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The Indian Real Estate Policy Landscape: Key Decisions Shaping India's Real Estate Sector's Future

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Abstract:
Exhibiting dogged resilience and backed by several key policy measures, the Indian economy has continued on its growth trajectory after the pandemic lows, despite global headwinds. With the RBI's 6.5% GDP [1] growth forecast for FY23-24, India continues to remain one of the fastest-growing economies in the world. In complete sync, the country's real estate sector too is projected to grow significantly; a combined NAREDCO (National Real Estate Development Council) and EY report[2] has stated it could reach USD 1 trillion, potentially contributing 18%-20% of India's GDP, by 2030. Below are some of the policy decisions that have not just defined the real estate sector's impressive growth trajectory until now but, could also impact its future.

Keywords: Policy, Real Estate

1. Interest/repo rates and its linkages to the housing sector

The RBI's recent decision to keep the key policy rate unchanged at 6.5%[3], coupled with expectations that the central bank could start reducing the repo rate early next year[4] provided inflation remains under control, are positive signs for the real estate sector. The repo rate is the rate at which the RBI lends to commercial banks, and any changes in it swiftly and directly impact the floating rate home loan interest rates. A hiatus in rate hikes, and future corrections, could, thus, boost the sales volumes in the housing market.

Interestingly, rising interest rates could not restrict the pent-up demand for residential housing as both sales and new launches of residential real estate could reach a ten-year high in 2023, touching or even exceeding the 300,000-unit mark.[5] A continued pause or reduction in the repo rate would only increase the

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[1]Ref:https://timesofindia.indiatimes.com/business/india-business/rbi-retains-fy24-gdp-growth-forecast-at-6-5/articleshow/100840409.cms?from=mdr

[2] Ref: https://www.business-standard.com/article/economy-policy/size-of-india-s-real-estate-industry-to-touch-1-trillion-by-2030-report-123030301303_1.html

[3]Ref:https://www.livemint.com/market/stock-market-news/rbi-monetary-policy-repo-rate-remains-unchanged-at-65-11686194680961.html

[4]Ref:https://timesofindia.indiatimes.com/business/india-business/rbi-likely-to-cut-rates-only-in-early-2024-sp/articleshow/101294248.cms

[5] https://www.financialexpress.com/money/residential-sales-at-a-decadal-high-cbre-report-3256830/

sales volumes as more and more Indians would be encouraged to take concrete steps to turn their home-buying aspirations into reality.

2. Push towards Affordable Housing – PMAY Scheme

Affordable housing was on the agenda of the government for a long time, but concrete action on the same was only started from 2014 onwards. Specifically, between 2016-18, the Central government took various steps to ease the supply and the demand side issues impacting the affordable housing sector in India. The Pradhan Mantri Awas Yojana (PMAY), a flagship scheme promoted by the government received a slew of measures to enable private participation and spur the supply side for affordable housing. Amidst multiple carpet area relaxions and home loan interest subsidies, a key step towards spurring demand was that the Goods and Services Tax (GST) for affordable and low-cost housing was rationalized significantly from the initially proposed 12% to 8%, which was finally bought down to 1% in 2019.
On the taxation side as well, various relaxions were provided. For instance, Under Section 80EEA of the Indian income tax law, first-time homebuyers can claim an additional tax deduction of INR 1.50 lakh if the unit is worth up to INR 45 lakh. Such a borrower can also claim subsidy under the PMAY scheme.
While the affordable housing sector had been doing particularly well before the pandemic, but the pandemic in some ways impacted the sector from a demand and supply side both. The government focus on the sector has been less intense as seen in the 2014-16 period, with minimal interventions/incentives in the past 3 years. The demand side has also remained tepid in a high inflation scenario – especially as a cautious sentiment gripped the low-income bracket to which this segment caters. As inflations levels soared, developer focus also shifted from this thin margin business towards the more lucrative premium/high end housing categories. Hence, in the coming months, its important that there is renewed focus from the government to revive this critical segment of housing in India.

3. Goods and Services Tax (GST)[6]

On 1 July 2017, the government of India implemented the landmark indirect tax, Goods and Services Tax (GST). The destination-based tax was designed to turn India into a unified common market by subsuming various indirect taxes, such as excise duty, service tax and value added tax (VAT), levied by the central and state governments. The removal of various federal tax barriers and creation of a common market was expected to improve supply chain efficiencies, thereby attracting more FDI by resulting in better tax conformity and removing the cascading effects of the erstwhile tax regime.
By unifying taxation policies across the country, GST has increased India's attractiveness as an investment destination by making it further easier to conduct business in the country and introducing transparency in processes. The warehousing sector especially has been a key beneficiary as the easy movement of goods has resulted in decisions being more real estate centric rather than on the tax-saving being offered across various states.

4. Real Estate Regulation and Development Act (RERA) Regulations – A shot in the arm for Housing

The passing of the RERA (Real Estate Regulation And Development Act) in 2016 was a landmark step in protecting homebuyers' interests and encouraging developers to maintain transparency and provide timely

[6] CBRE India, Market Flash, 2017

services. The Act mandates every project larger than 500 sq. metres or involving more than eight apartments to register with the RERA of the state in question without which builders cannot advertise a project.
The act also comes with other significant norms such as depositing up to 70% of revenues received from homebuyers in banks via cheques, mandatory stage-wise project development updates on the concerned state RERA website, and requiring developers to use uniform model sale agreements, among others. Most importantly, as per RERA norms, builders need to pay back the entire amount to the homebuyer if they fail to give on-time possession, provided the latter wants to leave the agreement. Builders will also not be allowed to make alterations to the layout of an apartment (after receiving the payment) without the homebuyer's approval.
Holistically, the passing of the RERA Act has significantly boosted the confidence of aspiring homebuyers to make arguably the biggest investment of their lives. With major restrictions imposed on builders diverting funds from one project to another, the Act also plays a key role in boosting on-time project completions and has undoubtedly provide a significant boost to the residential sector in India. The act has been pivotal in shaping the recovery of the residential sector's growth in the past 3 years, especially as buyers made a beeline for home purchases, post COVID.

5. REITs in India – a key exit mechanism for investors in real estate in India

Real Estate Investment Trusts (REITs) have gained significant attention in India's investment landscape in recent years. For the unfamiliar, REITs in India are SEBI (Securities and Exchange Board of India)-regulated investment instruments that offer proportionate ownership of income-generating real estate to retail, institutional and foreign investors.
While the first draft for REIT guidelines in India came out in 2007, the global financial crisis derailed the whole process which went on the back burner. Finally in late 2014, the Government was able to release finalized guidelines, with concerns regarding double taxation addressed in 2015. In November 2016, SEBI released revised guidelines to expedite the launch of the country's first REIT.
To qualify for a REIT, a company, with a minimum asset base of INR 500 crore, must distribute 90% of its income to investors as dividends, while at least 80% of its investments being in income-generating properties. There's also a cap of 10% on investments in under-construction properties.
There are currently three office-based REITs in India, with a combined market capitalisation close to INR 54,000 crore[7] -- Embassy Office Parks REIT, Mindspace Business Parks REIT and Brookfield India Real Estate Trust. Launched in May, Blackstone-backed Nexus Select Trust is India's first mall and retail asset-backed REIT. Besides, the market is expected to witness the listing of India's fourth office sector REIT in the upcoming quarters. Also, NDR warehousing is eyeing an INR 2,000 crore InvIT by listing it's close to 19 million sq. ft. portfolio in India. Furthermore, Reliance Industries Ltd (RIL) may also be in the process of setting up an infrastructure investment trust InvIT, for its asset portfolio of almost to 33.6 million sq.ft. as of December 2022.[8]

Key factors potentially shaping the future of REITs in India

[7] Ref: https://www.thehindubusinessline.com/news/real-estate/near-to-medium-term-prospects-look-dim-for-indias-office-based-reits/article67007720.ece
[8] https://mktgdocs.cbre.com/2299/0ee1f945-1163-423e-9adf-1ee2c58120ac-1391444106.pdf

REITs association

REIT firms in India are in talks to form an AMFI (Association of Mutual Funds in India)-like association, possibly by the end of the current financial year, to represent the sector and promote the investment product[9]. The formation of the association, and its decisions could help potentially create awareness and popularize the investment instrument still considered to be in its nascent stages in India.[10]

Continuous Regulatory Support

The SEBI in June came out with a slew of measures to help REITs achieve the target of 25% minimum public holding within three years from the date of listing[11]. These include the issuance of REIT units to the public through an offer document, the offer for sale (OFS) of units through the secondary market mechanism, rights issue and bonus issue to public unitholders, allotments of units under institutional placement, etc.[12] Also, in August 2023, with a view to further streamline the process for REIT's, SEBI issued guidelines around nomination rights, stewardship code and sponsor's unit holding norms.[13]

In conclusion, notwithstanding the short-term challenges for the Indian economy due to global headwinds, the medium to long-term outlook for REITs look promising in India, given the size of the Indian market and its economic growth prospects, the regulatory support, the expansion plans and the growing popularity of the investment instrument.

6. Production-Linked Incentive (PLI) Scheme – Positively Impacting the Industrial and Logistics (I&L) Sector

Introduced in 2020, the government of India's production-linked incentive schemes for 14 sectors including electronics, pharmaceutical drugs, etc. have attracted total investments worth INR 625 billion until March 2023[14]. The central government's PLI is a crucial part of the larger 'Make in India' campaign. Also, in order to ensure that the PLI scheme achieves the desired targets, there are talks of the government to include more sectors to allocate the unused funds from the existing sectors.[15]

The scheme could be a shot in the arm for the manufacturing sector, which is already contributing 17% to the country's GDP[16] and would, understandably, boost the I&L real estate sector as well. The aggressive push of the central government to take the share of manufacturing sector to 25% of the country's GDP by 2025 will auger well for the scheme, and the overall I&L sector. The I&L sector has already been reaping

[9] Ref: https://cfo.economictimes.indiatimes.com/news/reit-firms-plan-to-form-an-association/101323844

[10] https://economictimes.indiatimes.com/industry/services/property-/-cstruction/reit-firms-plan-to-form-an-association/articleshow/101317744.cms

[11] Ref: https://www.livemint.com/market/stock-market-news/sebi-notifies-ways-to-achieve-minimum-public-unitholding-of-25-in-reits-invits-11687880655210.html

[12] https://www.livemint.com/market/stock-market-news/sebi-notifies-ways-to-achieve-minimum-public-unitholding-of-25-in-reits-invits-11687880655210.html

[13] https://www.thehindubusinessline.com/news/real-estate/sebi-implements-significant-changes-to-reit-regulations/article67210318.ece

[14] Ref: https://www.reuters.com/world/india/indian-govt-meets-foxconn-samsung-reliance-improve-pli-scheme-2023-06-28/

[15] https://www.livemint.com/news/india/govt-to-offer-2-2-billion-incentive-boost-local-manufacturing-include-six-new-sector-pli-scheme-report-made-in-india-11695208867467.html

[16] Ref: https://www.ibef.org/industry/manufacturing-sector-india#:~:text=With%2017%25%20of%20the%20nation's,come%20from%20manufacturing%20by%202025.

the benefits of the infrastructure push and GST implementation; a result of the same being that I&L leasing is likely to touch a five-year high at 36–38 million square feet in 2023 across the top eight cities in India.[17]

7. Move towards sustainability - Electric Vehicles

In line with the commitments made towards the 2030 Sustainability Development Goals (SDG) and the Paris Agreement, the government of India has set a target to ensure 30% of the country's vehicle fleet be electrified by 2030. It has implemented several policy decisions to achieve this target and support the Electric Vehicles sector[18]. These include the National Electric Mobility Mission Plan 2020 with a financial outlay of INR 1,400 crore, phase 1 of the FAME India scheme with an outlay of INR 895 crore, and phase 2 of the same with an outlay of INR 10,000 crore.

The central government has also brought in the draft vehicle scrapping policy, draft battery swapping policy and PLI schemes for advanced chemistry cell battery storage and automobile and auto component industry with outlays of INR 18,000 crore and INR 26,000 crore, respectively. These steps, coupled with up to INR 2.5 lakh subsidy on EV purchase cost, 100% road tax exemption and relatively lower fuel and maintenance costas have resulted in India's total EV sales exceeding one million units in 2022, posting a 200% Y-o-Y growth. The sector is also poised to witness an exponential 49% CAGR between 2021 and 2030, with annual sales crossing 17 million units by 2030.

A CBRE May 2023 report on the EV sector in India projects manufacturing space requirements for EV four wheelers, two wheelers and battery manufacturing facilities at 11 million sq.ft., 2 million sq.ft., and 2400 acres, respectively, by 2030.

[17] https://www.business-standard.com/industry/news/industrial-logistics-sector-leasing-to-touch-5-year-high-in-2023-cbre-123102500372_1.html

[18] Ref:file:///C:/Users/DELL/Downloads/CBRE%20Report%20-%20Electric%20Vehicles%20in%20India%20-%20The%20New%20Wheels%20on%20the%20Roads_June%202023.pdf