

Assessing India's Real Estate Industry's Potential Using Global Real Estate Transparency Index 2018

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ABSTRACT:

Market transparency is the base which leads to apt decision making and enhances confidence of all the stakeholders. It leads to robust framework which can create an ecosystem which will benefit in long run. Recent changes in the environment viz. Government Policy, Technology and Measures for Sustainability have significantly contributed to improving transparency in real estate industry particularly and business environment in general.

The study analyzes 6 sub-indexes 14 topics and 186 factors of Global Real Estate Transparency Index 2018 (GRETI) by interviewing the Builders and Developers to improve India's transparency index further. The objective of the study to understand the improvements post RERA and how much has it contributed in improvement. The outcome of the study is how India's Real Estate potential be tapped by entering in to untapped areas like student housing and affordable housing as suggested by JLL & FICCI Report.

Keywords: Real Estate, GRETI, RERA, Index

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Introduction:

Real Estate market in India

The real estate sector is one of the most globally recognized sectors. Real estate sector comprises four sub sectors - housing, retail, hospitality, and commercial. The growth of this sector is well complemented by the growth of the corporate environment and the demand for office space as well as urban and semi-urban accommodations. The construction industry ranks third among the 14 major sectors in terms of direct, indirect and induced effects in all sectors of the economy.

It is also expected that this sector will incur more non-resident Indian (NRI) investments in both the short term and the long term. Bengaluru is expected to be the most favoured property investment destination for NRIs, followed by Ahmedabad, Pune, Chennai, Goa, Delhi and Dehradun.

Market Size

Real estate sector in India is expected to reach a market size of US\$ US\$ 1 trillion by 2030 from US\$ 120 billion in 2017 and contribute 13 per cent of the country's GDP by 2025. Retail, hospitality and commercial real estate are also growing significantly, providing the much-needed infrastructure for India's growing needs.

Sectors such as IT and ITeS, retail, consulting and e-commerce have registered high demand for office space in recent times. Commercial office stock in India is expected to cross 600 million square feet by 2018 end while office space leasing in the top eight cities is expected to cross 100 million square feet during 2018-20. Grade-A office space absorption is expected to cross 700 million square feet by 2022, with Delhi-NCR contributing the most to this demand.

Investments/Developments

The Indian real estate sector has witnessed high growth in recent times with the rise in demand for office as well as residential spaces. Private equity investments in real estate are estimated to grow to US\$ 100 billion by 2026 with tier 1 and 2 cities being the prime beneficiaries. Private Equity and Venture Capital investments in the sector reached US\$ 2.99 billion during January-August 2018.

According to data released by Department of Industrial Policy and Promotion (DIPP), the construction development sector in India has received Foreign Direct Investment (FDI) equity inflows to the tune of US\$ 24.87 billion in the period April 2000-June 2018.

Some of the major investments in this sector are as follows:

- In September 2018, Embassy Office Parks announced that it would raise around Rs 52 billion (US\$ 775.66 million) through India's first Real Estate Investment Trust (REIT) listing.
- New housing launches across top seven cities in India increased 50 per cent quarter-on-quarter in April-June 2018.
- In May 2018, Blackstone Group acquired One India bulls in Chennai from India bulls Real Estate for around Rs 900 crore (US\$ 136.9 million).

- In February 2018, DLF bought 11.76 acres of land for Rs 15 billion (US\$ 231.7 million) for its expansion in Gurugram, Haryana.

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. Below are some of the other major Government Initiatives:

- Under the Pradhan Mantri Awas Yojana (PMAY) Urban, 6,028,608 houses have been sanctioned up to September 2018.
- In February 2018, creation of National Urban Housing Fund was approved with an outlay of Rs 60,000 crore (US\$ 9.27 billion).
- Under the Pradhan Mantri Awas Yojana (PMAY) Urban 1,427,486 houses have been sanctioned in 2017-18. In March 2018, construction of additional 3, 21,567 affordable houses was sanctioned under the scheme.

Road Ahead

The Securities and Exchange Board of India (SEBI) has given its approval for the Real Estate Investment Trust (REIT) platform which will help in allowing all kinds of investors to invest in the Indian real estate market. It would create an opportunity worth Rs 1.25 trillion (US\$ 19.65 billion) in the Indian market over the years. Responding to an increasingly well-informed consumer base and, bearing in mind the aspect of globalization, Indian real estate developers have shifted gears and accepted fresh challenges. The most marked change has been the shift from family owned businesses to that of professionally managed ones. Real estate developers, in meeting the growing need for managing multiple projects across cities, are also investing in centralized processes to source material and organize manpower and hiring qualified professionals in areas like project management, architecture and engineering.

The growing flow of FDI into Indian real estate is encouraging increased transparency. Developers, in order to attract funding, have revamped their accounting and management systems to meet due diligence standards.

Global Real Estate Transparency Index 2018 (GRETI):

Global Real Estate Transparency Index GRETI ranks 100 markets based on combination of quantitative market data and survey results across on 186 individual measures divided into 14 topic areas grouped and weighted into six broad sub-indices: performance measurement (weightage 28.5%), market fundamentals (16.5%), governance of listed vehicles (10%), regulatory and legal (25%), transaction process (15%) and sustainability (5%). The index scores markets on scale of 1 (being highest possible score) to 5 (lowest score). Depending on their overall performance, markets are assigned to one of five transparency tiers viz. highly transparent, transparent, semi-transparent, low transparency and opaque.

India

India was ranked 35th among 100 countries (countries) in recently released Global Real Estate Transparency Index (GRETI). The index was released by realty consultant JLL. India was ranked

36th in the index during the last bi-annual survey conducted in 2016 and 40th in 2014. Its real estate market is currently placed in the 'semi-transparent' zone.

Key Highlights of 2018 GRETI Top 10 countries are:

United Kingdom (1st), Australia (2nd), United States (3rd), France (4th), Canada (5th), Netherlands (6th), New Zealand (7th), Germany (8th), Ireland (9th) and Sweden (10th). Top 5 worst performers: Venezuela (100), Libya (99), Senegal (98), Mozambique (97) and Ivory Coast (96). BRICS countries: South Africa was ranked at 21st position, followed by China (33rd), Brazil (37th) and Russia (38th). South Asia: Sri Lanka (66th position), Pakistan (75th).

India related Facts: In this edition of index, India has moved up one place due to improvement in market fundamentals, policy reforms, and liberalization of FDI. Besides, digitization of property records and industry status accorded to affordable housing also has helped India to improve its rankings. India has emerged as one of the top ten countries to register maximum improvement in transparency in real estate over the last two years.

Literature Review:

[Graeme Newell](#) (2016) study finds that the improvements in real estate transparency are clearly evident in many European real estate markets, with several of these European real estate markets seen to be the major improvers in transparency from a global real estate markets perspective. The gap being that it studies the European markets whereas the study focuses on Indian markets.

Gayle Kantro (2018) in his press release states that there have been noteworthy regulatory improvements, such as [the UK's proposed beneficial ownership register](#) and the European Union's Fifth Anti-Money Laundering Directive. India's government has introduced a raft of initiatives aimed at reducing corruption. The U.S., one of the most transparent property markets globally, has adopted proptech faster than anywhere else.

Jeremy Kelly & Mathew AcAulay (2018) in the GRETI 2018. Study on Transparency in 158 Cities have studied JLL and LaSalle's Global Real Estate Transparency Index, which has tracked the evolution of real estate transparency for two decades, has been expanded to cover 158 metropolitan areas across the globe. It is a response to the twin set of demands engendered by an increased focus on city-level dynamics – to make local governments more responsive and accountable, and to help investors and businesses assess long term stability and risk in cities.

JLL- FICCI Report (2018) FICCI and JLL have co-created this Report on 'Future of India Real Estate: Deciphering the mid-term perspective' that portrays a balanced picture of the growth drivers and challenges. The Report presents the trends in office, retail, residential, warehousing and student housing markets and offers some insights into the direction and growth momentum expected over the next 2-3 years.

Eric Duchon et.al (2018) in their Global Real Estate Transparency Index 2018 report have highlighted a key takeaways from the 2018 Index GRETI: 20 years, 10 editions, 100 countries,

158 cities, 186 indicators JLL and LaSalle have been tracking real estate transparency and championing higher standards for 20 years. This 10th edition of the biennial Global Real Estate Transparency Index (GRETI) now covers 100 countries and 158 cities. The survey has been extended to quantify 186 separate elements of transparency.

Objective of the study:

To suggest the changes and reform on the identified factors of GRETI 2018 to explore the potential

Research Methodology:

The study is descriptive in nature and the data is collected by interviewing different builders and developers. The inputs have been taken from the builders and developers in the well-defined areas or factors as mentioned in GRETI 2018.

The data is then grouped into homogeneous statements and have been defined as areas of Improvement. Out of 60 emails sent to the different builders and developers only 16 have been collected.

The study is restricted to areas as defined in the GRETI report and to the responses collected by interviewing.

Analysis:

SUB INDEX: PERFORMANCE MEASUREMENT

TOPIC	FACTORS	AREA(S) OF IMPROVEMENT
Direct Property Indices	Existence of Direct Property Index	<ul style="list-style-type: none"> - A national registry to be maintained to record all property transactions in the country. - Realistic data from this registry to be used to derive indices with more authenticity.
	Reliability of the index an extent to which it is used as a benchmark of performance	
	Type of index (Valuation Based V/S Notional)	
	Length of National Direct Property Level Returns Index Time Series	
	Size of National Institutional Invested Real Estate Market	
	Market Coverage of Direct Property Index Time Series	
	City level private Real Estate Index Publication Frequency	
	Size of city Institutional Invested Real Estate Market	
Listed Real Estate Securities Indices	Dominant Type of listed RE Securities(I.E. Long term holder of real estate V/S home builder and conglomerates)	<ul style="list-style-type: none"> - Data of Listed companies can be analyzed by external agencies to derive securities indices. -
	Use of listed Real Estate Securities data on the Real Estate Market	
	Years since the first commercial real estate company was listed	
	Value of public Real Estate companies as % of GDP	
	Existence of a Domestic listed Real estate index and its use as a benchmark	
	Existence of an International listed Real Estate Index and its use as a Benchmark	
	Length of public Real Estate Index Time Series	
Private Real Estate Fund Indices	Existence of a first Domestic fund Index and its use as a benchmark	Existing factors are comprehensive
	Existence of a first International fund Index and its use as a benchmark	
	Length of unlisted fund index time series	
	Existence unlisted fund indices for Distinct Investment Style (i.e core V/S high return)	
Valuation	Independence and quality of third party appraisal	<ul style="list-style-type: none"> - Ready reckoner prices should not be increased at random every year.
	Use of market based appraisal approaches	
	Competition in the market for the valuation services	
	Frequency of the third party real estate appraisal	

	Availability of Appraisal Assumption	<ul style="list-style-type: none"> - Ready reckoner prices to be rationalized or changed based on actual data including the quantum and value of transactions in property registered in the previous year.
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SUB INDEX: MARKET FUNDAMENTALS

Market Data	Fundamentals	Existence of Length and Time Series on property rent (Office, Retail, Industrial & Residential)	<ul style="list-style-type: none"> - Okay almost everything is covered to understand market fundamental data. - As an addition, one can obtain data of defaults in the market to better analyse the market data.
		Existence of length and time series on take up / absorption (Office, Retail, Industrial & Residential)	
		Existence of length and time series on vacancy (Office, Retail, Industrial & Residential)	
		Existence of length and time series on Yield/cap rates (Office, Retail, Industrial, Residential & Hotels)	
		Existence of length and time series on capital values (Office, Retail, Industrial, Residential & Hotels)	
		Existence of length and time series on Investment values (Office, Retail, Industrial, Residential & Hotels)	
		Existence of length and time series on Revenue for Available room for Hotels	
		Existence and geographical coverage of a data base of individual building (Office, Retail, Industrial, Residential & Hotels)	
		Existence and geographical coverage of a data base of Leases (Office, Retail, Industrial, Residential & Hotels)	
		Existence and geographical coverage of a data base of property (Office, Retail, Industrial, Residential & Hotels)	

	Proportional coverage of database of property transaction(Office, Retail, Industrial, Residential & Hotels)	
	Proportional coverage of database of Leases (Office, Retail, Industrial, Residential & Hotels)	
	Institutional investment market for alternative natives(Parking, S-housing, self-storage, medical offices, hospitals, data centers, students ACCOM, Service apart)	
	Existence Coverage of data base alternatives(Parking, S-housing, self-storage, medical offices, hospitals, data centers, students ACCOM, Service apart)	

SUB INDEX: GOVERNANCE OF LISTED VEHICLES

TOPIC	FACTOR	AREA(S) OF IMPROVEMENT
Financial Disclosures	Stringency of Accounting Standards	- Financial statements should incorporate disclosures related to
	Level of Detail Financial Statement	

	Frequency of Financial Statement	area being developed, cost for development and revenue realization to have more authentic and transparent information at the disposal of investors, regulators and shareholders.
	Data disclosure by listed vehicle	
	Availability of Financial Report in English	
Corporate Governance	Manager compensation & Incentives	<ul style="list-style-type: none"> - Corporate governance norms should include the audit (every three years) by an external independent body that verifies whether proper corporate governance practices are being carried out in the said company. -
	Use of Outside Director and International Corporate Governance Best Practices	
	Alignment of interest/ Shareholder power	
	Free float share of the public Real Estate Market	

SUB INDEX: REGULATORY & LEGAL

TOPIC	FACTOR	AREA OF IMPROVEMENT
Regulation	Extent to which Tax code is consistently Applied for Domestic Investors	<ul style="list-style-type: none"> - Process of approvals to be made more transparent. - Calculation of Premiums to be paid to regulatory body should be made readily available. - Discretion of certain officers allowed as per regulations should be avoided. - Better use of technology and digitalization to be carried out for submission and
	Extent to which Real Estate Tax Rate are predictable for Domestic Investors	
	Extend to which Real Estate Tax code is consistently Applied for Foreign Investors	
	Extent to which Real Estate tax rates are predictable for Foreign Investors	
	Existence of land use rules and zoning	
	Predictability of changes land use and zoning	
	Enforcement of land use rules and zoning	
	Existence of building code and safety standards for buildings	
	Enforcement of building codes safety standards for buildings	
Simplicity of key Regulation in contract law		

	Efficiency of the legal process	verification of plans/ layouts at the time of approval.
	Level of contract Enforceability for domestic investors	
	Level of contract Enforceability for Foreign investors	
Land and Property Registration	Existence of land Registry	<ul style="list-style-type: none"> - National registry as mentioned above will help in gathering all data in one place. - Digitalization of land records to be completed by all states.
	Accessibility of land registry record to public	
	Availability of title Insurance	
	Accuracy of land Registry Records	
	Completeness of land Registry Record on ownership	
	Completeness of land Registry record on Transaction prices	
	Completeness of land Registry record on Liens and Easement	
	Existence of Beneficial ownership records to Public	
	Enforcement of Beneficial ownership Disclosure legislation	
	Accessibility of Beneficial of ownership record to Public	
Eminent Domain/ Compulsory Purchase	Notice period given for compulsory Purchase	Existing factors are comprehensive
	Fairness of compensation to owners in compulsory purchase	
	Ability to challenge compulsory purchase in court of law	
Real Estate Debt Information	Existence length of time series on commercial real estate debt outstanding	Existing factors are comprehensive
	Existence length of time series on maturities and origination of real estate loan	
	Existence length of time series on delinquency and default rates of commercial real estate loans	
	Availability of data on loan to value ratio for commercial real estate loans	
	Availability of data on margin rates for commercial real estate loans	
	Requirement for lender to monitor cashflow and collateral value of property with loans facility	
	Requirement for lender to carry out Real Estate Appraisal	
	Penalty for non compliance with Requirement	

SUB INDEX: Transaction Process

TOPIC	FACTOR	AREA OF IMPROVEMENT
Sales Transaction	Quality and availability of pre sales Information	<ul style="list-style-type: none"> - Regulations laid out under RERA to be implemented more rigorously. - Disclosure of information on public domain as contemplated under RERA to be pursued and carried out.
	Fairness of the bidding process	
	Confidentiality of bidding process	
	Professional and Ethical standard of property agents	
	Enforcement of professional and Ethical standard of property agent	
	Existence of Anti-money laundering Regulation	
	Enforcement of Anti-money laundering regulation	
Occupier Services	Availability of professional third party facilities and project management companies	Existing factors are comprehensive
Providers of property management services known to occupiers		
Service expectation for property management clear to occupiers		
Alingnment of occupier and property Manager Interest		
Frequency of service charged Reconciliation		
Accuracy and level of details in service charge reports		
Ability for tenants to audit land lords accounts and challenge discripencies		
Consistency of property measurement standards		

SUB INDEX: SUSTAINABILITY

TOPIC	FACTOR	AREA OF IMPROVEMENT
SUSTAINABILITY	Existence of green building financial performance index	<ul style="list-style-type: none"> - The central and state government should have tie ups with other nations / cities to adopt and implement latest technology in construction practices.
	Existence and usage of green building certification system	
	Existence of carbon reporting framework	

	Existence and use of energy benchmarking system	<ul style="list-style-type: none"> - Practises that reduce carbon footprint can be subsidized partially to incentivize their usage and implementation. - Use of alternate power such as solar/ wind can be promoted. - Power grids / transformers/ sub stations in remote areas can be installed to easily transmit the energy generated in remote areas using alternate methods.
	Existence and coverage of minimum energy efficiency standard for new building	
	Existence and coverage of minimum energy efficiency standard for existing building	
	Existence and use of green lease framework	

Conclusion: Post RERA India's Real Estate markets have definitely become more transparent with regards to the measurement being more uniformed overcoming the problems of carpet, build-up and super-build up and further niche areas and flower beds which were earlier not included in FSI and manipulated. Agreements to be displayed in public domain and much more, But the execution is still a concern as expressed by many developers. Further in the entire process of implementing RERA, it should not miss on the practical project execution. It is also observed that the transparency required lot of controls resulting into increase in documentation and plethora of procedures to be completed. However, these bottlenecks are teething problem and once the guidelines, regulations, procedures and framework is well developed it definitely will lead to bring up India's Real Estate Transparency Index in 2020. The outcome of increasing transparency will lead to explore India's potential in the various areas like student housing and affordable housing. Further leading to quick sanctions in housing loans without any delays.

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