Changing trends in real estate funding

Although the situation has changed a lot in the last one decade, several other initiatives are backing the real estate developers

Last decade belonged to Indian real estate. Liberal economic policies, involvement of private parties in the development of public infrastructure are reasons behind the thrust which has been capitalised by a growing young population, rapid urbanisation, an increase in middle-class population. The process is expedited by the development of a number of cities, growth of existing cities, state-of-the-art malls, BRTS/Metro rail projects, world-class airports and development of highways. Due to a rapid urbanisation, positive demographic growth and rising income levels, the Indian real estate sector has attracted significant investment over the past few years.

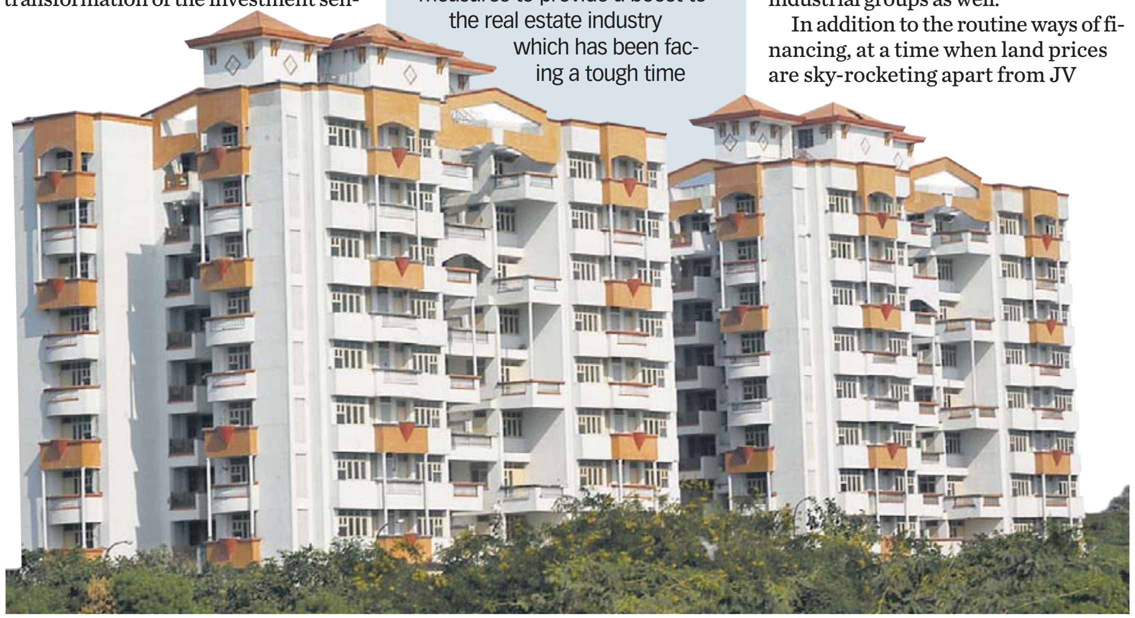
After foreign direct investment (FDI) was allowed in the real estate sector in 2005, there was a major transformation of the investment sentiments for the sector. Several notable global investors have invested in India over the last one decade. Several rounds of fund raising have been made and investors received decent returns.

Overall, it has attracted funds from global real estate funds, private equity funds, hedge funds, and strategic investors/foreign developers.

After 2008, the sector had witnessed substantial decline in foreign direct investment (FDI), due to a wait-and-watch approach from investors in a volatile market. Availability of funding was a pressing issue in residential projects because of its self-liquidating nature and pre-leased commercial properties which provide monthly returns along with capital appreciation.

FAST FACT

- After foreign direct investment (FDI) was allowed in the real estate sector in 2005, there was a major transformation of the investment sentiments
- The government, on its part, is also re-evaluating its policy measures to provide a boost to the real estate industry which has been facing a tough time



Post 2011, property prices have gone up tremendously, compared to earlier years and bank's credit exposure to borrowers resulted in rising NPAs (non-performing assets), which directed domestic real estate players for financing from NBFCs (non-banking finance companies) for projects.

These projects were on the verge of completion and are looking for finance for project completions. Assets disposal was the new route to restructure debts and deleverage their balance sheets. Even it was adopted by large industrial groups as well.

In addition to the routine ways of financing, at a time when land prices are sky-rocketing apart from JV (joint venture) model between landowner and developer, another emerging trend is where global funds/private equity funds are backing large real estate developers to develop a portfolio of projects. In these "platform deals," the real estate developer will be the exclusive development manager of the projects to be pursued through such equity commitments for which it will receive a development management fee.

The government, on its part, is also re-evaluating policy measures to provide a boost to the industry. By reviving manufacturing through 'Make in India', encouraging entrepreneurship, investment in infrastructure by reviving stalled projects, it is trying to create world-class infrastructure by adopting Smart Cities concept.

The government is also trying, on its part, to bring the Real Estate Bill which ultimately will make the sector more organised and investor-friendly. Sensing the need for affordable housing and housing for all are two concepts on which government is looking to take positive steps to achieve the goal.

Furthermore, introduction of Real Estate Investment Trusts (REITs), regulations will have a positive impact on the real estate industry by transforming capital flow in property development and open another avenue for investment in th real estate sector.

—Anushrav Bhatt
(The writer is a city-based housing planner and real estate analyst)