



## OUTLOOK 2018

# GROPING FOR GROWTH

Developers are happy that the government is working to boost growth. They expect to see growth in 2018. But some other demands remain to be fulfilled.

BY JAYASHREE KINI MENDES & MITALEE KURDEKAR

It's tough to make predictions, especially about the future, said the great baseball-playing philosopher, Yogi Berra. And yet we continue to try, churning out forecasts on everything from the weather to markets to the next civil war. One sector that we Indians especially take delight in predicting is the stock market and real estate (politics is the third, but that doesn't count here).

Predicting the real estate and infrastructure sector in India

can be amusing as few prognostications come close to the truth. The wheels-within-wheels system will just not allow one to even guessing a half-truth. In such a clime, **Construction Week India** decided that it would venture to understand from the very industry that creates the system on what they expect 2018 to look like, mainly for them and also for the buyers.

From the responses, we gather a kind of infectious buoy-

ancy that seems to have spread into the market.

The positive outlook of the Indian economy is visible with the traction it is getting after the effects of demonetisation and GST implementation. The GDP growth at 6.3% in September quarter is up from a three-year low of 5.7% of June quarter is a clear indication that the Indian economy has accelerated due to various factors including eight core infrastructure sector growth. National and international analysts are optimistic that the Indian economy will grow past 7% in 2018. The United Nations report is saying that Indian economy will grow at 7.2% in 2018 and accelerate to 7.4% in 2019 as a result of strong consumption, public investment and structural reforms.

Explaining how HCC Ltd is preparing itself, its president & CEO Arun Karambelkar, says, "We are executing a few mega projects like Kishenganga Hydro Power Project in J&K, Bogibeel rail-cum-road bridge in Assam, Mumbai Metro Line 3, etc. Considering that large projects are in the process of being awarded, HCC is in the process of bidding for several such projects in roads and railways and is well poised to secure a good share owing to our proven credentials."



Going by reports, infrastructure activity is likely to witness an uptick in the coming year. The announcement of the Bharatmala project to develop approximately 83,677km of roads at an investment of Rs 6.92 lakh crore by 2022 will push economic activity and generate at least 14.2 crore work days over the next five years. Similarly, the Railways have also outlined a five-year roadmap from 2015-2019 with an investment of Rs 8.56 lakh crore which involves development of high-speed rail corridors and dedicated freight corridor projects. The Metro Rail projects in particular hold a huge potential with many new projects being launched not to forget the expansion plans for the existing lines.

Speaking about the projects, Subhash Sethi, chairman, SPML Infra, says, "Our first Smart City development at Vikram Udyogpuri, Ujjain, is part of the Delhi Mumbai Industrial Corridor (DMIC) project being developed as a global manufacturing and investment destination. This is the first-of-its-kind green field smart city which will have all smart utilities connected with technology for seamless services."

### OPTIMISM MULTIPLIED

Year 2017 was a landmark year for the real estate sector. The implementation of Real Estate (Regulation and Development) Act, 2016, and GST have been the two most significant steps towards increasing transparency, accountability and credibility for the sector. The benefits of these two will be amply reflected over the next few years, propelling ease of doing business and creating a level-playing field for the organised players with a strong balance sheet, transparent dealings and a great track record of timely delivery. More importantly, it will protect homebuyers' interest and speed up the execution of projects. JC Sharma, VC & MD, Sobha Ltd, says, "While several landmark reforms have been implemented by the government last couple of years, the sector requires a separate industry status that will boost domestic bank lending and deliver projects on time. Additionally, 'single window clearance' for faster approvals has been a long-awaited demand. With Real Estate Investment Trusts (REITs), there will be a regulated mechanism that will



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**Dr Samantak Das**  
Knight Frank



**JC Sharma**  
Sobha Ltd



**Amit Ruparel**  
Ruparel Realty

enable investors for a safe, fast and easy means of liquidation of investments. This will help increase transparency, bring in professional management, a steady stream of dividends and access to an alternative source of capital."

Though business cycles were affected this year due to buyers holding back purchases in anticipation of regulatory changes, there is a consensus among developers of signs of recovery as the triple effects of demonetisation, RERA and GST have begun to show with new standards of delivery, accountability and transparency. Ravindra Pai, MD, Century Real Estate Holdings, says, "Post implementation of these reforms, the following impacts have been observed in the market. More demand for 2- and 3-BHK; preference for ready-to-move-in properties that are free of compliance issues; and willingness to pay a premium for long-standing reputed developers."

Pai believes that 2018 will see priority for completion of existing projects over launch of new ones. "In order to achieve this, developers will remodel their business processes to streamline delivery and allied services, without stretching themselves too much in terms of debt or scope of work," he adds.

Pradeep KP, CFO, Brigade Group, says that on the commercial side, occupancies have been rising with a reasonable increase in rentals. Hospitality sector has also picked up with better occupancies and ARR. "The current reforms have compelled global investors to invest or partner with Indian developers. This would mean access to more avenues of capital," he adds. Speaking about new initiatives that the government can introduce, he adds that real estate lending has been assigned 150% risk weight. Given the current reforms in the sector and the fact that there has been no significant defaults in the sector, risk weights should be appropriately adjusted downwards, which would reduce the capital provisioning requirements and reduce borrowing costs.

Devang Varma, director, Omkar Realtors & Developers, says that REITs will permit serious retail investors to place funds safely in the real estate market without resorting to speculative activities for short-term gains.

In terms of performance of residential (since



it comprises 70-80% of the total real estate market in India), Dr Samantak Das, chief economist & national director-research, Knight Frank India, says Year 2017 saw the introduction of reforms and developers more focused on compliance activities, which resulted in a dip in supply. "In 2018, we expect a better outcome but cannot predict a significant recovery. "The initiation of the growth trajectory is expected in 2018 as implementation will be over and stakeholders will be more familiar with the new reforms. Year 2018 will see green shoots of recovery," he adds.

Vinod Rohira, MD & CEO, commercial real estate and REITs, K Raheja Corp, believes, "The next 12-18 months will see speculative supply and paper supply diminish and real supply emerge. The real supply in the short term will be far lesser than it used to be, and with the strengthening of demand we will see prices firming up because lesser real value quality residential supply will be available when the consumers want to finally buy."

Real estate developers in metro cities seem confident that the positive and brighter outlook for 2018 comes from the innovative reforms introduced in 2017. Manju Yagnik, vice-chairperson, Nahar Group, says that buyer confidence is at its peak now and these measures have seen the nation jump 30 spots, being ranked 100 in

the World Bank's global ease of doing business 2018 rankings. "Although we have welcomed recent policies that are lowering property prices for all the good reasons like the REPO rate, we are also being introduced to policies that are increasing the taxation on property purchases," she adds.

The government has paid more attention to the affordable sector including announcing the long-awaited infrastructure status for affordable housing besides tax concessions and exemptions. To attract investments and sustained growth, higher limit on external commercial borrowings, dedicated access to institutional financing will offer an advantage. Making it a priority, banks will lend more that will benefit buyers as well. Under the Pradhan Mantri Awas Yojana (PMAY), the government's decision to provide interest subvention of 3- and 4% for loans of up to Rs 12 lakh and Rs 9 lakh, respectively, will further boost demand.

#### WHAT MATTERS MOST

The cut down in components such as under construction land rates, reducing the rising projects costs and some premiums



will surely help the real estate sector grow. This will realign the taxes and make houses more affordable. Reducing some charges and penalties will also help the builders who are sitting on vacant land and delaying construction. Currently the tax is higher than the property tax levied after development of the plot, which makes it difficult for the builder to set affordable rates for flats.

Ashwin Sheth, CMD, Sheth Group, says, "While RERA and REITs are more consumer-friendly, developers stand to benefit from them as well. However, the government needs

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to introduce more developer friendly policies to maintain a balance and allow ease of doing business. Firstly, the central government should consider bringing the real estate sector under the ambit of GST in the lowest tax slab. This will allow developers to reduce construction costs without compromising on quality."

The government's endeavor to encourage foreign and domestic investors by implementing various progressive policy reforms will contribute to changing the modus operandi of the industry. Additionally, their aim to achieve 'Housing for all by 2022' will address the housing needs of millions, create employment opportunities and propel the growth of real estate.

**INDUSTRY SPEAK**

A quick glance at what leading developers and industry persons have to say for 2018, REITs, and new policies:

**Deepak Garg, CEO, Sany South Asia:** I think industry is anticipating a growth of close to over 20% in 2018. I am not expecting any slowdown because of the ensuing elections in 2019. They would not slow down their actions. If you talk to steel manufacturers, they are talking of more investments. That's what we are looking at.

**Rohit Gera, MD, Gera Developments:** The government must focus on the entire sector and not on affordable housing alone. I believe the government over estimated that more developers would switch over to affordable housing with the sops being offered. This shift has not hap-

pened. The boost that the real estate sector provides to the economy has not happened. It is essential that the entire sector gets a boost if we are to dream of a 10% GDP growth.

**Surendra Hiranandani, CMD, House of Hiranandani:** While ease of doing business ranking has improved to 100, India is still ranked at 181 out of 190 countries in the ease of obtaining construction permits. We are in the same league as war-torn countries where institutions have collapsed. This is one area where the government could easily implement rapid reforms. It is extremely important to deregulate and not over regulate the sector.

**Nibhrant Shah, CEO & founder, Isprava:** REITs offer investors the benefits of commercial real estate investment along with the advantages of investing in a publicly traded stock. The investment characteristics of income-producing real estate has provided REIT investors with competitive long-term rates of return that complement the returns from other stocks and from bonds.

**Premraj Keshyep, MD, KYB Conmat:** We expect a growth of 45-50% in 2018. That is according to the business plans we have made.

**Girish Shah, director, The Wadhwa Group:** Faster clearances for permissions will help deliver projects on time making it a win-win situation for both. Subsidised land rates would facilitate a reduction in construction costs enabling us to provide buyers with the right product at the right price.

**Amit Ruparel, MD, Ruparel Realty:** The stamp duty and registration duties are outside the ambit of GST. We hope the government subsumes these levies into GST for the upcoming financial year.

**Rohit Poddar, MD, Poddar Housing & Development:** We have been demanding a single-window clearance for affordable housing projects under PMAY. The business format of affordable housing has developers operating on wafer-thin margins.

**Samyak Jain, director, Siddha Group:** REITs will allow investors to place funds relatively safely in the country's real estate market without resorting to speculative activities for short-term gains. REITs is set to revive the interest of both global and domestic investors in the sector. **EW**



**Subhash Sethi**  
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