



Urban Indian real estate

Promising opportunities

August 2016

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Urbanisation driving Indian economy

Potentially the largest urban transformation ...



Every 6th person getting urbanised is an Indian

Annual urban population growth

China



India

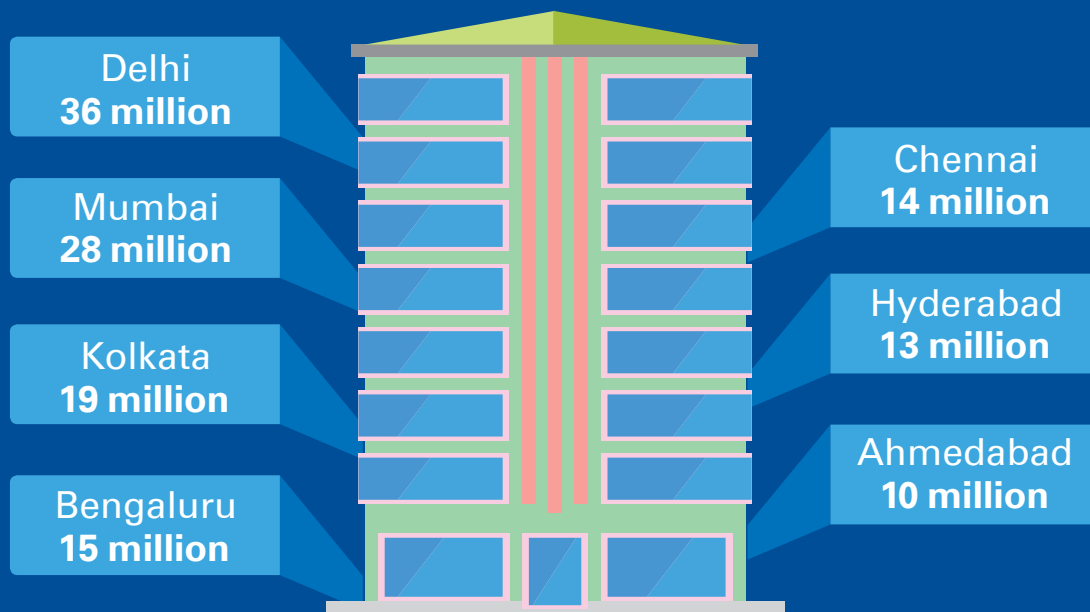


Nigeria



11-12 million people getting urbanised annually in India

India's largest urban agglomeration by 2030



77 cities with population of more than 1 million

India's urban population may increase by 40 per cent in next 15 years

420 million



2015

583 million



2030

...to propel India to third largest economy by 2030



3rd largest economy

6.7 per cent GDP growth until 2030 –
third largest globally

Urban GDP

USD7.5 trillion – India's urban GDP
in 2030, 75 per cent of India's total
GDP



Large middle class

23 per cent of global middle class will
be from India.

Real Estate and construction - important

Construction in India is a fast growing and expanding market

India is expected to be the third largest construction market globally by 2030



Contribution to Indian GDP may reach 15 per cent by 2030



Largest employer in India by 2022 - expected to employ more than 75 million people by 2022



USD 1 trillion – size of India's construction market in 2025 - 3rd largest globally.

Expected spending on construction

Sectors	2010-2015	2016-2020	Increase/decrease
	INR trillion spending on construction		x times
Roads	4.4	8.7	2.0
Irrigation	2.3	3.7	1.6
Urban infrastructure	1.4	2.5	1.8
Railways	1.2	2.2	1.9
Total building	3.0	5.0	1.7
Total infrastructure	17	26	1.5

Solid infrastructure project pipeline

Roads - 432 road projects worth INR6.5 trillion

Railways - More than 400 projects worth INR6 trillion

MRTS – 40 MRTS projects worth INR4.5 trillion

Airports – 70 projects worth INR670 billion

Ports – 75 projects worth INR551 billion

pillar of Indian economy

Investment landscape

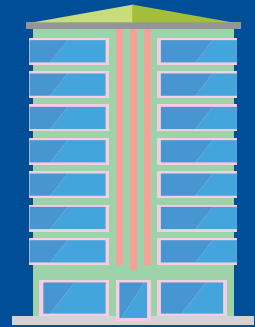
The urban transformation offers several investment opportunity to private investors.



USD 1 trillion investment required until 2030 to upgrade Indian urban infrastructure



Investment required for Housing for All by 2022 USD2 trillion



Potential value of REITable commercial office assets: 450 million sq ft worth USD45 billion

Government programmes and regulatory reforms

Pro-development programmes and policies to transform urban India



Government programmes

- Pradhan Mantri Awas Yojna (affordable housing)
- Smart Cities
- AMRUT (urban renewal)
- HRIDAY (Heritage cities preservation)
- Make in India (manufacturing)
- Digital India
- Skill India, Start-up India

Policy reforms

- Real Estate Act
- GST
- REIT and InVIT
- Relaxation of FDI and ECB norms
- Ease of doing business



Pressing issues and an

Aspect	Reform
Approvals	Streamlining of the approval mechanism
Land	Revise the Land Acquisition Resettlement and Rehabilitation Act 2013 to expedite land acquisition
	Expedite the digitisation of land records
	Fast-track introduction of land title insurance
Cost	Rationalise various statutory charges and taxes such as stamp duty, development charges etc. on affordable housing
	Credit access to weaker section of society
Stimulate demand	Higher tax incentives on housing purchase and rental income
	Fast-track pending infrastructure projects affecting property development
Building bye laws	Relook at affordable housing development norms especially the FAR/FSI, Density, parking, set-back etc.
	Consider providing additional FAR for Green Building Development
Funding	Promote long-term funding in the sector
Rental housing	Expedite finalisation and adoption of the Draft Model Tenancy Act by state government
	Clear the Draft National Urban Rental Housing Policy
Skill development	Promote new mass housing construction technologies
	Promote setting up of construction development institutes

agenda for action

Agency responsible	Issue
Central and state governments along with development authorities	As per World Bank Ease of Doing Business 2016 study, Indian ranks 183 out of 189 countries in dealing with construction permits ¹ .
Central and state governments	With the new LARR Act, the time taken to acquire land will take at least three years ² .
state governments	India ranks 138 out of 189 in registering a property as per World Bank Ease of Doing Business 2016 study ³ .
Insurance Regulatory and Development Authority along with the Private Sector	
Central and state government	Taxes and fees account for about 30-35 per cent of current housing cost ² .
Reserve Bank of India	
Central government	New launches and absorptions across the top eight cities were lowest in 2015 since 2010. New launches fell 21 per cent y-o-y in 2015 ⁴ .
Various Central and state governments agencies	
state governments and Development Authorities	
state governments and Development Authorities	Buildings consume close to 40 per cent of the total electricity produced in India ⁵ .
Central government	As against seven to eight years of the project lifecycle, most funding channels provide funding for only four to five years ⁶ .
state government	Globally, 20-35 per cent of total housing stock is social rental housing, which is negligible in India ⁷ .
Central and state governments	
Central government	
Central and state governments	Real estate and construction is expected to provide employment to 74 million people by 2022 – the largest among all sectors ⁸ .

1. <http://indianexpress.com/article/business/economy/india-ranks-130-in-ease-of-doing-business-jumps-12-places-world-bank-report/>
 2. Decoding Housing for All, KPMG in India, 2014
 3. <http://www.doingbusiness.org/data/exploretopics/registering-property>
 4. <http://economictimes.indiatimes.com/wealth/personal-finance-news/new-housing-launches-decline-sharply-by-21-sales-at-5-year-low-in-2015/articleshow/50764958.cms>

5. <http://www.cseindia.org/userfiles/Energy-and-%20buildings.pdf>
 6. Funding the Vision – Housing for All by 2022, KPMG in India, 2014
 7. <http://www.businessinsider.in/Budget-2016-This-is-where-India-stands-in-rental-housing-sector-of-the-world/articleshow/51010413.cms>
 8. Human Resource and Skill Requirements in the Building, Construction and Real Estate Sector (2013-17, 2017-22), National Skill Development Corporation; KPMG in India's analysis August 2016

Table of contents



Foreword

KPMG
NAREDCO



India at the
forefront of
global
urbanisation

Pradhan Mantri Awas
Yojna (PMAY)

Smart Cities Mission

Atal Mission for
Rejuvenation and Urban
Transformation (AMRUT)

Heritage City
Development and
Augmentation Yojana
(HRIDAY)



Regulatory
reforms and
policy initiatives

Goods and Service Tax
– Gearing up the Indian
economy

Real Estate (Regulation &
Development) Act, 2016

Real Estate Investment
Trusts (REITs)

IFRS Convergence – a
reality now for India

Relaxation of the FDI
policy



Key issues and
challenges in the
real estate and
construction
sector

The multifold
growth is
expected to
continue

Strict and prolonged
regulatory process leading
to delays

Land related issues

Limited funding from
financial institutions

Limited availability of long-
term funding

Lack of manpower coupled
with the conventional
usage of technology

Lack of a stable and
predictive tax regime



Foreword - KPMG

The world is witnessing urbanisation at an unprecedented pace, which is expected to further accelerate, and India is anticipated to lead this growth. This rapid urbanisation coupled with a host of other factors such as favourable demographics, policy reforms undertaken and sound macro-economic fundamentals, have made India the fastest growing large economy in the world in 2015, surpassing China⁹.

India's urban population is forecasted to almost double from 410 million in 2014 to over 583 million by 2030. To accommodate such a vast population base, the government has launched several large programmes along with policy support. As per our estimates, nearly 110 million houses would be required by 2022 alone in urban as well as rural India to provide housing to all the citizens. This includes the current shortage of over 60 million houses, out of which around 20 million exist in urban areas¹⁰. A significant amount of resources such as land, funds, technology and manpower among others would be required in the development of the nation in the coming decades.

Some major programmes include Smart Cities, 500 AMRUT cities, HRIDAY, Housing for all by 2022, etc. The policy framework complementing these programmes include the introduction of the Goods and Service Tax, Real Estate Act; Relaxation in investment norms, REITs, direct and indirect tax incentives on housing development, and IFRS convergence.

The policy reforms introduced recently are expected to transform the archaic business practices in the real estate sector. Among the foremost changes is the promotion of transparency and governance in the sector through the Real Estate Act and GST. The limited time available, before these

reforms are implemented, must be utilised by the sector incumbents to brace themselves. While, it's a long exercise requiring the modification of organisation genes, a step-by-step approach may help overcome the transformation waiting to happen.

In addition to bringing new policy reforms, the government is also working gradually towards resolving the archaic issues and challenges such as land-related issues (such as the introduction of land record digitisation and title insurance) and streamlining approval mechanism (model building bye-laws released recently) faced by the sector.

Given the projected growth of the urbanisation and the significance of the real estate sector in the Indian economy, this background paper, an effort by KPMG in India and National Real Estate Development (NAREDCO), attempts to provide an overview of the key programmes launched by the central government in the recent past, to address the challenges in urbanisation. Through this paper, we have also tried to briefly focus on the key challenges faced by the real estate sector and various policy reforms undertaken by the central government to address these challenges. I would like to thank the stakeholders involved in preparing this background paper and hope that you would find it a worthwhile read.



Neeraj Bansal

Partner and Head

Building, Construction and
Real Estate Sector
KPMG in India

9. World Urbanization Prospects: The 2014 Revision, United Nations, Department of Economic and Social Affairs, Population Division (2014); KPMG in India's Analysis August 2016

10. Decoding Housing for All by 2022, KPMG in India, 2014



Foreword - NAREDCO

India, the fastest growing large economy globally, is set to become the third largest economy by 2030. Amongst the major driving forces behind this economic growth is its employable youth and rapid urbanisation. As per the Ministry of Skill Development & Entrepreneurship, over 62 per cent of India's population falls under the working age group (15 - 59 years), which is also growing fast. The Hon'ble Prime Minister of India has also mentioned that India's energy is its youth - 800 million people below the age of 35 years. On the urbanisation front, the Indian urban population is expanding rapidly at 11-12 million per annum, which is more than the population of New York or Chicago¹².

The opportunity unfolded by the above trends is significant. It is estimated that about 110 million houses are required to be built to provide housing to all citizens by 2022, out of which 60 million houses are planned by the government, and remaining gap providing a large opportunity to private sector. Additionally, more than 100 Smart Cities will come up over the next decade to accommodate the evolving urban landscape.

The real estate and infrastructure sector is the third largest contributor to the Indian GDP as also the largest contributor to the state Exchequer. It has significant backward and forward linkages with more than 250 ancillary industries. Being the second largest employment generator in the country, the real estate and infrastructure sector is expected to provide huge employment opportunities to the expanding youth population.

Appreciating the potential of housing and infrastructure, the government has worked vigorously, in recent past, to propel growth in the housing and infrastructure sector. Some major policy initiatives include the enactment of Real

Estate (Regulation and Development) Act, 2016, relaxation in Foreign Investment norms, the release of guidelines for REIT/ InviT, Income Tax and Service Tax incentives for Affordable Housing, launch of Smart Cities, Urban Rejuvenation and Transformation and Affordable Housing Missions, besides reforms in approval procedures. We welcome these reforms and expect many more financial, administrative and procedural reforms to happen to help housing and infrastructure achieve its full potential. NAREDCO is actively engaged with various government initiatives directed towards promoting the real estate sector and overcome hurdles on its way.

This background paper, a joint effort by NAREDCO and KPMG, highlights the importance of real estate and urban infrastructure in the Indian economy, and the key challenges affecting their growth. We would like to thank all the stakeholders involved in preparing this background paper and organizing the 13th National Convention and hope that you would find it a worthwhile read.



Rajeev Talwar

Chairman
NAREDCO



Parveen Jain

President
NAREDCO

11. World Urbanization Prospects: The 2014 Revision, United Nations, Department of Economic and Social Affairs, Population Division (2014)

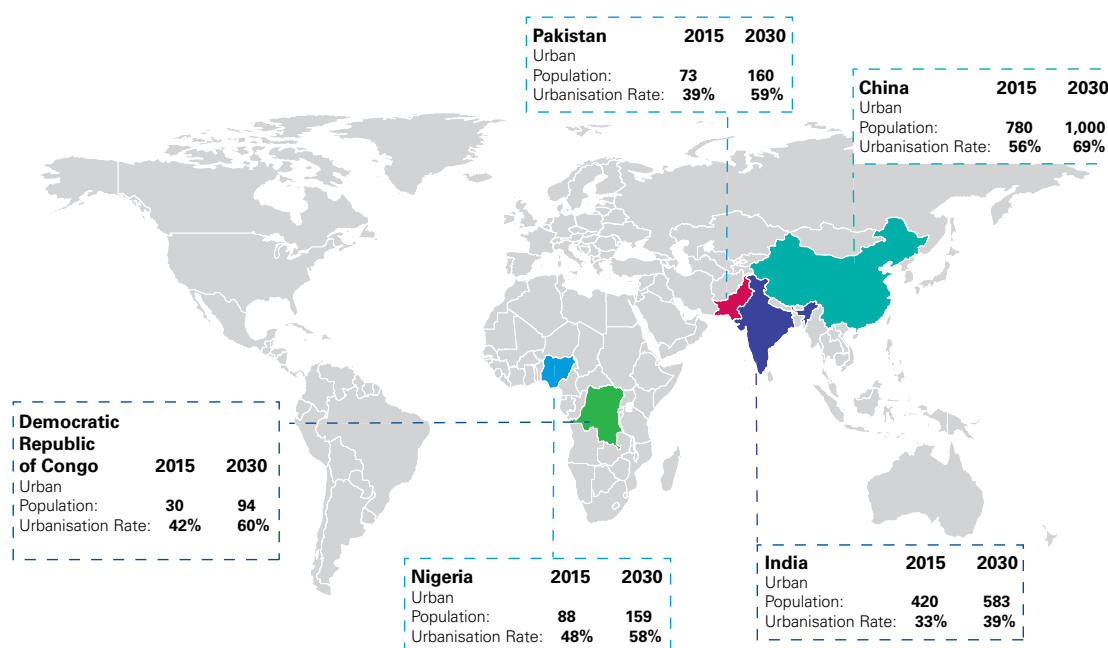
India at the forefront of global urbanisation

India is the second-largest urban community in the world, after China, with an urban population of 410 million, which is almost equal to the combined current population of The United States of America, The United Kingdom, and Australia¹². Urbanization in India is happening at an unprecedented scale, with every sixth person getting urbanised globally is an Indian. With a growth rate of 11-12 million per annum, Indian urban population is set to take over its rural population in the next three decades¹³.

On demographic front, it may still be one of the youngest nations until 2050. India's median age of population is expected to increase from 27 years in 2015 to 32 years in 2030 - equivalent to the median age of China in 2005.

The rapid growth of young urban population at an unprecedented scale, holds significant potential to transform the Indian economy. Cities contribute about 62-65 per cent of India's GDP¹⁴. Thus, India has an opportunity at hand, which can fuel its economy for several decades, if managed well. India must prepare its urban capacities by augmenting the infrastructure of its cities to translate potential into high economic growth.

India and China leading global urbanization



Source: World Urbanization Prospects: The 2014 Revision, United Nations, Department of Economic and Social Affairs, Population Division (2014); KPMG in India's Analysis August 2016

Over the last several years, the government has realised the importance of upgrading the city infrastructure namely roads, power, water, waste, housing, etc. and has undertaken several initiatives in this direction. Some of these programmes are shown below briefly and the ones having a direct impact on the real estate sector are mentioned in detail thereafter.

12. World Urbanization Prospects: The 2014 Revision, United Nations, Department of Economic and Social Affairs, Population Division (2014); KPMG in India's Analysis August 2016

13. World Population Prospects: The 2015 Revision, United Nations, Department of Economic and Social Affairs, Population Division; KPMG in India's analysis August 2016

14. Report on Indian Urban Infrastructure and Services, The High Powered Expert Committee (HPEC), Ministry of Urban Development, government of India, 2011; Urban Population to contribute 70-75% of India's GDP by 2020 - Barclays, Business Standard website, http://www.business-standard.com/article/news-cm/urban-population-to-contribute-70-75-of-india-s-gdp-by-2020-barclays-114032000273_1.html, 20 March 2014; KPMG in India's analysis August 2016

Flagship Schemes of government of India

Smart Cities

- Plan for 100 Cities
- Estimated outlay for the Smart Cities Mission from FY2015-16 to FY2019-20 is more than USD15 billion

AMRUT

- 500 urban areas
- Estimated outlay for the Smart Cities Mission from FY2015-16 to FY2019-20 is more than USD7.5 billion

Digital India

- USD17.5 billion investment planned by 2019
- Setting up of 400,000 internet access points

Swachh Bharat

- Central government contribution - USD2.3 billion; states and ULBs contribution - USD760 million
- National Mission for Clean Ganga - USD317 million announce

Pradhan Mantri Awas Yojana

- Implemented during 2015-2022 under Housing for All (HFA)
- Executed via Centrally Sponsored Scheme (CSS)

Skill India

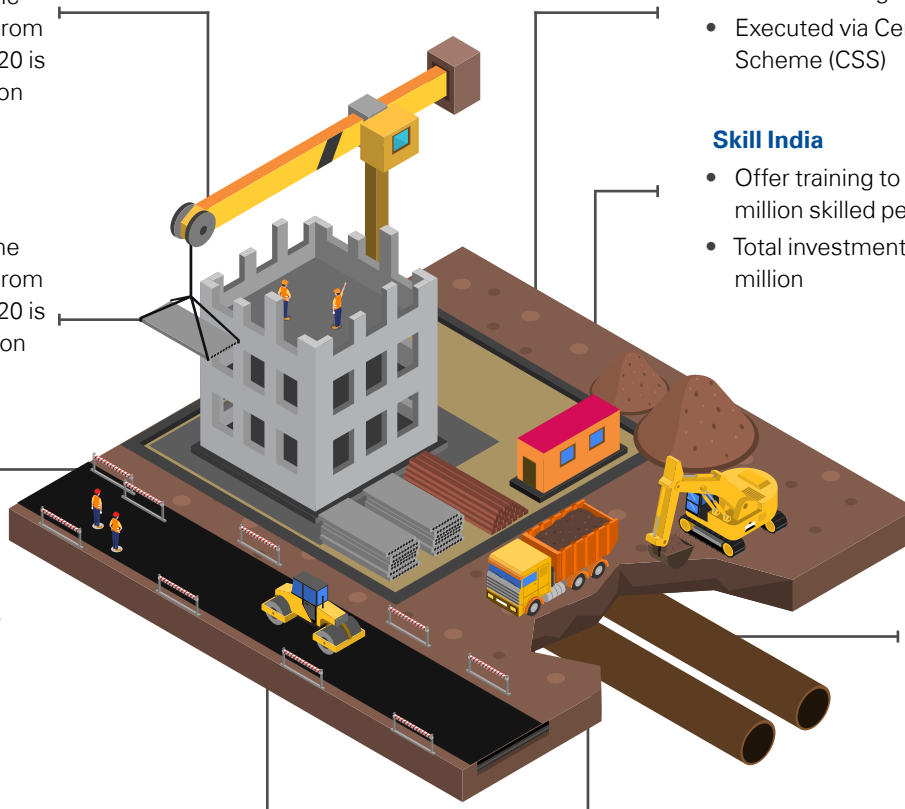
- Offer training to a minimum of 300 million skilled people by 2022
- Total investment outlay of USD234 million

HRIDAY

- Focus on holistic development of heritage cities.
- -Estimated outlay of ~USD75 million (INR5000 million) covering 12 cities

National Urban Livelihoods Mission

- Aimed at universal coverage of the urban poor for skill development and credit facilities
- Investment share - **Central government 75 per cent/state government – 25 per cent**



Source: Digital India, Department of Electronics and Information Technology, <http://www.digitalindia.gov.in/content/vision-and-vision-areas>; Pradhan Mantri Kaushal Vikas Yojana, Press Information Bureau - <http://pib.nic.in/newsite/PrintRelease.aspx?relid=117547>, 20 March 2015; Swachh Bharat, Ministry of Urban Development, Gol, https://swachhbharaturban.gov.in/writereaddata/Mission_objective.pdf, accessed on 5 August 2016; Reforms in Power Sector, Press Information Bureau, 01 December 2014; **National Urban Livelihood Mission**, http://nulm.gov.in/PDF/NULM_Mission/NULM_mission_document.pdf, accessed 5 August 2016; Challenging the tides: Indian real estate, KPMG, 2015

Pradhan Mantri Awas Yojna (PMAY)

The central government aims to provide housing to all its citizens by the year 2022. According to our estimates, the vision entails development of about 110 million housing units, including the current shortage of about 60 million units¹⁵. The housing need is almost equally distributed in urban and rural areas in the range of 50 to 60 million units, and primarily consists of affordable houses.

In urban India, the Economically Weaker Sections (EWS) and Lower Income Groups (LIG) account for nearly 96 per cent of the housing shortage in 2012¹⁶. Hence, to overcome this shortage, the government of India, in June 2015, launched 'Pradhan Mantri Awas Yojna' - 'Housing for All' (Urban), to promote affordable housing for the weaker sections through credit-linked subsidies and by providing affordable housing through public and private stakeholder collaborations¹⁷. It also seeks to provide subsidies for beneficiary-led individual house constructions.

2800 cities selected in 32 states/UTs for inclusion in the mission

957 projects for construction of 0.73 million homes for EWS category in 681 cities of 19 states

Investment of USD1.6 billion accepted by government under the mission



Source: Mission Document, Pradhan Mantri Awas Yojna, MoHUPA, 2015; KPMG in India's analysis

Three-phase implementation of the PMAY

The three-phased strategy lasting until 2022 aims to develop about 20 million housing units in urban areas. The scheme essentially involves financial assistance by the central government to states, union territories, private sector and eligible families directly¹⁸.

Phase - 1
(April 2015 - March 2017)
100 cities

Phase - 2
April 2017 - March 2019)
Another 200 cities

Phase-3
(April 2019-March 2022)
Remaining cities

15. Decoding Housing for All by 2022, KPMG in India, 2014

16. India Soars High, KPMG in India, 2016

17. 'Housing for All by 2022' Mission - National Mission for Urban Housing; accessed on 3rd December 2015

18. Pradhan Mantri Awas Yojna - Housing for All (Urban), Ministry of Housing and Urban Poverty Alleviation, accessed 5 August 2016

Four pillars of PMAY

To achieve the vision of Housing for All (Urban), an implementation methodology has been made by the central government which focusses on the following four pillars:



'In situ' slum redevelopment

- using land as a resource
- private participation
- extra FSI/TDR/FAR if required to make project financially feasible.

Affordable housing in partnership

- with private or public sector including parastatal agencies
- central assistance per EWS house in affordable housing projects where 35 per cent of constructed houses are for EWS category.

Subsidy for beneficiary led individual house construction or enhancement

- for individuals of EWS category requiring individual housing
- state to prepare a separate project for such beneficiaries
- no isolated/splintered beneficiary to be covered.

Affordable housing credit through credit linked subsidy

- interest subvention subsidy for EWS and LIG households for new house or incremental housing
- EWS: annual income of upto INR3 lakh per annum and house is upto 30 sq meter
- LIG: annual income is between INR3-6 lakh per annum and house size upto 60sq meter.

Source: Mission Document, Pradhan Mantri Awas Yojna, MoHUPA, 2015; KPMG in India's analysis

Current Status of the Pradhan Mantri Awas Yojna as on July 2016

Sr. No.	State	Nos. of cities considered for funding	Project proposals considered	EWS houses	Central assistance involved	Central assistance released (projects)
1	Andhra Pradesh	59	110	1,931	29	3
2	Maharashtra	10	18	1,017	15	-
3	Telangana	63	144	805	12	4
4	West Bengal	108	108	749	11	1
5	Gujarat	12	77	670	9	3
6	Others	429	500	2,116	31	9
7	Total	681	957	7,288	107	21

Source: Physical and Financial Progress in PMAY, MoHUPA, 1st August 2016

Smart Cities Mission¹⁹

The objective of the smart cities mission is to promote the development of a city's core infrastructure, in an attempt to provide an improved quality of life and a clean and sustainable environment to its citizens. The focus is on sustainable and inclusive development of an area in a city, which creates a role model inspiring other cities to adopt and replicate. The key feature of a Smart City is the intersection between competitiveness, Capital and Sustainability. A smart City should be able to provide good infrastructure such as water, sanitation, reliable utility services, health care; attract investments; transparent processes that make it easy to run a commercial activities; simple and on line processes for obtaining approvals, and various citizen-centric services to make citizens feel safe and happy.

Coverage and duration

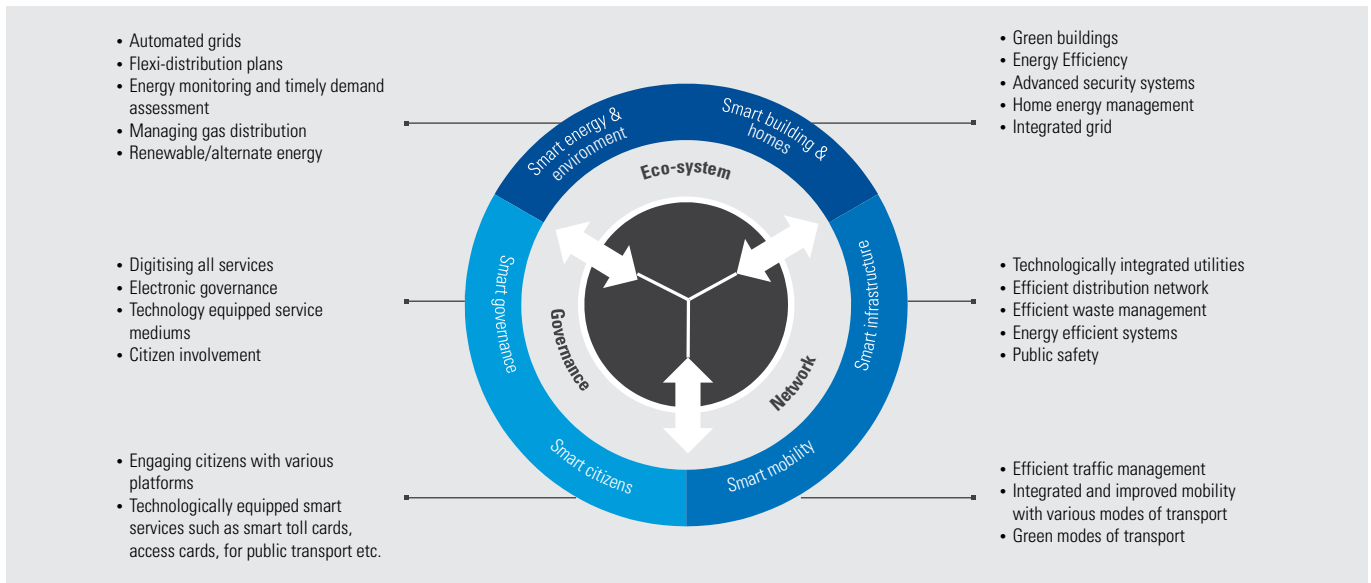
The mission plans to cover 100 cities and would span over five years – FY 2015-16 to FY 2019-20. The mission may be continued thereafter in the light of an evaluation to be done by the Ministry of Urban Development (MoUD) and incorporating the learnings into the mission. These smart cities are expected to cover ~35 per cent of the urban area and benefit ~130 million people by improving the infrastructure and service delivery through the application of better technology and e-governance.

The core elements of a smart city:

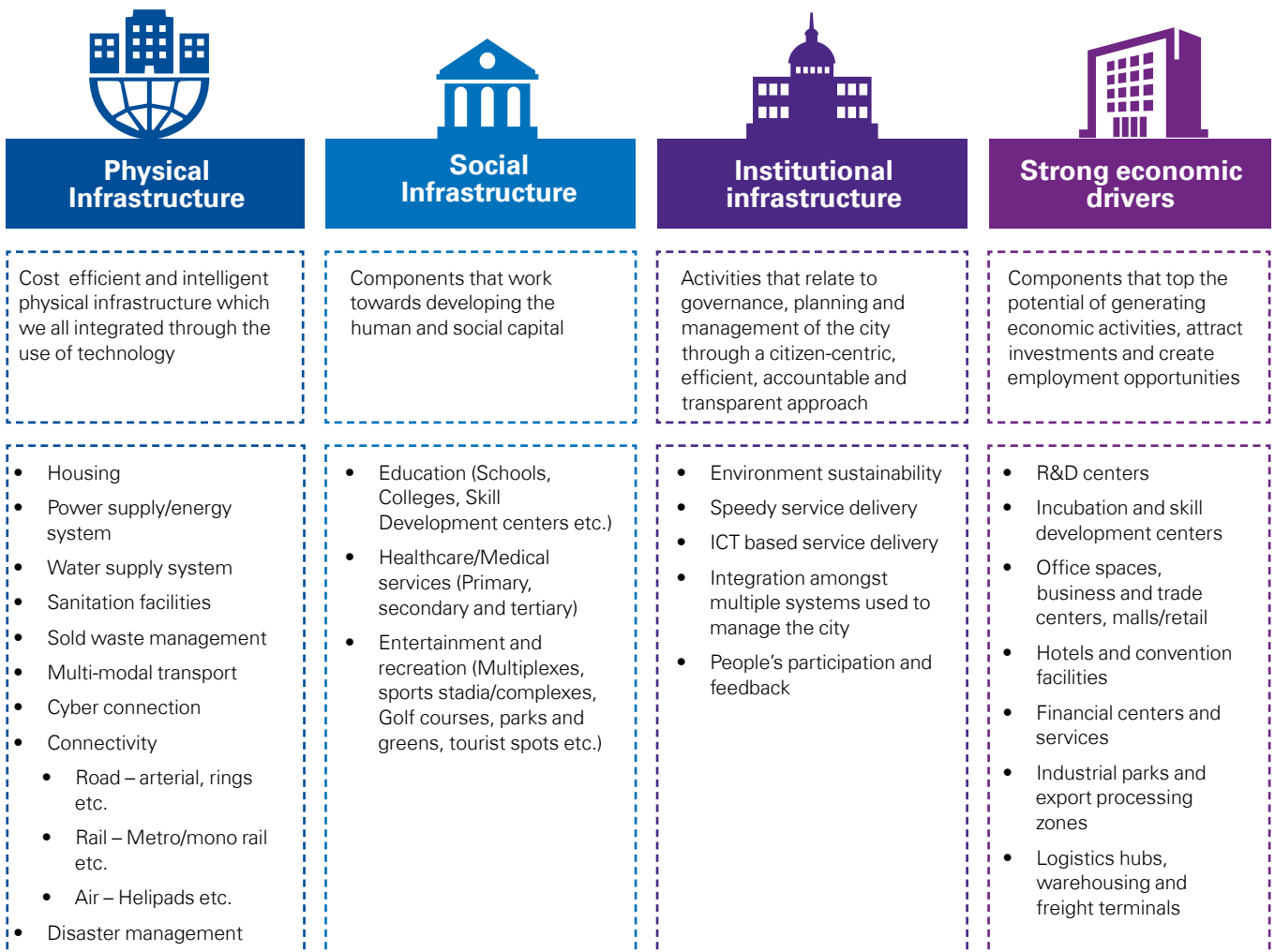
The diagram illustrates the key features of a Smart City with basic infrastructure to give an improved quality of life, a clean and sustainable environment through application of some smart solutions:

19. Smart Cities Mission, www.smartcities.gov.in, accessed 5 August 2016

Core elements of a Smart City



Four pillars of smart city to achieve sustainability



Source: Smart Cities Mission, www.smartcities.gov.in, accessed 5 August 2016

Strategic components of the Smart Cities Mission (SCM)

There are two strategic approaches which can be followed for the SCM namely: area-based development and pan-city development. The central government has decided to focus majorly on area-based development.

Area-based development is likely to transform existing areas (retrofit and redevelop), including slums, into better planned ones, thereby improving the livability of the whole City. New areas (greenfield) are to be developed around cities in order to accommodate the expanding population in urban areas

Strategic components of Smart Cities Mission



Source: Smart Cities Mission, www.smartcities.gov.in, accessed 5 August 2016

Implementation

The implementation of the Mission at the city level will be done by a Special Purpose Vehicle (SPV) created for the purpose. The SPV will plan, appraise, approve, release funds, implement, manage, operate, monitor and evaluate the Smart City development projects.

The SPV will be a limited company incorporated under the Companies Act, 2013. By default, the state government and the Urban Local Bodies (ULB), will be the promoters of the SPV having 50:50 equity shareholding. The private sector or financial institutions could be considered for taking equity stake in the SPV provided that:

- The shareholding pattern of 50:50 of the state government and the ULB is maintained at all times; and
- The state government and the ULB together have majority shareholding and control of the SPV.

The SPV's board will be comprised of a Chief Executive Officer (CEO) and Functional Directors, as well as representatives of the Central government, who will be appointed by the Ministry of Urban Development, representatives of the state government, representatives of the ULB and Independent

Directors. The SPV will be an independent and autonomous in its operation and decision-making. The Smart City Mission encourages the state government and the ULB to adopt the following best practices to create empowered SPVs to the extent and as provided under the municipal act:

- Delegating the rights and obligations of the municipal council with respect to the smart city project to the SPV.
- Delegating the decision making powers available to the ULB under the municipal act/ government rules to the Chief Executive Officer of the SPV.
- Delegating the approval or decision making powers available to the Urban Development Department / Local Self government department / Municipal Administration department to the Board of Directors of the SPV in which the state and ULB are represented.
- Delegating the matters that require the approval of the state government to the state Level High Powered Steering Committee (HPSC) for Smart Cities.

Mission Monitoring

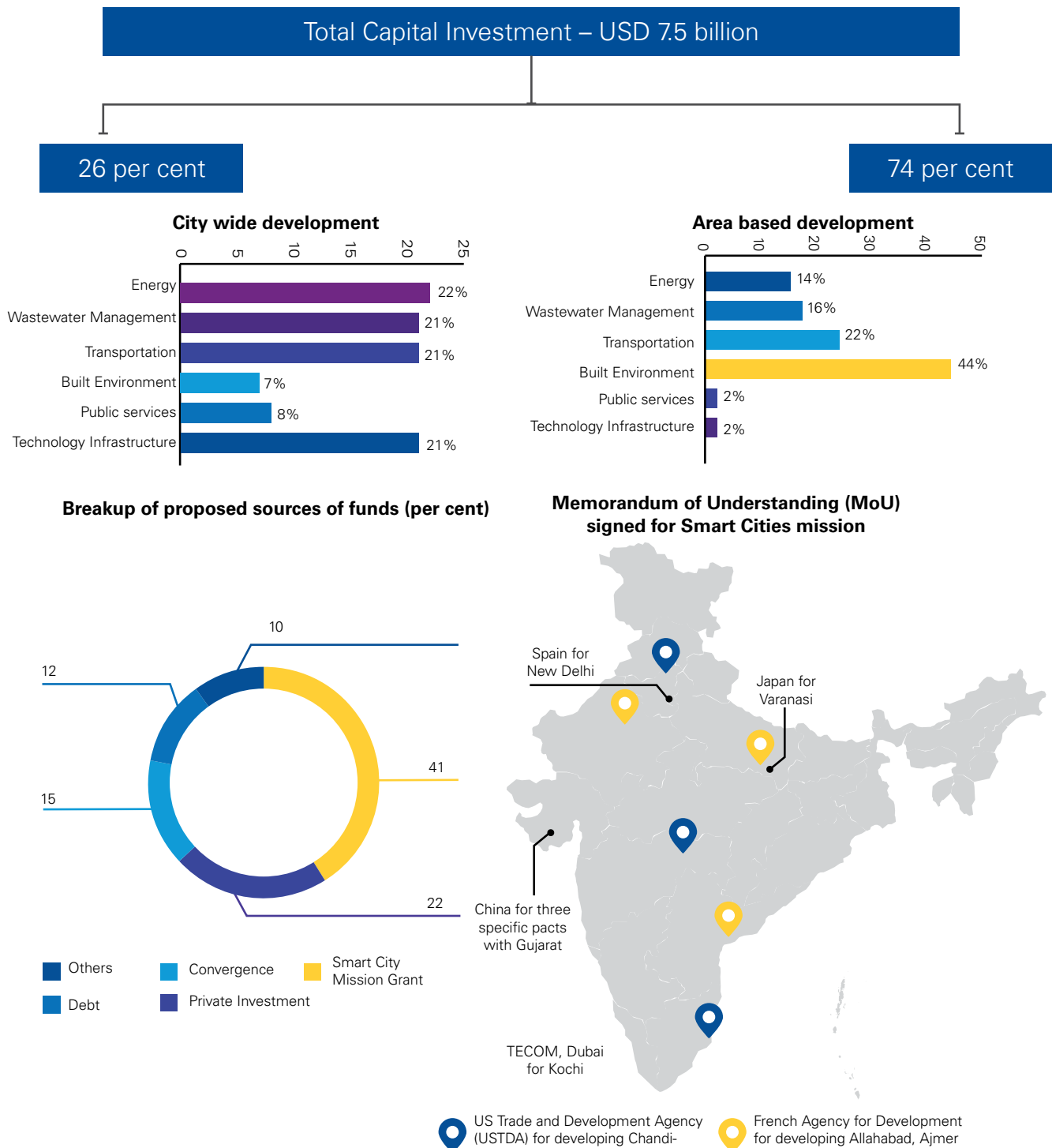


Source: Smart Cities Mission, www.smartcities.gov.in, accessed 5 August 2016; KPMG in India's analysis August 2016

Planned investment

The total planned investment for Smart Cities Mission is about INR1 trillion (USD15 billion)²⁰. While the Centre has allocated close to INR500 billion (USD 7.5 billion), the remaining expenses have to be met by states, local municipal bodies and the private sector.

Proposed investment breakup



Source: Smart Cities Mission, www.smartcities.gov.in, accessed 5 August 2016

20. Smart Cities Mission, Ministry of Urban Development, Govt. of India

Atal Mission for Rejuvenation and Urban Transformation (AMRUT)²¹

Through AMRUT the central government envisages the transformation of urban India by aiming to²²:

- Ensure that every household has access to taps with an assured supply of water and a sewage connection
- Increase the amenity values of cities by developing greenery and well maintained open spaces e.g. parks and
- Reduce pollution by switching to public transport or constructing facilities for non-motorised transport e.g. walking and cycling.

Purpose of AMRUT

To provide basic services such as water supply, sewerage and urban transport to every household in order to improve the quality of life, while promoting equitable access to city services. Among the estimated 4,040 urban zones in India, about 500 would be targeted through AMRUT.

Steps taken so far²⁴

Identification of cities	<p>About 500 cities have been selected based on the following criteria:</p> <ul style="list-style-type: none"> • All cities and towns with a population greater than 100,000, having notified municipalities, including cantonment boards (civilian areas) • All capital cities/towns of states/UTs, not covered under the 100 Smart Cities Mission • All cities/towns classified as heritage cities by MoUD • Thirteen cities and towns on the stem of the main rivers with a population between 75,000 and 100,000 • Ten cities from hill states, islands and tourist destinations (not more than one from each state).
Identification of mission components	<p>MoUD has identified capacity building, reform implementation, water supply, sewerage and septage management, storm water drainage, urban transport and green-space development as the chief components of the mission.</p>
Finance strategy	<p>With a total estimated outlay of USD7.5 billion for the period between FY2014-15 and FY2018-19, the initiative is to be operated as a centrally-sponsored scheme. The funds would consist of the following:</p> <ul style="list-style-type: none"> • Project fund (80 per cent of the annual budgetary allocation) • Incentive for reforms (10 per cent of the annual budgetary allocation) • State funds for administrative and office expenses (8 per cent of the annual budgetary allocation) • MoUD funds for administrative and office expenses (2 per cent of the annual budgetary allocation).
Capacity building	<p>For individual capacity building²⁷, key departments in ULBs have been identified as follows:</p> <ul style="list-style-type: none"> • Finance and revenue: Financial planning and management, and revenue mobilisation • Engineering and public health: Water and sanitation, drainage and solid waste management • Town planning: Urban planning including pro-poor planning approaches • Administration: e-Governance, computer and soft skills.

Objective of AMRUT

The objectives of AMRUT constitute the Service Level Benchmarks (SLBs). The capacity building and supportive reforms, which act as integral parts of the mission, aim at improving service delivery, resource mobilisation and greater transparency in municipal functioning and capacity building in order to empower municipalities and increase their operational efficiency.

The AMRUT mission

Focus on the following thrust areas²³:

- Water supply
- Sewerage facilities and septage management
- Storm water drains to reduce flooding
- Pedestrian, non-motorised and public transport facilities, parking spaces, and
- Enhancing amenity value of cities by creating and upgrading green spaces, parks and recreation centres, especially for children.

21. India Soars High, KPMG in India, 2016

22. The Mission, AMRUT, Ministry of Urban Development, government of India, <http://amrut.gov.in/writereaddata/The%20Mission.pdf>

23. Thrust Areas, AMRUT, Ministry of Urban Development, government of India, <http://amrut.gov.in/writereaddata/Thrust%20Areas.pdf>

24. Coverage, AMRUT, Ministry of Urban Development, government of India, <http://amrut.gov.in/writereaddata/Coverage.pdf>; The Mission,

AMRUT, Ministry of Urban Development, government of India, <http://amrut.gov.in/writereaddata/The%20Mission.pdf>; Fund Allocation, AMRUT, Ministry of Urban Development, government of India, <http://amrut.gov.in/writereaddata/Fund%20Allocation.pdf>; List of Reforms, AMRUT, Ministry of Urban Development, government of India, <http://amrut.gov.in/writereaddata/List%20of%20Reforms.pdf>; Individual Capacity Building, AMRUT, Ministry of Urban Development, government of India, <http://amrut.gov.in/writereaddata/Individual%20>

Capacity%20Building%20Plan.pdf; AMRUT Action Plans for 474 cities cleared with a project outlay of Rs.19,170cr, Press Information Bureau, government of India, 15 December 2015, <http://pib.nic.in/newsite/printrelease.aspx?relid=133300>; Execution Steps, AMRUT, Ministry of Urban Development, government of India, <http://amrut.gov.in/writereaddata/Execution%20Steps.pdf>

Heritage City Development and Augmentation Yojana (HRIDAY)²⁵

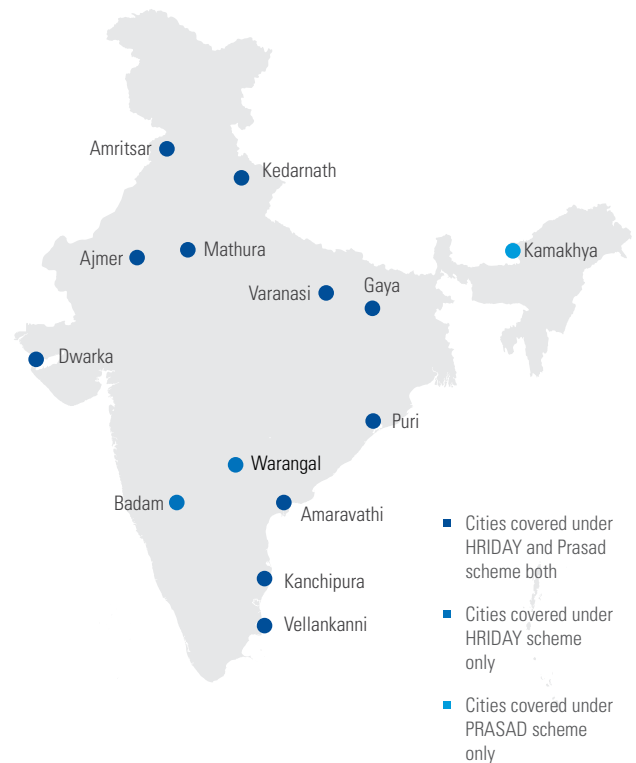
The government has proposed to develop heritage cities in order to explore the full potential that lies within the diverse historic, cultural and natural resources in India. It has announced the Heritage City Development and Augmentation Yojana (HRIDAY) in order to preserve and rejuvenate the rich cultural character of initially 12 cities in India with a total outlay of USD83.3 million for this project, completely funded by the central government²⁶.

Coverage and focus areas

The scheme would be implemented for cities of Ajmer, Amritsar, Amravati, Badami, Dwarka, Gaya, Warangal, Puri, Kanchipuram, Mathura, Varanasi and Vellankanni. The scheme will broadly focus on four core areas i.e. physical infrastructure, institutional infrastructure, economic infrastructure and social infrastructure for reviving and revitalising the Heritage City²⁷. The duration of the scheme will be four years starting from December 2014²⁸. The scheme would be merged along with the tourism ministry's Pilgrimage Rejuvenation and Spiritual Augmentation Drive (PRASAD) scheme which has an outlay of USD16.6 million (for the current year) in order to augment infrastructure at pilgrim sites across the country²⁹.

These schemes are inclined towards facilitating inclusive heritage linked urban development by enhancing the infrastructure through various avenues including private participation. Inclusive urban planning targeting infrastructural development, could eventually aid tourism and benefit the overall hospitality sector in the region. This initiative would help to promote tourists in these historic and pilgrimage locations, in turn increasing the spending in these locations, fueling trade and commerce and creating an opportunity for real estate.

Cities under HRIDAY and PRASAD scheme



25. Indian Real Estate: Challenging the Tides, KPMG in India, 2015

26. government launches Rs 500 crore scheme to rejuvenate 12 heritage cities, The Economic Times, http://articles.economicstimes.indiatimes.com/2015-01-21/news/58305800_1_tourism-ministercultural-heritage-sites-tourism-potential, 21 January 2015

27. HRIDAY India website, <http://hridayindia.in/hriday-cities/>, accessed on 15 September 2015.

28. Guidelines for HRIDAY, issued by MoUD, Gol in January 2015.

29. Special Programmes Prasad and Hriday Launched for Religious and Heritage Cities, Press Information Bureau, 10 July 2014.

Regulatory reforms and policy initiatives

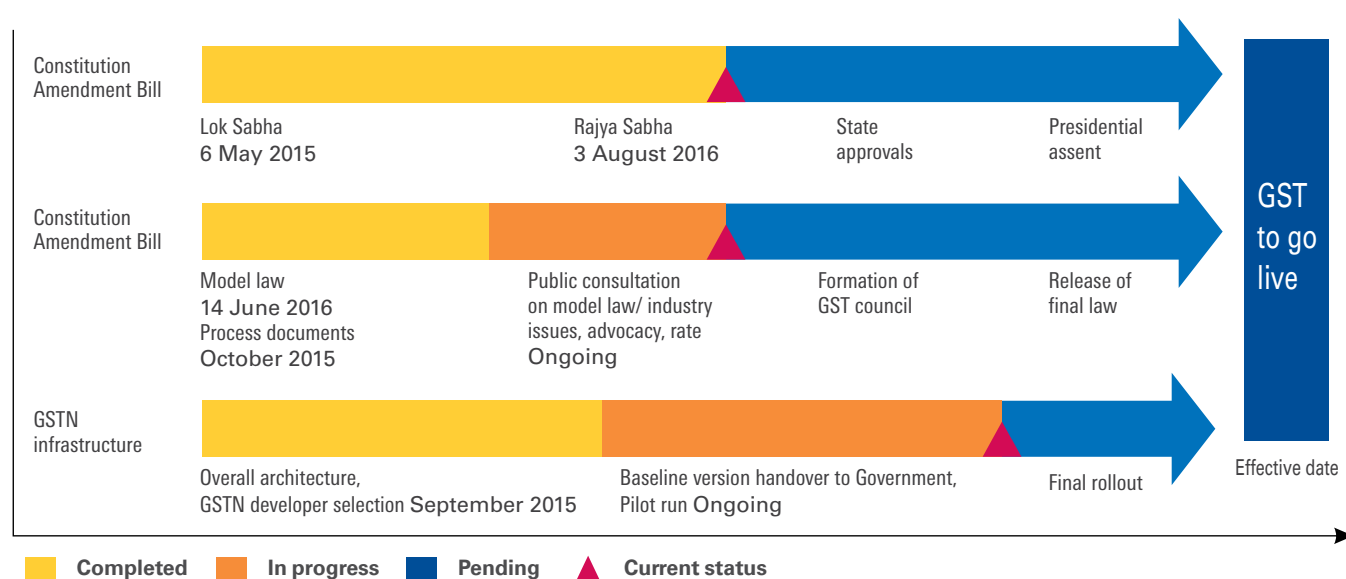
The Indian real estate sector has witnessed considerable churning of the legal and regulatory framework over last few years. Various policy measures have been brought to improve transparency, governance, and regulation in the sector. Among the most notable reforms introduced in real estate sector includes:

- Clearance of GST
- Introduction of Real Estate Act
- Clearance of REITs
- Easing of approval mechanism such as construction permits
- Convergence of IFRS
- Relaxation of FDI norms

Goods and Service Tax – Gearing up the Indian economy

Recently, the government cleared the constitutional amendment bill, which paves the way for introduction of Goods and Services Tax (GST) bill and rules in the parliament. The next step involves the ratification of this amendment by majority states, post which the GST bill will have to be cleared by both Central and state governments.

GST journey this far and the road ahead



Source: KPMG in India's analysis August 2016

Some visible potential benefits for the real estate sector...

Among the most important advantages for the real estate sector is the reduction in compliance to bring in efficiency whereby the credit input for excise duty etc. levied on materials such as cement, steel, etc. is involved. A developer need not coordinate with multiple tax authorities such as Service Tax and VAT authorities.

At an overall level, the impact on the sector will hinge upon the effective GST tax rate post abatement allowed for the land value in property transactions. Also the impact of offset of GST credit on construction of buildings with GST paid on Rents or leases will have to be considered.

From a consumer's perspective, it is premature to say if GST will bring down property prices. We will have to wait for the finer details especially with respect to the applicable rate for the real estate sector.

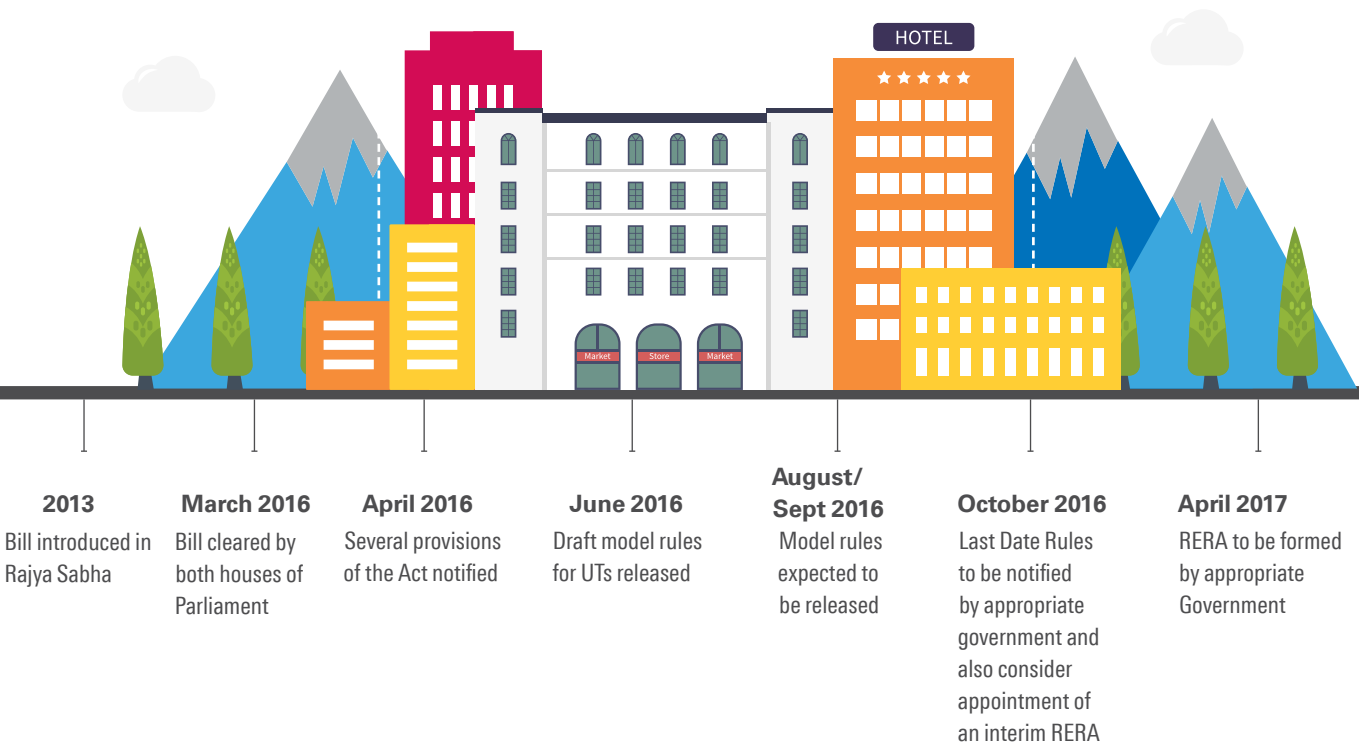
In the interim, the sector can take time to transform

While we expect the government to provide adequate breather time to the sector to understand and prepare for GST, developers must brace themselves for the GST, which is expected to be rolled out from 1 April 2017. Thus, with limited time left, organisations need to start preparing themselves for GST and undertake detailed reviews of the IT systems, contracts with vendors, suppliers etc.

Real Estate (Regulation & Development) Act, 2016

The much awaited Real Estate (Regulation and Development) Act (RERA), which has been envisaged as a landmark reform for the real estate sector has finally become a reality after it was passed in the Parliament in March 2016. The Act is expected to modify traditional practices plying in the real estate sector and bring out a more professional approach amongst developers. With a focus on improving the transparency, governance and accountability in the sector, the Act is expected to segregate the quality and time-focussed developers from casual operators.

Chronology of events

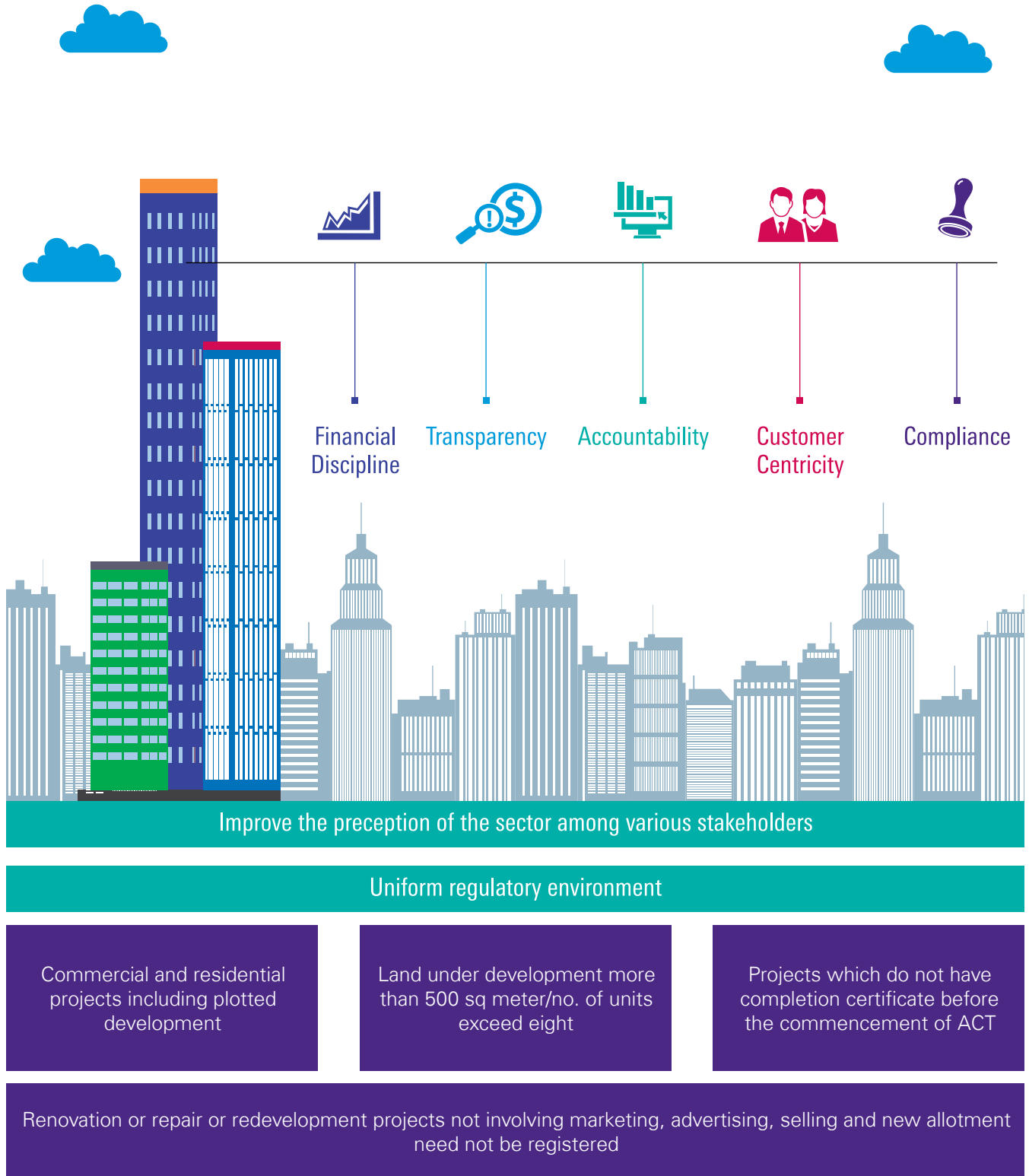


Appropriate government to frame rules by end of October 2016

Source: KPMG in India's analysis August 2016

Key provisions

The Act attempts to provide regulation under the five key pivotal pillars of financial discipline, transparency, accountability, customer centricity and compliance.



Financial Discipline



- Promoters to park 70 per cent of the project sales realisation in a bank account
- Withdrawals from bank account must be certified by Engineer, Architect and CA and can be withdrawn in proportion to the percentage completion method (including construction and land cost)
- Project accounts to be audited by a practicing CA every year
- Real Estate Regulatory Authority (RERA) can freeze bank account upon non-compliance
- Interest on delay to be the same for customer and promoter
- Promoter compensate buyer for any false or incorrect commitment along with full refund and interest.

Transparency



- Provide number, type and carpet areas of apartments
- Inform allottees for any minor addition/alteration and seek consent from affected allottees for any major addition or alteration
- Seek consent of 2/3rd allottees for any other addition or alteration
- No arbitrary cancellation of units by the promoter
- No launch or advertisement before registration with RERA
- Obtain consent of 2/3rd allottees for transferring majority rights to third party
- Develop project within committed time frame
- Conduct quarterly updates of the RERA website with inventory and pending approval details

Accountability



- Every officer of a company, who was in charge or responsible for certain work to be liable for the conduct of the company and deemed to be guilty
- Offence by an officer committed with the consent or connivance of any director, manager, secretary or other officer of the company, will also be guilty

Customer Centricity



- Share information about project plan, layout, government approvals, land title status, sub-contractors with RERA
- Formation of association of allottees within specified time or three months after majority of units have been sold
- Affirm unbiased interest on delays
- Exercise increased assertion on the timely completion of projects and delivery to the consumer.
- Seek consent of 2/3rd allottees for any other addition or alteration
- Informing allottees for any minor addition or alteration
- Ensure quality of construction due to a defect liability period of five years.
- Obtain consent from affected allottees for any major addition or alteration
- Refrain from making any false statements or commitments in advertisements
- Assure dispute resolution within six months at RERA and RERA appellate tribunal

Compliance



- Registration of projects with RERA by producing authenticated copy of all approvals, commencement certificate, sanctioned plan, layout plan, specification, plan of development work, proposed facilities, allotment letter, agreement for sale and conveyance deed
- Real estate agents/brokers must register with RERA
- Ensure timely updating of the RERA website
- RERA to provide maximum of one year's extension in case of delay
- Conduct annual audit of project accounts by a CA
- Developers to share details of projects launched in last 5 years with status and reason for delay with RERA
- Establish conveyance deed for common area in favour of association of allottees within three months of possession
- Arrange for separate registration of different phases of a single projects
- Obtain building, construction and land title insurance

Impact on the sector

While, the Act poses some short term challenges for the sector, it is expected that it would benefit the sector in long term by inculcating transparency, professionalism and governance in the sector. Some of the potential impacts of the Act are envisaged below:

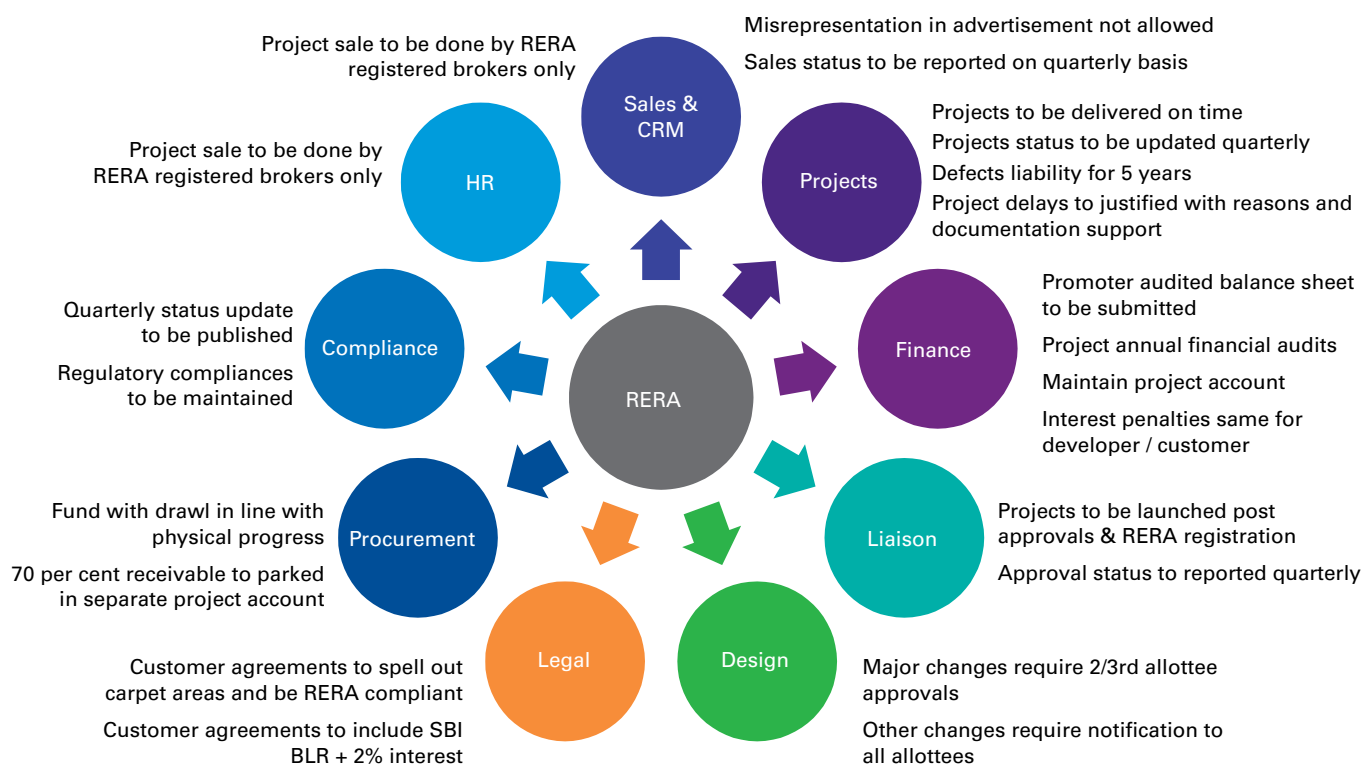


Source: KPMG in India's analysis August 2016

RERA – Impacting organisations’ ecosystems

Some of the major impacts on the organisational ecosystems of real estate developers are shown below:

Impact of RERA on an organisations’ ecosystem



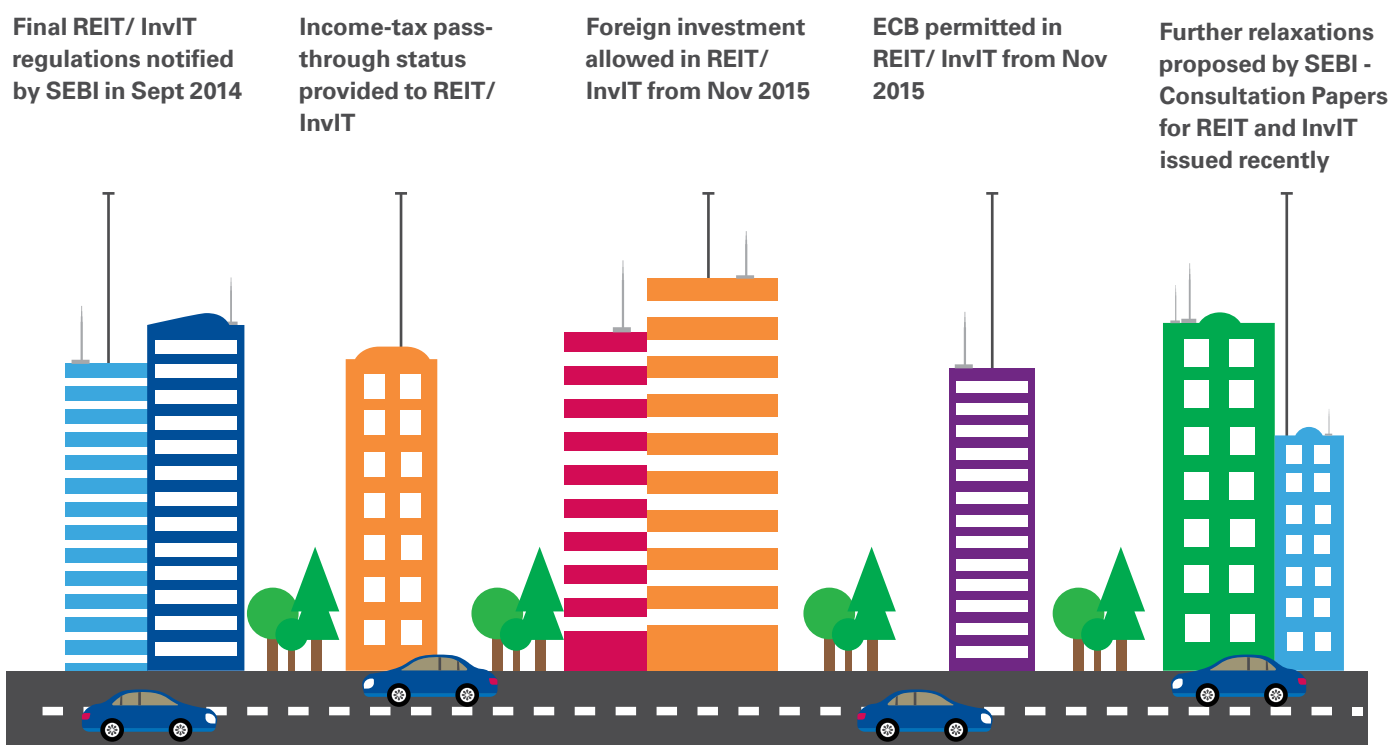
Source: KPMG in India's analysis August 2016

Real Estate Investment Trusts (REITs)

The Real Estate Investment Trust (REIT) is an investment vehicle that invests in rent-yielding completed real estate properties. REIT is a listed trust registered with SEBI and pools money from various investors (both strategic and retail) to invest in long-term yield generating real estate assets. The objective is to provide impetus to the otherwise cash trapped sector by allowing retail investors, NRIs, PE funds, pension funds, etc. to invest in the eligible assets through subscribing to units of REIT. This gives an opportunity to the developers to raise funds by monetising the assets. REIT as an investment vehicle has a huge opportunity in India. As on October 2014, India has a rent yielding office inventory of about 425 million sq ft valued in excess of USD 52 billion³⁰. Apart from this, there are other properties like warehousing, retail malls, shopping centres, school buildings, etc. which are potential REITable assets.

30. Analysis of REIT Regulations, Knight Frank, March 2015

The evolution of the REIT regulations



Uptill 15 July 2016, four applications for registration of InvITs filed with SEBI, out of which approval is granted to two

Source: KPMG in India's analysis August 2016

Key aspects that need to be considered while evaluating REITs include:

- Eligibility of sponsors – Carefully evaluating the eligibility criteria in relation to experience, net worth, track record, etc. It would require consideration on whether such criteria is to be met at the individual entity level or the group level for the sponsor, whether a foreign company can act as a sponsor for REIT, and so on and so forth
- Analysing the portfolio of assets:
 - From a commercial feasibility standpoint (i.e. quality of asset/returns) and
 - In light of applicable tax and regulatory laws (revenue generation/ completion/ ownership criteria)
- Investment strategy, i.e. whether the eligible assets should be directly held by REIT or through a SPV – Is there a need for a carve-out?
- Investor appetite - Forecast and projected yields
- Existing and planned leverage.

Advantages of REITs

REITs offer various advantages for the Sponsor as well as the Investors. Apart from assisting the Sponsor in unlocking the value in the existing assets, it increases the investor base by allowing the retail investors to hold the units of the REIT. The various advantages are mentioned below:

For the sponsors/developers

- Unlock existing capital
 - Monetise illiquid assets
 - Redeploy proceeds towards value accretive investments
- Create recurring fee-based income
- Enhance efficiency by reducing debt and interest obligations
- Expand portfolio of assets and facilitate diversification
- Additional option to raise funds
- Exit to PE investors.

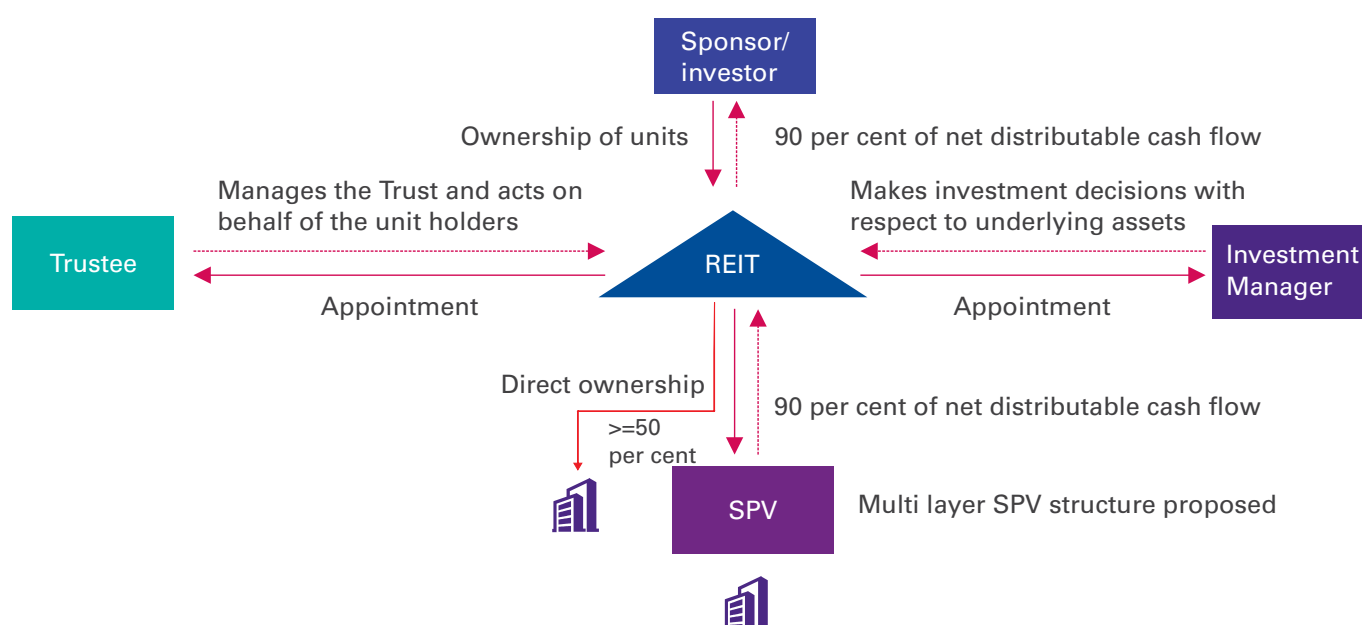
For Investors

- Reduces ticket sizes – opportunity for retail investor to invest in RE sector
- Eases entries and exits – listed platform
- Attracts different class of investors (pension & insurance funds)
- Provides yield income and capital appreciation
- Provides opportunities for strategic investors to manage risk.

Typical Structure of a REIT

REIT is settled by a Sponsor (normally a developer of the asset) and is managed and operated by professionals such as trustees, investment managers, etc. The trustee looks after the overall affairs of the REIT and is directly responsible to investors. The investment manager manages and invests the funds of the REIT. The primary source of income of an REIT is the rental / periodic income from the real estate asset, 90 per cent of which is mandatorily required to be distributed among the unit holders.

Typical REIT structure



Source: SEBI, KPMG in India's analysis August 2016

Tax and Regulatory Regime

REITs have been given a pass through status under the Indian tax laws with single level of taxation on income before it reaches the investors. The law was amended in Union Budget 2016 to accord the final pass through status to REITs. With exemptions on dividend tax at the time of distribution by SPV to the REIT and pass through for interest income only to be taxed in the hands of the investor, the major concern of the stakeholders from the income tax perspective has been taken care of by the government and the investment in REITs is expected to rise.

The government has also, partly, streamlined the tax regulations to assist the Sponsor in moving the eligible asset into the REIT structure by providing deferral of capital gains tax on transfer of the shares of the SPV, holding the asset, to the REIT for exchange of units of the REIT. Gains arising on transfer of units of the REIT are also exempt in case held for more than 36 months. The key aspects are mentioned below:

Snapshot of taxation at various levels of REITs

Transaction	Sponsor		
Sponsor transfers SPV (which houses the eligible assets) to REIT/ InvIT in exchange of units for REIT/ InvIT	Capital gains tax as well as MAT on sale of shares of SPV is deferred till the date of actual sale of Units		
Sponsor transfers eligible assets to REIT/InvIT in exchange of units of REIT/ InvIT	Tax trigger, if not structured appropriately		
Sponsor directly transfers eligible assets to REIT/ InvIT for cash consideration	Tax trigger + Stamp duty		

Transaction	SPV Level	REIT/ InvIT	Unit Holders (including Sponsors)
Interest received by REIT/ InvIT from SPV being a Company	<ul style="list-style-type: none"> No WHT at SPV level Interest deductible expenditure 	<ul style="list-style-type: none"> Exempt WHT on distribution @ 10% to residents and @ 5% to non residents 	<ul style="list-style-type: none"> Taxable for resident @ normal rate Taxable for non resident @ 5%
Interest received by REIT/ InvIT from SPV being a LLP	<ul style="list-style-type: none"> WHT at SPV level @10% Interest deductible expenditure 	<ul style="list-style-type: none"> Taxable @ 30% WHT credit available 	<ul style="list-style-type: none"> Exempt
Rental income earned by REIT on property directly owned by it		<ul style="list-style-type: none"> Exempt WHT on distribution at 10% to residents & at rates in force to non residents 	<ul style="list-style-type: none"> Taxable
Business income & other Income earned by SPV or REIT/ InvIT	<ul style="list-style-type: none"> Taxable @ 30% 	<ul style="list-style-type: none"> Taxable @ 30% 	<ul style="list-style-type: none"> Exempt
Dividend from SPV or REIT/ InvITs	<ul style="list-style-type: none"> Exempt (provided the SPV is 100% owned by the REIT/ InvIT) 	<ul style="list-style-type: none"> Exempt 	<ul style="list-style-type: none"> Exempt
Capital gains on Sale of property/ SPV Shares	<ul style="list-style-type: none"> Property sold by SPV –Taxable @ SPV level (20%/30%) 	<ul style="list-style-type: none"> Property or shares sold by REIT/ InvIT - Taxable @ REIT/ InvIT level (20%/30%)¹ No WHT on up-streaming to Unit Holders 	<ul style="list-style-type: none"> Exempt
Capital gains on sale of units of REIT/ InvIT on stock exchange			<ul style="list-style-type: none"> Long term capital gains – Exempt (period of holding more than 36 months) Short term capital gains - Taxable @15%¹ (subject to tax treaty benefit) MAT applicable, if unit holder is Company

Source: Relevant section from Income Tax Act, 1961; KPMG in India's analysis August 2016

Under the Indian exchange control regulations, investments by non-resident Indians and other foreign investors into units of REIT are now allowed under the automatic route without any government approval.

Unfinished Agenda

Some further suggestions to make Indian REITs successful are listed below:

- Tax deferral should be provided for the Sponsor on the transfer of eligible assets to REITs
- One time stamp duty waiver on transfer of eligible assets to REITs
- Holding period of units of REIT still prescribed as 36 months to qualify as long term capital assets – should be brought down to 12 months in line with listed shares
- Swap of existing shares of SPV held by a non-resident Sponsor with units of REIT should be permitted under the automatic route
- Managers of a REIT having FDI should be treated as non-fund based activity and should not be subject to minimum capitalisation norms
- Inclusion of units of REIT set-up as a trust in the definition of 'security' as per the Securities Contract (Regulation) Act, 1956.

IFRS Convergence – a reality now for India

The Ministry of Corporate Affairs finally notified the much awaited Indian Accounting Standards (Ind AS), which are converged with International Financial Reporting Standards (IFRS). The notification of these IFRS converged standards fill up significant gaps that existed in the current accounting guidance, and India can now claim to have financial reporting standards that are contemporary and virtually at par with the leading global standards. This significant reform may improve India's place in global rankings on corporate governance and transparency in financial reporting.

This significant reform was close to being reality on the announcement in the Finance Minister's budget speech in 2014 of an urgent need to converge with IFRS, which culminated with the notification of 39 Ind AS standards in February 2015, together with the implementation roadmap. The first phase of implementation has already been completed with many large corporates submitting their first quarter results under the Ind AS for 30 June 2016.

The adoption of Ind AS would entail a significant change in the financial reporting framework used by Indian companies to report their financial results and will result in paradigm shift in financial reporting. As a consequence, the reported earnings (net income) and financial position (net worth) reported by all Indian corporates would undergo a change. Impact of this change would vary from sector to sector and company to company, with some sectors/companies like real estate, infrastructure, etc could be significantly impacted.

Possible challenges for corporates transiting to Ind AS

- To address the IT system changes for the Ind AS implementation
- Understanding and consideration of the operational complexities with respect to fair valuation, business combination accounting, etc.
- Assess training needs of the organisation
- To educate external stakeholders such as investors, bankers, directors, analysts on the impact of Ind AS on the financial statements of the entity
- Several technical areas can be quite complex – sector specific, infrastructure, real estate, retail and others. For real estate and construction – accounting for service concession arrangements, etc
- Disclosures and notes take time and may be sensitive

Expected benefits of the move to Ind AS

The move to Ind AS standards will significantly enhance the quality of and transparency in financial reporting by Indian companies. It will also enhance the international comparability of financial statements of Indian companies and make the Indian capital markets more attractive. It will also reduce capital costs and facilitate international fund-raising by Indian companies. Applying IFRS converged standards has significant benefits for Indian multinationals operating across the world and for multinationals operating in India.

Impact of convergence to IFRS

As a step to converge to International Financial Reporting Standards, India has moved to Ind AS with the first phase being applicable for the years ending 31 March 2017.

Ind AS is slightly different from IFRS and the following need careful consideration:

- Disclosures are extensive
- There's significant reliance on management estimates
- Carve outs and first time adoption choices.

Accounting under Ind AS impacts businesses and in case of the real estate and construction sector as well, the impacts could be significant. Some of the key areas of differences in earlier Indian GAAP framework and Ind AS are:

- Many of the real estate developers are structured through special purpose vehicles which could be subsidiaries, joint ventures and partnership firms. Earlier, the applicability of consolidation was based either on the shareholding of more than 50 per cent voting power or control over the majority of the Board of Directors. Under Ind AS, consolidation is driven by the definition of control (including provisions related to de-facto control). For example, even a minority shareholder with controlling rights over key business and strategic decisions could result in the minority shareholding having control or joint control. Consolidation is based on the principles of 'control' and not merely based on majority ownership. The shareholders agreement listing the participative and protective rights will be relevant in determination of control.

- Accounting for financial assets and financial liabilities – Another significant impact area is the recognition of financial assets and liabilities. Unlike the earlier Indian GAAP, wherein the financial assets and liabilities are carried at their respective historical costs, the initial recognition of all financial instruments under Ind AS is at fair value. Financial assets will include the security deposit given, low interest or interest-free inter-company loans, low-coupon preference shares, etc. Subsequent measurement of all equity instruments will be at fair value, though a choice is available on recognition of fair value changes through statement of profit and loss or through reserves, based on specific guidance. The selected choices could be irrevocable and companies need to consider the impact of the choice on tax liability. Financial liabilities would need to be classified into equity or debt based on their substance (example, redeemable preference shares are treated as debt). Interest cost will be determined on effective interest rate method. Financial liabilities (security deposit taken, retention moneys, etc.) will be initially measured at their fair value and subsequent recognition at amortised cost using the effective interest method.
- A classification change for real estate developers will be in case of property (land or buildings) held for earning rentals or capital appreciation would now need to be classified as investment property. Measurement of investment property will be at historical cost less depreciation and impairment loss, if any, though the fair value of the investment property will need to be disclosed in the annual financial statements.
- Enhanced disclosures under IND AS:
 - Segment reporting to be aligned with review of MIS by Chief Operating Decision Maker (CODM)
 - Wider definition of related parties and increase in disclosure requirements for related party transactions (for example, break-up of KMP remuneration to be disclosed)
 - Effective Tax rate reconciliation
 - Comprehensive disclosure of assumptions used for impairment testing of goodwill
 - Detailed disclosures for basis of determining fair value used in measuring assets/ liabilities
 - Risk management and capital management framework
 - Sensitivity analysis for interest rate risk, credit risk, exchange risk, etc.

Relaxation of the FDI policy

To attract further capital in the real estate sector, the government eased the FDI norms for building townships, housing, built-up infrastructure and construction development projects in November 2015. The impact and major changes in the recent FDI norms are listed below³¹:

Small projects under the FDI ambit: The minimum floor area requirement of 20,000 sq. meters for construction development projects and the minimum capital requirement of USD5 million (to be brought in within six months of commencement of business) has been removed.

Easy exit and repatriation: Foreign investors are permitted to exit on completion of the project or after development of trunk infrastructure. Foreign investors is also permitted to exit and repatriate foreign investment before the completion of the project under an automatic route, subject to a compliance with the lock-in condition of three years (calculated with reference to each tranche of foreign investment). The lock-in condition will not apply to hotels and tourist resorts, hospitals, special economic zones, educational institutions, old age homes and on investments made by Non-Resident Indians (NRIs).

Investment in completed properties: 100 per cent FDI under an automatic route is permitted in completed projects for the operation and management of townships, malls/shopping complexes and business centres.

Easy transfer of ownership: Transfer of investment from one foreign investor to another foreign investor, without repatriation of the investment will neither be subject to any lock-in period nor to any government approval.

NRIs at par with domestic investors: An investment made by NRIs under Schedule 4 of Foreign Exchange Management Regulations, 2000 (transfer or issue of security by persons residing outside India) is deemed to be a domestic investment at par with investment made by residents. The relaxation available for investment by NRIs has been extended to investment by companies/trusts/partnerships owned and controlled by NRIs.

31. KPMG in India's analysis August 2016

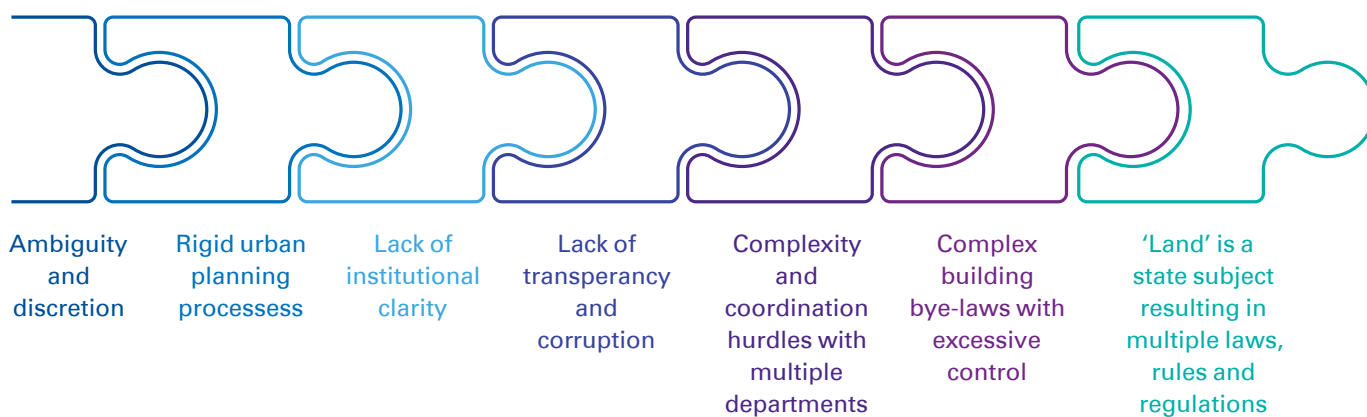
Key issues and challenges in the real estate and construction sector

Some key issues and challenges limiting the growth of the sector are enlisted below.

Strict and prolonged regulatory process leading to delays

The process of obtaining construction permits has become cumbersome over the past few years. As per a report of the Committee of streamlining approval procedures for real estate projects published in January 2013, a developer has to complete 34 regulatory processes for obtaining construction permits and it takes on an average seven to eight months or more. As per our estimates, the delay in securing approval increases a project's cost by about 20-30 per cent.

Multiple factors leading to uncertainties and delay in the approval process



Source: SEBI, KPMG in India's analysis August 2016

Suggested measures

Few suggestions to ease the approval process are provided below:

Pre-approval for area-based approvals – Certain approvals or NOCs from authorities such as Airport Authority of India, Ancient Monuments, Environmental, Defence, etc. are required only for certain areas in a city. Thus, such areas in a city can be marked or colour coded in the master plan along with guidelines to help reduce the number of approvals and expedite the approval process.

Online sanction of building plans and completion certificates – Few cities and states have introduced an online process for issuance of building plan and completion certificates, which has resulted in significant time and cost saving for developers. We believe a robust technology-based online system can help reduce delays in obtaining approvals.

Outsourcing approval procedures – Several countries such as Australia, U.S., New Zealand etc. have introduced the system of outsourcing the approval processes to the private sector. It has resulted in improved transparency and streamlining of the approval process.

Single window mechanism – There is a need to integrate various agencies and create a single window for developers to ease the approval process. With technological advancements, single window clearance has become possible.

Capacity building – There is an urgent need to build an adequate quantitative and qualitative capacity to fast track the approval process.

Simplification of bye-laws for easy comprehension may help in reducing errors and fast-tracking approval process. A clear approval process with definite timelines, process, etc. on the development authority website is the need of the hour.

Land-related issues

There is limited availability of serviced land in Indian cities. Shortage of serviced land has resulted in a significant surge in land prices across major cities driving property prices. Adding to the already expensive land and property prices are the statutory charges and stamp duty on the sale and purchase of properties.

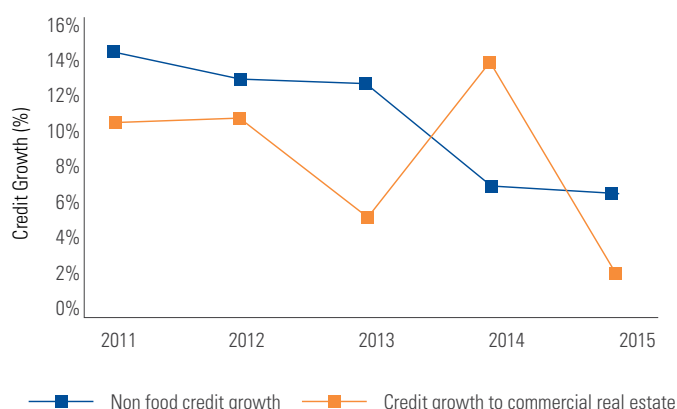
In addition to the limited availability of serviced land, another major issue in land is the lack of clear land title and title insurance. Lack of clear land titles and title insurance in India further limits the available urban land, which otherwise could be utilised for development.

Limited funding from banks

The real estate sector contributes about 6-7 per cent to the Indian GDP, but its share in outstanding funds from banks is low at around 3 per cent³². Sourcing initial funding can be a grave challenge affecting the housing supply to a large extent. This is despite the fact that the net non-performing assets in the real estate sector are among the lowest.

During 2015, the outstanding bank credit to Commercial Real Estate sector increased by only 6 per cent, which is close to half of the Non-Food Credit Growth.

Annual Credit Growth



Source: Sectoral Deployment of Bank Credit – June 2016, Reserve Bank of India; KPMG in India's analysis August 2016

Limited availability of long-term funding

Real estate projects have a lifecycle of about seven to eight years (from conceptualisation to handover), but most funding options have a maturity period of about four to five years. The funding for the remaining period – which is largely spread out at the time of land acquisition and approvals, is often met through informal funding, soft launch of projects or internal accruals of developers.

The quantum of funding at this stage is not small, as land and approvals together may account for upto 50-60 per cent of project costs in metropolitan and few tier-1 cities³³.

The investment at this stage is limited primarily due to restrictions by RBI, which does not allow institutional lending either through debt or equity to fund acquisitions of raw land.

Lack of manpower coupled with the conventional usage of technology

There exists strong deficiency of skilled professionals, particularly in the project management field, which may be detrimental for the growth of real estate and construction sector. The demand for unskilled, semi-skilled, support staff and professionals for construction industry is expected to increase at a CAGR 8-9 percent during 2015-22 to 74 million people³⁴.

With the increasing project complexity and usage of advanced technology, the demand for qualified professionals for project management and construction is expected to increase at a faster rate in comparison to overall labour demand. By 2022, the construction industry would require between 4.6 – 5.2 million professionals which is around four times the existing available professionals.

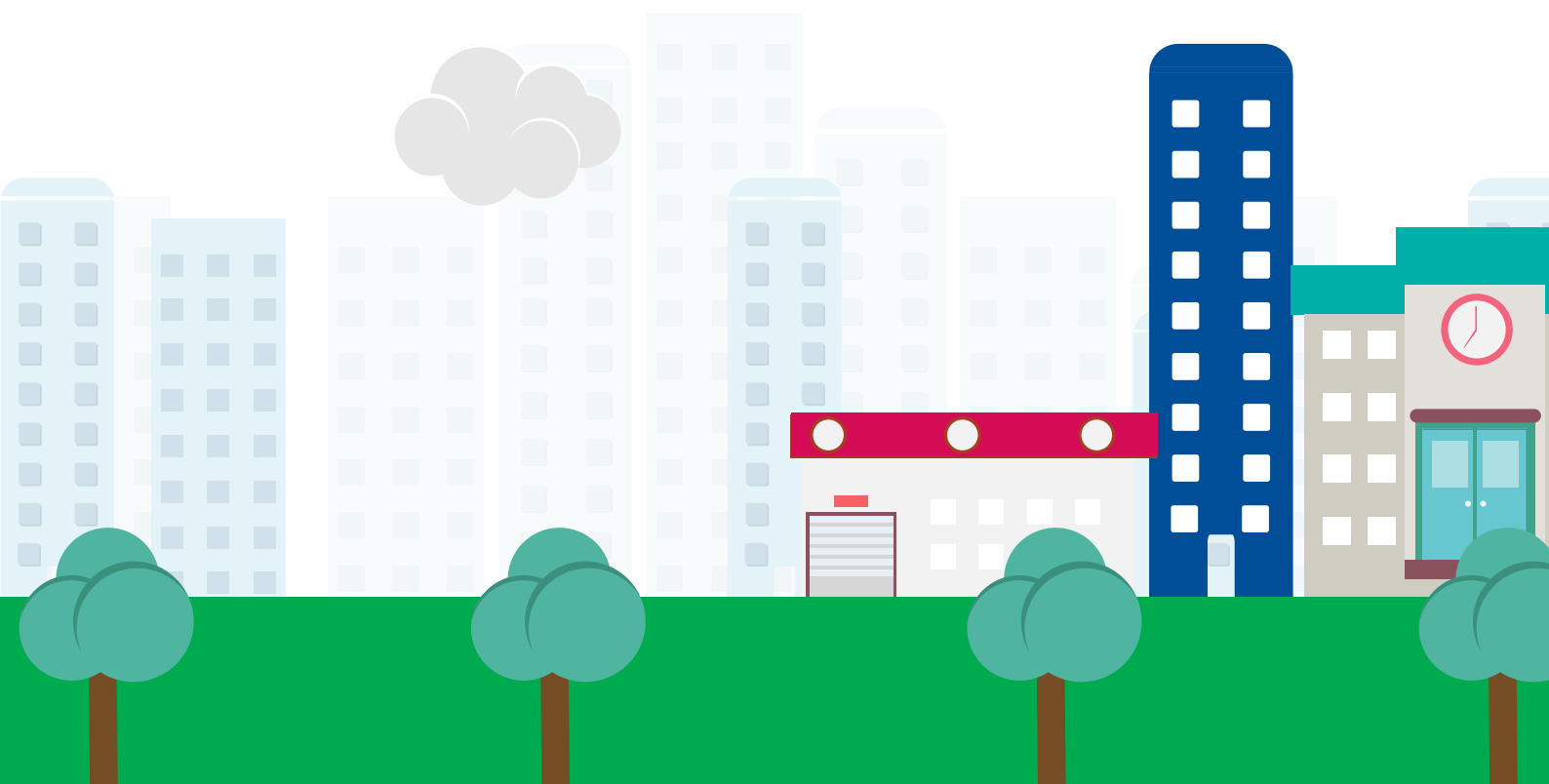
32. Data on sectoral deployment of bank credit, Reserve Bank of India

33. Decoding Housing for all by 2022, KPMG in India, 2014

34. Human Resource and Skill Requirements in the Building, Construction and Real Estate Sector (2013-17, 2017-22), National Skill Development Corporation; KPMG in India's analysis August 2016

Lack of a stable and predictive tax regime

- Lack of clarity on the taxation of Joint Development Agreements (JDA): Entering into a Joint Development Agreements (JDA) is a commonly-used model undertaken by the developer with the landowner for the purposes of development of a project. Under the Indian tax laws, there are no specific provisions which specifically govern the taxation of JDA. Varied tax positions, on time of taxability of capital gains, levy of service tax and stamp duty, etc. are taken by Authorities in respect of JDA in the hands of Developers and Land Owners which most of the times, result in uncertainty with regard to taxability.
- Taxability of rental income: The income tax treatment of rental income from commercial assets is a contentious issue on account of the lack of clear guidance in the extant income tax laws on determination of tax treatment of rental income. This has resulted in uncertainty and is a cause of tax litigations among the real estate developers and revenue authorities.
- Stamp duty – The cascading effect of stamp duty on real estate transactions results in an increase in the overall prices of the property for the consumers.
- Multiplicity of taxes: While several taxes such as Value Added Tax (VAT), Service tax etc. account for a major component of the total housing cost, which in turn result in an increase in the price of the residential unit for the ultimate house buyers. While Goods and Service Tax (GST) is expected to improve the compliance and bring in efficiency, it needs to be seen whether the same would also result in reducing the prices of the properties for the consumers. The Developers are expected to pay reduced taxes on account of availability of credit for inputs, such as cement, steel, etc., as tax credits would be available for set off at various stages (subject to certain clauses in the Model GST Law), however, the impact of GST on the sector and the home prices for the consumers will depend on the final rate of GST and on the actual implementation.



The multifold growth is expected to continue

Strong urbanisation is expected to propel Indian economy and it may become the third largest global economy in less than couple of decades. With mild or slowing growth in existing large economies, India is probably on the global economic centre stage.

However, the transformation is not possible without building adequate infrastructure to support the growth. Hence, the real estate and construction sector is likely to be at the centre stage, or the engine helping drive economic growth. The rapid growth expected in the sector is expected to double its economic contribution, and become largest employer overtaking agriculture.

But, the sector has its own set of unique challenges and one may have to devote some time to actually bear success.

Similar to any emerging economy, challenges such as the difficulty in doing business, inadequate physical infrastructure, land-related issues, complex tax structure, unfavourable economic policies, underdeveloped financial system, etc. hold true for India as well.

However, India has made rapid progress in recent years to address these challenges. The cities are getting rejuvenated on a scale never witnessed before, ease of doing business rankings have improved, reforms have been brought in direct and indirect tax policies, approval mechanism is being streamlined across cities, and policies encouraging transparency and governance are reviewed regularly.

The built-environment we see today, which was mostly built in the last few decades, is only approximately a fifth of what the requirement is likely to be. India is future ready, and the real estate and infrastructure has a plethora of opportunities to offer.



About KPMG in India

KPMG in India, a professional services firm, is the Indian member firm affiliated with KPMG International and was established in September 1993. Our professionals leverage the global network of firms, providing detailed knowledge of local laws, regulations, markets and competition. KPMG has offices across India in Chandigarh, Gurgaon, Noida, Ahmedabad, Vadodara, Mumbai, Pune, Bengaluru, Kochi, Chennai, Hyderabad and Kolkata. KPMG in India offers services to national and international clients in India across sectors. We strive to provide rapid, performance-based, industry-focussed and technology-enabled services, which reflect a shared knowledge of global and local industries and our experience of the Indian business environment.

KPMG International

KPMG International is a global network of professional firms providing Audit, Tax and Advisory services. KPMG member firms operate in 155 countries and have more than 174,000 outstanding professionals working in member firms around the world. The KPMG Audit practice endeavours to provide robust and risk-based audit services that address member firms' clients' strategic priorities and business processes.

KPMG's Tax services are designed to reflect the unique needs and objectives of each client, whether firms are dealing with the tax aspects of a cross-border acquisition or developing and helping to implement a global transfer pricing strategy. In practical terms that means, KPMG firms work with their clients to assist them in achieving effective tax compliance and managing tax risks, while helping to control costs.

KPMG Advisory professionals provide advice and assistance to help enable companies, intermediaries and public sector bodies to mitigate risk, improve performance, and create value. KPMG firms provide a wide range of Risk Consulting, Management Consulting and Deal Advisory services that can help their clients respond to immediate needs as well as put in place the strategies for the longer term.

About NAREDCO

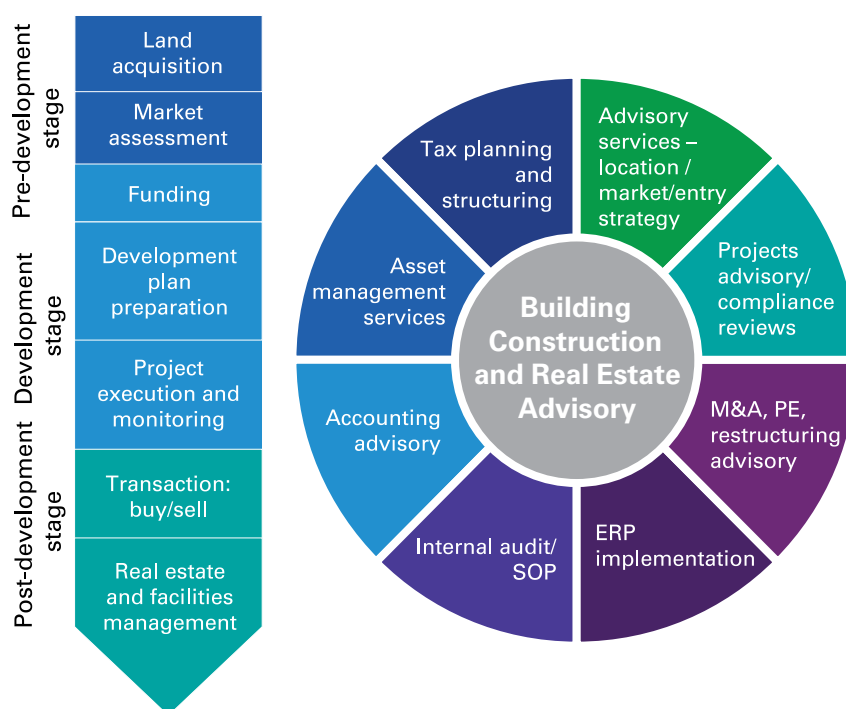
National Real Estate Development Council (NAREDCO) is the apex body of real estate sector, under the aegis of Ministry of Housing and Urban Poverty Alleviation (HUPA), Government of India.

Shri M Venkaiah Naidu, the Hon'ble Minister of UD, and HUPA, is the Chief Patron and seven Joint Secretary level officers from Central Government and Central Public Sector Undertakings (PSUs) are on the Governing Council.

The founders of NAREDCO are prestigious public and private sector organisations including Housing and Urban Development Corporation (HUDCO), National Housing Bank (NHB), National Building Construction Corporation (NBCC), Delhi Development Authority (DDA), LIC Housing Finance, PNB Housing Finance, HDFC, Cement Manufacturers Association, DLF, K Raheja, Hiranandani, Sobha, Prestige, Shriram Properties, Tata Housing, Dewan Housing Finance etc.

Objectives of NAREDCO inter alia includes promotion of housing and real estate sector in India, and inculcate transparency and accountability for the benefit of the customers. NAREDCO and its State Chapters work in close cooperation with Central and various State Governments to achieve these objectives.

KPMG in India Building, construction and real estate sector practice



KPMG in India's BCRE practice serves over 600 clients across audit, tax and advisory. The team works across the BCRE spectrum including developers, contractors, government agencies and private equity investors. Our practice also has extensive experience of working with commercial property users such as IT/ITeS, pharmaceutical, banks, e-commerce etc. Our practice comprises over 300 professionals with a balanced technical, commercial and research skill sets.

Our strength is demonstrated through key features such as:

- Rich experience in process deployment and technology advisory process design, development, training, IT-enablement, implementation support and post implementation review
- Highly collaborative approach incorporating good industry practices as well as management's deep understanding of the business and key concern areas
- Efficient project delivery, improved governance and oversight of capital projects. Leading project management practice support.
- Quality assurance process to challenge the deliverables on compliance, practicality and efficiency
- Multi-disciplinary team, industry and subject matter experts. Professionals include engineers, PMI certified project management professionals, Chartered and cost and work Accountants, risk management experts etc.

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