rented accommodation vis-à-vis of purchased accommodation Unmet demand for student housing is very high in India Attractive rent yield of 15-18% Student mobility across states (migrant population of students is high) | <ul style="list-style-type: none"> The concept is non-existent / at a nascent stage in India Huge demand-supply gap Developers are risk averse Paucity of land in Tier 1 cities Operational management Student housing taxation is the same as corporate tax. Not many operators that can deliver scale, which is an important factor in building pan-India presence | <ul style="list-style-type: none"> Amenities such as wifi, laundry, gaming zone Location in proximity to college Presence of social infrastructure (food joints/eateries/ entertainment options) |
| Healthcare | <ul style="list-style-type: none"> Competitive advantage over other countries. Unmet demand in Tier III cities / rural areas Rising incomes and affordability with greater health awareness Increasing lifestyle diseases Easier access to insurance Policy support Growing elderly population Rise in medical tourism | <ul style="list-style-type: none"> Huge investment requirement Operational management Changing technology in healthcare | <ul style="list-style-type: none"> Location aspect Range of services offered by the hospital Cost efficiency |



Senior Living-The next wave

With the relaxation of FDI restrictions on investments in the sector and a rising population of seniors (over 100 million seniors in India at present) to cater to, there exists an untapped opportunity for investment and development in the Senior Living sector in India.

The senior living industry is expected to see the entry of players from various backgrounds, predominantly from the real estate sector. JLL believes that the following key factors will be instrumental in driving this segment in medium to long term.

| Key Factors | Trends | Game Changers |
|---|--|--|
| Increased sophistication and product improvement by existing Senior Living developers | Ashiana, and Athashri are well experienced in catering to the needs of senior housing in India. | Projects by big brands clubbed with innovative financial retirement solutions (e.g. health insurance for the aged) and designed following best practices could be game changers in the Senior Living segment |
| New market entrants | Developer brands are likely to experiment with the senior living segment as part of a mixed-use residential project to explore the market potential. | |
| Partnerships between International and Indian Senior Living developers | Rise in the number and nature of partnerships between owners and operators. | |
| Public awareness aided media support | International operators to become both knowledge and process design partners. Media support for first few large projects by top corporates could act as game changers | |

“Senior housing is an emerging market and will mature further. This market is reasonably recession free though overall sentiments in the country does have effect on it. The challenges in this sector majorly lie in maintaining and managing the senior living projects post completion as there are no separate laws governing senior housing. As the means of earning of these seniors is limited and their purchasing power diminishes year after year, the recent addition of GST has had an adverse impact on the maintenance budget. Considering the impact on the maintenance amounts paid by the seniors, the Government should consider at least looking at reducing or writing off the GST on these maintenance payments made by the seniors

Shrikant Paranjape
President, Credai Pune Metro

”

Student Housing- Exploring the Low Hanging Fruit

Student housing is being increasingly recognised as an asset class with tremendous potential in India, with around 34 million students currently in the higher education space. Higher education includes students at the undergraduate, postgraduate, diploma, certificate, PG Diploma, MPhil and PhD levels.

India has witnessed a steady rise in its number of students, growing at a CAGR of 9.2% for almost a decade. (Source: JLL Student Housing Report: 'Student Housing,

A New Dawn in Indian Real Estate')

The Indian Government has been actively encouraging more student enrolments, aiming to attain a Gross Enrolment Ratio (GER) of 30% by 2020 and growing the country's student population to 40 million from its current 34 million. In the pipeline are also ambitious plans to make India an education hub for South Asia. This plan would help tap the many students traveling from neighbouring countries to study in

India, given the perceived superior quality of education in the country.

Considering the immense potential and untapped demand, developers in India are expectedly keen to capitalise on this push towards tertiary education and consequently, student housing capacity is set to increase. This sector also enjoys high yields and the continuous flow of high and unmet demand.

JLL View: We believe that developers could partner with educational institutions in a "Build-Own-Operate-Transfer" model. Under this model, Developers would provide the capital and development expertise while educational institutions would provide the land and commit a minimum number of students to the student housing development. In the second phase, an experienced operator or the developer themselves could then be assigned to manage the operations of the hostel under a long-term management contract.

With only 6.1 million beds and the top ten states accounting for 74% of the student population in India, the unmet demand in Student Housing is as high as 30 – 60% in some of these states. (62% in Maharashtra, 66% in Rajasthan, 48% in Bihar)

In most countries, this asset class commands a yield that is higher than commercial real estate (office and retail)

yields. A similar trend can be assumed for the Indian market as well, where commercial yields currently hover in the range of 8-11%. Most developers who already operate in the student housing space in India are projecting returns in the range of 15-18%, which is a compelling enough reason to remain bullish on this sector.

With focused incentives and proper guidelines for student accommodation, we believe private participation in this sector can be encouraged to bridge the gap.

Healthcare

The Indian healthcare sector is growing at a fast pace due to increasing expenditure by the public as well as private players.

Policy Push on Healthcare:

As per the National Health Protection Scheme announced under the recent budget, hundred million poor and vulnerable families are planned to receive an insurance cover of Rs 5 lakh each.. This insurance scheme is billed as the world's largest government-funded healthcare programme and seen as a precursor to universal health coverage in India. Over 150,000 health and wellness centres are to be set up with an allocation of Rs1,200 crore.

“
The Healthcare sector in India will slowly move from curing diseases to preventing diseases and the larger concept of 'Wellness'
”

JLL view



Key Drivers:

India holds a competitive advantage over various countries owing to the following drivers -

- A large pool of trained medical professionals.
- Affordable medical costs in various segments compared to other countries. The cost of surgery in India is significantly cheaper in comparison to many countries.
- A leading destination for high-end diagnostic services

- Increased success rate of Indian companies in obtaining Abbreviated New Drug Application approvals
- Vast opportunities in R&D as well as medical tourism.

According to data released by the Department of Industrial Policy and Promotion, hospital and diagnostic centres attracted FDI worth USD 4.83 billion between April 2000 and September 2017. Developers participating in setting up

hospitals with healthcare operators will need to ensure that their focus extends beyond price sensitivity and quality of care, to deliver a holistic customer-centric experience. The healthcare sector can leverage learnings from other industries (consumer products, financial services, and hospitality) on efficiently serving, communicating with, and retaining customers.

Challenges for the Future

Despite the advantages that are inherent to India, construction and management of hospitals come with their own set of challenges. These will need to be addressed to achieve any degree of success in the healthcare-related real estate:

- Constructing hospitals is a capital-intensive business
- This segment traditionally involves a long gestation period
- Success hinges on empanelment of reputed doctors with the potential to attract patients to the hospital

However, given the advantages of predominantly long term leases and high demand for reliable healthcare facilities, the healthcare segment of real estate is well positioned to be a driver of growth in the long run.

CEOs of the Future

Nothing in the world is constant except change. As change-agents and innovators increasingly leave their impact across the real estate sector, individuals heading

businesses will also be faced with new challenges. This new wave will pave the way to an evolutionary cycle for business leaders to equip themselves with specialised skills sets and leadership qualities, that will be cardinal to steering their organizations successfully into a new world.

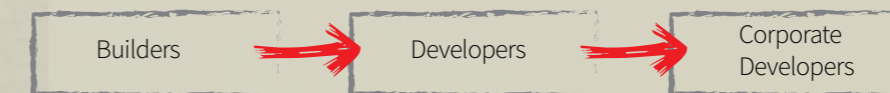
Putting in place an effective Rewards and Recognition program will be especially important to keep employees motivated and build morale at a time when the market is witnessing a slowdown in certain segments, with a likelihood of targets being underachieved despite best efforts.

Finding the most skilled workers, incorporating technology and maintaining a healthy work-life balance are going to be the fundamental challenges for CEOs in the coming years. Amongst all the fundamental Soft Skills and Hard Skills a future CEOs will require, **Communication** tops the list for soft skills while **Technological Savviness** tops the hard skills chart.

New Age Assets Will Define CEO Contours

As newer assets like REITs and alternative asset classes like Senior Living and Student Housing make their mark on real estate portfolios, CEOs will need to widen their horizons to understand and leverage these new opportunities. Attributes like willingness and ability to take risks and long term foresight will be required for developers to enter new classes like student housing and senior living. With REITs poised to become a reality in the country in the near future, CEOs will need to develop keen understanding of not only the construction business but also finance. REIT will also demand a long-term relationship with assets, given good quality, well-maintained assets would generate higher returns. Unlike strata sales, where involvement with the asset is short term, REIT structures will need long-term commitments. The CEO will need to have the vision and patience to see through the cycle where these assets will start to bear fruit.

As the developer community transitioned from:



typical 'Builders' offering stand-alone projects to large 'Developers' working on large gated communities to large professionally run 'Corporate Developers,' there also resulted a redistribution of power from the builder to the end consumer.

With a rapidly growing focus on buying patterns and the trend of repeat purchases by the first time home buyer, **builders are increasingly adapting to a customer-centric approach with concerted efforts to build high recall and engagement.**

DNA of the Future CEO:

Into the CEO's Mind- Ramesh Nair, CEO and Country Head, JLL India

'Initiatives. Initiatives. Initiatives.' This will be the defining word for successful CEOs in the years to come. Leaders will need to constantly push for change to succeed in a dynamic work environment and new initiatives will be the master key.

I am trying to follow the below mentioned thoughts and principles and I would hugely recommend the same for CEOs:

- Be Disciplined, Be Original, Be Authentic and Share Knowledge
- Hold Integrity over Image and Character over Charisma in order of importance
- Understand the Macro-trends
- Provide 'Exceptional Solutions' rather than just 'Services' to clients
- Take risks and think long term
- Be 'Yourself' and let people be 'Themselves'
- Magnify people's strength and demonstrate how their work is inextricably linked to the firm's larger goals. Give them the feel that they belong
- Be part Coach and part Boss. Sometimes you need to take the hard calls and be boss, while sometimes you need to be the Coach or a Mentor
- Reward not just the Results, but the Efforts too

Soft Skills

- Communication Skills
- Ability to Empower Employees
- Willingness to Learn
- Active engagement on social media
- People Connect
- Swift Decision Making

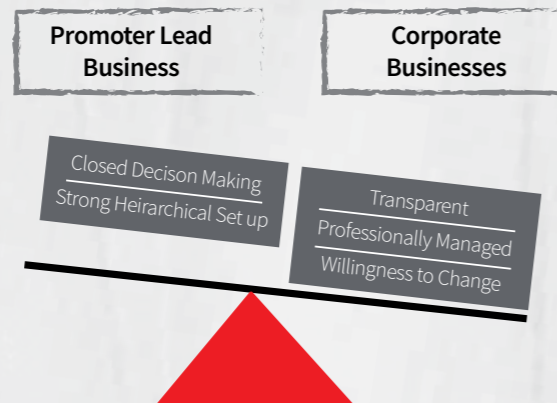
Hard Skills

- Technologically savvy
- Knowledge should transcend sectors

The Seeds of Change are already Here

As an increasing number of developers are hiring trained professionals, traditional promoter led businesses are also getting rapidly reorganized. While some of the big players are still family-run businesses, change in management styles is gradually but steadfastly becoming visible as decision making is getting decentralized

The advantages of professionally managed corporate businesses are being universally acknowledged and with policy-induced increased transparency across the sector, corporate governance and a professional framework within businesses will be the only way to move forward.



Facing the Millennials Challenge:

The Millennial generation is typically defined by Demographers and researchers typically use those individuals born between the early 1980s as starting birth years and the mid-1990s to early 2000s as ending birth years for the Millennial generation. This generation is characterized by:

- Amplified use and familiarity with communications, media and digital technology.
- Increase in a liberal approach to politics and economics

- Seven typical traits: special, sheltered, confident, team-oriented, conventional, pressured and achievement-orienting

- Great sense of entitlement

The future CEO's challenge will be to keep this confident, achievement-oriented generation engaged meaningfully in their jobs, with adequate work-life balance to achieve their life-goals and an ingrained sense of purpose to what they do at work beyond increasing profits. **This sense of purpose has will have to percolate from the top; else attrition will thrive.**

The New 'Durian' Generation: Future CEOs will increasingly be faced with what is now being termed the 'Durian Generation.' Born between 1980-2010, they are in themselves weak, but have become fearsome because they live under the intense protective shelter of their parents. They can't withstand work pressures, but they have an even greater sense of entitlement than the more commonly known 'Strawberry Generation'

¹Strawberry Generation refers to those born after 1981 who 'bruise easily' like strawberries and cannot handle social pressure or work hard like their parents' generation.



Some boxes the future CEOs will need to tick to run the race with millennials:

- Create a diverse team, with gender equality
- Show empathy and the desire to give back to society
- Undertake Corporate Social Responsibility
- Build Sustainable, Environment Friendly projects
- Be ready to share information and power

Pablo Isla of Inditex, the parent company of the retail fashion chains Zara, Pull&Bear, Massimo Dutti, Bershka, Stradivarius, Oysho and Uterqüe and of the housewares retailer Zara Home, was awarded the highest rank for world's best-performing CEOs (Harvard Business Review ranking for 2017). His co-workers describe Isla's

management style as humble to the extent of almost shy. Although Isla spends much of his time traveling to visit stores, he rarely attends store openings, choosing to avoid the limelight. At his company's headquarters he prefers management by walking the floors rather than holding formal meetings - part of his attempt to

maintain an entrepreneurial, close-knit culture even as the firm, already a global behemoth continues to grow further. Perhaps it is this style of leadership that is a precursor to the advent of the new successful CEO.



About CREDAI

Established in 1999, the Confederation of Real Estate Developers' Associations of India (CREDAI) brings together more than 9000 Real Estate Developers from 151 city chapters across 23 states of India under a single umbrella. As the apex body for private sector developers, CREDAI has worked hard to make the industry more organized and progressive by networking closely with government representatives, policy makers, investors, finance companies, consumers, real estate professionals and developers. CREDAI's code of conduct is adopted proactively by all its members and promotes self governance and ethical practices. CREDAI also updates its members about the latest industry data, technology advancements, industry benchmarks and international situation from time to time. The major objectives of CREDAI are as -

- To perpetuate an ethical code of conduct, which is self - imposed & mandatory for all the member developers of CREDAI
- To maintain integrity & transparency in the profession of Real Estate Development.
- To represent the developers across India by communicating & representing with the government authorities for the formulation of proactive policies for this sector.
- To encourage & support the developers to increase their efficiency in the development/ construction activities by introducing the latest technologies.
- To disseminate the data, statistics & other related information in this sector.
- To promote the interest of construction workers & to educate them on the best practices.
- To encourage research in the profession of construction & real estate development
- To facilitate easy housing finance availability to the property purchases and construction finances to the developers by working in close coordination with the leading house finance institutions & banks.



Contacts

Authors

Rohan Sharma

Associate Director
Research and REIS
rohan.sharma@ap.jll.com

Srija Banerjee

Assistant Manager
Research and REIS
srija.banerjee@ap.jll.com

Sumedh Gadgil

Analyst
Research
sumedh.gadgil@ap.jll.com

Alok Jha

Assistant Vice President
Research & REIS
alok.jha@ap.jll.com

Sushma Vemuri

Senior Executive
Research
sushma.vemuri@ap.jll.com

Editor

Niharika Bisaria

Editor
Research
niharika.bisaria@ap.jll.com

Business Contacts

Ashutosh Limaye

Head, Research and REIS
ashutosh.limaye@ap.jll.com

About JLL

JLL (NYSE: JLL) is a leading professional services firm that specializes in real estate and investment management. A Fortune 500 company, JLL helps real estate owners, occupiers and investors achieve their business ambitions. In 2016, JLL had revenue of \$6.8 billion and fee revenue of \$5.8 billion and, on behalf of clients, managed 4.4 billion square feet, or 409 million square meters, and completed sales acquisitions and finance transactions of approximately \$145 billion. At the end of the second quarter of 2017, JLL had nearly 300 corporate offices, operations in over 80 countries and a global workforce of nearly 80,000. As of June 30, 2017, LaSalle Investment Management had \$57.6 billion of real estate under asset management. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated. For further information, visit www.jll.com

JLL has over 50 years of experience in Asia Pacific, with 36,800 employees operating in 95 offices in 16 countries across the region. The firm won the 'World's Best' and 'Best in Asia Pacific' International Property Consultancy at the International Property Awards in 2016 and was named number one real estate investment advisory firm in Asia Pacific for the sixth consecutive year by Real Capital Analytics and ranked among Fortune Magazine's World's Most Admired Companies list third year in a row. www.ap.jll.com

About JLL, India

JLL is India's premier and largest professional services firm specializing in real estate. With estimated revenue for FY 2017-18 expected to be ~INR 3,200 crores, the firm is growing from strength to strength in India for over the past 20 years. JLL has an extensive geographic footprint across 10 cities (Ahmedabad, Delhi, Mumbai, Bengaluru, Pune, Chennai, Hyderabad, Kolkata, Kochi and Coimbatore) and a staff strength of over 9,500. The firm provides investors, developers, local corporates and multinational companies with a comprehensive range of services. This includes research, strategic advisory and consultancy, capital markets, transaction management, project and development services, integrated facilities management, property and asset management. These services cover various asset classes such as commercial, residential, industrial, retail, warehouse and logistics, hospitality, healthcare, senior living and education.

JLL was recognised as one of the Best Places to Work in India 2017 in the annual survey of 'India's Best Companies to Work For' – a joint study conducted by Great Place to Work® and The Economic Times. The firm has also been acknowledged as 'Property Consultant of the Decade' at the 10th CNBC-Awaaz Real Estate Awards 2015 and the Best Property Consultancy in India at the International Property Awards Asia Pacific 2016-17. For further information, please visit www.jll.co.in

20 years
of Achieving
Ambitions [in India](http://www.jll.co.in)