ICICI Property Services
(A division of ICICI Home Finance Company Limited)

Monthly Realty Round-up

August 2013

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Economy Overview

- India's economic growth decelerated to 4.4% during April-June 2013, which is its slowest rate since the first three months of 2009.
- WPI-based inflation rose to 5.8% in July 2013, almost 100bps up from 4.9% in June 2013, mainly on account of weak rupee which raised the cost of imported items and pushed up inflation in July 2013.
- Imported inflation (market-linked fuels, ferrous and non-ferrous metals, and edible oil) rose to 1% in July 2013 from -1.9% in June 2013. The rise in imported inflation was further complemented by a sharp pick-up in food articles inflation to 11.9% as vegetable inflation flared to over 46%.
- Further, WPI inflation excluding the imported component rose to 6.7% after stabilising at around 6% for the past 2-3 months. The decline in WPI inflation in the past few months had been largely driven by a sharp fall in core/non-food manufacturing inflation. High food inflation and upward revision of prices of administered items to contain the fiscal deficit are likely to maintain upward pressure on inflation.
- A slowing economic growth, a record high current account deficit and concerns about the Government's finances are providing a toxic mix for the rupee, which hit a record low of ₹ 68.85/USD following its fall of 20% since May 2013.
- Services sector activity remained below the 50 mark in August 2013 as macroeconomic uncertainty and tighter financing conditions continued to dent new business flows and business confidence. Growth is being weighed down by the tighter financial conditions on the back of the Reserve Bank of India's (RBI) currency stabilisation measures and capital outflows.
- Even with low core inflation, loosening of monetary policy runs the risk of creating a situation of high generalised inflation, particularly if the shock from the rupee persists. RBI may, therefore, leave rates unchanged for rest of the year.
- In its bid to control the outflow of capital from the country, RBI has slashed annual cap on automatic outflows from USD 2,00,000 to USD 75,000 for an individual. Further, RBI has also imposed ban on overseas RE purchases with immediate effect, thereby, restricting purchase of properties in overseas RE markets such as Dubai, Singapore, Malaysia and London and in turn fueling the domestic demand for premium and luxury residential units.
- HDFC and ICICI Bank increased their benchmark rates, which are used for pricing floating rate Home Loans by 25bps. A quarter percentage point increase in rates pushes up EMIs on a ₹ 10 Lac Home Loan by ₹ 170/month, thereby making Home Loans costly for buyers.
- The RBI in a circular issued on September 3, 2013, has advised banks to link disbursals to developers with the construction progress under subvention schemes such as 20:80, 25:75 as it is of the view that under upfront disbursal, banks run disproportionately higher exposures with concomitant risks of diversion of funds. Further, the RBI also expressed its concern on the upfront disbursal without construction progress as in the event of default in interest payment by the developer, the home buyer's credit rating/scoring is likely to get lowered. Amidst the slowdown in residential RE market, many developers across key cities have been locking robust sales volumes on account of these attractive payment schemes. Further, these schemes also provided comfort to home buyers as they would opt for such innovative payment options in case the buyer feared a delay in completion. Thus, scrapping of these innovative schemes is likely to impact sales transactions going forward and will force developers to revert to plain vanilla means of bank financing and focus on operating cash flows and sale of existing inventory which is likely to reduce prices going forward.
- The much-awaited Land Acquisition, Rehabilitation and Resettlement Bill (LARR Bill) has been passed by the Lok Sabha (August 29, 2013) followed by the Rajya Sabha. Currently, the bill seeks fresh approval from the Lok Sabha on the amendments suggested by the Rajya Sabha. *Please refer to a brief note on the new LARR Bill captured this report.*
- Investments by PE firms during January-June 2013 period increased by 55% YoY to USD 5.9Bn across 204 deals compared with USD 3.8Bn invested across 219 deals during the same period last year (as per advisory firm Grant Thornton's "Deal tracker" report). Most of this funding has gone into sectors such as IT/ITES, real estate (RE) and manufacturing.
- As per a study/survey (of 1,250 realtors) conducted by ASSOCHAM, realtors expect a 35% increase in enquiries from expatriates (NRI's from other Gulf countries, the US, Singapore, Australia, UK, Canada and South Africa) mainly on account of the sharp fall in the rupee. Bangalore, Chennai, Mumbai, Ahmedabad and Dehradun emerged as the most favored destinations for investments. Further, as per CREDAI, there is 30% to 40% increase in enquiries from the NRI community.

Residential Roundup

- The western RE markets of Mumbai and Pune witnessed lackluster activity during the month of August 2013. While prices will continue to be stable mainly owing to current economic slowdown, we expect sales momentum to pick up in the festive months.
- The northern region of NCR also remained sluggish during the month. With no price correction seeming likely in the primary markets, buyers' focus has slightly shifted to the secondary markets that have witnessed a slight downward revision in prices. Going forward, we anticipate some optimism owing to the festive occasion of Diwali.
- The southern markets of Bangalore witnessed moderate traction largely backed by demand in the entry-level segment ₹ 40-80 Lac/2BHK-3BHK units). The Chennai and Hyderabad markets remained subdued during the month. The capital values remained largely stable on MoM basis, across the region.

Residential Market Key Trends

City	Top 7 Cities : Residential Market Key Trends
Mumbai	Mumbai's residential RE market witnessed lackluster activity during August 2013. While enquiries continue to be strong, the conversions or transaction volumes have declined owing to customers' cautious approach on account of the economic slowdown. There was a drop in new project launches during August 2013 as developers are focusing on sales of their recent launches, it must be noted that major developers had launched a slew of projects over May-July 2013. While there was no key project launched in the western suburb (except for a new tower at Alta Monte by Omkar developers), there were a couple of key launches in the South Mumbai region: (i) Lodha developers launched Gold Moon and Full Moon at Worli and (ii) Indiabulls launched Sky Suites at Lower Parel. Given the depreciation of the rupee, there is an uptick in demand from the NRIs – case in point being that of Lodha developer's newly launched project, Gold Moon at Worli, wherein almost 50% of the applications were received from NRI customers. Residential RE prices continue to be stable as most developers are holding on to their prices. On an overall basis, sales transactions are slow as customers are holding back their buying decisions as they anticipate residential RE prices to decrease going forward. Overall, there has been a slowdown in demand for 3BHK and 4BHK units. Erstwhile hot investment destinations such as Thane and Navi Mumbai are also witnessing a slowdown in sales transactions. As per data sourced from the Director General of Registrations, Mumbai's residential RE market witnessed an increase of 16% in property registrations during 1HCY13. There were 34,588 registrations between January-June 2013, up from 29,773 registrations during the same period last year, signaling an uptick in property sales. Mumbai residential RE market is likely to improve with the onset of the festive season with Ganesh Chaturthi in September 2013. Major developers are likely to launch new projects in the western suburbs such as (i) Shapoorji Palonji, L&T Realty, Kalpataru and Bharat Developers in Andheri(W), (ii) Rajesh Developers in Kandivali(E) and (iii) Wadhwa Developers in Thane. Piramal Realty is also likely to launch its premium residential project in November/December 2013. While, prices will continue to be stable mainly owing to current economic slowdown, we expect sales momentum to pick up in the festive months. Indiabulls Real Estate (IBREL) has purchased the entire stake of US based fund, FIM Ltd, in its seven project subsidiaries for a total consideration of ₹ 11.7Bn. FIM, a FVCI of Farallon Capital Management LLC, held 49% equity stake in these JVs and had invested ₹ 8.5Bn in 2007. These projects companies are currently developing residential apartments in (i) over 120 acres in Gurgaon, (ii) 160 acres in other regions of NCR, Delhi and (iii) 15 acres in Chennai. Godrej Properties (GPL) increased the size its Panvel project by 37 acres to 147 acres. This project will have a saleable area of 4.3Mn sq.ft. and is likely to increase to 11Mn sq.ft. as per the proposed Special Township Policy.
Delhi NCR	The effects of glooming macro-economic conditions are evident. The month of August continued to remain sluggish both in terms of new launches and absorption. While the conversion to enquiry ratio has declined, the buyers are increasingly focusing on under-construction resale inventories. Although, there is a visible pipeline, developers are deferring new project launches while gauging the right time and clearing the pending approvals. Assotech pre-launched a project in sector 88 (B), which is one of the newly carved sectors in Dwarka Expressway, as per Gurgaon Master plan 2031. In Greater Noida, new launches were witnessed in the Jaypee Sports City. Despite the subdued market sentiments, developers are holding on to the high price points in the primary markets, especially in Gurgaon. This coupled with investor's desperation to exit has led to a slight price correction in certain secondary markets of Gurgaon and Noida. The highly speculative Dwarka Expressway belt has notably witnessed this downward revision in the secondary markets. Certain developers had crafted attractive payment plans to offload their inventory. Such schemes entailing lump sum payment not linked with the project construction, exposes banks and buyers to high risks. Hence, RBI has advised the banks to link the housing loans closely with the construction stage and has discouraged upfront disbursal. As the structure of such schemes had attracted buyers, developers will likely offer more innovative payment plans such as Possession Linked Plans (PLP), etc. to boost their sales. The peripheral affordable regions such as Noida Extension and Yamuna Expressway have been essentially driving the NCR markets. However, price appreciation in these regions has been slow and gradual; largely because of huge existing supply by small developers. Going forward, while developers are exercising caution and buyers/investors remain baffled, we anticipate some optimism owing to the festive occasion of Diwali.
Bangalore	Following trend over the past couple of months, Bangalore's residential RE market witnessed moderate traction over the month of August 2013, largely backed by demand in the entry-level segment (₹ 40-80 Lac/2BHK-3BHK unit). On the other hand, there has been a drop in sales in higher ticket size offerings (more than ₹ 1Cr./unit). High-end projects witnessed a decrease of 20-30% in sales transactions. Further, investors/HNIs have started preferring smaller properties for their investment purposes as they offer easy entry and easy exit options. Aided by the fall in rupee, enquiries from NRI have gone up over the past one month. Average residential RE prices continued to be stable as developers are holding on to their prices. However, these developers are offering attractive payment schemes such as 20:80 and interest subvention, which seems to be the new norm of most developers. Major developers such as Puravankara, Mantri, Pashmina, Equinox, TATA Housing and Brigade are offering these attractive payment schemes for some of their projects in Bangalore. Overall, there has been a drop in launches mainly on account of the month of Ashada, considered inauspicious for financial transactions. Most key launches post August 10, 2013 were largely (i) in the entry-level segment (₹ 40-80Lac/unit) and (ii) at around 10% discount to prevailing market rates. These new launches were largely concentrated in North and East Bangalore in areas such as Electronic City, Sarjapur, Whitefield, Hebbal and Old Madras Road. Nitesh Estates launched Nitesh British Columbia, a premium high rise condominium project off Kanakpura Road in South Bangalore. This project is spread over 4.7 acres and has a total of 388 units (1,000 sq.ft. - 1,600 sq.ft./unit) priced at ₹ 37Lac/unit onwards. Further, Purvankara Projects launched its luxury project, Purva Coronation Square at JP Nagar in South Bangalore, which has 20 units on offer, priced at ₹ 5-7.5 Cr./unit for units measuring 6,000 -7,000 sq. ft.
Chennai	The Chennai real estate largely remained subdued, which is in tune with the overall real estate trend in India. No significant new launches were seen in the month of August, except for Akshaya Group's launch of 'Republic' at Kovur, offering units in the ticket size of ₹ 70 - 80 Lac. VGN Group pre-launched its project Coasta on the ECR. The average capital values have witnessed a slight correction over the span of last six months, as is reflected though the latest NHB Residex. However, capital and rental values have essentially remained stable on MoM basis during the month of August 2013.
Hyderabad	The residential RE market in Hyderabad witnessed lackluster sales transactions during August 2013, on an average, sales transactions dropped by 20% MoM. Most of the sales transactions were largely concentrated in areas such as Gachibowli, Madhapur and Kukatpally – the major IT hubs of Hyderabad. Average residential prices have dropped by around 10% across projects in Hyderabad. As per NHB Residex (June 2013 press release), residential prices in Hyderabad decreased by around 5% during April-June 2013, however, these prices are above their 2008 levels. Home buyers are of the view that prices will fall further (likely to fall below 2008 levels) and hence holding on to their buying decisions. On the other hand, RE developers are offering attractive schemes and discounts in order to ensure sales. There were no new major launches in Hyderabad during the month of August 2013 mainly owing to the delay in approvals caused by the non-functioning of the local government bodies on account of the agitation regarding granting of statehood to Telangana region. Major developers such as Lodha (Kukatpally), Prestige (Kondapur and Gachibowli) and Mantri (Appa Junction) are likely to launch new projects over the next couple of months.
Pune	Pune's residential RE market witnessed lackluster activity during August 2013 with few new major launches and slowdown in sales transactions. During August 2013, sales transactions dipped by 20-25% compared to the sales volumes over the past couple of months. Most of the sales transactions are concentrated in the ₹ 50Lac - 2Cr./unit segment. There were very few new launches mainly on account of delay in approvals, particularly environmental clearances. Further, developers are holding back/deferring their new project launches in order to avoid an over-supply situation in the residential RE market. Certain areas in East and West Pune such as Hinjewadi, Wagholi and Kharadi continue to witness traction as most of the new project launches are concentrated in these areas. Residential RE prices in Pune were stable, with a marginal decline in certain areas. While strong end-user demand persists in the residential RE market, customers are delaying their buying decisions because of the current economic slowdown. Similarly, while there has been an increase in interest from the NRIs, the final sales transactions are not being concluded as customers anticipate a further fall in residential RE prices. As per the historic trend, sales transactions are likely to pick up going forward owing to the onset of the festive season with Ganesh Chaturthi in September 2013. ACG Worldwide (Associated Capsules Group) and Pune-based affordable housing developer Vastushodh Projects have joined hands to create affordable homes at Shirwal on Pune-Kolhapur highway. Spread over 16 acres of land, this project would have a total of 850 units of 356 sq. ft. – 794 sq. ft. /unit priced at ₹ 10-25Lac/unit.
Kolkata	Kolkata real estate markets remained inactive and no significant new launches happened during the month of August 2013. The lack of activity in the second half of August was expected because of inauspicious time marked in the Bengali calendar, however; even the first half of August witnessed subdued absorption. The CREDAI Property Fair organised in the early August, which usually receives a decent response, concluded as a tepid event, where builders essentially displayed old projects. Absorption remained slow across all micro-markets of Kolkata. Capital and rental values remained stable on MoM basis. Going forward, the absorption may pick-up around the festive season of Durga Puja and Diwali, when developers are expected to launch new projects and offer attractive offers on existing inventory.

Source : ICICI PSGs Channel Sources

Key Residential Project Launches

	Projects	Developer	Location	Capital Value (INR/sq.ft.)
Mumbai	Gold Moon	Lodha	Worli	30,000
	Full Moon	Lodha	Worli	24,471
	Indiabulls Sky Suites**	Indiabulls	Lower Parel	19,900
	Alta Monte (Tower B)	Omkar	Malad (E)	1.65 - 1.75 Cr./ 2 BHK unit
	New Project	Wadhwa and Everest Developers	Kolshet Road, Thane	8,550
	Rustomjee Azziona	Rustomjee	Majiwada, Thane	9,550 - 9,800
	Bay 1	Hubtown & Red Fort Capital	Prabhadevi, Dadar	40,000
	Tridhaatu Prarambh	Tridhaatu Group	Chembur	13,250 and 14,000*
	Goldstar Decent Homes	Goldstar Group	Mira Road (E)	6,500
	Prathmesh Paradise	Prathmesh Constructions	Ulwe, Navi Mumbai	4,900
Delhi NCR	Naturevue Apartments	Jaypee Group	Jaypee Sports City, Greater Noida	3,590
	Jaypee Villa Expanza	Jaypee Group	Jaypee Sports City, Greater Noida	65.85 - 90 Lac/unit
	Mirabella	Mahagun	Sector 79, Noida	4,950
Chennai	Akshaya Republic	Akshaya Group	Kovur	4,250
	Coasta	VGN Group	East Coast Road	4,999
Bangalore	British Columbia	Nitesh Estates	Off Kanakpura Road	3,750
	Brigade Lakefront	Brigade Group	Whitefield	5,750
	Prestige Royal Gardens	Prestige Group	Yelahanka	4,250
	Purva Coronation Square	Puravankara Projects	J P Nagar	5 - 7 Cr./unit
Hyderabad	Pranit	Pranit Developers	Telapur	4,500
	Laxmi Ganpathi Nagar	Masani Constructions	Nagole	22 Lac/unit onwards
Pune	Eagle Nest	Naiknavare Developers	Talegaon	3,200
	Hill Shire	Guardian Developers	Wagholi	3,500 - 3,600
	Forest County	Vascon Engineers	Kharadi	5,400
	Rohan Mithila	Rohan Builders	Viman Nagar	5,800
Kolkata	Bellagio	Aspiration Group	Kasba	3,600
	Cosmic Group	Cosmic Oxford	Howrah	2,200

Note : ** *Launched at ₹ 19,900/sq.ft. for first couple of days which was revised to ₹ 22,900/sq.ft.*
* *₹ 13,250 for 1, 3 BHK and ₹ 14,000 for 2 BHK*

Source : ICICI PSGs Channel Sources

Land Acquisition, Rehabilitation and Resettlement Bill - 2013

Summary:

The new Land Bill which is set to replace its more than century old version has been passed by the Lower and Upper House of the Indian Parliament. The bill currently seeks fresh approval from the Lower House on certain amendments suggested by the Rajya Sabha.

While the populist objective has been to protect the land owners, industry has expressed concern on certain clauses, which may substantially escalate land cost and significantly delay the acquisition and approval process. Mentioned below are key points pertaining to the new Land Bill:

Background: What was the need to replace the old law?

The old law was essentially focused to expedite the acquisition of land. However, the new Bill also aims at fair compensation, Rehabilitation and Resettlement of affected people, adequate safeguards and complete transparency in the process of land acquisition. The amendment in the title is also reflective of the same.

It is unanimously believed that The Land Acquisition Act 1894 suffers from various shortcomings. Some of these include:

- **Forced Acquisitions and No Safeguards**: As per the old law, once the acquiring authority has intended to acquire a particular land piece then it can carry out the acquisition regardless of how the person whose land is sought to be acquired is affected. There is no real appeal mechanism to stop the process of the acquisition.
- **Silence on Resettlement and Rehabilitation of those displaced**: There have been no provisions relating to the resettlement and rehabilitation of those displaced by the acquisition.
- **Low Rates of Compensation**: The rates paid for the land acquired are in tune with the prevailing circle rates in the area which are not even remotely indicative of the actual rates prevailing in the area.
- **Urgency Clause**: This has been the most criticised clause in the law. It never truly defines what constitutes an urgent need and leaves it to the discretion of the acquiring authority. As a result, almost all acquisitions under the Act invoke the urgency clause.
- **Litigations**: It has been a rampant phenomenon when acquisition has been carried out and the same has been challenged in litigations, on the grounds mentioned above. This has resulted in the stalling of various infrastructural projects.

Key Higlights of the new Bill:

- **Fair' Compensation to land owners**: The compensation for land acquisition will be 2 times the market value in urban and 4 times the market value in the rural areas. Definition of Market Value has been amended to ensure that acquisition price doesn't form the basis for compensation calculation in future acquisitions. Also power has been given to the Collector to not consider transactions which he feels are outliers and not indicative of true value while calculating market value. In addition to the land owners, the Bill provides compensation to those who are dependent on the land being acquired for their livelihood.
- **Consent of land-owners**: The consent of 80% of owners for private projects and consent of 70% landowners for PPP (Public Private Partnership) projects has been made mandatory.
- **Share in appreciated land value**: In case an acquired land is sold to a third party for a higher price, then 40% of the appreciated land value (or profit) will be shared with the original owners.
- **Rehabilitation and Resettlement**: Elaborate processes (and entitlements) for resettlement and rehabilitation have been outlined. The Second Schedule in particular outlines the benefits (such as land for land, housing, employment and annuities) that shall accrue in addition to the one-time cash payments.
- **Safeguards against displacement**: As per the new guidelines, no one shall be dispossessed until all payments are made and alternative sites for the resettlement and rehabilitation have been prepared. The bill also lists the infrastructural amenities that have to be provided to those who have been displaced.
- **Retrospective Effect**: To address historical injustice the Bill applies retrospectively to cases where no land acquisition award has been made. Also in cases where the land was acquired five years ago but no compensation has been paid or no possession has taken place then the land acquisition process will be started afresh in accordance with the provisions of this act.
- **Multiple Checks**: A comprehensive and participative process (involving the participation of local Panchayati Raj Institutions) has been decided prior to the start of any acquisition proceedings. Monitoring Committees at the National and State Level to ensure that R&R obligations, have also been established.
- **Caps on Acquisition of Multi-Crop and Agricultural Land**: To safeguard food security and to prevent arbitrary acquisition, the Bill directs States to impose limits on the area under agricultural cultivation that can be acquired.
- **Return of Unutilised Land**: In case land remains unutilised after acquisition, the new Bill empowers states to return the land either to the owner or to the State Land Bank.

Impact and Industry's Reaction:

- The intentions to discourage forceful acquisition and unfair compensation are laudable. In addition, the urge to instill in transparency in the whole process is commendable. However, industry which has been seeking a quicker approval process is apprehensive about the impact of certain clauses.
- The consent clause seeking 70-80% of land-owners' approval could significantly delay the entire process and would also instill in a factor of unpredictability due to whims of land-owners. Delay in the acquisition process may consequently increase the costs involved. As a result, the entire project may turn infeasible. The compensation clause is also expected to substantially increase the costs involved.
- Land will likely become a scarce asset because of the time taking acquisition process and/or higher costs. This may give a fillip to Joint Venture/Joint Development models.
- Developers owning large land parcels will stand to potentially gain twice the market value on their landholdings. Long term property prices will likely find a new higher base as projects may not be viable below those levels unless either FSI is significantly increased or land is provided at a subsidised rate.
- Impact on Infrastructure and urbanisation: Infrastructure projects in various regions of India are already under pressure. While the provisions in the new bill intend to bring in transparency in the process, the infrastructure projects may receive a set-back. The consent clause and compensation clause are expected to increase the costs and further delay the completion timelines. This could yield the various infrastructure projects unviable.

Source : Secondary Market Source, ICICI PSGs Channel Sources