

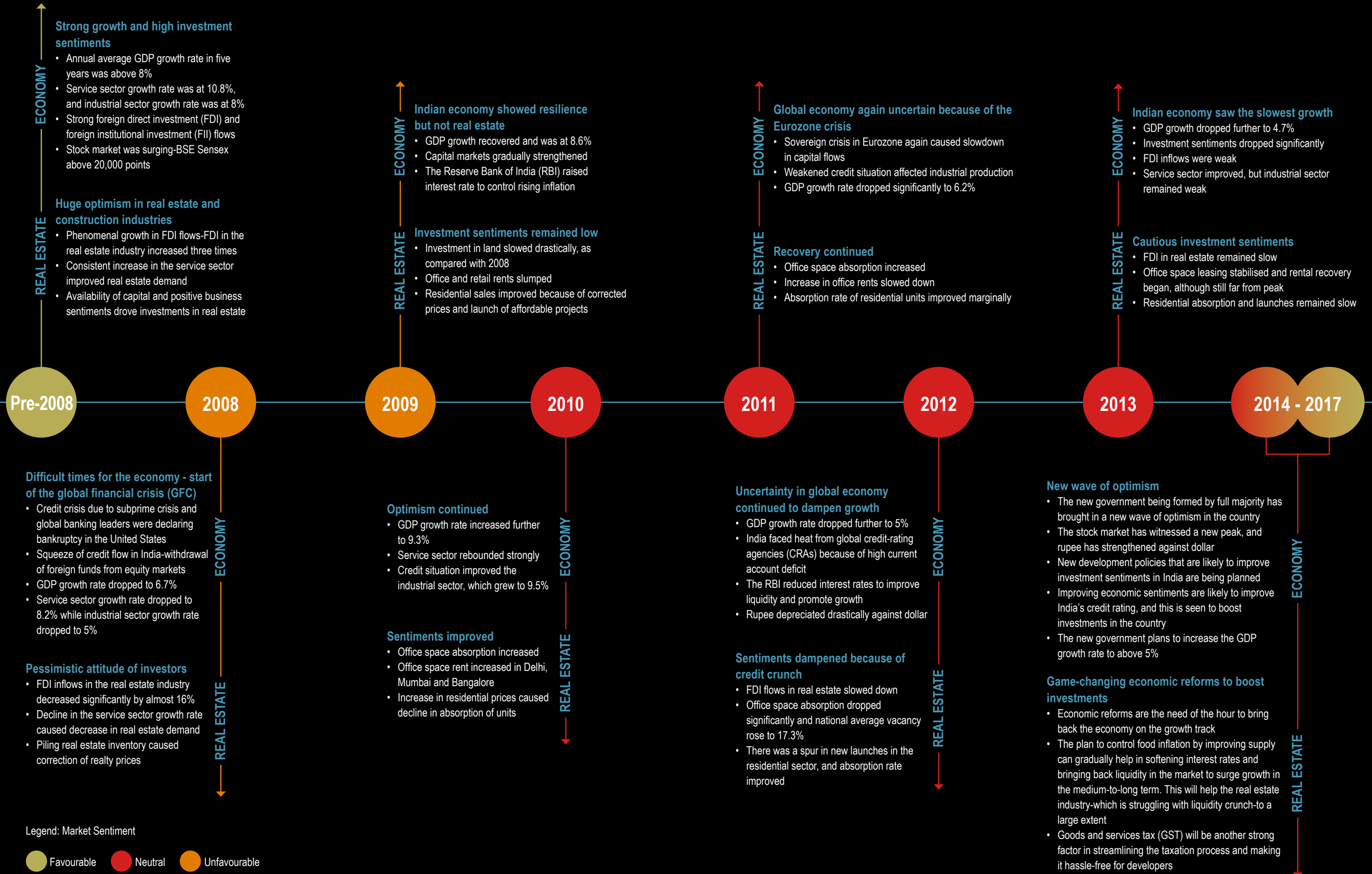
# *Exploring New Horizons*

Unfolding the New Landscape of India Real Estate

September 2014




# State of the Economy - Past, Present and Future






# Policies - Setting New Rules to Open New Opportunities for the Real Estate Industry



### SEZ Act, 2005

Under the provisions of the Special Economic Zones (SEZ) Act, 2005, several zones in India have been notified as SEZs. The SEZs have been promoted by providing tax holidays-for a plethora of taxes including income tax, sales tax, customs duty, minimum alternate tax (MAT), dividend distribution tax (DDT) and others-for developers and occupiers, with the objective to create employment, promote exports and develop infrastructure. The incentives led to several SEZs being developed across India. This act has provided the much-needed impetus to the IT industry and has driven the development of IT infrastructure across several cities in India.




### FDI Policy in Real Estate and Relaxations

FDI of up to 100% for the first category is permitted under the automatic route in townships, housing, built-up infrastructure and construction development projects (which would include, but is not restricted to, housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities and city-level and regional-level infrastructure). The policies are being relaxed progressively to attract interest from investors and provide them with a profitable exit strategy in the future.

In addition, the government eased norms for investments by foreign companies active in India through joint ventures (JV) in 2010. Foreign companies will no longer have to seek a no-objection certificate (NOC) from their Indian partner to invest in the sector where the JV operates. Also, the minimum size for housing estates built with foreign capital was lowered from 100 to 25 acres to attract foreign investments.

In order to further encourage investment in this segment, FDI investment norms in terms of minimum area required for development have been lowered from 50000 sqm to 20000 sqm and from USD 10 million to USD 5 million respectively with a three year post completion lock in.


Concerning retail real estate, FDI is now allowed up to 100% in single-brand retail products. The objective of this policy has been to enhance the competitiveness of Indian enterprises through access to global designs, better practices and technology. Additionally, 100% FDI is permitted via the automatic route in cash-and-carry wholesale trading. This is aimed at improving the distribution infrastructure between manufacturers and retailers. The new government has kept the relaxation of FDI in multibrand retail currently on hold to safeguard the interests of small traders and farmers.



### Land Acquisition, Rehabilitation and Resettlement Act, 2013

The Land Acquisition, Rehabilitation and Resettlement Act tried to ensure maximum protection for land owners, who are often individuals and at times not fully aware of the future consequences of disowning their land. This Act has the potential to unlock all the land that has been locked for several years because of lack of ways and means that ensure fair compensation.


While the Act had the objective of balancing the interests of land owners and land acquirers, the final draft of the policy did not really deliver on this front. The clauses that appear in the Act not only ensure that land costs go up for the acquirer, but also renders the acquisition process more complex and time-consuming. This is evident in the clauses pertaining to obtaining mandatory consent of 80% of the owners, future incremental gains from land transactions to be shared by the land owners and different resettlement procedures for different sections of the population (such as scheduled castes/tribes).



### Real Estate (Regulation and Development) Bill, 2013


The Real Estate (Regulation and Development) Bill, 2013, which the Union Cabinet approved after a long hiatus in June 2013, will be a game-changer for property buyers and the real estate industry as a whole. The bill is likely to bring in the much-needed transparency in the industry. This can encourage investments in the industry through mechanisms such as real estate investment trusts (REITs) and real estate mutual funds (REMFs).

The aim of the bill is to create a real estate regulator that will act as a watchdog for the housing sector, with a view to protect the interest of consumers while creating an alternative redress mechanism for any disputes that may arise. However, the bill currently has its own set of challenges waiting for its stakeholders. Implementation of this bill is likely to delay the projects, as putting all the approvals in place before launching a project take ample time for developers. The delay, in turn, will also increase the cost of the project. However, effective implementation of the bill, along with streamlining approval processes, can be a real game-changer for the industry.




### Repealing - Urban land Ceiling (ULC) Act, 1976

The Urban Land Ceiling (ULC) Act, 1976 gave the state government the right to acquire and dispose of excess land (as specified in the Act) from individuals and entities, thereby serving the common good. However, the Act caused short supply of land, making land prices unaffordable. Many Indian states have repealed this Act under the Jawaharlal Nehru National Urban Renewal Mission (JnNURM). However, if all states repeal this Act, land can be made affordable and available for development.




### Repealing - Rent Control Act

The Rent Control Legislation has been in existence for almost a century in India. The common intent of every state enacting the legislation is to protect tenants from forceful eviction and unfair rental hikes. In an attempt to protect tenants, this Act has in fact created unfavourable terms for landlords, thereby making the entire model of rental housing unviable and inefficient. Repeal of this Act could unleash a lot of redevelopment activity, as has been witnessed in many major cities all over the world. This is not only necessary to meet the growing unmet demand for housing in key locations of densely populated cities; it would also have a very favourable effect on employment generation with increased construction activity.




### The Direct Tax Code (DTC) - Deferred

The Government of India has deferred the implementation of the Direct Tax Code (DTC) from 2014 to 2015, which gives office occupiers more time to capitalise on their expansion decisions while carefully negotiating with developers. The delay in the implementation of the DTC has resulted in a good portion of the office space demand for IT SEZs spilling over from 2013 to 2014. With the demand for IT SEZs to remain healthy in the next 12–18 months, we expect the developers of IT SEZs to focus on execution and completion of projects for the duration to ensure a ready supply to match the immediately upcoming demand.




### BPLR to Base Rate System by RBI in 2010

The RBI has introduced a new regulatory system in place of the existing benchmark prime lending rate (BPLR) for banks that offer commercial loans in 2010. This new base rate system, which sets a floor for interest rates that banks are not allowed to lend below, is expected to enhance transparency and help smaller borrowers in raising funds. The BPLR system, which was initially started to bring in transparency, led way to give loans at sub-BPLR rates. This was not serving BLPR's original purpose. Therefore, the replacement of BPLR brought in the required transparency. Although banks can choose their base rate, they cannot disburse loans below the base rate. This system will help the borrowers evaluate their loan cost in a better way.




### Goods and Services Tax to be introduced

The Goods and Services Tax is expected to replace all the indirect taxes levied by state and central government in India. This tax is likely to be introduced in India. This tax is expected to lower the tax as it is expected to broaden the tax base. This is likely to make taxation hassle free which will be an advantage to developers.



### Smart Cities

Smart Cities, by definition imply considerable demand for technology- enabled services, which spells good news for IT/ITeS companies. Significantly, as much as one-third of the country's demand for office space emanates from this sector. This will have positive implications for real estate, across multiple asset class. As promised in the new governments manifesto, the creation of 100 smart cities across India has been proposed. The budget allocation of Rs. 7,060 crores towards this end, thereby giving a financial sign-off for this concept.

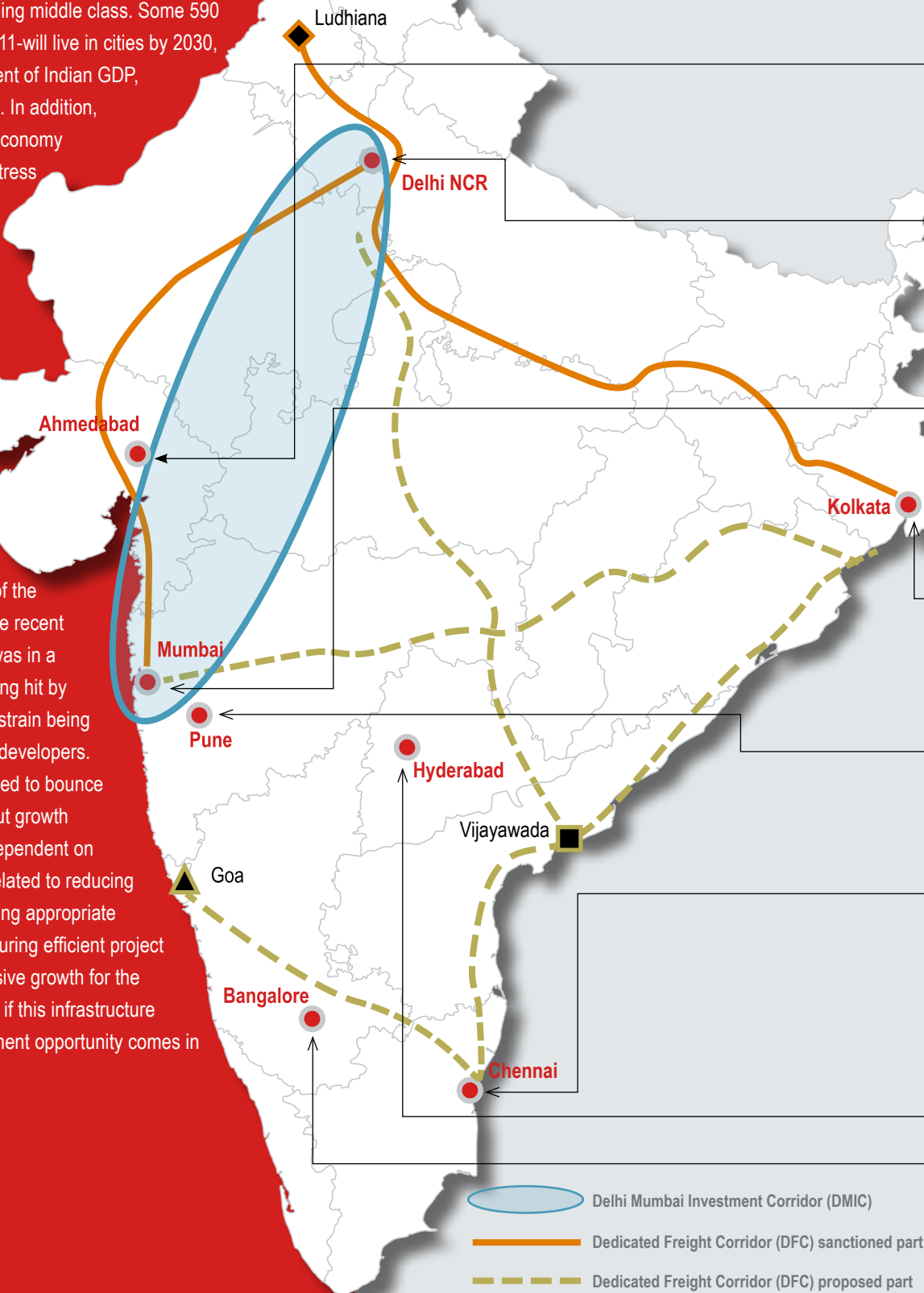


### REITs

With the stamp of approval by SEBI, REITs are finally a formalized concept. This is a big change from the ambiguity and uncertainty that prevailed about this very important instrument in previous years. It is gratifying to note that SEBI fully intends to deliver on its assurances of bringing better and faster funding into Indian real estate.

# Infrastructure

The need for better infrastructure is pressing with India's rapid urbanization and burgeoning middle class. Some 590 million people-377 million in 2011-will live in cities by 2030, and could account for 70 per cent of Indian GDP, according to a McKinsey report. In addition, the rapid growth of the Indian economy in past has placed increasing stress on physical infrastructure i.e. electricity, railways, roads, ports, irrigation, water supply and sanitation, all of which suffer from deficit in terms of capacities as well as efficiencies. The infrastructure sector in India has evolved from purely Government funded projects to newer business models involving partial or complete ownership of the private sector. Meanwhile, in the recent past, the infrastructure sector was in a state of flux, with the sector being hit by slowdown in the economy and strain being faced by various infrastructure developers. Going ahead, the sector is poised to bounce back with new opportunities. But growth of the infrastructure sector is dependent on solving some key challenges related to reducing regulatory uncertainty, developing appropriate financing mechanisms and ensuring efficient project management. And a high inclusive growth for the country could only be achieved if this infrastructure deficit is overcome with investment opportunity comes in place to support higher growth.



## Infrastructure that has changed the game

### Delhi Mumbai Investment Corridor (DMIC)

- 1,483-km length
- 200-sq-km sized investment region
- Six mega-investment regions
- INR 175 billion investment approved in first phase, while estimated total project cost is INR 5.5 trillion
- About 50% price appreciation in the last two years

### Dedicated Freight Corridor (DFC)

- Eastern Corridor (sanctioned) - Ludhiana-Kolkata, 1,805 km
- Western Corridor (sanctioned) - 1,515 km, Mumbai (J.N. Port) to Dadri
- Expected Speed: 100-120+ km per hour
- Provides great scope for logistics and warehousing real estate at important nodes

- Gujarat International Finance Tec-City (GIFT) - an international finance city on 986 acres of land, built at a cost INR 700 billion
- Bus Rapid Transit System (BRTS) - When fully completed in 2015, it will cover 115 km and will have cost INR 15 billion
- Yamuna Expressway - A six-lane (extendable to eight lanes), 165-km-long expressway connecting Greater Noida with Agra, built at a cost of INR 130 billion
- Delhi Metro - A metro system serving Delhi, Gurgaon, Noida and Ghaziabad with a network of six lines, plus an Airport Express line, with a total length of 190 km
- Mumbai Metro - First phase from Versova to Ghatkopar will be operational by end-2014. The entire project will have a length of 146 km, built at a cost of INR 360 billion
- Mumbai Monorail - The complete network of 135 km and eight lines will cost INR 202 billion
- Eastern Freeway - The 16.8-km-long highway between South Mumbai and Ghatkopar was completed in 2013 at a cost of INR 15 billion
- Kolkata Metro - The network consists of one operational line (North South Metro) and three under construction, with further lines in various stages of planning
- Kolkata Bus Rapid Transit System - Beginning at Ultadanga, the route will cover 15.5 km along the E M Bypass
- Pune Metro - The proposed 82-km-long metro rail project is expected to commence in 2018.
- Pune Ring Road - The tender for the DPR of the proposed 170-km Ring Road that will connect the fringe areas of Pune and Pimpri Chinchwad is likely to be issued in June
- Chennai Metro Rail - Under construction, the project consists of two corridors covering a length of 87 km
- Outer Ring Road - A 62-km-long corridor developed along the periphery of the Chennai Metropolitan Area
- Hyderabad Metro Rail - Phase I covers a distance of 71 km, while Phase II covers 80 km; the three phases will cost INR 170 billion
- Regional Ring Road - A 290-km ring road connecting the districts around the city and linking national highways NH 4, NH 7, NH 9 and NH 202
- Namma Metro - Phase I covers a distance of 42 km, while Phase II covers 115 km
- The Bangalore-Mysore Infrastructure Corridor (BMIC) - Also called NICE Road with a length of 111 km, it has been proposed that the corridor is upgraded from four to six lanes between Bangalore and Mysore

# Impact of Infrastructure Development on Real Estate

Infrastructure developments have direct impact on property values. Especially transport infrastructure positioning has serious impacts on people, communities and property values. Residential and commercial properties located close to transportation infrastructure tend to command a premium-it has been common for real estate prices to appreciate in tandem with the development of infrastructure. The general rule being- the better the infrastructure, the better the property value. Many cities in India have witnessed the benefits of infrastructure project developments such as metro railways, peripheral ring roads, and bus rapid transit systems (BRTS) on the back of the future growth potential of these projects. They generally witness sudden influx of real estate development and rise in property values around the infrastructure project. In addition, price increases during the years when an infrastructure is being built have been catalytically functional to minimise gaps between prices on the periphery and in the centre of the city.

If we take a closer look, upcoming infrastructure projects generally

lead to the development of new residential hubs. And, if land prices in such locations are not high then it creates immense potential for affordable and budget housing which eventually gets crowded and makes way for high priced residential units. Normally, land acquisition and consolidation are based on preliminary news regarding infrastructure projects. However, commercial projects show a slightly skewed behaviour. They truly gather momentum when infrastructure projects have moved from the drawing board to the execution phase.

Meanwhile, the completion of large infrastructure projects, such as the DMIC and DFC, will be expedited in the coming years. This, in turn, would mean the development of many new cities across the belt of these projects. These massive on-going infrastructure projects will also lead to a huge demand for warehouse space, thereby giving a significant boost to warehousing-related and logistics-related real estate demand. Once the DMIC and DFC are completed, the growth of real estate in India's hinterlands that will be connected by these corridors will be exponential.

## Case Study: Mumbai Metro Railway

Mumbai witnessed the commissioning of the Versova-Andheri-Ghatkopar (VAG) corridor of the Mumbai Metro in June 2014. This Public Private Partnership initiative of the Mumbai Metropolitan Region Development Authority has equity participation from Reliance Infrastructure and Veolia Transport. The metro connectivity reduces travel time to 21 minutes from the current 90 minutes between Versova and Ghatkopar with improved East-West connectivity. The areas that benefit from the metro connectivity have already seen a price appreciation of 400% over the past eight years, and this trend is set to continue with the launch of the link.



# On the Cards: Proposed Infrastructure



## Railways

One of the prominent schemes in this sector could be the launch of the Diamond Quadrilateral project, a high-speed train network (bullet train). Others include tourist rails and research and development (R&D) centres for indigenous railways



## Airports

Modernisation of existing and operational airports as well as building new ones, especially those connecting smaller towns and all tourism circuits, are likely to take place



## Ports and Waterways

Modernisation of existing ports and development of new ones, and then linking them together, as well as development of waterways for passenger and cargo transport are also on the cards



## Roads and Transport System

A public transport system that reduces dependence on personal vehicles and cost, time to travel and ecological cost could be the future, along with the construction and expansion of new highways

## Proposed Indian Experiment of 'Smart Cities'

The creation of 100 'smart cities' is likely to be a game-changer for the next generation of Indian infrastructure development. The general characteristics of these 'smart cities' include:

- Utilisation of networked infrastructure, including business, housing, leisure and lifestyle services, as well as information and communication infrastructure (ICT) to improve economic and political efficiency enable social, cultural and urban development
- Application of strategy to increase local prosperity and competitiveness
- Social inclusion of various urban residents in public services and emphasis on citizen participation in co-designing while focusing on social, environmental and economic sustainability



# Capital Flows - The Vital Fluid of Indian Real Estate

## Investing in Indian Real Estate

Investing in real estate has become increasingly popular over the last few decades and a common investment vehicle. Real estate is considered to be one of the soundest investment options in matured countries, and not without reason. Subsequently, in Indian context, the real estate market has plenty of opportunities for making big gains amid the changing socioeconomic conditions and fluctuating gold and stock market values. Although many complexities surrounded the buying and owning of real estate in the country and 2013 was mired in challenges such as subdued sales, piles of unsold inventories and builders facing cash crunch with the change in government, India is likely to witness an infrastructural boom, providing real estate with an advantageous edge as an investment vehicle. The new political environment is likely to make policy reforms which will bring the economy back to the growth track, thereby improving the investment sentiments in real estate in the short-to-medium term.

However, it is important to mention that caution should be exercised at all cost while investing in real estate, considering many facets including possible capital appreciation during the project life cycle and studying the reputation of the developers for delivery within stipulated time as well as legal issues related to the project.

### Positive Aspects of Real Estate Investment



#### A SOLID INVESTMENT

The best thing about investing in real estate is that there is more appreciation with the passage of time.



#### LESS RISK INVOLVED

Investors are less likely to end up with a loss by investing in real estate. Real estate is relatively free from drastic fluctuations and rarely loses value. On the other hand, factors such as surrounding developments, i.e., a new road, can increase the value of real estate many times.



#### MORE CHOICE

There is a wide array of choices for investing in real estate across India. It can be land, commercial/residential space or anything that generates interest.



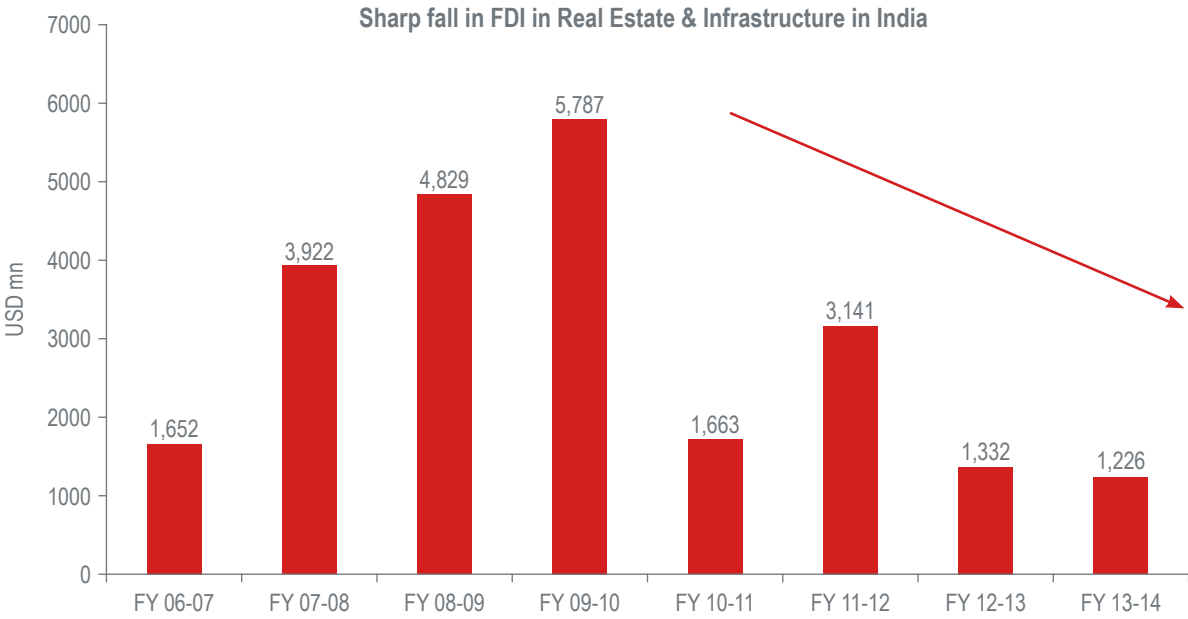
#### PROFITABILITY

Investment churns up profit in many ways as returns, including appreciation, resale and rents.

## FDI in Indian Real Estate

According to the Department of Industrial Policy and Promotion (DIPP) data, FDI into the construction sector-townships, housing and built-up infrastructure-declined to about USD 1.3 billion over the April 2013 to February 2014 period from USD 3.1 billion in the April 2012 to March 2013 period. This is primarily because investment sentiments in India dropped significantly given the pre-election political uncertainty and unveiling of scams. Meanwhile, from April 2000 to February 2014, a cumulative FDI of USD 23.1 billion-11% of the total inflows-has come into the real estate sector. Although, at present, 100% FDI is permitted through the automatic route in the sector-which covers townships, housing, commercial premises, hotels, resorts, hospitals, educational institutions and recreational facilities, as well as city-level and regional-level built-up infrastructure, the FDI inflow was reduced over a couple of years as the real estate sector have been battling declining sales and high inventory, along with cash crunch and piled-up debt.

Now, after the election result, FDI in Indian real estate is expected to get a lift, resulting in amplification of fund flows and strengthening of the battered Indian rupee. With a clear majority triumph, the incumbent government will enjoy unwavering stability at the centre, which will in turn encourage investors' sentiments with regard to the real estate market. Global investors are now markedly optimistic about the Indian economy, which is expected to witness increase in foreign investment inflows-both via FDI and FII-in the current financial year, as compared to USD 29 billion during FY 2013-2014.



Source: DIPP, India

### Permission Status of FDI in Indian Real Estate and Infrastructure

Permission Required	Freely Permitted
Existing Airports - beyond 74%	Greenfield airports
Atomic Minerals	Construction & maintenance of infrastructure like ports, harbors, roads and highways
In case of joint venture or technology collaboration agreement in the same field	Power generation, transmission and distribution and trading (Not atomic energy)
	Mass rapid transport systems
	Townships, housing, built-up infrastructure and construction-development project

Improving Transparency: Facilitating Better Investment Scene

India's improving transparency would likely act positively for foreign corporates and investors. Every two years, JLL releases the Global Real Estate Transparency Index, which includes 97 markets worldwide. A unique survey that covers 83 different factors across 13 transparency topics (mentioned below), the index provides a holistic score that indicates improvement or deterioration in any country's transparency level. The index aims to help real estate investors, corporate occupiers, retailers and hotel operators understand important differences when transacting, owning and operating in foreign markets. It is also a helpful gauge for governments and industry organisations who are interested in improving transparency in their home markets. The last published index in 2012 showed that India improved its overall transparency rating along with stability in ranks of Tier II cities and increment in ranks of Tier III cities, compared with 2010. Although the country is still under a semi-transparent stage, the improvement is encouraging.

However, India's government and regulatory authorities are working to improve the investment climate through market transparency-albeit at a slow pace-while the relaxation of FDI laws, an improvement in the availability of data and the strengthening of regulations in the real estate sector are some of the other initiatives.

13 Transparency Topics

- Direct Property Indices
  - Listed Real Estate Securities Indices
  - Unlisted Fund Indices
  - Market Fundamentals Data
  - Financial Disclosure
  - Eminent Domain
  - Debt Regulation
  - Regulation
  - Valuations
- Land and Property Registration
  - Sales Transactions
  - Corporate Governance
  - Occupier Services

Key Steps towards  
Reducing Opaqueness

• The Real Estate Regulation Bill is regarded as a key policy that will likely improve India's transparency score

• With the increase in multinational occupiers in India, the clarity of contracts in occupier services is expected to improve further

• As both international and national developers in India are penetrating deep into the cities, transparency scores are expected to improve further

• The availability of time series data on market fundamentals, such as demand, supply and real estate prices for the office, retail and residential sectors, is expected to improve. Indices on real estate returns will improve with the increase in the number of listed real estate companies and institutional investors in India

• Introduction of the general anti-avoidance rule (GAAR) and the computerisation of land records (CLR), along with strengthening of real estate regulations, are expected to improve transparency in the application of tax and building codes and the availability of title records

• In 2014, India's Tier I cities are likely to be close to transparent with the availability of more accurate data on returns and market fundamentals. Tier II and Tier III cities will continue to be lower down the semi-transparent tier, albeit with higher transparency scores. In 2014 GRETI, India has seen improvement in overall transparency scores for Tier I and Tier II cities and limited gains for Tier III cities.

Real Estate Investment Trust (REIT)

The global commercial real estate sector witnessed a shift from the private sector to public markets over the past two decades, while the Indian real estate industry began to seek additional sources of funds over the same period, as this capital-intensive sector faced severe constraints in terms of adequate and structured financing options. As a result, the success story of global REITs is compelling enough to encourage the implementation of a similar regime in India, with requisite adjustments. REITs have proven to be an attractive investment option for retail investors as well as for investors' long-term pools of capital such as pension funds and insurance companies that prefer a regular income stream. REITs have other advantages:

- Bring in increased transparency by adopting better corporate governance, disclosure and financial transparency
- Deliver regular information exchange and availability in the public domain with higher professionalism
- Equity financing would improve the debt-equity balance in the market
- Provide a vehicle for addressing nonperforming assets
- Give common investors a huge opportunity to share in the gains of this asset class

REITs are likely to provide investors with an avenue that is less risky with investing in income-generating properties than investing in under-construction properties. They will also provide an income source in the form of rents, which, in turn, could be a good hedge against inflation. Moreover, being a more liquid instrument among the current range of property investment vehicles, REITs hold the potential of improving an investor's investment profile through diversification of the investment base and the increasing stability of the income source. Furthermore, not only tax benefits but clarity on taxation is even more important. The reason REITs are successful in other countries is that only the end investor or the unit holder is taxed. In addition, when REITs are introduced for the first time in India, they need some incentives and tax breaks-which could be one time or for a stipulated period-to give the initial push. Once the industry matures, then the government can think of removing or reducing the tax incentives.

The release of draft regulations for setting up REITs in India is an effort by the market regulator, the Securities and Exchange Board of India (SEBI), to bring a higher level of maturity to the Indian real estate sector. It is expected that with the opening of the sector to REITs, there will be increased capital inflows from overseas markets.

Transparency Level	2014 Composite Rank	Market	2014 Composite Rank	Remark
High	3	Australia	1.36	
	4	New Zealand	1.44	
Transparent	13	Singapore	1.81	
	14	Hong Kong	1.87	
	26	Japan	2.22	
	27	Malaysia	2.27	
	29	Taiwan	2.55	
Semi	35	China Tier 1	2.73	Moved up by 11 places
	36	Thailand	2.76	Moved up by 8 places
	38	Philippines	2.84	
	39	Indonesia	2.85	
	40	India Tier 1	2.86	
	42	India Tier 2	2.90	Moved up by 7 places
	43	South Korea	2.91	Slipped by 1 place
	47	China Tier 2	3.04	
	50	India Tier 3	3.14	Same position
Low	68	Vietnam	3.59	
Opaque	99	Mongolia	4.47	

The introduction of REITs is going to provide a timely opportunity for both investors and the real estate industry to develop a mature and transparent market. Over a period of time, it will also help in developing a price discovery mechanism for the commercial property market in select cities.

Key Conditions:

- Compulsory registration with SEBI
- Minimum size of assets under REIT - INR 500 crore
- Minimum IPO size of REIT - INR 250 crore
- Sponsors required to hold minimum 15% (25% for the first 3 years)
- Minimum public float - 25%
- Minimum subscription size for unit holders - INR 2 lakhs
  - Till the market develops, only HNIs and Institutions will have participating rights in REITs
- Consolidated borrowings + Deferred payments should not be more than 50% of value of REIT assets

Taxation

Interest income of REIT

- REIT gets a pass through however, it needs to withhold tax on distribution out of this income @ 10% for resident unit holders and 5% for non - residential unit holders

Dividend Income of REIT

- DDT will be levied at SPV level
- Dividend exempt in the hands of REIT
- Dividend distributed to Unit holders in this regard is exempt in the hands of unit holders

Capital Gains on disposal of shares in SPV

- Taxable in the hands of REIT as Capital Gain Tax
- Distribution of capital gain exempt in the hands of unit holders

Capital Gains on transfer of units held in REIT by unit holders

- As per other equities listed on stock exchanges
- Capital Gains to sponsor on exchange of shares in SPV with units of REIT
- Liability of tax in the hands of sponsor
- Differed to the time of disposal of units of BT

Any other income

- Taxable at MMR (Maximum Marginal Rate) @ 30%

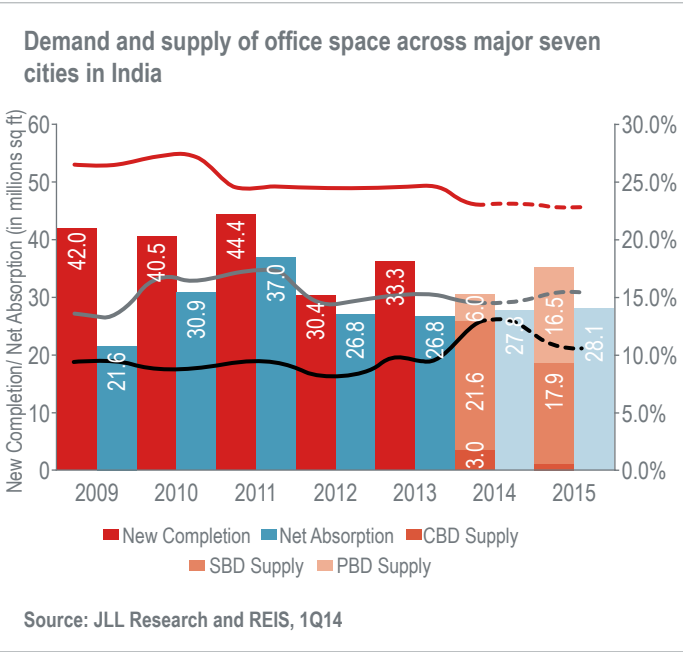
Country	USA	Singapore	UK	India
System	REIT	S-REIT	UK-REIT	-
Date Established	1960	1999	2007	2014
Listed/Unlisted	Both	Both	Only Listed	Only Listed
Closed-end or Open-end	Closed	Closed	Closed	Closed
Fund Vehicle	Corporation, Trust	Corporation, Trust	Corporation	Corporation
Investment in Real Estate	At least 75%	At least 70%	At least 75%	At least 80%
Minimum Number of Stockholders	100	None	100	Public float* for the REIT units shall be minimum 25% at all times
REIT Income	Not less than 75% from rents or mortgage interest	Not more than 10% of its revenue from sources other than rents or mortgage interest	At least 75% of gross income from rents or mortgage interest	At least 75% of gross income from rents or mortgage interest
Distribution of REIT income	At least 90%	At least 90%	At least 90%	At least 90%
Conduit Structure	Pass through	Pass through	Tax Exempt	Partial Pass through

Office Market - Superimposing the Growth of India

State of Office Market in India

The service sector is the backbone of the Indian economy, contributing to more than 58% of the GDP. It is also the key driver of the office space leasing market in India. The looming euro crisis and uncertain global economic conditions slowed down business outsourcing in India, leading to slowdown in office space demand in 2012. These conditions led to significant drop in net absorption of office space in India during the same period. However, in 2013, the service sector stabilised, contributed by the moderate growth of the information technology/information technology-enabled services (IT/ITES) industry and the stable growth of other services industry in India. The year 2013 was moderately good for the IT/ITES industry, which witnessed a 7% y-o-y growth as per the National Association of Software and Services Companies (NASSCOM) estimate. This sector alone accounted for 8.2% of India's GDP. Recruitments in this sector grew by 32% y-o-y during the same period. In addition, other service sectors such as finance, insurance, business services and real estate also witnessed stable growth in 2013. Therefore, these factors kept the office space demand stable despite the slow economic growth in India. Mumbai and Bangalore were the two cities that witnessed maximum demand from office occupiers in 2013 and contributed to most of the net absorption. Office space demand remained strong even in NCR-Delhi where most of the leases were pre-commitment in office spaces that were under construction. Apart from these three prime cities, Pune also witnessed healthy demand for office space in 2013.

The NASSCOM estimates the current FY 2013-2014 to be relatively more positive for the IT/ITES sector. It also estimates that, during the same period, export revenues will grow by 12-14%-owing to sustained economic recovery in the United States and Europe-and domestic



revenues will grow by 13-15%, owing to increased spending by the government and the banking, financial services and insurance (BFSI) sector. Meanwhile, office space demand is expected to improve or remain stable in 2014. The positive growth sign shown by the new government is likely to improve investment sentiments and business climate in India. This can encourage companies to expand their operations further in the country. Fence-sitting occupiers who were waiting for the election results can take positive decisions this year. Mumbai and Bangalore are likely to continue to be the most preferred cities by office occupiers.

Supply conditions remained stable over 2013, and this is expected to continue in 2014. The sudden burst of optimism brought by the election results is likely to support developers to continue building.



Capital markets are expected to improve, and this may bring in the much-needed impetus for developers to complete their projects. Developers can leverage on the stable office space demand, which is likely to come by keeping their buildings ready for occupancy.

In terms of financial indicators, the office sector entered a preliminary growth phase with a gradual increase in rents in end-2013. Average capital values in the office sector in India were still 25% lower than their most recent peaks seen in mid-2008. On the other hand, capital values in the residential sector had surpassed their previous peak by end-2011. In 2013, select submarkets in Mumbai, Pune and Chennai witnessed moderate growth in rents, while the cities of Bangalore and NCR-Delhi witnessed negligible rental growth. Among the Tier II cities, Hyderabad saw negligible growth, whereas in Kolkata, rental values remained stable in most submarkets amid the downward pressure created by slow absorption in the city. Rental values in Chennai

remained largely stable with stable demand. However, increased demand and relatively low vacancy levels supported rental growth in the SBD and SBD Old Mahabalipuram Road (OMR) submarkets in Chennai.



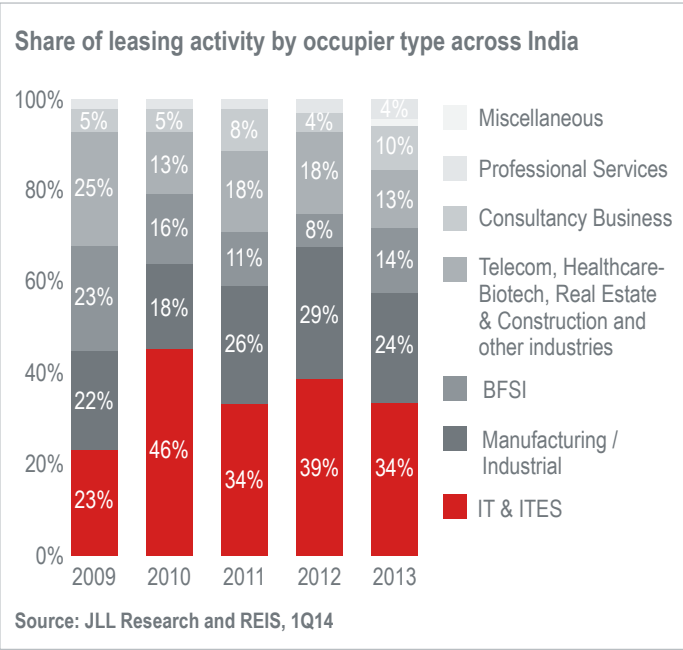
Office rental value Index

	RENTS DECLINING		DECLINE SLOWING	RENTS RECOVERING				RENTAL VALUE INDEX
	2008	2009	2010	2011	2012	2013	1H14	2Q14
Bangalore	-0.9%	-17.7%	3.3%	10.8%	5.3%	-0.6%	0.1%	100.3
Mumbai City	-3.6%	-34.3%	0.8%	1.1%	0.8%	0.5%	0.3%	62.3
Delhi City	-3.8%	-41.6%	2.2%	3.2%	1.3%	0.0%	0.0%	59.2
Mumbai Suburbs	-7.0%	-34.3%	0.0%	7.4%	1.1%	2.1%	0.6%	68.7
Gurgaon (Prime)	1.6%	-31.1%	2.8%	11.8%	5.7%	5.0%	1.0%	81.8
Gurgaon (Off Prime)	-15.0%	-38.2%	-2.4%	9.8%	4.4%	2.1%	0.0%	66.7
Noida	-3.2%	-16.6%	-9.0%	3.3%	2.7%	3.6%	0.3%	78.2
Chennai	-0.6%	-22.4%	0.0%	6.4%	4.9%	4.4%	0.6%	94.2
Pune	-5.1%	-20.7%	0.0%	3.4%	7.3%	6.8%	2.3%	85.8
Hyderabad	3.1%	-14.0%	0.0%	4.1%	5.1%	1.1%	0.6%	81.1
Kolkata	9.3%	-27.4%	0.0%	5.7%	8.2%	-0.3%	0.0%	82.6

Mumbai City includes CBD, SBD Central, BKC and SBD North. Mumbai Suburbs includes Eastern and Western Suburbs. Delhi City includes -CBD & SBD of Delhi.

Source: JLL Research and REIS, 1Q14

Changing Occupier Profiles in India



Over the last five years, office space occupier profiles in India have seen a sea of change. Although the IT/ITES industry continues to remain the leader in leasing office spaces in India, the last five years saw a gradual increase in the share of office space take-up by manufacturing firms. During the same period, there was a gradual decrease in the share of office space take-up by the BFSI industry. This is a direct implication of the performance of these sectors in the turbulent economic condition of the nation. Meanwhile, the IT/ITES industry witnessed a slowdown during the GFC. Post the GFC, this industry slowly revived growth as the US and UK economies recovered and witnessed strengthened domestic demand for IT/ITES services. The share of IT/ITES companies in total space leased across India was 46% in 2010 and fell to 34% in 2013. This indicates another trend that IT/ITES companies have adopted strategies of efficient usage of spaces to reduce expansion of operations as they become cautious about their real estate expenditure. Among the cities, Mumbai, Pune, Kolkata and NCR-Delhi strengthened their share of IT/ITES leased space, whereas Bangalore's share dropped.

Meanwhile, the post-GFC and sovereign crisis in Eurozone made the BFSI industry very cautious. BFSI companies consolidated their operations and reduced expansion plans. As a result, their share in office space leasing gradually dropped from 23% in 2009 to 14% in 2013. Mumbai and Pune remained as their most preferred cities in 2013. The telecom, healthcare, biotech, real estate, construction and other industries also followed the same pattern as the BFSI industries, seeing their share drop from 25% in 2009 to 13% in 2013. Pune and Hyderabad reduced their dependency on the IT/ITES industry. Hyderabad has been the first choice for healthcare, biotech, telecom and construction companies, which have collectively taken up more than 25% of the total space leased in the city.

Interestingly, the manufacturing sector-which passed through choppy waters a couple of times during the last five years-continued to lease office space in a stable pattern. Manufacturing companies increased their share from 22% in 2009 to 24% in 2014. Bangalore, which is considered as the silicon hub of India, interestingly turned out to be the leader in office space leasing by manufacturing firms. Another industry that increased its share in office space leasing consistently over the last five years was business consulting companies. NCR-Delhi was the most preferred city by business consulting firms in India to set up their operations.



Corporate Real Estate Dynamics- Occupiers' Needs Giving Way to New Occupancy Strategies

Post the GFC, office occupiers have focused on cost cutting and cost efficiency, along with growth. Real estate expenditure is one of the key expenses that an occupier has to bear. Under such circumstances, occupiers started adopting innovative strategies to manage real estate costs. These innovations and creative strategies came up as new trends in office occupancy over the last few years. Three of these trends are discussed below:



GREEN BUILDINGS

Green footprint is increasing consistently in India. The increasing awareness about sustainability and rising energy costs are driving the development of green buildings in India. Currently, the growth of green buildings in the country is more visible in the commercial sector than in other real estate sectors. This is primarily led by multinational and domestic occupiers who want to proactively demonstrate their corporate social responsibility (CSR) stewardship and also focus on saving energy costs. Aside from occupiers, many developers in India are also adopting green design technologies in constructing new office buildings. Chennai and Mumbai are the leading cities in the development of green office buildings in India.



SMART BUILDINGS

Rising energy, water and other resource costs have driven the rise of smart or intelligent buildings in India. Smart buildings are also used in India for the safety and security of the inhabitants of the buildings. These buildings are devised with computer-aided building management systems that can allow managing the buildings remotely. Developers, occupiers and facility managers have effectively adopted the building management systems in smart buildings across the country in all types of buildings, such as office, retail, residential and hotel projects. From small building management systems to highly sensitive and advanced management systems, India has witnessed growth of intelligent building management systems in all segments. Companies such as Cisco, Cognizant, HSBC, IBM, Infosys Microsoft and Wipro, among others, have adopted building management systems in their campus facilities in India. In addition, many other stand-alone office buildings in India have also adopted integrated building management systems in their buildings. Olympia Tech Park and TIDEL Park in Chennai; Technopolis in Kolkata; and CMC Building and Godrej Bhavan in Mumbai are some of the smart office buildings in India.



FLEXI DESKS

Smart occupancy or flexi desks are a strategy that allows maximum workspace efficiency or reduction of unused real estate spaces or desks. In such offices, there are no fixed desks or spaces for the employees. The office space has an optimum number of desks based on average occupancy of the office, and every day, employees are allotted a desk when they log in to the office and until they log out. This arrangement does not allow desks to remain unused when the employee is out of office premises for client meetings or other official works. This arrangement also improves networking in office and upgrades the energy efficiency of the office premises. This is already being used in other countries and is slowly gaining ground in India. The JLL Mumbai office has already adopted this strategy, which is called the WorkSmart programme.

The WorkSmart concept works this way: An employee would log in to the system as s/he enters the 'cubicle-less' office in the morning and receives the code for his/her work desk for that day, take charge of the desk phone and laptop point and work there until s/he logs off in the evening. S/he would have a locker somewhere in the office for keeping his/her belongings and, with this system, would have to adapt to a paperless way of working-a way of working that creates no waste paper but leaves a desk clean on top and underneath. One key achievement of this programme is that this arrangement has allowed the JLL Mumbai office to save 30% on real estate costs.

Retail Real Estate - Reinvigorating Growth

Retail Industry: Advantage India

Favourable demographics, a young and working population, rising income levels, urbanisation and growing brand orientation are helping consumerism in India witness unprecedented growth. Subsequently, according to a recent report by Ernst & Young (EY) and the Retailers Association of India (RAI), India's retail market, which in 2013 was estimated at USD 520 billion, is expected to grow at a compound annual growth rate (CAGR) of 13% to reach around USD 950 billion by 2018. Meanwhile, the report also states that organised retail penetration is expected to clock annual growth of 19–20% to reach 10% by 2018. Penetration in Tier II and Tier III cities, an improvement in business models and operations, as well as movement from unorganised to organised trade would likely play an integral role in driving this growth.





Retail Real Estate in India: Benchmarking With Other Retail Cities of Asia Pacific

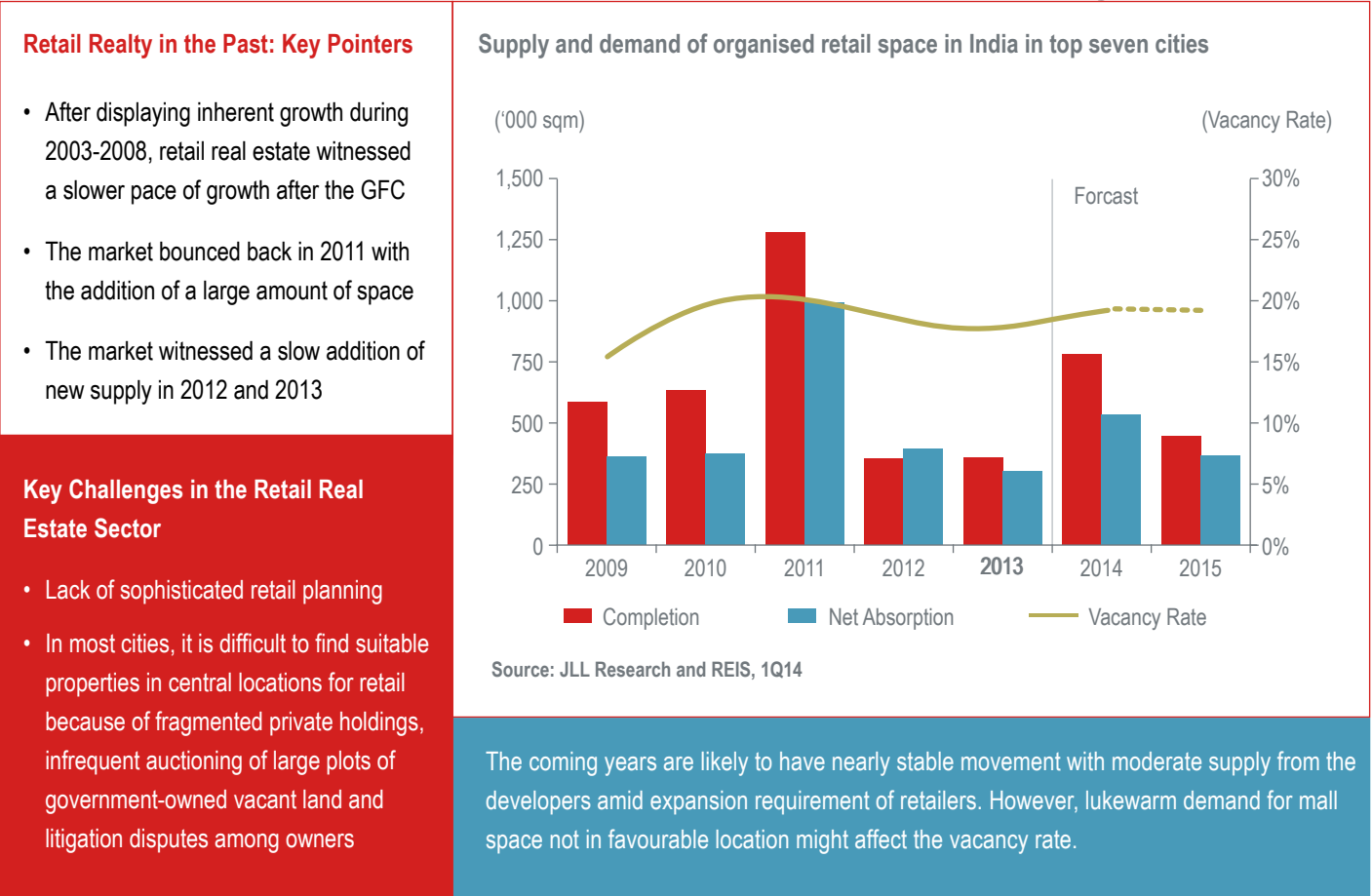
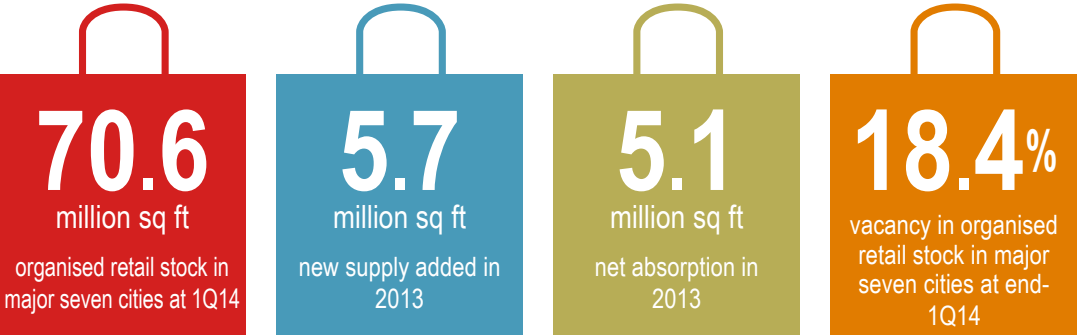
South-East Asia, in particular, continues to mature rapidly with the completion of new retail space and increasingly sophisticated consumers, spurring the arrival of new retailers from overseas. Domestic consumption is healthy in most parts of the region, albeit

clouded to a certain extent by larger global economic uncertainty. As a result, India will continue to see good retail activity, even at the given fact that it will see lesser supply despite being a large market.



Retail Realty: Demand Supply Dynamics in India

Driven by this economic growth and factors favourable to the Indian consumer, the real estate sector has shown exemplary growth, growing from less than 1 million sq ft of mall space in 2001. The Indian organised retail sector has also witnessed a manifold increase. However, on the back of economic ups and downs and irrelevant supply, the performance of the retail industry has witnessed swings, with several changes in absorption levels and vacancy rates over the years.



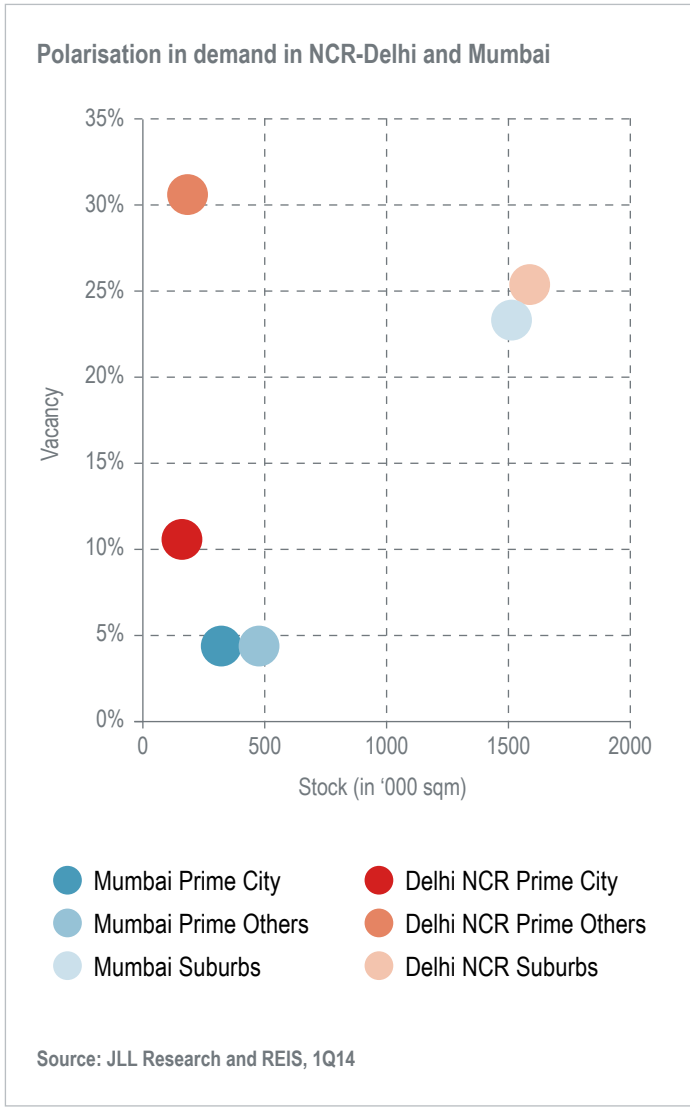


Major Concerns for the Retail Real Estate Sector in India

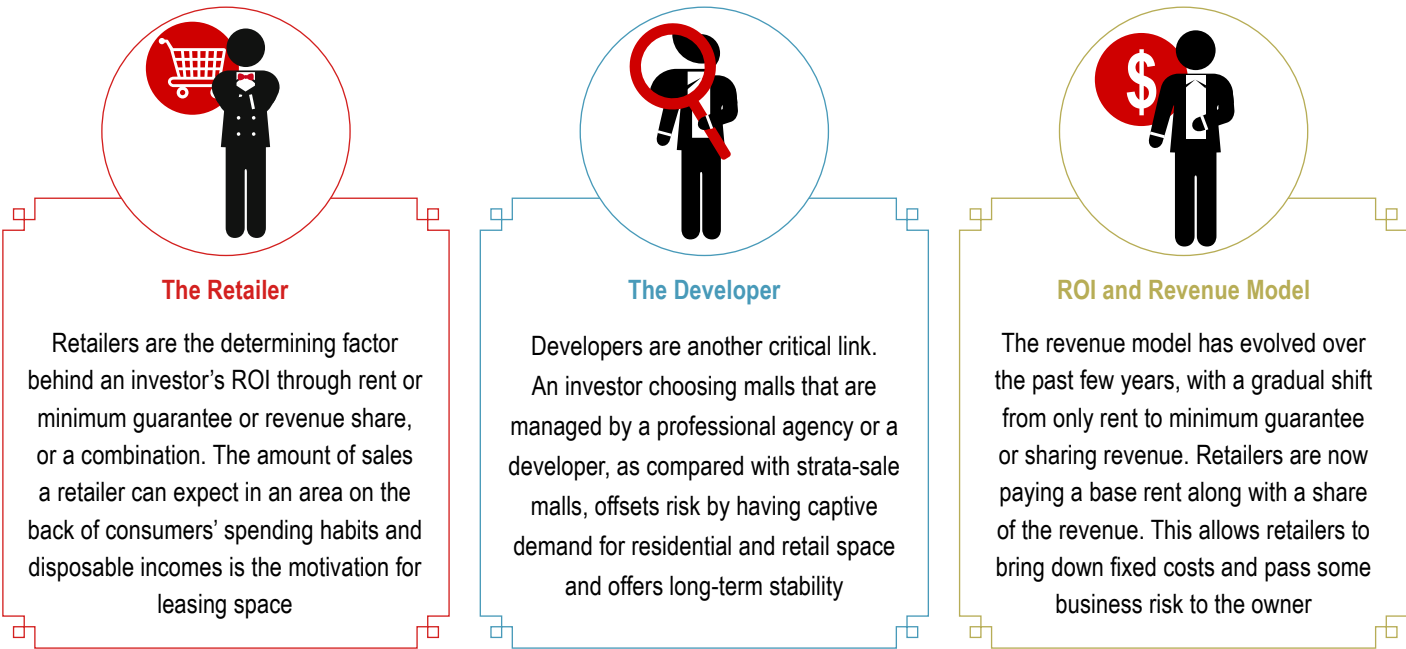
- **Polarisation in demand in Indian retail real estate** - In Tier I cities such as Mumbai and NCR-Delhi, vacancy rates vary hugely across malls that are in good locations, backed up by a sustainable consumer community and over-ambitious projects launched in poor locations with a lack of infrastructure and supporting consumer potential. Even with expected correction in supply in the long term, this mismatch in vacancy levels is expected to change little.
- **Bigger malls versus smaller malls** - Large shopping malls that mostly have a range of stores alongside cinemas and entertainment arcades in one place are better at becoming 'destinations' in a city. However, securing a large land parcel is difficult in city centres. Therefore, at times, in bigger cities, large shopping malls tend to be located in other prime areas. However, in smaller cities, large shopping malls tend to be the main city attraction, i.e., Lulu Mall in Kochi. Subsequently, smaller malls are easy to implement while visitor comfort and store variety are the biggest downsides when compared with typical large-sized malls. In addition, small centres, especially those located in an office or condominium, have a limited catchment.
- **Absence of clear demarcation of use and strata sales** - It is evident that the idea of retail cum office space is being used even now, as developers divide existing large floor plates into smaller office spaces. However, mixed-use developments integrating different uses within the same structure could act as a solution with clear demarcation and identification of use. Apart from this, strata sales are hurting a mall's attractiveness, with the brand-mix and retailers' presence getting a hit.

Retail Real Estate as a Long-term Business

Amid the concerns of venturing into retail sector, there is enough potential in the Indian retail realty to perform as a major asset class for investment, as the pace of growth is likely to witness northward movement in the coming years. The major potential of the retail realty sector has remained untapped, unlike in other major Asian cities where it is already being used as a wealth-generating asset when properly looked up on.



However, this real estate segment is complex when compared with other asset classes such as commercial and residential real estate. Investors in retail realty need to evaluate many factors, including demand for retail space in the location, expected return on investment (ROI), past performance of retailers and future expectations, changing pattern of consumer spending and shifting commercial trends with e-tailing, as well as the local rules and regulations managing the retail leases.



Case Study: CRCT

CapitaMall Trust holds 122.7 million units in CapitaRetail China Trust (CRCT)-approximately a 15% stake-as at 31 December 2013. The total asset size of CRCT was approximately USD 2.2 billion as at end-2013.

- CRCT is the first and only China shopping mall that is REIT-listed in Singapore, with a portfolio of ten income-producing malls
  - Across the portfolio, CRCT achieved a strong rent reversion of 13.8% and operated at a high occupancy rate of 98.2%
  - CRCT has a geographically diversified portfolio of malls in six cities-Beijing, Shanghai, Zhengzhou, Hohhot, Wuhu and Wuhan
- All the malls in the portfolio are positioned as one-stop family-oriented shopping, dining and entertainment destinations for the sizeable population catchment areas in which they are located. They are accessible via major transportation routes or access points. A significant portion of the properties' tenancies consists of major international and domestic retailers, such as Walmart, Carrefour and the Beijing Hualian Group, under master leases or long-term leases, which provide CRCT unit holders with stable and sustainable returns. The anchor tenants are complemented by popular speciality brands, such as Uniqlo, Zara, VERO MODA, Sephora, Watsons, KFC, Pizza Hut and BreadTalk.

Mixed-use Development: Another Solution for Retail Real Estate Growth

While many retail malls across the country-from small strips to megamalls-suffer from double-digit vacancy rates, designing, owning or managing a mixed-use facility means there is an opportunity for multiple challenges. However, it also opens the door to multiple opportunities, which include:

- Efficient use of land resources
- Reduction in the long-term maintenance costs of individual buildings
- Brightening of communities with opportunities for building and energy efficiency as well as sustainability

Key Challenges in Mixed-use Developments

- On the flip side, shops in mixed-use projects in many cases have limited scope for retail activity (stationery shops, chemists, florists, small restaurants and so forth)
- Additional problems that arise involve trash, bad odour, traffic and noise transferring from one use of the building (a bustling restaurant or store) to another (apartments)
- Parking is another common issue that arises in mixed-use facilities

Case Studies: Mapletree Mixed-use Projects

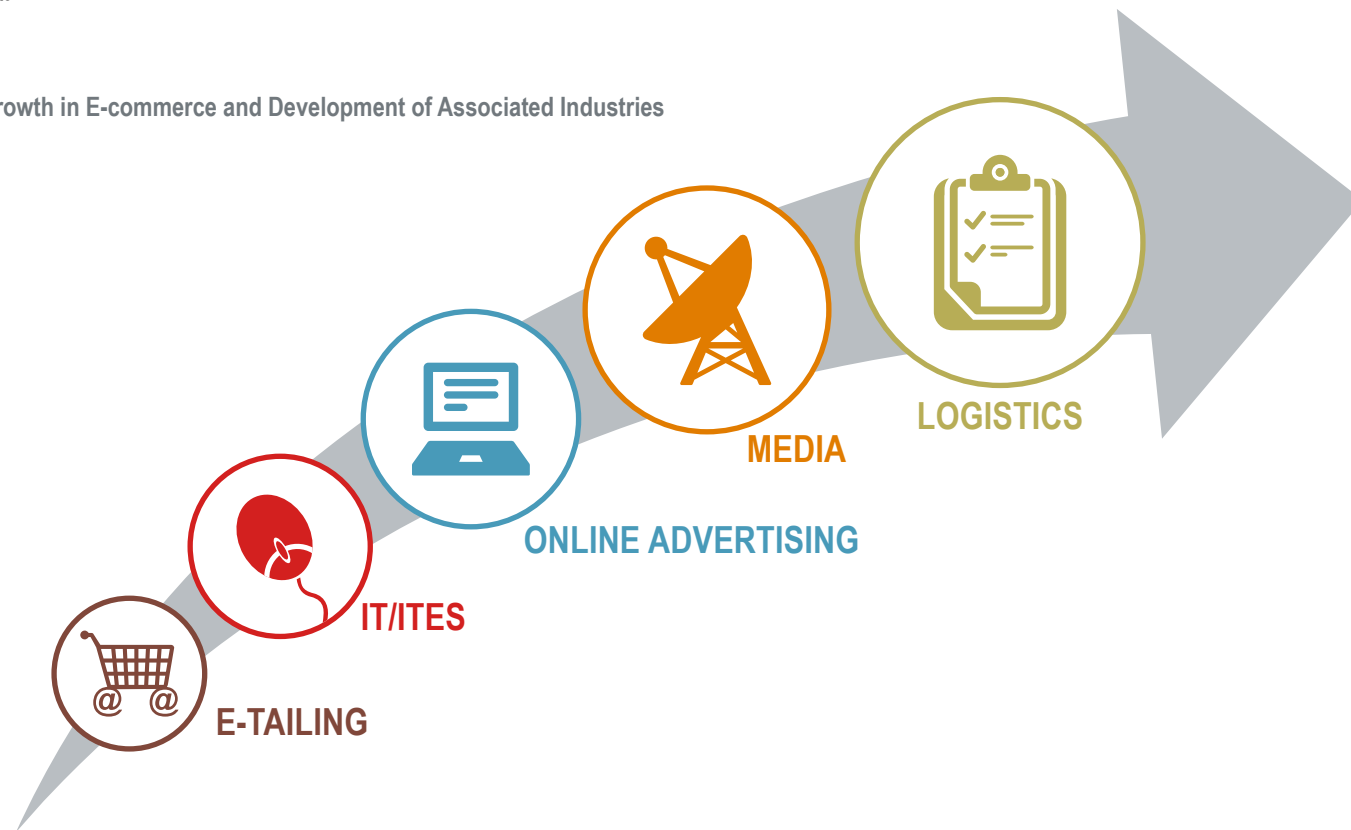
- **Future City** is a 200,000 sqm mixed-use development in the historical city of Xi'an in Shaanxi Province. It comprises apartments in four exclusive residential towers and VivoCity Xi'an, Mapletree's first overseas VivoCity mall. VivoCity is a lifestyle shopping mall offering diverse shopping, dining and entertainment options.
- **Nanhai Business City** is being developed as an integrated office, residential and leisure development located between the two bustling cities of Foshan and Guangzhou. This planned 42 hectares mixed-use development comprises retail, residential, office and hotel components.

### FDI in Retail: E-commerce a Game-changer

E-commerce in India has witnessed strong growth, increasing from USD 3.8 billion in 2009 to USD 12.6 billion in 2013, while the e-tailing share within the retail industry was about 16% in 2012, according to a report by the Internet and Mobile Association of India (IAMAI) and the Indian Market Research Bureau (IMRB). Although FDI policies in India restrict e-commerce companies from offering services directly to retail consumers and 100% FDI is allowed only in business-to-business e-commerce, the e-commerce industry is open to the proposal for up to 51% automatic route for FDI in business-to-consumer e-commerce. FDI in e-commerce could give rise to a paradigm of investment in the retail sector of India while the government is against FDI in multibrand retail.

FDI in e-commerce could bring capital for infrastructure development, acting as an impetus to the manufacturing sector. In addition, it would provide options for increased outreach and adoption of global best practices in India. On the other hand, the increase in FDI could act against small-time brick-and-mortar stores and India-based large e-tailing organisations. Apart from this, in the end, growth in e-commerce has a spillover effect on associated industries such as logistics, online advertising, media and IT/ITES.

### Growth in E-commerce and Development of Associated Industries



### The future of retail real estate investment could be decided based on the following pointers:

- Venturing into locations with favourable residential catchments and better long-term retail potential
- Selecting the correct strategy for operations and growth
- Churning of new and innovative ideas for potential retail development
- Understanding the needs and wants of the consumer

These factors, when combined, can make real estate used for the retail industry a great source of investment opportunity

## Residential Real Estate - Steering in the Right Direction

A country's economic performance has direct repercussions on how its real estate market behaves. This is especially true for the residential property segment. More prosperity means higher financial confidence among home buyers, and this leads to a greater demand for homes. The opposite is, of course, equally true.

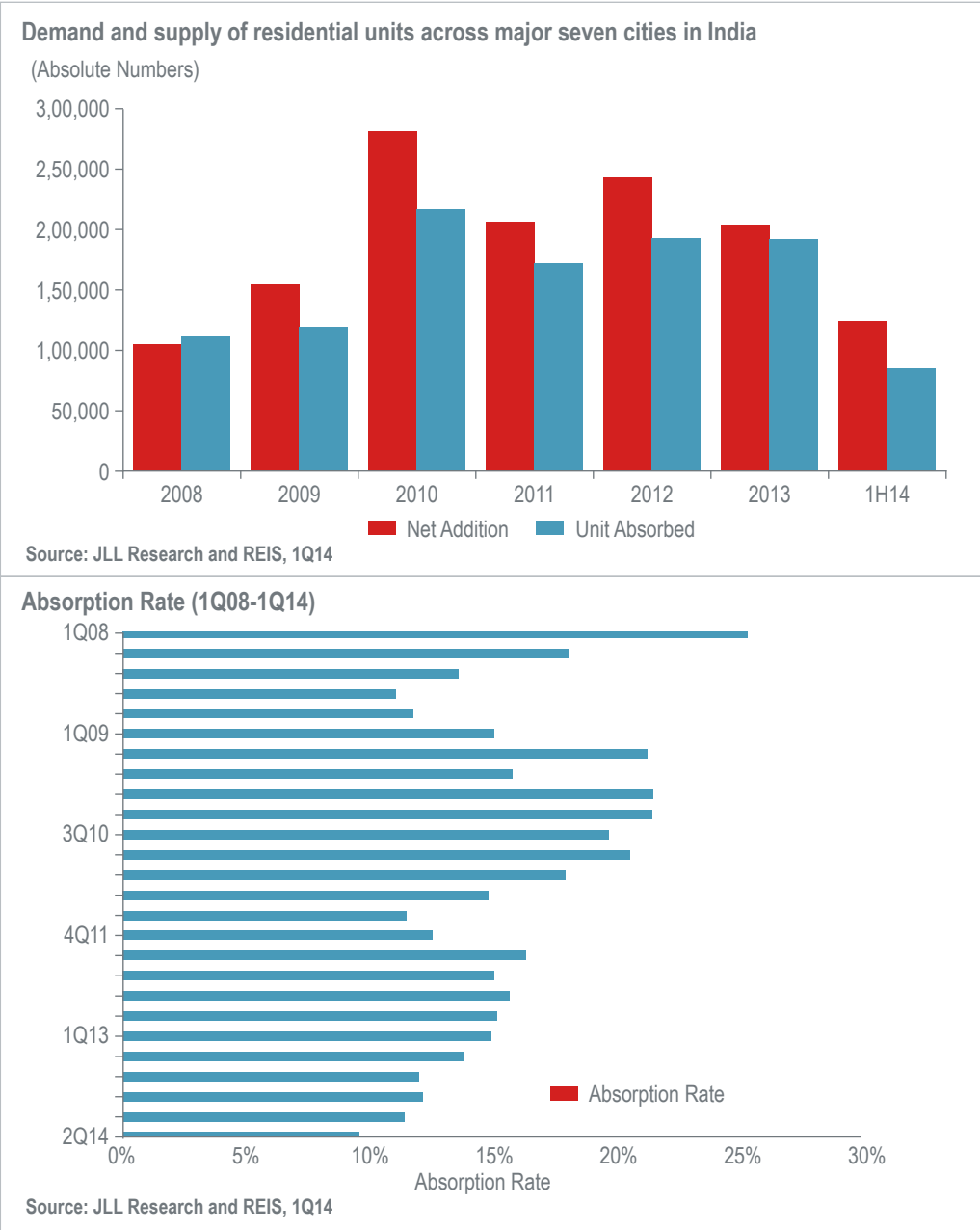
Subsequently, residential real estate has remained the focal point of Indian real estate, regardless of the market conditions. Considering the massive demand for homes in the country, this is hardly surprising. However, the demand does not equal absorption in a price-sensitive country such as India, where the greatest requirement for residential properties stems from the Economically Weaker Section (EWS) and middle-income group. The high dependence on home loans by the salaried class underscores the price sensitivity factor even further. And it is important to mention that, in general, 2013 was not a good year for India's residential real estate market. The sluggishness was most pronounced in the prime cities.

### Residential Real Estate: Demand-Supply Pointers

After the GFC, India's housing market loomed with slower demand during the years after 2009. However, since 2010, the residential real estate sector has started bouncing back based on the resilience shown by India in the initial aftershock of the GFC. It is also evident from the more than 15% absorption rate during 2Q09–2Q11. However, with the sluggishness of the economy, the residential real estate market started witnessing not only a lesser number of new additions in 2013 but also a slower rate of absorption. In addition, there were more reasons for the generalised slowdown in most Indian cities as inflation led to decreased purchasing power and lowered buyer's confidence. Meanwhile, the RBI went through the ceiling with its spate of hikes in interest rates to control inflation.

This obviously led to a steep rise in the equated monthly instalments (EMIs) that home loan borrowers had to bear. Meanwhile, property prices remained high in most cities, largely because developers were hit hard by the vastly increased costs of construction and debt. At the same time, the potential for most salaried people in the country to switch to more lucrative jobs took a nosedive because of the fallout of economic crisis in developed countries. All these combined to bring about a sort of stalemate between developers and property buyers in cities where inventory as well as property rates remained high, most notably Mumbai, NCR-Delhi and Bangalore.

The RBI is likely to continue trying to tame inflation and create a balance between growth and inflation for some more time. Hence, we expect the residential sector to show more activity only in the medium-to-long term with increased launches and good sales. As there are no foreseeable rate cuts by the RBI in the short-to-medium term, residential sales volumes are expected to remain slow despite the improvement in overall market sentiments after the elections. The boost in market sentiments is seen to improve capital availability in the real estate sector. This is likely to come as a breather for developers who are facing severe liquidity crunch.



Rise in Prices of Residential Properties in Last Five Years

Property prices in most markets have regained strength after the correction triggered by the global financial crisis of 2008

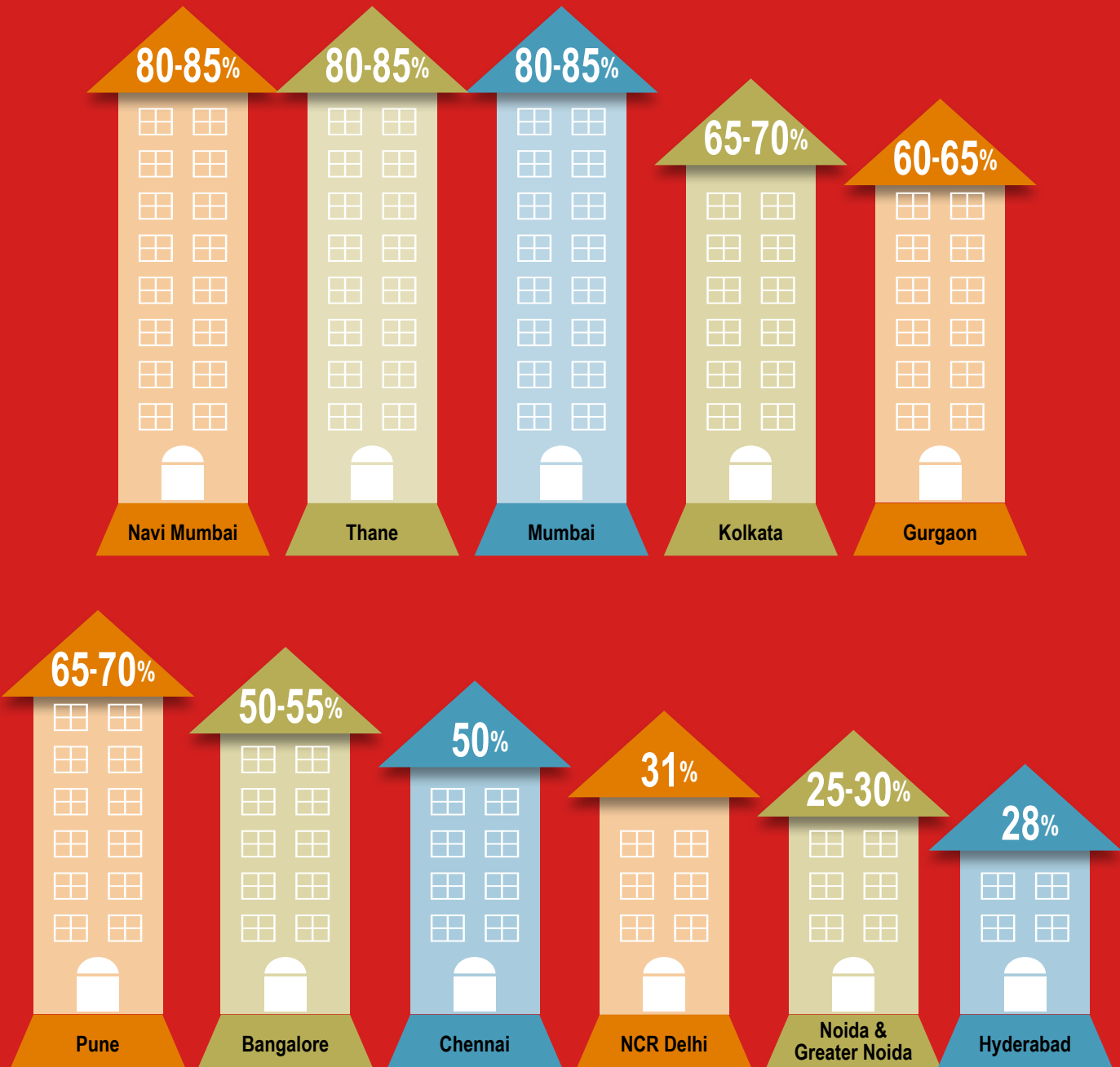


Figure represent capital value change between April-June 2009 and April - June 2014 (2Q14)

Source: JLL



Affordable Housing in Indian Context

Within the attractive post-election residential real estate sector of India, affordable housing appears as a particularly lucrative opportunity. The potential is bolstered with the business model, as it is in sync with the country's socioeconomic paradigm shift with the rise of the middle class and lower-middle class. Affordable housing becomes a key issue, especially in developing nations where majority of the population are not able to buy houses at the market price.

The disposable income of the people remains the primary factor

in determining affordability. As a result, the government has the increased responsibility to cater to the rising demand for affordable housing. The Indian government has taken various measures to meet the increased demand for affordable housing along with some developers and to stress on public-private partnerships (PPP) for the development of these units.

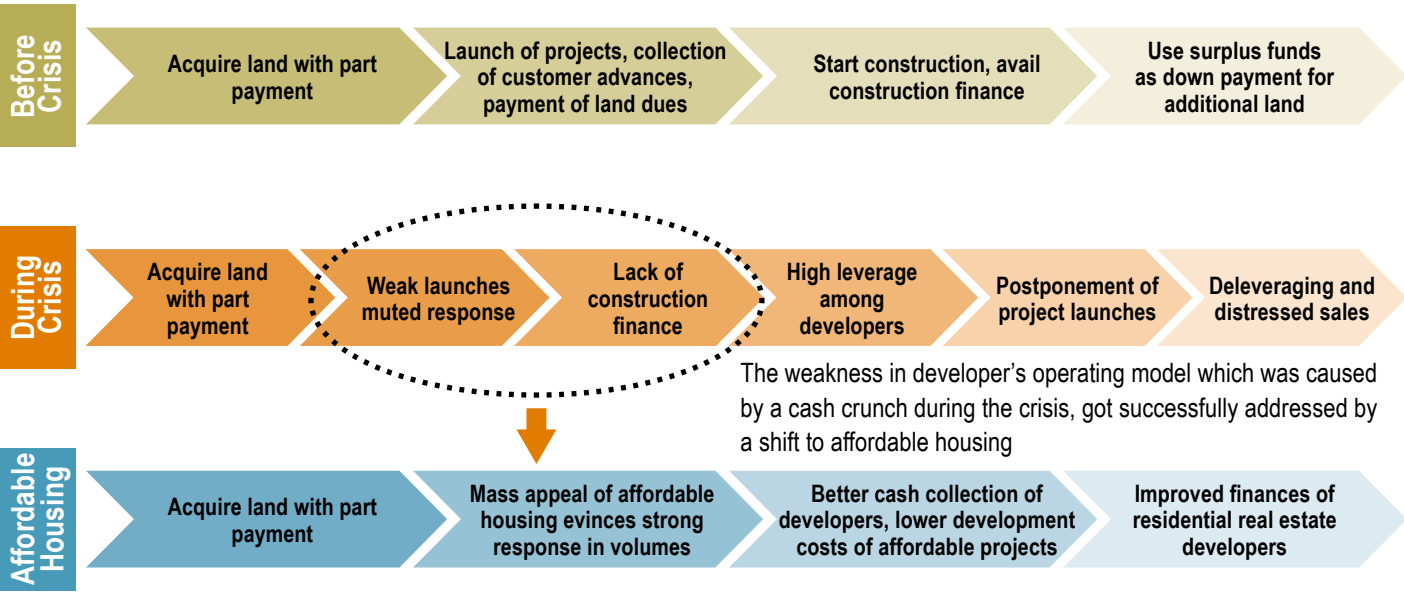
In terms of the relief to the housing sector, the budget has allocated Rs. 4000 Crores for low-cost housing schemes in urban cities.

Definitions of affordable housing in India (as developed by KPMG and CREDAI)

INCOME CATEGORIES	INCOME LEVEL	SIZE OF UNIT	AFFORDABILITY
Economically Weaker Sections (EWS)	<INR 150,000 per annum	Up to 300 sq ft	EMI to monthly income - 30-40%
Lower Income Group (LIG)	INR 150,000 per annum to INR 300,000 per annum	300 to 600 sq ft	EMI to monthly income - 30-40%
Middle Income Group (MIG)	INR 300,000 to INR 1,000,000 per annum	600 to 1200 sq ft	House price to annual income - Less than 5.1X

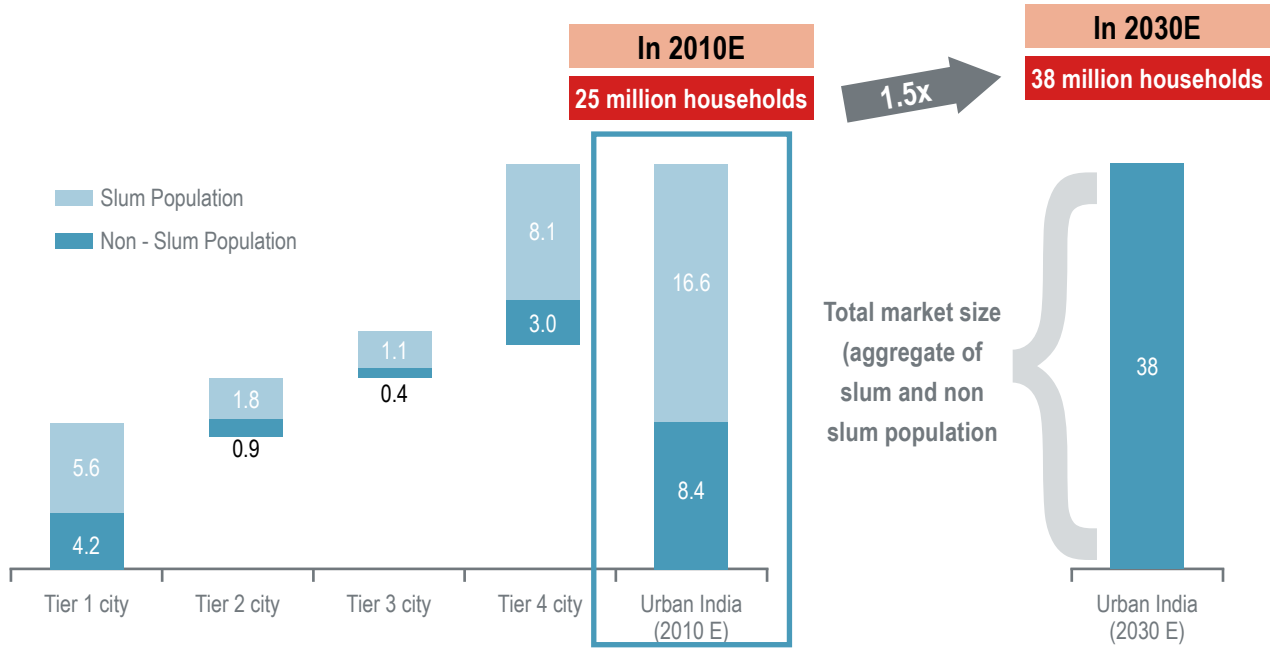
Source : KPMG

Factors leading to emergence of affordable housing



Source : KPMG, Aranca Research

The potential market size for affordable housing in India



Source: India Urbanization Affordable Housing Model, McKinsey Global Institute Analysis

New Developments in the Affordable Housing Sector Since 2012

- **The Rajiv Rinn Yojna (RRY):** A revised interest subsidy scheme as an additional instrument for addressing the housing needs of the EWS and Lower Income Group (LIG) segments in urban areas. The scheme envisages the provision of a fixed interest subsidy of 5% (500 basis points) on interest charged on the admissible loan amount to EWS and LIG segments to enable them to buy or construct a new house or for carrying out addition (i.e., room, kitchen, toilet or bathroom) to the existing building
- **The Credit Risk Guarantee Fund Trust** for Low-income Housing (CRGFTLIH) was set up and registered by the Government of India (Gol) on 1 May 2012 through the Ministry of Housing and Urban Poverty Alleviation (MoHUPA)
- The National Housing Bank (NHB), in association with Genworth, the Asian Development Bank (ADB) and the International Finance Corporation (IFC) set up India's maiden mortgage guarantee company, the India Mortgage Guarantee Corp Pvt Ltd (IMGC). The company was granted certificate of registration by the RBI in April 2013
- INR 60 billion (INR 8,000 crore) was allocated for rural housing fund in 2013-2014. In terms of the relief to the housing sector, the budget has allocated Rs. 4000 Crores (USD ??? Billion) for low-cost housing schemes in urban cities.
- The NHB set up an urban housing fund, and INR 20 billion (INR 2,000 crore) was allocated in this regard. RBI has eased norms for affordable housing. Home loans upto INR 50Lac for a property valued at INR 65Lac in six metrocities and home loan upto INR 40Lac from property valued at INR 50Lac in other cities to be considered as affordable housing.

**New Developments of Precast Technology: Latest for Quality of Construction**

Developers and builders are now adopting precast technology to avoid labour shortage and time delays, along with an aim to deliver quality products. The main advantages of precast technology are speed of construction and a value-for-money product. In addition, it enhances the quality of the final output with the creation of a bigger carpet area. The use of such technology helps in saving up to 64% of the time taken for similar projects using normal construction methods and technology.

This technology consists of custom-designed precast concrete components such as roof slabs, beams, columns and wall panels, among others, which offer flexibility in shape and size with a variety of surface finishes and colours. The components are manufactured or cast in strictly controlled environment with state-of-the-art machinery erected on the site with the help of tower cranes and then joined to each other as per specification.



**Cost factor**

In theory, the cost of construction with this technology is marginally higher than the conventional method, but in practice, considering the wastage-control and speed of construction with best of quality and virtually no repair or reworking cost. the overall value is the same.



**Investment-friendly**

While margins are not going to be affected much, the quality of the product will be enhanced exponentially, and the delivery of the project can be made within the stipulated timeframe. The government is also promoting this technology, and, recently, the Delhi Development Authority (DDA) completed around 800 units with this technology.

**New Policy: Real Estate (Regulatory and Development) Bill - Reorganising Residential Sector in India**

The Real Estate (Regulatory and Development) Bill aims to instil transparency into a sector that has been so far unregulated and has witnessed haphazard growth. Although in its current form the bill only covers new projects of over 4,000 sqm in the residential sector, consumers can expect some of the best practices in this industry to come into force, including protecting their interests in the timeliness of project completion, delay in accountability and dispute resolution. Once the bill comes into force, there will be a standard definition of carpet area throughout the country. In addition, it proposes a regulator in each state and union territory.

Nevertheless, with the application of the bill, developers would become more dependent on costlier bank and non-banking financial companies (NBFCs) lending for project funding, as they cannot launch a project until all approvals have been received from the relevant authorities. Aside from this, with this measure that encourages timely completions, the bill is likely to lure investors and end users with greater faith that the property will be delivered to the promised specifications. In addition, misleading project advertisements may result in punitive action by the state. As a result, this bill could help in inculcating a professional attitude among the developer community.

The bill may help to reduce money laundering through real estate by keeping a trace of the money trail through organised brokerage, as it will be compulsory for real estate agents to have a licence. Banks and financial institutions will now become more confident in lending money to this sector because of the lower risk of misuse of funds. It might help the real estate industry toward a paradigm shift in terms of transparency and consumer friendliness, increasing India's transparency score and ushering in a more mature Indian real estate market. However, the possibility of an increase in project cost on the back of transparency measures without a single window clearance might act as a subduing parameter going forward

**Overview of the Manufacturing Sector in India**

**Evolution and Growth of the Sector**

India was hardly an industrialised country at the time of gaining independence, and the first step India took was to recognise the manufacturing sector as a very important instrument for the country's economic growth. In every five-year plan, the country continued to grow the manufacturing sector whilst encouraging and incentivising the private sector in the mid-cap and small-cap realms. Progressively, India strengthened its manufacturing sector further under a mixed economy from 1947 to 1991, and under a liberalised economy since then.

India's manufacturing exporters have played a key role in promoting the sector's prowess to consumers across the world. Manufacturing exports have always been a major contributor to India's total merchandise exports. The main export markets for Indian manufacturing goods are the United States and Western Europe. Within Western Europe, Germany and the United Kingdom are two most important export markets.

**Prominent Manufacturing Clusters**

Manufacturing clusters have developed along major infrastructure corridors. These are specific areas developed for inter-regional industrial growth, including the development of manufacturing areas and clusters along the corridor. These corridors provide infrastructure such as roads, power and other utility services to facilitate the growth of manufacturing industries and regional economic development. Industrial development in India is scattered and can be divided into four zones-north, south, east and west. The chart below shows the major industrial states and cities in each zone.

MANUFACTURING ZONES IN INDIA	
<b>North Zone</b> Delhi (NCR)/Gurgaon, Kanpur, Lucknow, Chandigarh and Indore	<b>West Zone</b> Mumbai, Pune, Bhiwadi, Jaipur, Ahmedabad, Vadodara and Panaji
<b>East Zone</b> Kolkata, Guwahati, Patna and Jamshedpur	<b>South Zone</b> Hyderabad, Visakhapatnam, Bangalore, Chennai and Coimbatore

**India's Manufacturing Footprint**





# Key Facts about Major Manufacturing Industries



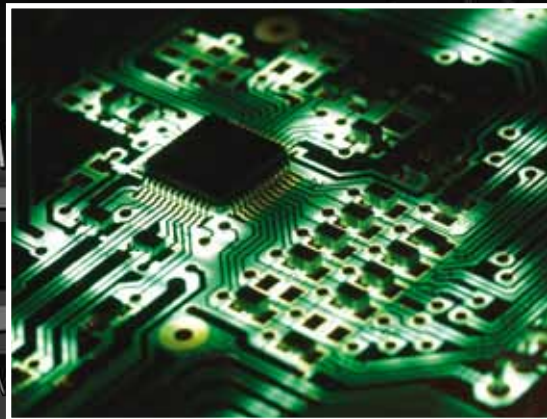
## LIFE SCIENCES (Pharmaceuticals and Biotechnology)

The United Nations Industrial Development Organization (UNIDO) recognises India as one of the top-ranking countries among developing countries in terms of the production and distribution of pharmaceuticals.

According to the Department of Pharmaceuticals, the pharmaceutical industry in India is the world's 3rd largest in terms of volume and 14th in terms of value.

According to a recent report by Ernst & Young (E&Y), the biotechnology sector in India is expected to achieve revenue of USD 11.6 billion by 2017, growing at a compound annual growth rate (CAGR) of 22%.

Biocon | Dr Reddy's Laboratories | Cipla  
Sun Pharmaceutical | Cadila Healthcare



## ELECTRONICS AND TELECOMMUNICATIONS

According to the Department of Electronics and Information Technology, the current size of the electronic manufacturing industry is USD 70 billion and is aimed for USD400 billion by 2020, which means the industry must increase by more than five times over the next seven years.

Philips | Sony | Havells  
LG | Samsung



## AUTOMOBILES

The production of passenger vehicles in India was recorded at 3.23 million in 2012–2013 and is expected to grow at a CAGR of 13% during 2012–2021, according to data published by the Automotive Component Manufacturers Association (ACMA) of India.

Ford | Ashok Leyland | Renault Nissan  
Maruti Udyog | Tata Motors



## HEAVY ENGINEERING

The engineering industry is the largest segment of all industrial sectors in India, accounting for 3% of India's GDP and offering employment to more than 4 million skilled and semiskilled workers.

The Department of Heavy Industry (DHI), as its vision for 2020, plans that the Indian machine tools industry should secure a domestic market share of 67% by 2020.

Joseph Cyril Bamford (JCB) | Sany | Alfa Laval |  
Bharat Heavy Electricals Limited (BHEL) | LeeBoy



## FMCG Fast Moving Consumer Goods

The FMCG sector in India is the fourth largest sector in the economy. It is also called the consumer packaged goods sector. According to the Confederation of Indian Industry (CII), the FMCG sector in India had a market size in excess of USD 13.1 billion as of 2012.

P&G | Indian Tobacco Company (ITC) | PepsiCo  
Coca-Cola | Amway



## AEROSPACE

India is fast becoming a major global aerospace consumer market, aided by a combination of increasing defence spending, booming commercial aviation market and rising technological and manufacturing capabilities among local companies.

According to the Investment Commission of India (ICI), investment opportunities of USD 110 billion are envisaged up to 2020, with USD 80 billion in new aircraft and USD 30 billion in the development of airport infrastructure.

Hindustan Aeronautics Limited (HAL)  
UTC Aerospace Systems | Tyco Electronics  
Dynamatic Technologies | StarragHeckert



# India's Advantages and Growth Opportunities

The Indian manufacturing sector has registered moderate growth in the past, even in times when the global economy was going through a major slowdown. The country places high priority on infrastructure development, thus offering high growth opportunities for a wide range of manufacturing industries and a wide range of untapped opportunities in other sectors. The entry of foreign manufacturing companies with technology-based orientation is helping India create a core and contemporary manufacturing sector fed by ancillary manufacturers that rely on simple technical skills.

## Low Real Estate Costs

Occupiers seeking to buy land and construct their own facilities can find numerous opportunities in India. Land values are generally low in India. Manufacturing sector rents are also affordable compared to Sydney, Melbourne, Brisbane, Shanghai, Beijing, Guangzhou and Shenzhen.

## Low Labour Costs

The cost competitiveness of labour is the key driver for the manufacturing sector in India. The cost of labour for manufacturing sector is cheaper when compared to other countries such as Japan, the United States, the United Kingdom, Poland, Korea, Australia, Germany, Brazil and Taiwan. This continues to transform the Indian manufacturing industry with respect to creating a competitive advantage in manufacturing. In addition, rising manufacturing wages in China are likely to bring new entrants to India, and the country expected to become a destination for manufacturing.

## Favourable Policy

India is largely moving toward high-end manufacturing, with the government announcing multiple reforms and policies in the sector. The Indian manufacturing industry is largely driven by low-cost and skilled labour

force, adequate land laws and the reasonable cost of capital. India is increasingly adopting a global approach to become a strategic player on the international platform.

The Government of India has announced a national manufacturing policy with the objective of enhancing the share of manufacturing in GDP to 25% within a decade and creating 100 million jobs. It also seeks to empower rural youth by imparting necessary skill sets to make them employable. Sustainable development is integral to the spirit of the policy, and technological value addition in manufacturing has received special focus.

To achieve the desired growth rate for the manufacturing sector, it is also necessary to have a high growth rate for the country's exports. Considering this, the Department of Commerce has come up with a strategy on doubling India's exports to accelerate the rate of growth of manufacturing exports and reach a level of USD 534 billion by 2016-2017.

The government has also taken steps such as easing foreign investment restrictions in retail, civil aviation and television broadcasting as well as embarking on a fiscal improvement path by lowering unproductive subsidies in an effort to restore waning investor confidence.

# Crystal Gazing into 2015

## Economy

The Real Estate Regulatory Bill is likely to be approved, and it will bring in the much-needed transparency in the Indian real estate sector.

GDP growth rate is estimated to be at **4.5-4.7%** in 2014 by the RBI, World Bank and the International Monetary Fund (IMF). However, the new government has planned to increase it to **5% or above**.

The investment climate is likely to improve with a stable new government at the centre. Rating agencies may improve India's investment rating in 2014. FDI flows are expected to improve.

## Capital Markets

The NASSCOM estimates 2014 to be relatively more positive, with IT/ITES exports revenues growing by **12-14%** and domestic revenues growing by **13-15%**. This is also expected to improve the office space demand or keep it stable in 2014.

**REITs** are likely to be allowed in 2014. This will improve the situation of credit crunch in real estate.

## Office Market

As demand for office space is likely to improve and supply conditions also remain stable, rental and capital value recovery is on the way. **Gurgaon and Pune** are forecast with highest rental appreciation by end-2014.

A report by EY and the RAI states that organised retail penetration is expected to reach **10% by 2018**

## Retail

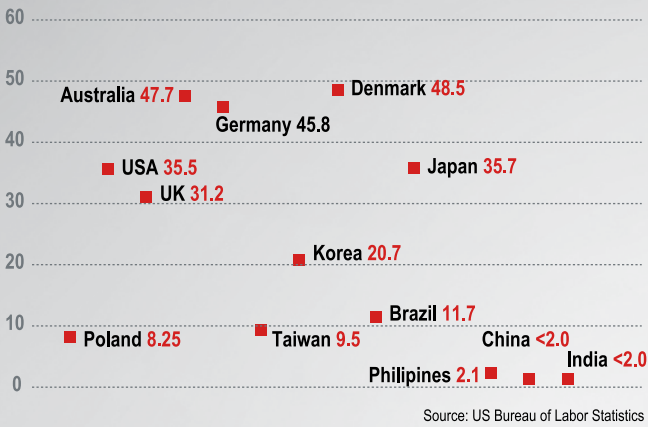
FDI in e-commerce can be a game-changer. It could bring capital for infrastructure development, acting as an impetus to the manufacturing sector.

As the RBI is not likely to ease out interest rates in the short term, residential sales volumes are likely to remain low in the short term.

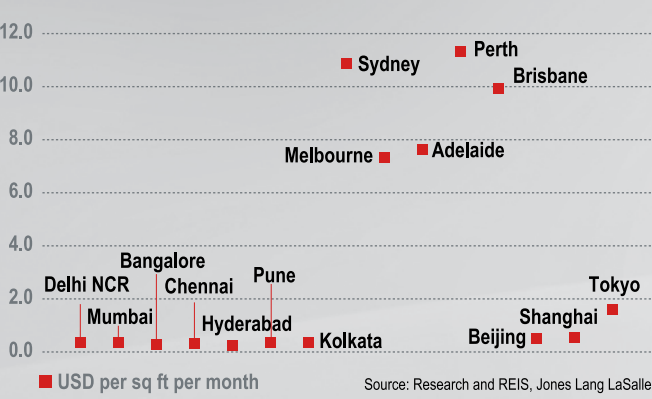
## Residential Market

Affordable housing appears as a particularly lucrative opportunity in the current times. The NHB has set up an urban housing fund and allocated INR 20 billion in this regard.

Hourly compensation costs in manufacturing (USD)



Rental values for manufacturing across major cities





प्रवासी भारतीय कार्य मंत्रालय  
Ministry of Overseas Indian Affairs

## Ministry of Overseas Indian Affairs

The Ministry of Overseas Indian Affairs (MOIA) is a dynamic, young and interactive ministry, dedicated to the multitude of Indian Nationals settled abroad. Established in May 2004 as the Ministry of Non-Resident Indians' Affairs, it was renamed as the Ministry of Overseas Indian Affairs (MOIA) in September 2004. Driven by a mission of development through coalitions in a world without borders, MOIA seeks to connect the Indian Diaspora community with its motherland.

Positioned as a 'Services' Ministry, it provides information, partnerships and facilitations for all matters related to Overseas Indians (comprising Persons of Indian Origin (PIOs) and Non-Resident Indians (NRIs)).

It is a contemporary, lean and efficient Ministry headed by a Cabinet Minister. The Ministry has four functional service divisions to handle its diverse scope of services:

- **Diaspora Services**
- **Financial Services**
- **Emigration Services**
- **Management Services**

The Ministry focuses on developing networks with and amongst Overseas Indians with the intent of building partnership with the Diaspora.

Besides dealing with all matters relating to Overseas Indians, the Ministry is engaged in several initiatives with Overseas Indians for the promotion of trade and investment, emigration, education, culture, health and science & technology.

### Ministry of Overseas Indian Affairs

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Confederation of Indian Industry

## Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, playing a proactive role in India's development process. Founded in 1895, India's premier business association has over 7200 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 100,000 enterprises from around 242 national and regional sectoral industry bodies.

CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organizations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, healthcare, education, livelihood, diversity management, skill development, empowerment of women, and water, to name a few.

The CII theme of 'Accelerating Growth, Creating Employment' for 2014-15 aims to strengthen a growth process that meets the aspirations of today's India. During the year, CII will specially focus on economic growth, education, skill development, manufacturing, investments, ease of doing business, export competitiveness, legal and regulatory architecture, labour law reforms and entrepreneurship as growth enablers.

With 64 offices, including 9 Centres of Excellence, in India, and 7 overseas offices in Australia, China, Egypt, France, Singapore, UK, and USA, as well as institutional partnerships with 312 counterpart organizations in 106 countries, CII serves as a reference point for Indian industry and the international business community.

### Confederation of Indian Industry

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## Overseas Indian Facilitation Centre (OIFC)

The Overseas Indian Facilitation Centre (OIFC) set up by the Ministry of Overseas Indian Affairs' (MOIA) in 2007, in partnership with the Confederation of Indian Industry (CII), provides facilitation services to the Overseas Indians, especially assisting them in deepening their economic and intellectual engagement with India. The OIFC is governed by a Council of prominent Overseas Indians, Industry leaders and senior policy makers from the Government.

OIFC has been uniquely constituted and positioned to serve as a single-point contact for the overseas Indians through its facilitation - whether in areas of information, economic engagement, knowledge partnering, mentoring or build any other association with Indian states that helps the Indian Diaspora, professionals and small/ mid-sized entrepreneurs build strong inter linkages with India, thus effectively enabling them to build upon or expand their engagement with India.

OIFC enjoys the due credibility of serving Indians globally extended under the umbrella of the Government, the Ministry of Overseas Indian Affairs' (MOIA), the Confederation of Indian Industry (CII), coupled with the support of a network of 'Knowledge Partners', Indian states, Indian missions and Indian Diaspora associations.

Currently OIFC's activities include, query addressal on various issues faced by the NRIs & PIOs, a robust online business networking portal, projection of member states' projects, Diaspora Engagement Meets in various countries, Market Place business forums in India and more.

### Overseas Indian Facilitation Centre

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Sujash Bera manages the Research and Real Estate Intelligence Service (REIS) offerings for Kolkata. He joined JLL in 2012 and is based in Kolkata. He contributes to topical white papers and property market digest as well as research deliverables on the commercial, retail, residential and industrial real estate markets in India.

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Trivita Roy has joined JLL Research team in 2007. Based out of Hyderabad; she contributes to topical whitepapers, property market digest and research deliverables on industrial, commercial, retail and residential real estate markets in

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## About JLL

JLL (NYSE: JLL) is a professional services and investment management firm offering specialized real estate services to clients seeking increased value by owning, occupying and investing in real estate. With annual fee revenue of \$4.0 billion and gross revenue of \$4.5 billion, JLL has more than 200 corporate offices and operates in 75 countries and has a global workforce of approximately 53,000. On behalf of its clients, the firm provides management and real estate outsourcing services for a property portfolio of 3.0 billion square feet, or 280.0 million square meters, and completed \$99.0 billion in sales, acquisitions and finance transactions in 2013. Its investment management business, LaSalle Investment Management, has \$50.0 billion of real estate assets under management. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated.

JLL has over 50 years of experience in Asia Pacific, with over 28,453 employees operating in 80 offices in 16 countries across the region. The firm was named 'Best Property Consultancy' in seven Asia Pacific countries at the International Property Awards Asia Pacific 2014, and won nine Asia Pacific awards in the Euromoney Real Estate Awards 2013. [www.jll.com/asiapacific](http://www.jll.com/asiapacific).

For further information, please visit our website, [www.jll.com](http://www.jll.com).

## About JLL India

JLL is India's premier and largest professional services firm specializing in real estate. With an extensive geographic footprint across 11 cities (Ahmedabad, Delhi, Mumbai, Bangalore, Pune, Chennai, Hyderabad, Kolkata, Kochi, Chandigarh and Coimbatore) and a staff strength of over 7000, the firm provides investors,

developers, local corporates and multinational companies with a comprehensive range of services including research, analytics, consultancy, transactions, project and development services, integrated facility management, property and asset management, sustainability, industrial, capital markets, residential, hotels, health care, senior living, education and retail advisory. The firm was named the Best Property Consultancy in India at the International Property Awards Asia Pacific 2014-15.

For further information, please visit [www.joneslanglasalle.co.in](http://www.joneslanglasalle.co.in)

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