

India Real Estate



JM Real Estate News Tracker

We highlight this week's Real Estate news we are tracking.

- **Sobha Ltd. - Management meet- Cautious in short term; preparing pipeline to tap demand:** We hosted Sobha's management in Mumbai to discuss the impact of changing dynamics in the real estate sector and its impact on Sobha. The management has seen decline in sales, especially in luxury projects following the demonetisation announcement. However, cash flows have seen limited impact, as majority of customers have availed home financing facilities. While the company has no plans to launch projects until Mar'17, the management expects organised players to benefit from a level playing field, as a result of demonetisation and formation of a real estate regulator. We believe the company has the best risk reward in the sector at current valuations. Maintain BUY with TP of Rs 350.

Please find our report on takeaways from the meet [here](#)

- **New real estate Act draft lacks 'transparency':** Draft rules of the new Real Estate (Regulation & Development) Act, 2016, (RERA), notified by the Maharashtra government have been diluted to favour errant builders, as per property experts and housing activists, claiming that they lacked transparency and flat buyers will continue to remain in the dark as the draft gives developers a loophole not to disclose crucial aspects of projects. The state has invited objections and suggestions from the public to the draft till December 23. (1) Under the act, some major builders need not divulge the carpet area of units; (2) The draft excludes the encumbrance certificate, disclosing the encumbrances in respect of land where the real estate project is to be undertaken; (3) document of a legal title report is excluded; (4) building's sanction plan, which allows buyers to know if the project being developed is in line with development control regulations and if the layout is in accordance with the sanctioned plan, need not be disclosed; (5) The Act doesn't mention anything on disclosure of ongoing and past legal cases against the developer; (6) For existing projects, the draft rules only require disclosure of utilisation of 70% money collected from consumers (7) The draft rules permit loading of fungible FSI and TDR in phases in one project, which can keep the project vulnerable to changes in development regulations. ([Source](#))

- **DLF may split 40% stake sale in commercial property arm between GIC & Blackstone:** Promoters of DLF are actively considering a split of the proposed 40% stake sale in the company's rental commercial property arm between two contenders — US private equity major Blackstone Group and Singapore's sovereign wealth fund GIC. Under this structure, Blackstone and GIC may pick up stakes of 20% each in the rental arm, DLF Cyber City Developers. The promoter family is expected to fetch around Rs 12,000 crore through the proposed sale of their stake in the rental arm. However, both Blackstone and GIC are keen to acquire the entire 40% stake individually. DLF has over 30 million sq ft of leased commercial and retail space that is expected to generate a rental income of Rs27bn in the current financial year. Of this, 26.8 million sq ft of space is housed in the company's rental arm, and the rent attributable to this company is about Rs23bn. With splitting the stake between both the suitors, DLF is expected to benefit on account of their experience in Real Estate Investment Trusts (REIT) market. ([Source](#))

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Key news track

- ✓ Sobha Management meet - Cautious in short term; preparing pipeline to tap demand
- ✓ New real estate Act draft lacks 'transparency'
- ✓ DLF may split 40% stake sale in commercial property arm between GIC & Blackstone
- ✓ CPPIB to invest in India's largest realty deal
- ✓ Demonetisation forces realtors, PEs to renegotiate deal terms
- ✓ India's net office space absorption to cross over 32 million sq. Ft in 2017
- ✓ Piramal Fund Management deploys Rs7bn against Reliable Tech Park & Empire Towers
- ✓ ECL Finance invests Rs3bn in realty firm Rohan Lifescapes
- ✓ Abbott inks 15-year lease deal in Mumbai to set up its R&D
- ✓ K Raheja-GIC close to buying prime Worli land for Rs6bn
- ✓ SP Real Estate eyes 20-mn sq ft residential portfolio in 6 yrs
- ✓ Note ban may help realtors get higher valuations for rental arms
- ✓ Luxury homes with OCs buck slowdown
- ✓ 25% construction workers jobless across Noida sites
- ✓ Maharashtra: 39 per cent decline in stamp duty revenue from Mumbai
- ✓ Pirojsha Godrej buys space at Godrej BKC for Rs1.1bn
- ✓ Demonetisation may reduce demand for rented properties

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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

- **CPPIB to invest in India's largest realty deal:** In the largest deal brewing up in the commercial real estate space in India, Canada Pension Plan Investment Board (CPPIB) is leading the negotiation to acquire private equity firm Everstone Group's industrial and logistics real estate development platform, IndoSpace (a joint venture between Everstone Group and US-based Realterm, a firm which manages approximately \$2.5 billion of assets across 300 operating and development properties in North America, Europe and India), as part of private real estate investment (REIT). The entire deal is pegged at Rs150bn making it the largest commercial real estate transaction in the country. The deal has been structured in two parts, in the first phase, CPPIB will acquire the ready development space of nearly 10 million sq ft for nearly Rs40bn. Indospace is developing another 30 million sq ft across the country which will be developed and added to this portfolio and the payouts will be linked to that. Everstone will continue to manage these assets even after the full sale process ([Source](#))
- **Demonetisation forces realtors, PEs to renegotiate deal terms:** Real estate developers, who had promised anywhere around 25% to 30% returns on investments to PE investors, are now demanding renegotiation of such contracts, claiming that if the contracts are not renegotiated, they may not be able to complete the projects. In many cases, even lenders including NBFCs have been approached for renegotiating the lending rates. Lenders are pushing to offer moratorium or extend tenure of the structures, rather than reworking returns on such deals. ([Source](#))
- **In 2017, India's net office space absorption to cross over 32 million sq. ft: Cushman & Wakefield report:** India's top 8 property markets are likely to witness 10% surge in office space net absorption in 2017 to 32.5 million sq. ft, the highest level seen over the last six years. Net absorption will gather pace in the last quarter of this year and is expected to close around 30 million sq. ft driven at the end of 2016 and is expected to continue to gain momentum for the next four years. The property markets include Mumbai, Delhi-NCR, Bengaluru, Pune, Ahmedabad, Hyderabad and Chennai. The gross absorption is expected to be at around 41million sq. ft by the end of 2016 on account of consolidation and renewals. Net absorption cumulative annual growth is expected to be at 3% until 2020. Supply of around 45-46 million sq. ft, a 26-28% increase is expected across the top cities in 2017, which would cater to the strengthening demand from sectors such as IT-BPM and BFSI. Bengaluru will continue to be the premier market accounting for 32% share in 2017, Hyderabad with 18% share is expected to surpass Delhi-NCR's 15% share. IT-BPM sector is expected to lead the demand in Bangalore and Hyderabad. Bengaluru is likely to see 16% higher supply in 2017, while supply in Hyderabad is expected to increase by 36%. ([Source](#))
- **Piramal Fund Management deploys Rs7bn against Reliable Tech Park & Empire Towers:** Piramal Fund Management, the financial services arm of Ajay Piramal-led Piramal Group, has deployed Rs7bn collectively against two commercial properties, Reliable Tech Park and Empire Towers in suburban Mumbai. The lender would release the fund in tranches as the projects near completion. Reliable Tech Park and Empire Towers, together spread over 2.2 million sq ft at Airoli, are part of a complex called Cloud City Campus that extends to 2.7 million sq ft of leasable area. The proposed investment is in the form of flexible LRD (lease rental discounting) against 0.8 million sq ft that is fully leased, with the proceeds going towards completion of the remaining area. The existing tenants in the two properties include First Source, Sutherland, Maersk, Clariant, Idea. ([Source](#))

- **ECL Finance invests Rs3bn in realty firm Rohan Lifescapes:** ECL Finance Ltd has invested Rs3bn in a bouquet of residential projects of Mumbai-based realty developer Rohan Lifescapes. The debt transaction is structured in such a way that ECL Finance has taken control of a part of the inventory in four south Mumbai projects of the developer, which the investor will sell at a discounted price through channel partners and brokers at discounted rates. The capital has been given to Rohan Lifescapes to construct and complete ongoing projects. ([Source](#))
- **Abbott inks 15-year lease deal in Mumbai to set up its R&D:** Abbott, one of the largest healthcare product companies in India, has picked up an entire under-construction building with over 1.60 lakh sq ft built-up area in the Andheri suburb of Mumbai to set up an innovation & development centre. The deal assumes significance as the lease will run for over 15 years, being the first time an occupier offering commitment for such a long tenure. And also for the first time, a pharmaceutical company is setting up an innovation centre in a prime locality of Mumbai or any other metropolis. The built-to-suit standalone building is expected to be ready over the next one year. Abbott India will be paying monthly rental of over Rs 120 per sq ft, taking it to annual lease of over Rs230mn. ([Source](#))
- **K Raheja-GIC close to buying prime Worli land for Rs6bn:** Realty developer K Raheja Corp and Singapore's sovereign wealth fund GIC are close to acquiring a prime three-acre land parcel in Worli in Mumbai from Siemens India for around Rs6bn. Following the conclusion of the joint bid, Raheja and GIC are planning to develop a 5 lakh sq ft commercial project at the site. The deal is in advanced stage and is expected to be inked soon. ([Source](#))
- **SP Real Estate eyes 20-mn sq ft residential portfolio in 6 yrs:** Shapoorji Pallonji Groups real estate arm SP Real Estate (SPRE) expects its residential portfolio to reach 20 million sq ft across 9 projects in various metros over the next 6 years, including its affordable housing offering under the brand Joyville. The company has joined hands with Standard Chartered Private Equity, International Finance Corporation (IFC) and the Asian Development Bank (ADB) for Joyville projects. The partnership is investing about USD 250 million, which will be used primarily for buying land, project approval and initial infrastructure expenses. First affordable project is being developed in Howrah, Kolkata. Chennai, Bengaluru, Pune, Noida, Gurgaon and the MMR region are the other regions which are being looked at for expansion. ([Source](#))
- **Note ban may help realtors get higher valuations for rental arms:** Demonetisation could help developers of commercial properties such as DLF, K Raheja Corp and Phoenix Mills get higher valuation for their rental subsidiaries. These companies are looking to sell stake in their commercial rental arms to raise around \$3 billion from investors. Commercial properties have blue chip clients and long leases and they are unlikely to get impacted. With interest rates set to go down, yields are coming down the valuation are of commercial properties believed to go up. DLF promoters are selling 40 per cent stake in the company's office rental arm and are in advanced talks with Blackstone and GIC, and are planning to raise Rs120bn. K Raheja Corp is looking to sell a 20 per cent stake in its rental arm and is in talks with investors. Phoenix Mills is in talks with investors such as Canada Pension Plan Investment Board to sell stake in its malls in Bengaluru and Pune. ([Source](#))

- **Luxury homes with OCs buck slowdown:** While demonetization has added to the woes of the real estate sector which has been dealing with a slowdown in the housing market, there's one segment that is bucking the trend. There has been a sudden surge in demand for luxury homes in Mumbai as no under-construction luxury projects are expected to get occupation certificate (OC) for at least another two years, say industry experts. Moreover, with the Real Estate (Regulation and Development) Act set to come into force, projects will take even longer to be completed under the new, strict norms. Ready-to-move-in luxury home projects - Lodha's Crest, One Avighna Park and Indiabulls Sky - all located at Lower Parel in central Mumbai, that have occupation certificates in place are attracting high demand. Ready-for-possession homes in other segments are also bucking the trend of an overall slowdown in the city's real estate market as they rule out uncertainty and delay in possession. ([Source](#))
- **25% construction workers jobless across Noida sites:** More than a month after demonetisation was announced, the trickle-down effect of its impact on the real estate industry is being felt on the labour market. An unemployment rate of at least 25% is being reported among daily wagers at construction sites across Noida. Noida, which has nearly 300 real estate projects under way and lakhs of migrant workers, is witnessing daily wage labourers returning home. As per the builders' group, despite offering meals, bank account opening facilities and such, not everyone will be able to be taken up to the banking platform. ([Source](#))
- **Maharashtra: 39 per cent decline in stamp duty revenue from Mumbai:** Revenue from stamp duty slid to Rs13.05bn in November in Maharashtra, compared to the monthly average Rs16.43bn prior to November 8, a month into the withdrawal of high value currency notes. The decline has been very pronounced in Mumbai at 39 per cent for registration of properties compared to 29.9 per cent across the state in eight registration circles. Against a daily average of Rs200mn in stamp duty collections between April 1 and November 8, India's financial capital could report just Rs 120mn in daily collections after demonetisation. The data also revealed that till November 8, 2016, 7,700 documents were registered in Maharashtra on a daily basis, on an average. Now, only 4,900 documents — pertaining to the sale deed or lease deed of land or property — are being registered on a daily basis. ([Source](#))
- **Pirojsha Godrej buys space at Godrej BKC for Rs1.1 bn:** Pirojsha Godrej and his family have bought around 23,000 sq. ft for around Rs1.1bn at Godrej BKC, an upmarket office building being developed by Godrej Properties Ltd in Mumbai. Located in Bandra Kurla Complex (BKC), the city's financial district, Godrej BKC will have over 1.3 million sq. ft of saleable area, and is being built in partnership with Jet Airways (India) Ltd. It is expected to open for customers by early next year. The space is located on the building's ground floor and has been designed as a retail area where restaurants are likely to come up. ([Source](#))
- **Demonetisation may reduce demand for rented properties:** Many, including salaried employees, have invested in a second house taking advantage of the availability of bank loans. Owing to the mechanism of taxing 'income from house property', challenges arise during income-tax (I-T) assessment, especially if the second house is lying vacant. The Delhi I-T tribunal, this September, in a case, held that: As the house property could not be let out owing to recession, the I-T officer should accept the 'nil' value declared by the tax payer in her I-T return. With buying becoming an attractive option, the decision has come at a time when demonetisation may result in price corrections in real estate market, those having a second house may find it difficult to find a tenant or may earn lower rentals. ([Source](#))

APPENDIX I

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