

INDIAN REAL ESTATE INDUSTRY

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Indian Real Estate: An Overview

The second-largest employer after agriculture in India is the real estate sector. The burgeoning population of India, at 1.3 billion in 2019, coupled with an average 6% GDP growth has catalyzed the growth of the real estate sector in India. A favourable economic growth and demographics have further facilitated demand for commercial, residential, and retail property in India. Rapid urbanization, growth of nuclear families, and rise in household incomes have escalated the demand in the sector. Amongst the 14 major industries that exert a direct or indirect effect on the economy, the construction industry stands at third position. The realty sector is showing stability after the unsettling phase triggered by demonetization, GST, and RERA. Investments in real estate, both domestic and foreign, are witnessing an upward trend due to firm market fundamentals, friendly policies, and the introduction of the first Real Estate Investment Trust in India.

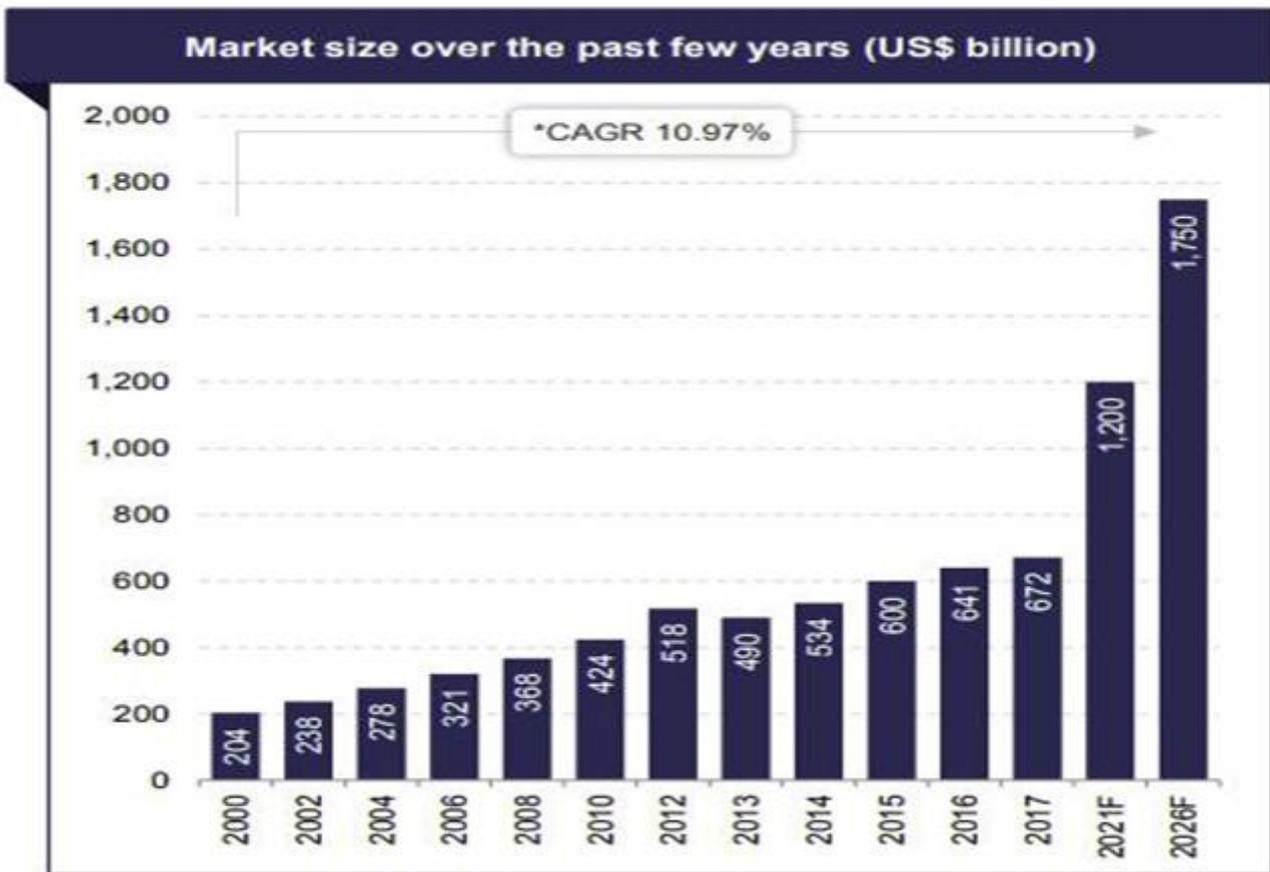
Indian Advantage

- Increased urbanization and rising incomes have led to an enormous surge in demand for real estate in India.
- In terms of appreciation of real estate investments, India ranks amongst the top ten countries globally due to fast-paced infrastructural development.
- About 10 million people migrate to cities every year, necessitating growth in the sector.
- A robust economy indicates growth in all sectors of the economy, which further drives the demand for retail and commercial space. There is increased demand for space from education, healthcare, and tourism sectors.
- The falling rupee makes India an attractive investment option for foreign investors, mainly NRI's, which enables them to buy real estate at cheaper rates.
- New governmental regulatory policies have made the sector more transparent and accountable, leading to increased credibility and trust in real estate as an investment option.

Market Overview

Real estate sector in India is estimated to increase from USD 120 billion (Rs. 8,59,908 crores) in 2017 to USD 1 trillion (Rs. 71,66,450 crores) in 2030 and will contribute 13% to India's GDP by 2025. While housing segment contributes 80% to the real estate sector, the commercial, retail, and hospitality segments are growing at a rapid pace. The fast-paced growth in industries like IT and ITES, retail, e-commerce has led to a corresponding rise in demand for commercial and office space. Real estate stock in India is estimated to reach 3.7 trillion square feet in 2019. Total commercial area amounted to 600 million square feet in 2018. Office space leasing is expected to occupy 100 million square feet of space between 2018-2020 in top eight cities of the country. Gross office absorption reached 36.4 million square feet between January and September 2018, growing at 26% year on year.

Warehousing spaces will see an investment of USD 7.76 million (Rs. 55.61 crores) in 2018-2020 with total space absorption of 247 million square feet. Co-working spaces reached 3.44 million square feet in 2018 in the top seven cities as compared to 1.1 million square feet in 2017. 2019 is expected to be the year of 20 million square feet new retail space. The government has approved 423 Special Economic Zones (SEZ's) in 2017. The Union Budget of 2019-2020 has allocated USD 6,69 billion (Rs. 48,032.17 crores) for Housing and Urban Affairs.



Latest Trends and Strategies

Virtual Reality (VR): The Indian realty sector is reaping the benefits of technological innovations in recent years. Virtual Reality enables buyers across the globe to view a built or unbuilt property remotely.

Artificial Intelligence (AI): Artificial Intelligence has made online real estate buying, selling, and renting a reality. The online market has made a massive dent in the USD 7 billion (Rs.50,000 crore) brokers market in India. Furthermore, AI has the potential to revolutionize the construction industry through intelligent building management, design, and organization.

Affordable housing: Mid income and affordable housing will gain priority to fill the enormous demand-supply gap in the segment. Co-living and supply of affordable housing is the trend in future years.

Focus on Tier-II cities: Affordability, improved connectivity, better infrastructure, remote working projects have shifted the focus of homebuyers to Tier-II cities.

Home Automation: With millennials forming a large part of the country's workforce, home automation is the new trend to spike sales in real estate business.

Consolidation of developers: Small developers are signing joint ventures with large players to help complete projects or provide financial support.

Commercial space demand: Owing to high GDP growth, office and commercial space uptake in 2018 has increased by 20% as compared to the previous year. The recent boom in the e-commerce sector has led to rising demand for logistics and warehousing. Ecommerce retailers are also opening physical stores for a seamless consumer experience.

Co-working: Co-working spaces are gaining popularity with its share in the total office leasing, increasing to 10% in 2018 from 5% in 2017. Apart from start-ups and small businesses, large corporates are also occupying co-working spaces.

Growth Drivers

A sustained GDP rate has ensured disposable money in buyer's pockets, leading to higher standards of living.

- The phenomenal growth in the IT and ITES sector has given rise to a new class of home buyers, with the industry occupying more than 80% of office space in India.
- Supportive governmental policies and incentives such as reduced interest rates have made real estate investments not just attractive but plausible. The government initiated Smart City Project plans to develop 100 smart cities. The Pradhan Mantri Awas Yojana (PMAY) has built 69 million homes up to May 2019 and sanctioned 8.09 million houses. In 2018, the Union Cabinet approved the inception of National Urban Housing Fund for USD 9.27 billion (Rs. 66,432.99 crores). The Real Estate (Regulation and Development) Act (RERA) has shifted the focus from the investor to end-user, leading to the growth of affordable housing in Tier II and Tier III cities. 100% FDI for township development and Special Economic Zones (SEZ) has led to further growth in the sector. Government of India's Housing for All initiative is expected to pump in USD 1.3 trillion (Rs. 9,316,385 crores) investments in the industry by 2025. A floodgate of investments is estimated in the industry with the launch of the Real Estate Investment Trusts (REITs).
- New retail landscapes are emerging to accommodate the growing demand of the retail industry in India, not just in Tier I but also Tier II and III cities. Demand for retail spaces has led to a corresponding rise in the sale of residential spaces.

- With the rise in the country's affluent population, an increase in the number of double-income families and urbanization, demand for luxury homes and second homes is increasing at a rapid pace.
- Higher volumes of private equity and international funding with a mandate for tie-ups exclusively with reputed large builders have further emphasized the importance of high quality, transparency, and timelines.

Investment Opportunities

- The real estate sector has witnessed extraordinary growth in residential, commercial, and retail segments.
- Private Equity and Venture Capital investments reached USD 249 million (Rs.1,784.32 crore) in Q1 of 2019.
- The years between 2009 – 2018 have recorded institutional investments of up to 30 billion.
- The Department of Industrial Policy and Promotion (DIPP) has declared that the construction sector has received FDI of USD 25.04 billion (Rs. 179,435.38 crores) between 2000-2019.
- May 2018 witnessed the acquisition of One Indiabulls in Chennai by Blackstone Group for USD 136.9 million (Rs. 981 crores).
- In February 2018, DLF invested USD 231.7 million (Rs 1,660.35 crores) in the purchase of land at Gurgaon.
- Q1 2019 saw investments of USD 2.5 billion (Rs.17,914.87 crore), restoring confidence in the sector.
- The warehousing and logistics segment is showing tremendous potential with the boom in the retail industry.
- The first REIT listing of Embassy Office Parks to raise funds to the tune of USD 3 trillion (Rs. 21,498,600 crores) has been oversubscribed 2.57 times.
- The office segment accounted for 44.8% share of the total investments in the first quarter of 2019, standing at USD 1.14 billion (Rs. 8,169.46 crores).
- Abu Dhabi Investment Authority, Blackstone, and Brookfield Asset Management were the major institutional investors in Q1 2019.
- Investors are showing significant interest in the hospitality sector with the figures having more than trebled in the four years between 2015-2019 as compared to the four years before that.

Major Players

Godrej Properties: Established in 1989, it is one of the leading real estate developers with a presence in ten cities in India. The company registered a total income of USD 461 million (Rs. 3,303.61 crore) in FY 19.

DLF Universal Ltd: The largest developer in the country, DLF has engagements in power generation and transmission sector as well. It generated total revenue of USD 1.29 billion (Rs 9,244.39 crore) in 2019.

Dewan Housing Finance Ltd (DHFL): The company is a part of Wadhawan Global Capital Group and provides loans to developers, small and medium enterprise loans. Loans for housing and loans against property. It recorded an income of USD 241.52 million (Rs 1,731.75 crore) in FY 2019.

Ansal API: Ansal was founded in 1967 and has built 19 large scale townships so far. At the third North India Awards, the chairman Mr. Sushil Ansal has won the Developer of the Year Award in 2015.

The Blackstone Group Inc: The group specializes in private equity, asset management, and credit and hedge fund investment strategies. Its real estate portfolio includes retail, hotel, office, residential, and industrial properties.



Road Ahead

The Real Estate Investment Trust (REIT) has opened new opportunities for individual investors to invest in large scale income-generating real estate. REIT's are expected to generate a revenue of USD 19.65 billion (Rs. 1,40,895.41 crore) over the years. Traditional family-owned real estate business is remodelling to professionally managed corporates to capture larger markets with globalization. New challenges concerning managing multiple projects, sourcing materials through centralized bodies, organizing workforce and professionals in architecture, engineering, etc. are setting new standards of quality and time management. The Increase in FDI has encouraged transparency and accountancy and operations.

Conclusion

Economic growth and political stability form the backbone of thriving real estate business. Improved infrastructure, an effective GST, increased investments, and adherence to RERA is expected to strengthen buyer sentiments. Potential segments like warehousing, logistics, and co-living, co-working will further serve the growth of the real estate sector in India.

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With Best Regards,

Team JPC

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