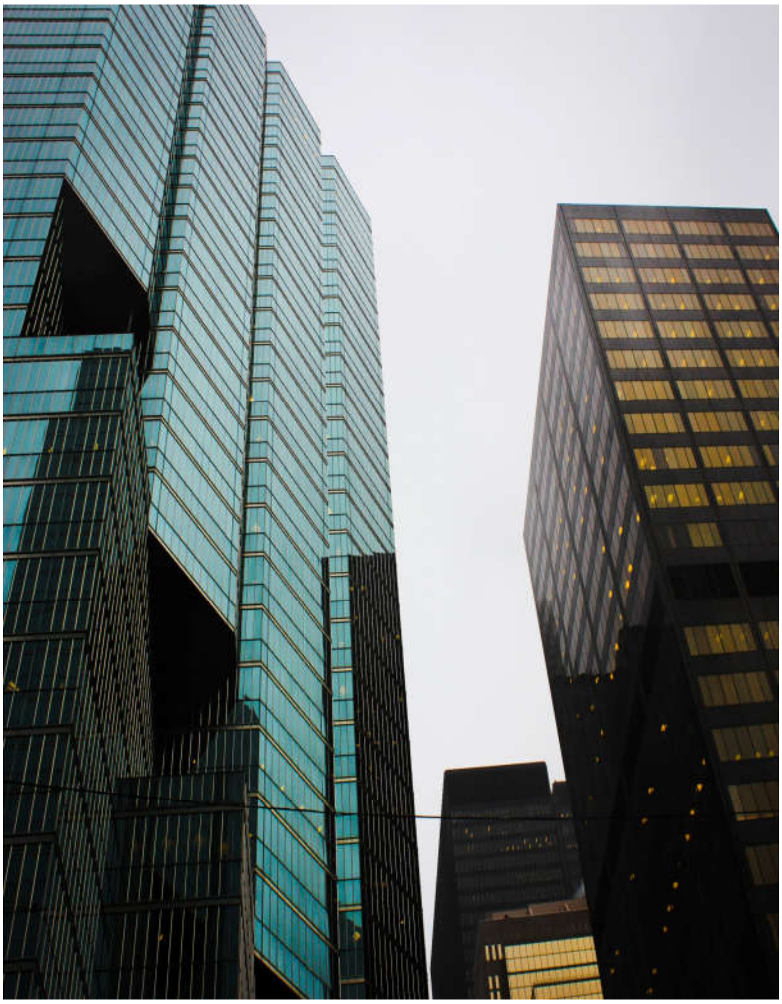


INDIAN RESIDENTIAL REAL ESTATE REPORT

ABSTRACT

A brief report on Indian Residential Real Estate Market, and its ups and downs with supporting facts from reliable sources.

DEB Infra Homes Pvt Ltd.

INDIA - RESIDENTIAL MARKET:

The year 2019 has been turbulent period for the Indian economy. However, the real estate sector showed resilience with the residential across the top seven cities recording a growth of 6% y-o-y in number of units sold in 2019.

"Our Median age by 2030 will rise from 27 years in 2019 to 31.4 years in 2030; still way lower than 40 years in the US and 42 years in China."

By 2030, **India's urban population will contribute as high as 75% of the GDP, up from 63% at present.**

INDIA'S GROWTH STORY:

India's GDP growth moderated in the quarter ending touching 6.6% as compared with 7% in the previous quarter due to weaker consumptions and liquidity constraints. Still, the GDP growth outpaced the neighbouring China's 6.4% growth in the same period.

In October 2018, the international monetary fund (IMF) has reduced India's GDP forecast to 7.4% for 2019 compared to previous forecast 7.5%. In January 2019, India's forecast has revised upwards to 7.5%, even as it cut the same for global economy by 0.2% at 3.5% for 2019. This ensures that India remains the world's fastest growing major economy.

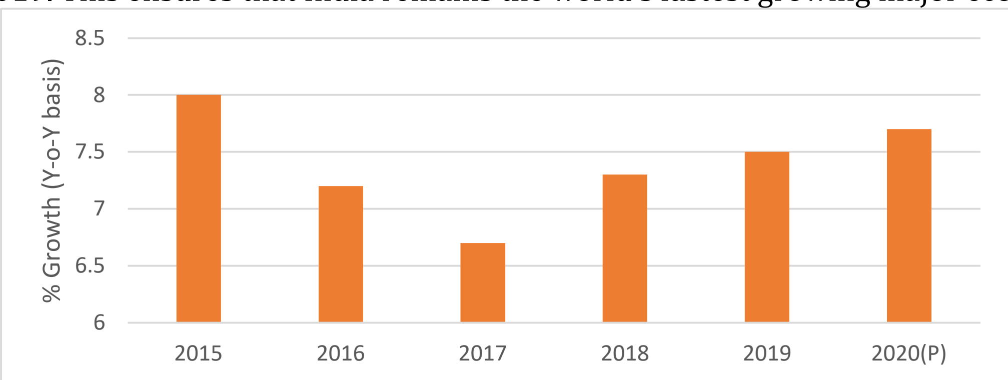


Figure 1 - GDP Growth Rate

Source: JLL report 2019, CBRE report 2019

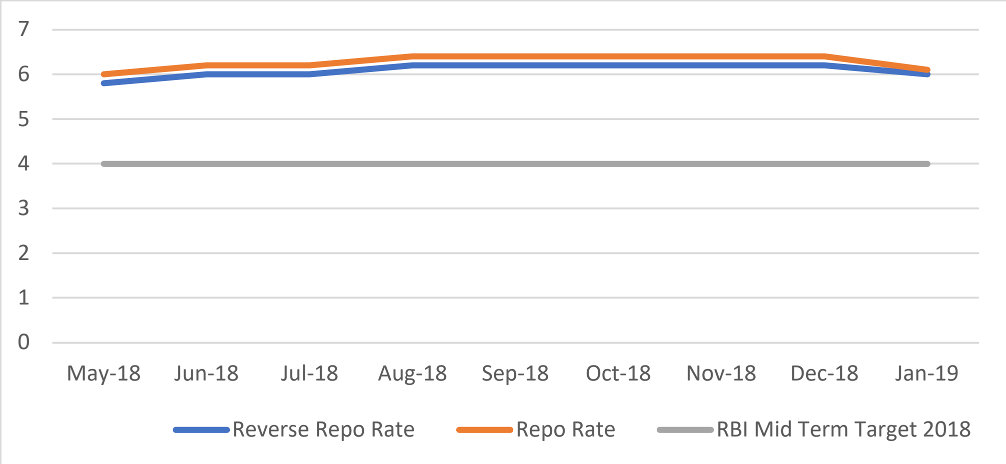


Figure 2 - Key Interest Rate

POLICY STIMULUS IN INDIA:

Policy measures were undertaken in 2018, most of which were follow ups to measure already undertaken, to ensure that the full intended benefits of this measures are achieved.

The year 2019 has already fairly active and saw revisions in several policy initiatives as the government focused on meeting end users and industry expectations. The table that follows highlights taken by the government in recent time.

Table 1- Policy Initiatives

Policy Initiatives	Key Highlights	Expected Impact
Affordable Housing	Change in definition of affordable housing: • 60 sq. m. in metropolitan cities (NCR including Delhi, Noida, Greater Noida, Ghaziabad, Gurgaon and Faridabad), Bangalore, Mumbai – MMR region, Chennai, Hyderabad and Kolkata) having value up to INR 4.5 million • 90 sq. m. in non-metropolitan cities / towns with value up to INR 4.5 million.	Relaxing the carpet area affordable housing means that a significant majority of the country's residential stock now falls in the 1% GST category (higher in tier II cities, lower for the major tier I cities), which will augur well for the government's programmed of building housing for all by 2022.
Angel tax	• The government shall now consider an entity as a start-up for up to 10 years after its incorporation as compared to 7 years earlier, provided its turnover for any one financial year has not exceeded INR 1 billion. • Start-ups can apply for an exemption from angel tax if their paid-up share capital is up to INR 0.25 billion, compared to INR 0.1 billion earlier.	Widening the definition of start-ups (which now includes later stage companies, with a higher annual turnover), increasing the exemption limit on equity investments will give the much-needed boost to mid-sized start-ups. The earlier regime has numerous redundancies, stretched timelines, and red-tapism due to the procedures, which will now be reduced. It will provide a conducive environment and enable quick processes.

100% risk weights removed for Non-Banking Financial Companies (NBFCs)	In Feb 2019, the central bank announced that NBFCs' risk weights will now be as per their rating, which is a positive development for higher-rated NBFCs. Also, various categories of NBFCs have evolved over time pertaining to specific sector / asset classes - at present there are twelve such categories. However, it has now been decided to harmonize major categories of NBFCs engaged in credit intermediation, viz., asset finance companies, loan companies, and investment companies, into a single category.	The proposed merger of existing categories would reduce, to a large extent the complexities arising from multiple categories and also provide NBFCs greater flexibility in their operations
Foreign Portfolio Investors (FPI) restrictions	The central bank announced the removal of FPI restrictions in corporate debt. As a part of the review of the FPI investment in corporate debt undertaken in April 2018, it was stipulated that no FPI shall have an exposure of more than 20% of its corporate bond portfolio to a single corporate (including exposure to entities related to the corporate). The RBI announced in Feb 2019 that the provision stands withdrawn.	While the provision was aimed at incentivizing FPIs to maintain a portfolio of assets, however it was seeming that FPIs have been constrained by this stipulation. The removal of restrictions on FPI will encourage a wider spectrum of investors to access the Indian corporate debt market.
REIT	By 2018, almost all concerns regarding the viability of a REIT launch had been addressed, making it an opportune time for a REIT listing.	In 2019, Embassy Group and Blackstone Group LP launched the country's first REIT, which was oversubscribed on listing. This is a critical step towards formalising the funding mechanisms prevalent in the sector.
FDI in e-commerce, draft e-commerce policy	Towards the end of December 2018, the government came out with clarifications on the existing FDI policy on e-commerce. Two key points that were enlisted in the clarifications were: • To keep a tab on inventory ownership, it has been mandated that an e-commerce platform cannot purchase more than 25% of the total value of goods (of the vendor) from a single vendor / its group of companies. In other words, a vendor can only sell 25% of its total goods by value to a single ecommerce player . • Any entity that has an equity participation by an e-commerce player cannot sell its products on the platform that is run by such an e-commerce player. • A draft e-commerce policy was floated In Feb 2019, for industry suggestions wherein special emphasis was laid on data sharing; data has been termed as a 'National Asset' and a legal and technology framework proposed for imposing	Though the intent of these provisions was to ensure that there are no circumventions around the existing policy (specially to gain entries into multiband retail); however, some of these provisions are seemingly restrictive, particularly for foreign players. While existing players might have to redraw their business models / future plans; a constantly changing policy may also impact foreign investor sentiment. To ensure a level playing field, there is a need for a comprehensive e-commerce policy applicable to both foreign and domestic players.

	restrictions on cross border data flow.	
Amendments in RBI's ECB (External Commercial Borrowings) policy	Revisions to the ECB policy were made in January 2019, wherein all eligible borrowers have been allowed to raise up to USD 750 million per financial year under the automatic route, replacing the existing sector-wise limits. The Central Bank has also expanded the list of eligible borrowers and recognised lenders.	The move is likely to improve the Ease of Doing Business ranking. Also, to curb the volatility in the forex market (because of increasing demand for the USD for crude oil purchases), the revised norms provide special allowances to public sector oil marketing companies.
GST rate cuts change in definition of affordable housing	GST Rates - Non-Affordable Housing • 5% on under-construction properties with no input tax credit (ITC), no GST on completed projects GST Rates - Affordable Housing • 1% on under-construction property with no ITC, no GST on completed projects	Having a standard tax will allow for simplicity in compliance processes and should result in limited tax leakages. There could be an increase in cost due to no ITC for developers (particularly for affordable housing projects), however this could be offset by an increase in sales volume. Table

Source: Knight Frank real estate report 2019

GOVERNMENT INITIATIVES:

- The Government of India along with the governments of the respective states has taken several initiatives to encourage the development in the sector.
- The Smart City Project, where there is a plan to build 100 smart cities, is a prime opportunity for the real estate companies.
- In order to revive around 1,600 stalled housing projects across the top cities in the country, the Union Cabinet has approved the setting up of Rs 25,000 crore (US$ 3.58 billion) alternative investment fund (AIF).
- Blackstone crosses US$ 12 billion investment milestone in India.
- Puravankara Ltd, a realty firm plans to invest around Rs 850 crore (US$ 121.6 million) over the next four years to develop three ultra-luxury residential projects in Bengaluru, Chennai and Mumbai.
- Under Pradhan Mantri Awas Yojana (Urban) [PMAY (U)], 1.12 crore houses have been sanctioned in urban areas creating 1.20 crore jobs.
- Government has created an Affordable Housing Fund (AHF) in the National Housing Bank (NHB) with an initial corpus of Rs 10,000 crore (US$ 1.43 billion) using priority sector lending short fall of banks/financial institutions for micro financing of the HFCs.
- As of September 16, 2019, India had formally approved 419 SEZs, of which 234 were in operation.
- In February 2018, creation of National Urban Housing Fund was approved with an outlay of Rs 60,000 crore (US$ 9.27 billion).

INDIAN REAL ESTATE:

Residential: The residential market was going through a bearish phase in 2017 due to impact of policy disruption such as demonetization, Real estate Regulation and development Act and implementation of Goods and Services Tax.

However, government/RBI has been proactive in ring fencing the NBFC liquidity crises and reduced GST rates on the housing to increase the demand.

In 2019, offtake of 144,000 units and launched 136,998 units, annual sales exceeded the launch for the first-time post 2016. It has been said that the intake has been weak in Q4 2019.

It has been said that the quarter has witnessed decline of 18% in number of units sold when compared to last year 2018.

The branded developers with healthy balance sheet registered decent sales and pre launches. While the small developers not finding viable to operate in the current scenario.

Project launches are expected to gain steam once measures like the announcement of a one-time six months' partial credit guarantee to public sector banks (PSBs) and last-mile funding worth INR 25,000 crore to stuck realty projects start bearing fruit.

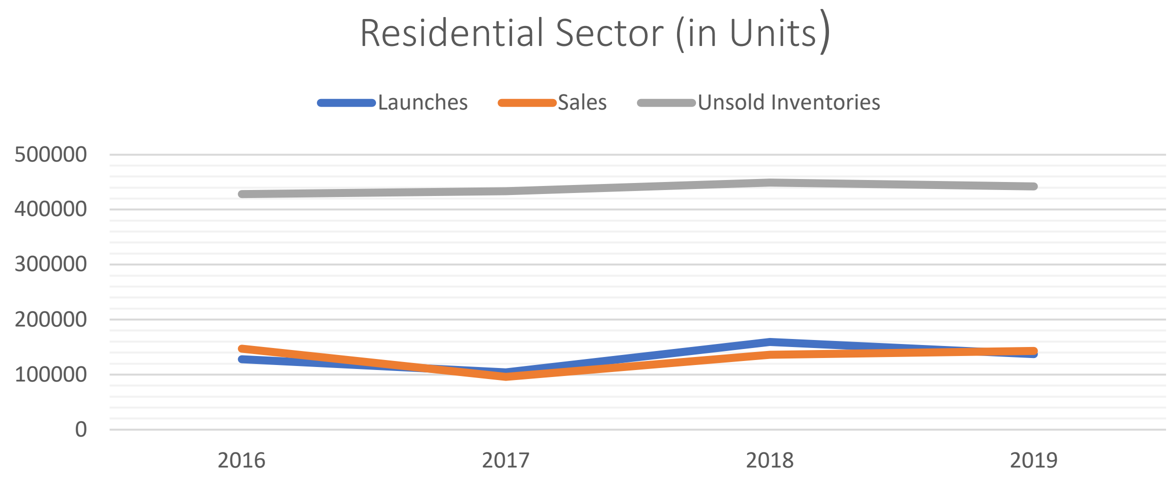


Figure 3 - Residential Sector

New Launches Witnessed A Substantial Dip

- A week last quarter in 2019contibuted majorly to the slowdown in new launches.

The current year saw a substantial dip in new launches. A weak last quarter, which recorded new launches of 26,405 units, a decrease of 31% when compared to Q4 2018, contributed majorly to the slowdown in new launch.

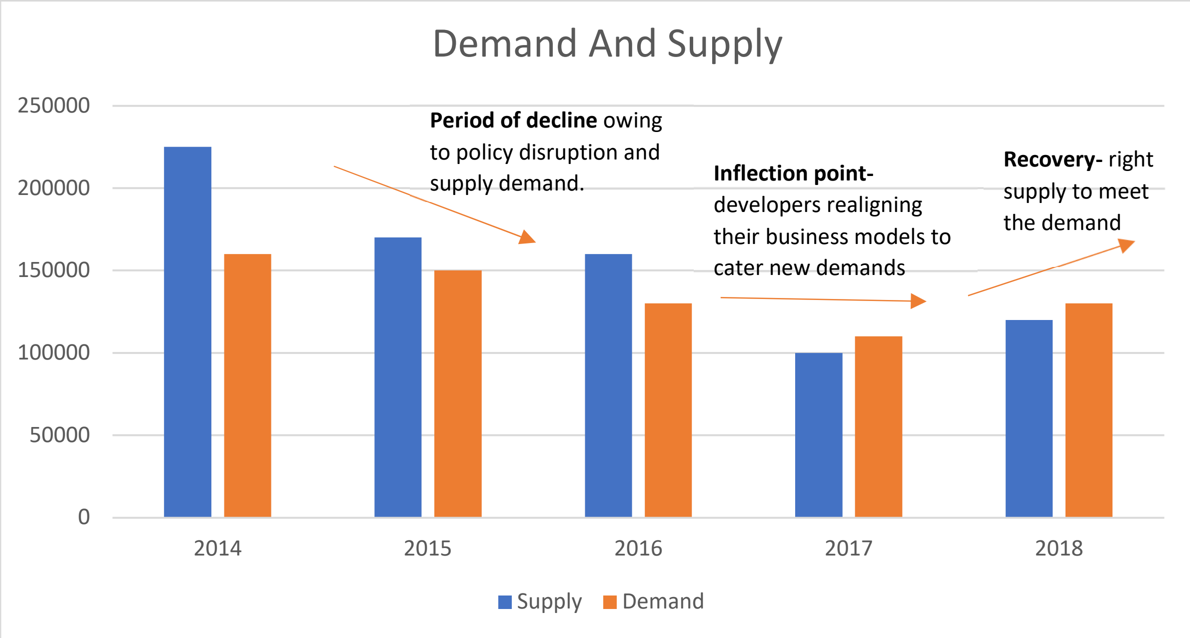


Figure 4 - Demand and Supply in Indian Market (Y-O-Y in Units)

Mumbai And Bengaluru form more than 60% of new launches

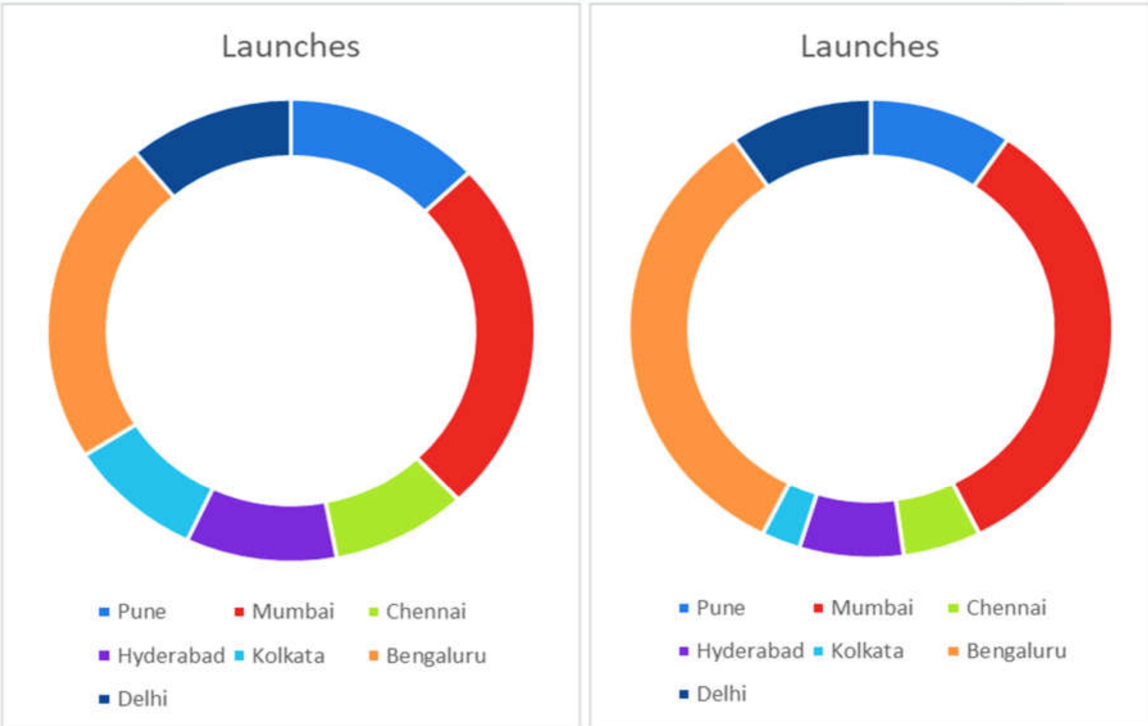


Figure 5 - Tier 1 cities launches (Y-O-Y) in India

Source: JLL report 2019, CBRE report 2019

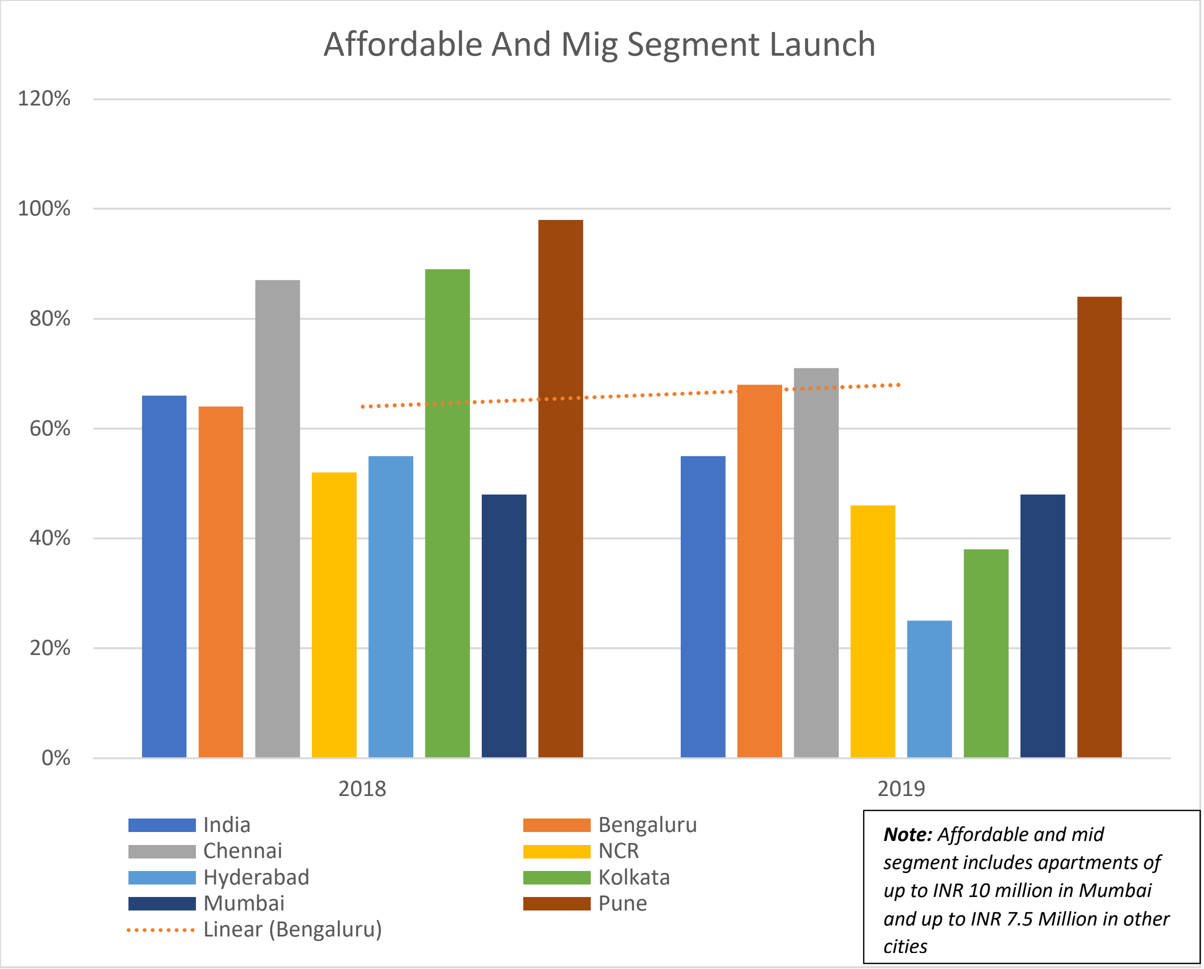


Figure 6 - Affordable and MIG Segment Launch in India

Source: JLL real estate report2019

In the above graph details, it shows that developers in Bengaluru has taken a step to launch a greater number of affordable and mid income group segments. Interestingly, larger markets such as Mumbai, Bengaluru and Delhi NCR witnessed more launches in these ticket-size brackets as compared to markets like Hyderabad and Kolkata.

Moving ahead, the focus on these price segments is expected to continue with developers trying to reap the benefits of the various Government incentives and tax benefits for affordable housing projects, as well as the strong pent up demand for these price segments.

Sales Growth Muted by A Week Second Half

The sales of residential units increased by 6% in the current year. While the first half of 2019 witnessed a substantial jump in the sales of 22% on a y-o-y basis, H2 2019 recorded a 9% dip in the offtake of units. The prolonged economic slowdown led by weak consumer demand is manifesting itself in the form of sluggish sales with buyers postponing their purchase.

While the three key markets of Mumbai, Bengaluru and Delhi NCR continued to account for a major chunk of the total sales, the number of sold units in Hyderabad increased by 21% y-o-y in 2019. However, it is important to note that the dragged-out economic slowdown resulted in sales in Hyderabad dipping in the last quarter of 2019.

Going forward, affordable housing developments are expected to witness a positive sales momentum. In the backdrop of fears over timely deliveries, buyers will remain interested in completed projects, especially by reputed developers. The surge in sales will primarily hinge on enhanced consumer confidence, which in turn depends upon the effective implementation of progressive government policies and economic growth registering a comeback.

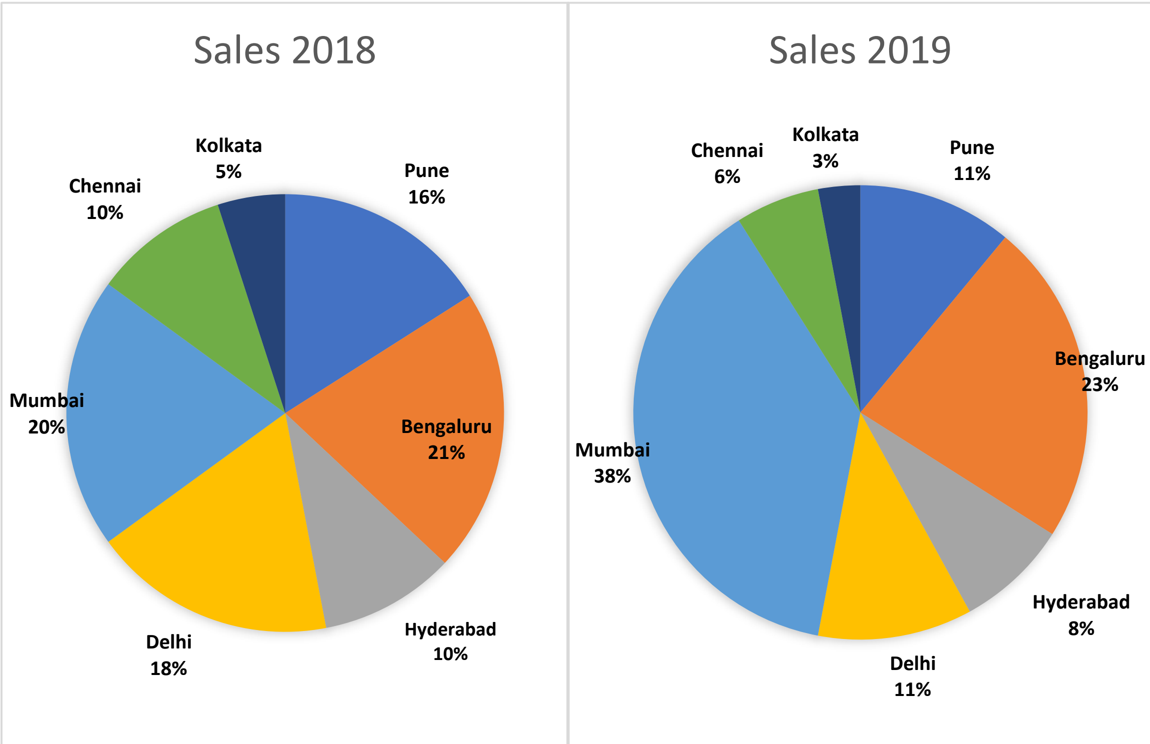


Figure 7 - Residential Sale in Indian Market

OVER ALL INDIAN RESIDENTIAL MARKET SCENARIO:

As mentioned, the projects are focusing in projects less than 50 lakhs which is affordable sector to gain the focus. The developers have planned to reduce the unit size around 10% in the market so that it will easy for the market to absorb and get maximum sale in inventories.

The A grade developers have maximum no of shares in the market by launching new projects at the affordable price. The price may drop down to 3%-4% compared to 2018 on Hyderabad record the appreciation.

136,998 units launched in the 2019, -14% Y-O-Y growth

The launches comprise of kind of segments across India which includes only tier 1 cities (Bangalore, Chennai, Delhi NCR, Mumbai, Kolkata and Hyderabad)

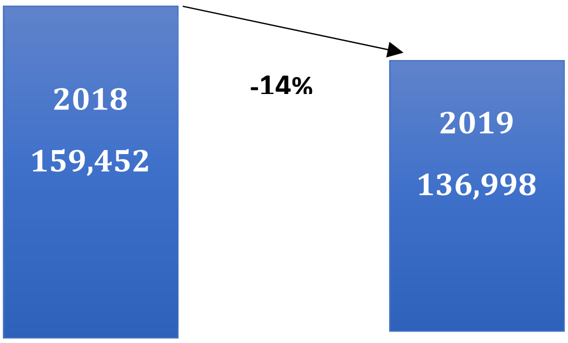


Figure 8 - Launches in tier 1 cities (Y-O-Y growth)

Affordable and mid segment accounts for 55% new launches:

As we can see the launches of a high shares of units of smaller sizes and were priced below INR 50 lakhs - to avail RBI's Priority Sector Lending Status and also Affordable Housing benefits.

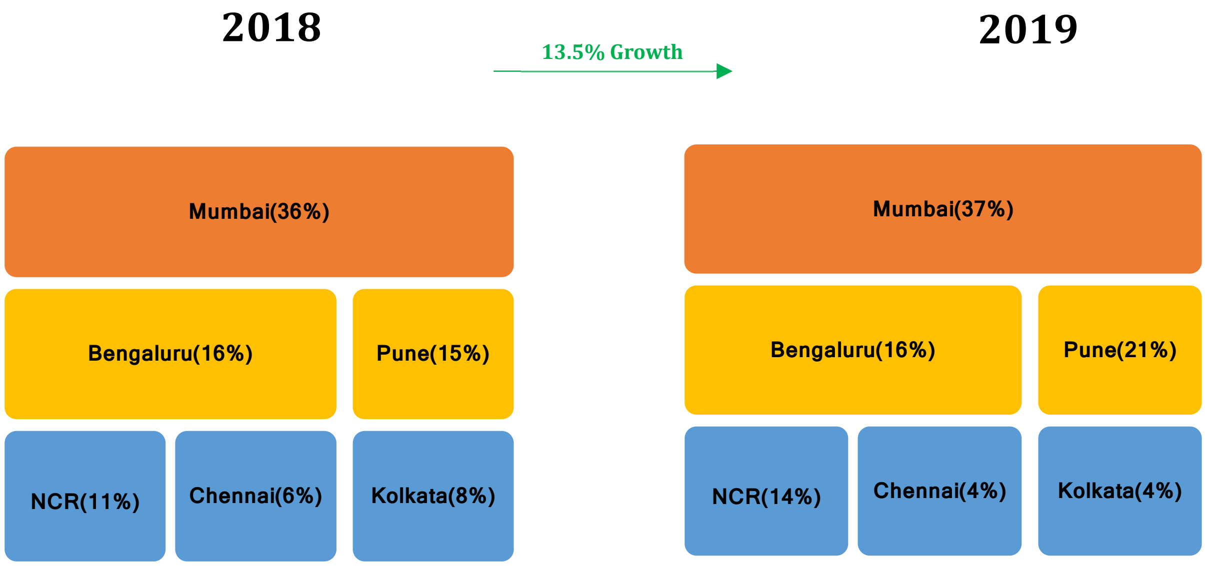


Figure 9 - Sales Growth in tier 1 cities (Y-O-Y Growth)

Source: JLL Real Estate Report2019

HEALTHY SIGNS OF INVENTORY MANAGEMENT IN RESIDENTIAL SECTOR:

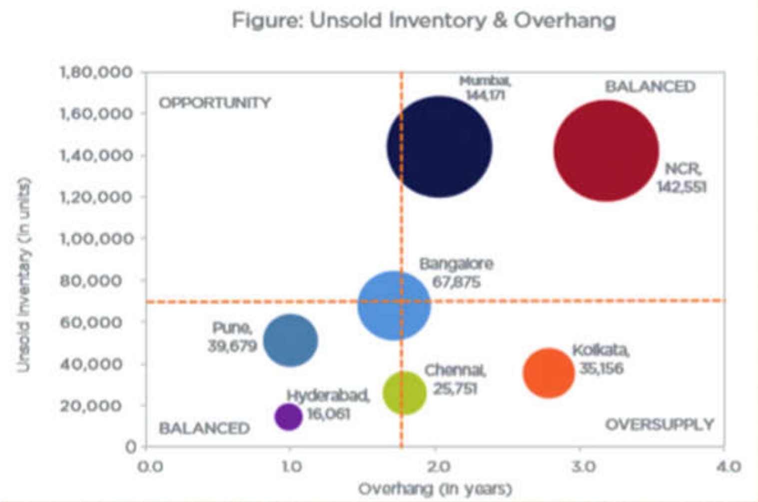


Figure 10- Inventories and Overhanging

In the year 2019 it is witnessed that the number of units sold surpassing number of units launched. Which has reduced up to 2% in the inventories unsold. All the cities except for Mumbai and Bengaluru witnessed a decline in inventories level. An assessment of year to sell (YTS) revels that the YTS across 7 cities declined from 3.9 years in 2018 to 3.2 years in 2019 year. It demonstrates optimal signs of inventories management.

Highest decline in overhanging in Hyderabad followed up by NCR, Chennai and Bangalore. The high launch has increased overhang in Mumbai, Pune and Kolkata.

Source: JLL real estate report2019, Meraqui review

PREDICTED MARKET SCENARIO IN 2020:

The right pricing and timely delivery are the key for the growth in year 2020. The liquidity crunch on the supply side and consumer sentiments on demand side are expected to keep the residential market muted. Absorption rate is projected to be 4% less compared to supply units in 2020.

The price is predicted to be remained same, driven by sluggishness in demand level. As the demand-supply dynamics in the market align, the strong growth in the commercial sector is likely to translate into higher residential demand, which shall not only recover from the lows of 2017 but also rise beyond levels observed in the pre-demonetisation era.

The developers with delayed projects as likely to emphasise on completion projects to avoid penalties under RERA.

The absorption rate is likely to pick up in MIG I and II segments. The unsold inventories property prices are likely to be remained unchanged.

Under PMAY scheme, extension of project timeline leads to high supply of unit size <60 sqm of carpet area.

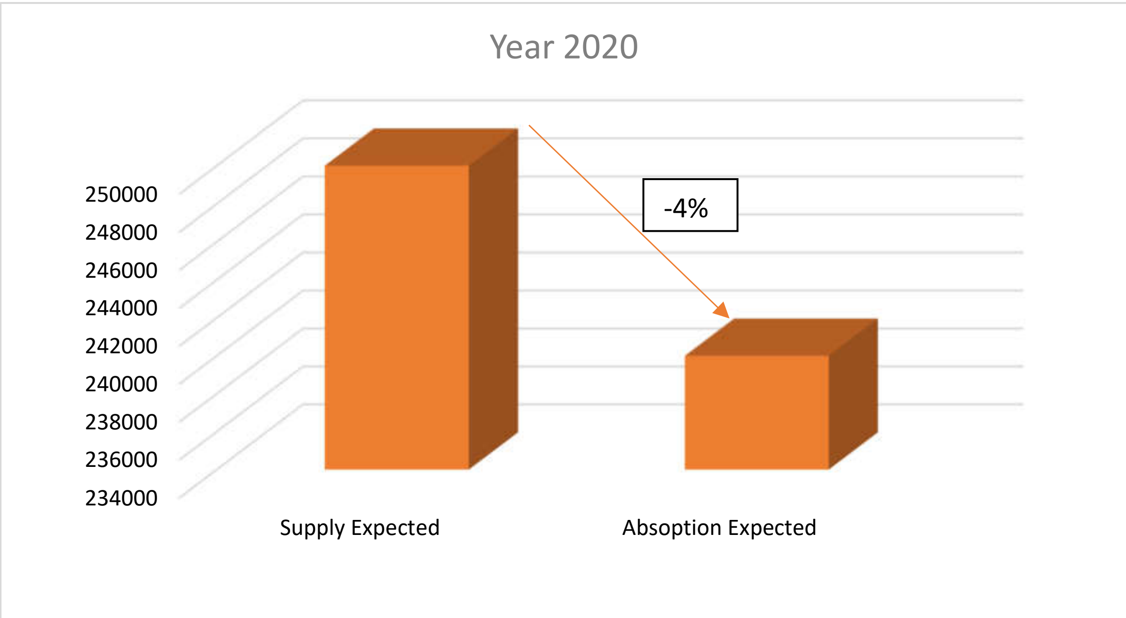


Figure 11- Predicted Year 2020 Supply & absorption

Source: JLL real estate report2019, Meraqui review

CITY TRENDS:

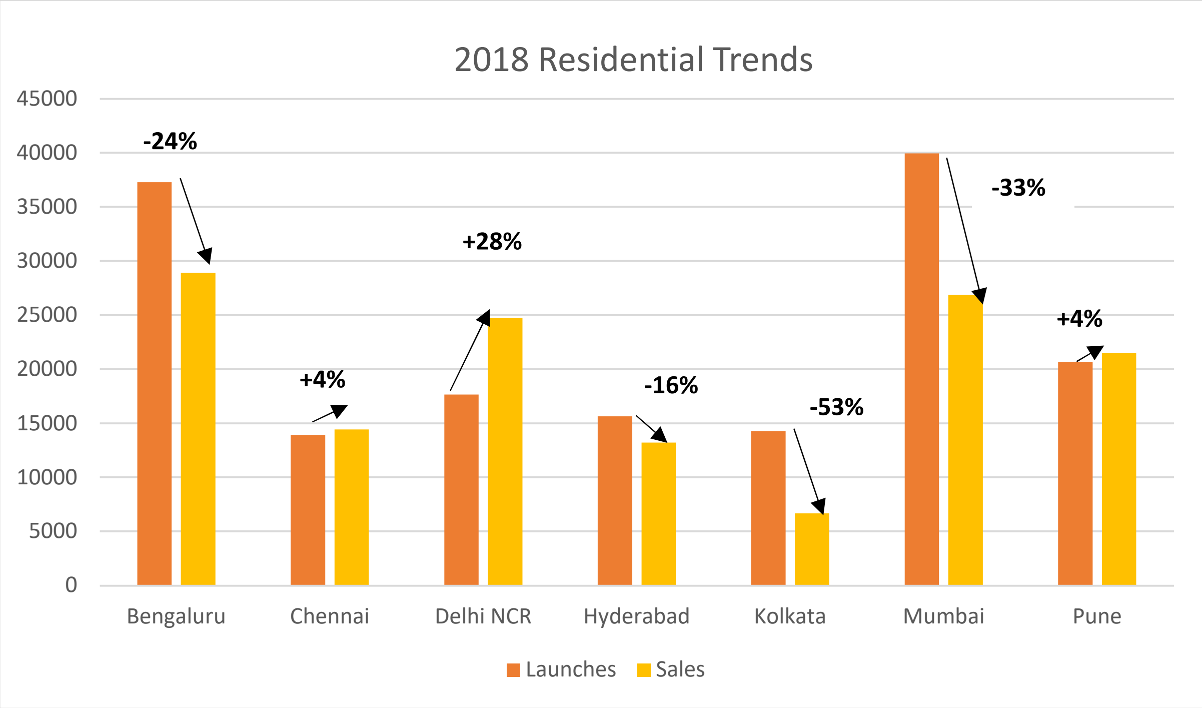


Figure 12- 2018 Residential Trends

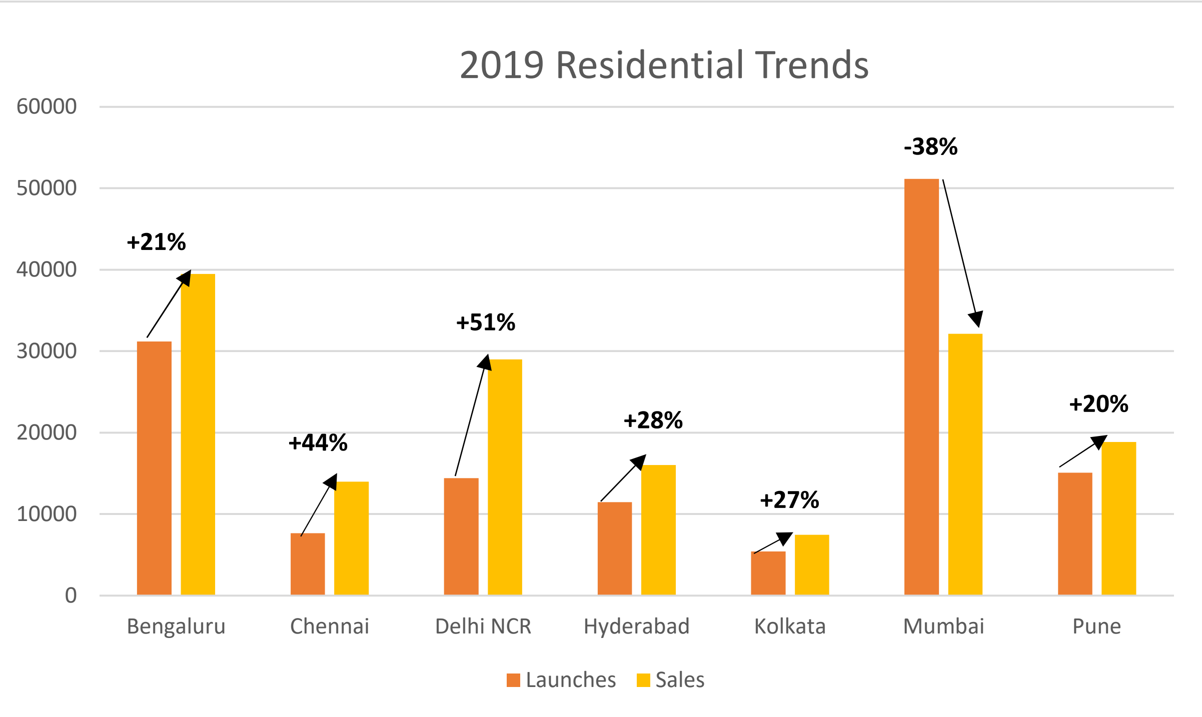


Figure 13- 2019 Residential Trends

Source: JLL real estate report2019, Meraqui review

Chennai:

Launches in the year 2019 has slumped by 45% compared to the year 2018. The main reason was that the economy downturn. The whole focus was on delivering the stalled projects. The southern suburb continued to contribute majority of launches.

The residential sales witnessed a decline of 3% in 2019. The southern suburb has contributed 60% of sales followed by western suburbs constituting 24% of sales. The future growth is driven by upcoming commercial infrastructure projects like ORR phase II, meteor and monorail corridor.

Delhi NCR:

The unsold inventories registered a 10% y-o-y decline in year 2019 with price remaining largely range bound of 4,600-4,700 per sq. ft. This boosted sales in major submarkets and momentum is expected to be continued in the year 2020. Noda-Greater Noida Expressway are witnessing tractions due to upcoming infrastructures. The upcoming Jewar Airport is expected to further accelerate residential activities in Noida, Greater Noida and Yamuna Expressway.

Hyderabad:

The sales in the market has observed a massive change of 21%y-o-y. While the locations of Kondapur, Nallagandla and Gopanpally in western hubs attracting a major share of launches. New launches of ticket sizes INR 15 million increases 6X in 2019 due rise in launches of projects. The increase in demand has bought down the pile of unsold inventories. However, the Hyderabad experienced a high price escalation in the year 2019.

Kolkata:

Residential launches have drastically fell down to 60% in year 2019 due to the sentiments of the consumers worsened over economic crises. Tollygunge and new town in east Kolkata have launches almost 80% in year 2019. Additionally, the availability of land for large developments in submarket has been attracted developers. Location in South Kolkata are preferred for new launches in year 2020 as it got good connectivity. Overall, the commercial leasing will increase the launches and sales in the residential for the year 2020. The increased activities in residential areas have led to unsold inventories by 7%.

Mumbai:

The Mumbai residential market witnessed a significant uptick in new launches in 2019. Thane has been the major contribution to the market almost a third of launches. Thane and Navi Mumbai has remained a top spot for large township projects. The sales rose by 20% y-o-y. The submarkets of Mumbai are going experience a high sale as the connectivity has been improving significantly for next 3-4 years. With improved connectivity and further traction in sales, submarkets like Thane and Navi Mumbai are expected to witness capital appreciation in the future.

Pune:

The launches have been dipped by 26% in 2019 on y-o-y as developers focused on maintaining sales and clearing the unsold inventories. The North west submarket has drove a launch of 53%. The Northern East of Pune has accounted 35% of new launches. The affordable segments (INR 7.5 million) have the majority of launches of 84%. The unsold inventories have been declined by 11%y-oy while price range-bound with 4% increase in 2019 compared year 2018.

Source: JLL real estate report2019, Meraqui review report

BENGALURU:

CURRENT MARKET SCENARIO:

In 2019, 60% of launches are done Grade A developer.

There is residential launches dipped by 17% in 2019 as compared to 2018. The developers have maintained a caution stance with respect to new launches.

It is also observed that there is 10% reduction in the Units size. The office space absorption has reduced considerably which adversely affected new launches.

The overtake of units have slow down where it has observed that H1 2019 witnessed a 13% increase in sales, a 27% y-o-y declined in H2 2019 drove the annual sales down. The Hosur Road, Whitefield and Bellary road contributed 75% of sales.

The unsold inventories registered a 6% y-o-y increases with the three main submarkets of Hosur road, Whitefield and Bellary road contributed to majority of unsold.

Land projects and project development picking up post NGT rulings on the buffer line lack of clarity on TDR rules & new zoning regulations as part of revised master plan 2031.

Availability in supply options, GST reduction on affordable homes from 8% to 1% and tax relief to individual enhanced home buyer's affordability leading to good sales volume.

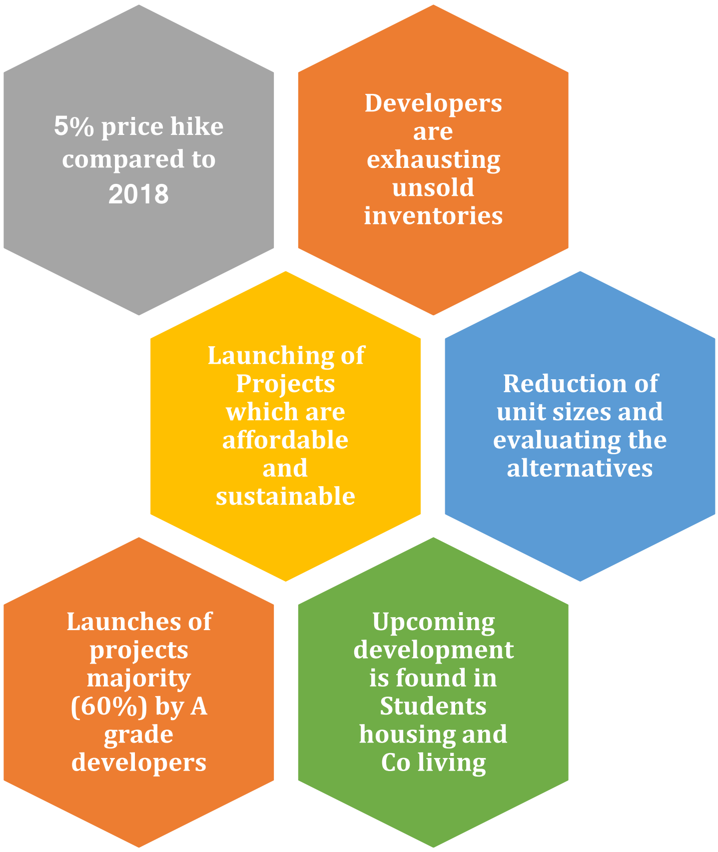
Projects on Namma metro corridor of kanakapura road and Mysore road recorded over 5% appreciation in the price.

It has been observed that the demand for apartments have gradually increased in Bengaluru market followed by Villa and Plots. This shows that the customers are showing interest to invest in Bengaluru as there are new upcoming infrastructure across.

Bannerghatta Road, Whitefield and Old Madras Road recorded an uptick due to increasing demand for these locations (strategic positioning in proximity to economic hubs) as well as launches by Grade A developers at higher price points.

Source: JLL real estate report2019, Meraqui review report

Figure 14- : Outlook of Bengaluru Market Scenario



Source: Google trends, Meraqui review report

PREDICTED BENGALURU MARKET SCENARIO IN 2020:

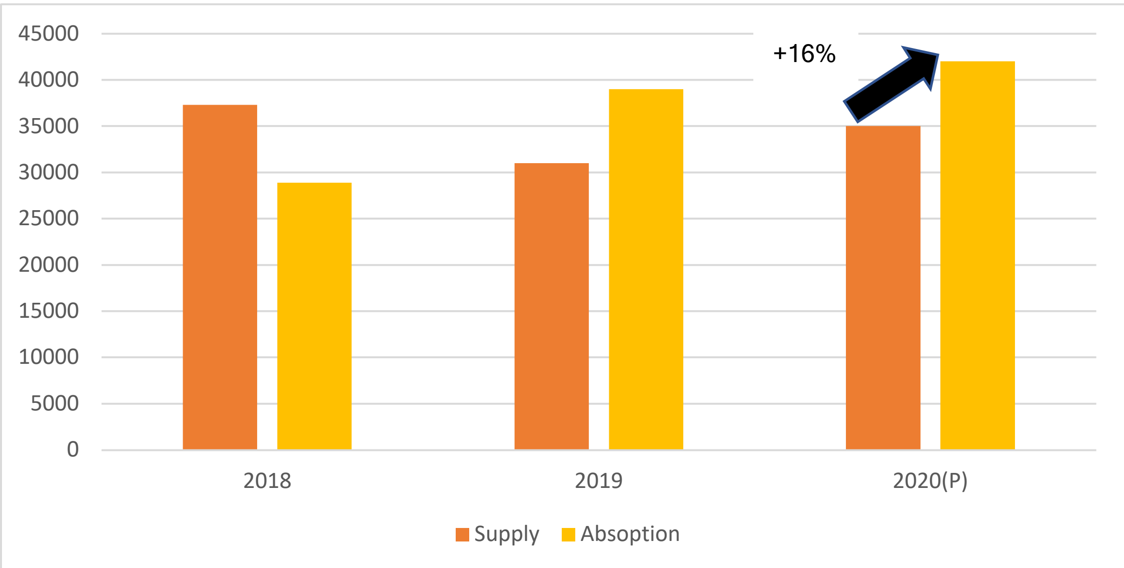


Figure 15- Predicted Growth of Bengaluru Market in 2020 year

The absorption rate is predicted to be 16% higher than the supply rate in year 2020. With the absorption rate being higher the unsold inventories are expected to be reduced and projected to be 60,000 units by 2020. However, there are around 4,000 projects in line for the RERA approval, which are scheduled to be launched in the first half of 2020. The major upcoming projects – both new as well as running projects by A Grade developer. The initiative of affordable housing with size less than 60sqm carpet area.

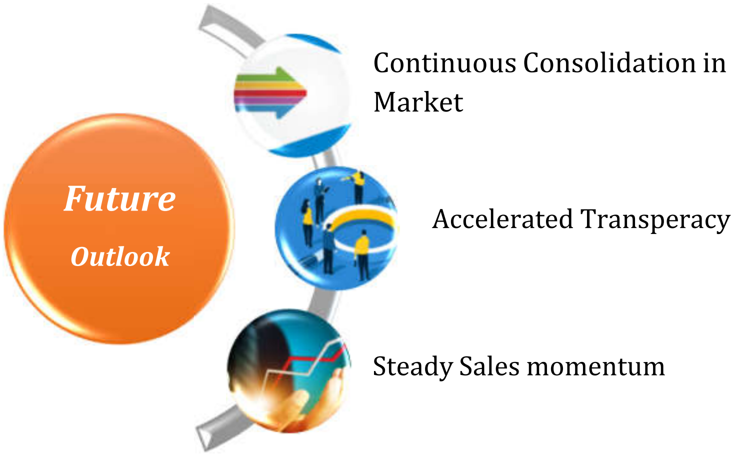


Figure 16- Future Outlook of Bengaluru market

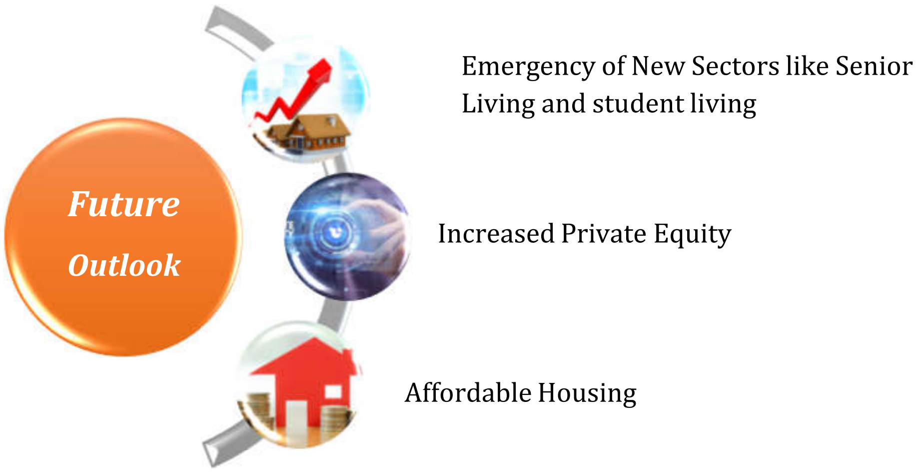


Figure 17: Future Outlook of Bengaluru market

- Continuous Consolidation in the market: As per the policy push sees increased weeding out of non-compliant developers. The fittest will be those who adhere to the norms, follow ethical practices and quickly adopt corporate governance principles.
- Accelerated Transparency: Improved market fundamentals, policy reforms (LARR Act, Liberalisation of FDI into the realty sector) and the strengthening of information in the public domain contributed to accelerated transparency. We see further improvements in transparency in the future for real estate markets.
- Steady sales momentum across most cities: Seeing the trend of sales and supply additions across cities, we expect similar sales momentum to continue. In fact, as

reforms pave the way for increased transparency, investors may find their way back to the residential markets.

- New Sectors will gain momentum: The ten leading states in terms of the number of students in the higher education space experience an unmet demand of 30-60%, as per official statistics.
- Increased private equity investment: Most developers are over-leveraged, but with RERA, a conducive environment for the return of equity participation has been created. We expect the return of equity to residential markets in the future.

AFFORDABLE HOUSING:

We see that affordable housing as a sector that will a growth driver for residential market and it will provide good opportunity for the developers as well as investors in coming years.

Key drivers for affordable housings:

- Affordable housing finance is estimated to be and INR 6 lac crores business opportunity by 2022 as government seeks to achieve housing to all citizens.
- The Ministry of Housing estimated a housing shortage of 18.78 million houses during the 12th plan period, with 99% in the economically weaker section and lower income groups. The country's total urban housing shortage is projected to be about 30 million by 2022.
- Nearly 1 million households are living in non-serviceable kutcha houses, while over half a million households are homeless.