Indian Real Estate:
The Modi Impact

September 2015
Contents
03 Executive Summary
04 Introduction
05 Major Economic Policies & Promises
09 Key Real Estate Policies & Promises
16 Real Estate Issues Not Addressed
18 India Real Estate Outlook
19 Conclusion
Executive Summary

In this report, we examine Prime Minister Modi’s time in power as the leader of the world’s largest democracy, India. We focus on the implications for the economy and real estate industry, looking at key initiatives taken by the government and also areas that still need to be addressed.

A sharp slowdown in economic growth and political mismanagement in India led to strong anti-incumbency sentiment which helped propel a charismatic leader - Narendra Modi - campaigning on change to win the May 2014 national election by a historic margin. With a platform promising to modernise infrastructure, foster growth of key industries and create millions of jobs, Prime Minister Modi and his Bharatiya Janata Party wanted to strengthen India’s economy and promote “Minimum Government, Maximum Governance”.

Amidst this environment, the government moved forward with numerous initiatives aimed at stimulating growth and reducing red tape. A focus on creating jobs by nurturing the development of select industries led to the introduction of the “Make in India” initiative and the relaxation of foreign ownership restrictions in some industries. Some progress has also been made in regard to the introduction of a Goods and Services Tax. Although many economic policies have advanced, progress has not been uniform and further headway is essential to reaching the government’s economic goals.

The real estate industry was optimistic that the new government would progress reforms that not only benefit the economy but also the real estate industry’s fortunes, which had suffered owing to slow policy reform, high leverage, an inventory overhang and limited institutional funding.

Shortly after taking office, Mr. Modi’s government permitted the establishment of REITs which was seen as a major boost to the industry. Nonetheless, the first REIT is not expected to be launched until 2016 as the government and real estate industry continue to work through some hurdles. Other notable policies such as the Real Estate (Regulation and Development) Bill have made progress. If these initiatives are able to move forward, they will not only provide a major lift for the real estate industry but also India’s economy. Nevertheless, advancement of these bills is dependent on support from opposition parties.

The new government of India has been in power for a little more than one year which is not sufficient time to overhaul the economy or real estate industry. However, Mr. Modi’s government has achieved a considerable amount in its short time in office. Nonetheless, further progress on policy initiatives is essential to maintain the momentum.
Introduction

India is a large and diverse country with more than 1.2 billion people spread across a geographical area roughly one-third the size of the USA. As in other emerging markets, urbanisation is taking place at a rapid pace as a young (median 26.9 years) and growing population moves to cities in search of jobs and better opportunities. Bangalore, Delhi (India’s capital) and Mumbai are just three of an estimated 58 cities with a population of one million or greater. A rising population is projected to see the country surpass China as the world’s most populous within the next two decades.

Political and economic missteps by recent governments created a strong anti-incumbency wave amongst voters in India. As a result, in the 2014 national election the Bharatiya Janata Party (BJP) - led by Narendra Modi - won nearly 55% of the seats in parliament on a campaign platform centred on tackling major issues such as corruption, infrastructure deficiency and a slowing economy. With the first majority government in 30 years, it was expected that a decisive government with a clear mandate would be able to speed up decision making.

Economic growth in India has improved modestly since Mr. Modi came to power amid renewed optimism about reforms being undertaken by the new government and a decline in inflationary pressures. Although India’s economy is ranked the third largest in Asia and seventh largest globally, agriculture remains a key sector and employs roughly half of the total labour force. However, the services sector has witnessed robust growth in the past decade in industries such as finance, IT and communication, and its total share of the economy (over 55%) continues to grow. With forecasts for growth over the next few years to exceed 7% per annum, the size of India’s economy is expected to surpass that of Japan by 2022.

Commercial real estate activity in India is heavily focused in the Tier 1 cities of Bangalore, Chennai, Delhi and Mumbai due to more mature local economies and better infrastructure. Software and IT services firms have been major drivers of office demand in the past decade and are now the largest occupiers of prime space. Although foreign occupiers have been a large part of the office leasing market, foreign developer/investor participation in the industry has been more limited. However, interest has risen with an expectation that reforms affirmative to the real estate industry would be moved forward by the Modi government. Bureaucratic delays and a lack of transparency have long hampered the industry and held back investment. Nonetheless, a growing economy and rising wealth levels are necessitating the need for high quality buildings in all real estate sectors and management that meets international standards.
Major Economic Policies & Promises
Grow Industries and Improve Trade

A centrepiece of Prime Minister Modi’s economic policy is to improve trade and foster growth of key industries which can innovate and create millions of jobs for a large and growing population. To support growth in high priority industries, the “Make in India” initiative was launched in September 2014 and various procedures such as the incorporation of businesses were simplified or eased. In addition, foreign ownership restrictions were relaxed in select industries such as in defence (foreign direct investment (FDI) cap 49% vs. 25% previously) or removed such as in railways (previously 0%) to attract foreign capital and technology. Extensive overseas missions have taken place (e.g. USA in September 2014, China in May 2015) to nurture economic ties and promote new policies.

Overall business sentiment has been positive towards the steps taken by the Modi government to boost the economy and improve governance. Large multinational companies such as Airbus, Huawei and Samsung have announced major investments following the launch of the “Make in India” initiative. Although one year is not a long period of time to implement structural changes, headway is being made on the economic front but further progress is essential to sustain momentum and achieve a higher rate of economic growth.

Figure 1: Key economic policies & promises

<table>
<thead>
<tr>
<th>Policy</th>
<th>Target Date</th>
<th>Objectives</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grow industries and improve trade</td>
<td>Ongoing</td>
<td>Target key industries to develop and attract foreign capital/expertise</td>
<td>Moderate progress - multiple reforms/initiatives launched</td>
</tr>
<tr>
<td>Implement Goods and Services Tax</td>
<td>April 2016</td>
<td>Simplify tax structure; harmonised tax rate likely to be between 14-16%</td>
<td>Moderate progress - further support needed from opposition parties</td>
</tr>
<tr>
<td>Build modern infrastructure</td>
<td>2022</td>
<td>Set up foundation for modern infrastructure</td>
<td>Slow progress - backlog of projects reduced but major hurdles remain</td>
</tr>
<tr>
<td>Reduce corruption</td>
<td>Ongoing</td>
<td>Improve governance and transparency</td>
<td>Moderate progress - various processes/procedures streamlined</td>
</tr>
</tbody>
</table>
Simplify Taxation

Taxation reforms were a mainstay of the Modi election platform and were key to gaining support from corporations. The introduction of a GST in India would undoubtedly be an important step in simplifying the tax system by unifying a patchwork of indirect taxes (e.g. excise duty, service tax) which are often complicated and cumbersome for businesses. By improving taxation transparency, tax compliance is expected to rise and create a more stable tax base for state and national governments. A more efficient system should allow for a more seamless transfer of goods and services and help foster growth in industries such as manufacturing - by taxing only the value added component at each stage of production. This move would be a step forward for the “Make in India” initiative which aims to develop the country’s manufacturing base.

The Modi government has made strides on the GST front, but building a consensus has not been easy. Revenue sharing with the states remains a key area of contention and may ultimately lead to a delay of its implementation beyond the target of April 2016. State governments are worried about a tax revenue shortfall which the Modi government has tried to address with a promise to help bridge revenue gaps. However, some states have proposed adding an extra 1% levy on intra-state trade which could hurt the “Make in India” initiative.

The passage of the GST Bill will require an amendment to the constitution and as such, requires a two-thirds majority approval from both the Lower and Upper Houses of parliament. The Bill was tabled for discussion in August 2015 (monsoon session); however, limited progress was made and adds further concern about a possible delay in implementation beyond the target date of April 2016. The next parliamentary session is scheduled to begin in November but a special session may be held in September to make up for lost ground. However, the government will need to garner support from opposition parties and states for the Bill to be passed and ratified.

Build Robust Physical Infrastructure

An infrastructure deficit has long held back India’s economic growth and tackling this issue was a central theme of Mr. Modi’s election platform. Realising the necessity to improve infrastructure, various long-term initiatives were announced in the first Budget including the building of roads, airports, seaports and gas pipelines. While bureaucratic delays are often a reason for project delay in India, a lack of investment has also held back progress. The Modi government aims to fast-track approvals and unlock projects currently delayed, while also trying to fill a funding gap. The previous Congress Party-led government estimated that USD 1 trillion of investment in infrastructure will be needed in the five years ended 2017 to bridge the gap.

With a mandate for speedy implementation of projects and to resolve bottlenecks, major contracts have been awarded to build highways, transmission lines and other infrastructure related projects. On the financing side, the government announced the establishment of a multi-billion dollar infrastructure fund (INR 200 billion or USD 3.1 billion) in the second Budget to buoy investment while the central bank eased liquidity restrictions for banks when lending to infrastructure projects. Additionally, foreign investors have been permitted to invest in Alternative Investment Funds and multiple foreign governments (e.g. China, Japan, South Korea) have committed to provide expertise and to fund projects. The use of tax-free infrastructure bonds has also been proposed as another source for capital.

Although the framework to build modern infrastructure has started to come together, many challenges remain. The advancement of policies and initiatives such as the Real Estate (Regulation and Development) Bill will reduce the cost to undertake infrastructure projects and increase the ability to raise capital through private sources. It will be essential to continue to streamline processes, approvals and coordination between various levels of government and departments.
Reduce Corruption

Corruption has been a long standing concern in all levels of government in India and Mr. Modi campaigned on the promise to create a system that eliminates the scope for such behaviour. By utilising technology, raising transparency and simplifying/streamlining processes the aim is to improve governance. Aside from pacifying public discontent about this issue, businesses will benefit from lower costs and a more equitable operating environment.

Shortly after taking office in May 2014, the BJP began to undertake measures such as digitising processes, launching new and revamped webpages, encouraging people to set up bank accounts and setting up a Special Investigation Team to recoup black money held in overseas accounts. These are all positive steps towards improving transparency; however, fighting corruption will have to be an ongoing initiative. One notable concern cited by some analysts is that administrative powers have been centralised amongst too few people.

**Description:** Establish a system which eliminates the scope for corruption

**Target:** Ongoing

**Status:** Government services have started to be digitised; Special Investigation Team set up to go after black money
Key Real Estate
Policies & Promises

“Real estate reforms were a central part of the BJP’s election platform and fuelled optimism from the industry that changes would be made. In this section, we examine the progress of major real estate policies undertaken or announced by the Modi government since it came to power.”
The establishment of Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) was first proposed by the United Progressive Alliance (UPA) government in 2008, but it wasn’t until the BJP government’s first Budget (interim Budget) in July 2014 that investment trusts were officially permitted. Aside from assisting the government to move forward key policies such as developing modern infrastructure, trusts are also intended to provide major benefits to investors. The trust structure has numerous advantages and key amongst them are increased transparency, professional management, a steady stream of dividends and access to an alternative source of capital. Increased requirements for public disclosures and a likely rise in institutional investors should see transparency and governance improve, and also necessitate the need for professional management. Countries with mature REIT markets such as those shown in Figure 3 have witnessed advancements in both of these areas following the launch of REITs. From the perspective of developers, including those struggling with debt, REITs can provide another avenue for raising capital and also the opportunity to exit investments.

Although investment trusts are now permitted, there are two notable challenges to REIT formations. Firstly, a Dividend Distribution Tax (DDT) of 15% continues to be imposed on the distribution of profits from Special Purpose Vehicles to REITs which drags down overall returns. Secondly, rental yields for many sectors are not attractive relative to risk-free investment options such as government 10-year bonds (yields around 8%). However, with rents in some sectors below previous peak levels, there is significant room for rental appreciation. If we look at the Grade A office sector, rents are currently 15-40% below 2008 peak levels and with an improving economy and corporate sentiment, rents are expected to rise. This coupled with strengthening investor sentiment is also likely to see capital values move higher.
Having cleared many major hurdles such as the relaxation of a Minimum Alternative Tax on the transfer of units and approved eligibility as a financial instrument under the Foreign Exchange Management Act (FEMA), we expect the first REIT in India to be launched in the first half of 2016. Developers and other real estate participants are currently lobbying the government on the DDT issue but no change is likely to be made until the next Budget is tabled in early 2016. Some large organisations such as DLF, Blackstone and Brookfield have expressed interest in REIT listings. Based on JLL estimates, we believe the REIT industry has the potential to reach a market capitalisation of USD 15 billion in three years. Firms which operate in the office sector are likely to be the first to seek a REIT listing.

Figure 3: Global REIT regimes

<table>
<thead>
<tr>
<th>Country</th>
<th>Established</th>
<th>Number of REITs</th>
<th>Market capitalisation</th>
<th>Asset test</th>
<th>Income test</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>1960</td>
<td>319</td>
<td>USD 990 bill</td>
<td>Minimum 75% in real estate</td>
<td>Minimum 75% derived from rental or mortgage interest income</td>
</tr>
<tr>
<td>Australia</td>
<td>1971</td>
<td>55</td>
<td>USD 93 bill</td>
<td>Investment in real estate (primarily to derive rent)</td>
<td>Minimum 75% derived from rental or mortgage interest income</td>
</tr>
<tr>
<td>Singapore</td>
<td>1999</td>
<td>38</td>
<td>USD 53 bill</td>
<td>Minimum 70% in real estate</td>
<td>Minimum 75% derived from rental or mortgage interest income</td>
</tr>
<tr>
<td>Japan</td>
<td>2001</td>
<td>51</td>
<td>USD 87 bill</td>
<td>Minimum 75% in real estate</td>
<td>Minimum 75% derived from rental or mortgage interest income</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>2003</td>
<td>11</td>
<td>USD 27 bill</td>
<td>Minimum 75% in real estate that generates recurrent rental income</td>
<td>NA</td>
</tr>
<tr>
<td>India</td>
<td>2014</td>
<td>-</td>
<td>-</td>
<td>Minimum 80% in real estate</td>
<td>Minimum 75% derived from rental or mortgage interest income</td>
</tr>
</tbody>
</table>

Note: *Data as at June 2015
Source: JLL, APREA
Figure 4: Share of REIT compliant office stock in India

REIT compliant office stock by city

- Bangalore: 48.4m
- NCR Delhi: 40.7m
- Mumbai: 34.8m
- Chennai: 36.6m
- Bengaluru: 48.4m
- Delhi NCR: 40.7m
- Mumbai: 34.8m
- Chennai: 36.6m
- Bengaluru: 48.4m
- Delhi NCR: 40.7m

10 largest office developers

- DLF: 24.8m
- K Raheja Corp: 14.2m
- Embassy Property Developments: 7.4m
- Panchshil Realty: 5.0m
- Salapuria Group: 4.9m
- Magarpatta Township: 4.7m
- Ascendas: 4.5m
- Shapoorji Pallonji Group: 4.0m
- Unitech: 5.8m
- RMZ Corp: 6.6m
- Panchshil Realty: 5.0m

Source: JLL Research, 2015
Note: All figures are in million square feet
Land Acquisition, Rehabilitation and Resettlement (LARR) Bill

Land acquisition has often been a major challenge for businesses and governments in India. Difficulty in purchasing land has stalled projects and in some cases resulted in project cancellations. The LARR Act which was introduced and enacted by the previous government put rules and procedures in place for acquiring land and determining fair compensation to sellers. However, the Act had some provisions which discouraged private investors and businesses from buying land. For this reason, the Modi government proposed amendments to the Act in order to make it more business-friendly. The changes put forth by the Modi government aimed to narrow the scope of approval for purchasing land and also to establish special categories of projects to enable faster acquisition of land for projects of a strategic nature. However, the recently concluded session of parliament (August 2015) saw limited progress on Bills central to the BJP platform, including LARR. As a result, it now seems unlikely that the amendments put forth by the government will move ahead as opposition parties strongly oppose the changes. Prime Minister Modi stated at the end of August that his government will let the Land Ordinance lapse. Some political analysts have suggested that the government may agree to leave the Act in its existing form in return for supporting the passage of the GST Bill.

Real Estate (Regulation and Development) Bill

A lack of adequate transparency and corporate governance has always been a stigma associated with the Indian real estate industry and this has affected market sentiment. The Real Estate (Regulation and Development) Bill, tabled by the previous government in June 2013, aimed to protect property buyers and provide a platform to resolve disputes. However, the initial version had stringent clauses - e.g. restrictions on pre-sales - which were strongly opposed by developers. In a bid to appease both developers and consumers, Modi’s government proposed amendments to the Bill. From the consumer standpoint, notable changes include establishing state regulators to resolve disputes; creating a Central Advisory Council to protect consumers, foster growth and development of the real estate industry; and imposing strict penalties on developers for non-compliance with project registration and disclosure of wrong or misleading information. From a developer’s viewpoint, the most significant change was the lowering of the minimum requirement of funds held in escrow for pre-sales from 70% to 50%.

The Bill was referred to a special parliamentary committee, which accepted relaxing some clauses in order to alleviate developers’ concerns while still maintaining its firm position on consumer protection. However, political maneuvering did not allow the government to table the Bill in the August session. The recent amendments by the Modi government have brought commercial real estate into the purview of this Bill and should help enhance transparency in the industry and in turn attract more investors. However, one major area not addressed is the slow approvals process of government agencies which often cause delays. Such delays not only postpone construction timetables but can also push up costs.
Build Housing for All

The Modi government campaigned on a promise to roll out a low cost housing program that would help alleviate a severe housing shortage. Initiatives announced since taking office include granting infrastructure status to the affordable housing segment in the 2014-15 Budget which will enable lower borrowing costs for developers, and increasing homebuyer loan limits for affordable housing from INR 2.5 million (USD 39,000) to INR 6.5 million (USD 100,000) in metropolitan cities and to INR 5 million (USD 78,000) in other cities.

Although progress has been made, detailed information on exactly how this mammoth task will move forward has been limited. The Technical Group on Urban Housing Shortage (a government organisation) estimated in 2012 that there was a deficiency of 18.8 million urban homes in India. Based on this estimate, roughly 2.34 million homes or 750 million sq ft of residential space is needed annually to meet the 2022 goal. During the most recent peak of the real estate cycle in 2008, all leading private developers combined supplied roughly 250 million sq ft of residential space while the previous UPA government only managed to build 1.2 million homes per annum (5.92 million in total) during its last term.

While we believe this objective is not unsurmountable, it is unlikely to be reached without a clear roadmap and appropriate incentives to encourage private sector participation. In addition, the government needs to streamline its internal approval processes to enhance the viability of such projects and ensure a timely start.
### Identify and Develop “Smart Cities”

The “Smart Cities” initiative was launched within two months of Mr. Modi becoming Prime Minister, highlighting the importance that cities play in the social and economic development of the country. Nearly one-third of Indians currently live in cities and this number is expected to reach one-half by 2050. From an economic viewpoint, urban areas account for over 60% of national GDP (The Ministry of Urban Development, 2014) and this percentage is continuing to rise. The “Smart Cities” policy attempts to create on a large scale, urban areas that attract investment and provide sustainable, high quality living standards for their residents.

The Modi government has targeted to identify 100 cities for potential development by the end of 2017 and has allocated INR 70 billion (USD 1.1 billion) in the recent Budget for this project. In collaboration with an international organisation – Bloomberg Philanthropes - the government is currently shortlisting cities and each selected city is to receive a INR 1 billion (USD 15.7 million) grant per year over a five-year period. Although success of this project can only be evaluated in the long term, the outcome will be heavily dependent on collaboration between governments and the private sector, and progress on real estate related policies.

<table>
<thead>
<tr>
<th>Description: Identify and build 100 “Smart Cities”</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Target:</strong> 2015-17</td>
</tr>
<tr>
<td><strong>Status:</strong> Identifying potential cities and refining project details</td>
</tr>
</tbody>
</table>

### Grow Tourism Industry

The tourism and hospitality industry has been touted by the Modi government as a key area for growth because of its ability to accumulate foreign currency and to create millions of jobs. The government estimates that for every USD 1 million invested in tourism, 78 jobs are created. In November 2014, the government made a major stride forward in its pro-tourism agenda by relaxing visa-on-arrival for 43 nationalities and further extended this to 150 nationalities three months later. Since visa restrictions were eased, foreign tourist arrivals have averaged nearly 700,000 per month (The Ministry of Tourism, 2015), significantly higher than the long-term average (2000-15) of 400,000 per month. December 2014 saw the highest ever monthly foreign visitor arrivals at 877,000. Aside from helping to foster the development of the hotels and hospitality industry, the retail sector is also likely to be a beneficiary of more tourists. In addition to growing recreational tourism, there are plans to grow business tourism by developing convention centres.

<table>
<thead>
<tr>
<th>Description: Foster growth of tourism and hospitality industry</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Target:</strong> Ongoing</td>
</tr>
<tr>
<td><strong>Status:</strong> Visa entry restrictions eased for many countries</td>
</tr>
</tbody>
</table>
Improving Transparency but More Needs to be Done

India is categorised as a “Semi-Transparent” market and is ranked behind China in terms of real estate transparency and corruption perception in JLL’s Global Real Estate Transparency Index. In the latest report in 2014, India saw moderate improvements in overall transparency scores for Tier 1 and 2 cities (mainly in regard to data on market fundamentals) and limited gains for Tier 3 cities. Policy initiatives being undertaken by the Modi government such as the Real Estate (Regulation and Development) Bill are laying the foundation for improved transparency, but ensuring these initiatives move forward and are enforced is essential. Among the different categories in the index, India scored lowest in the transparency of its transaction processes (e.g. high costs of investment transactions; weak professional standards for local agents).

Figure 5: JLL real estate transparency rankings

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>India - Tier 1 cities</td>
<td>50</td>
<td>40</td>
</tr>
<tr>
<td>India - Tier 2 cities</td>
<td>52</td>
<td>42</td>
</tr>
<tr>
<td>India - Tier 3 cities</td>
<td>62</td>
<td>50</td>
</tr>
<tr>
<td>China - Tier 1 cities</td>
<td>49</td>
<td>35</td>
</tr>
<tr>
<td>China - Tier 2 cities</td>
<td>65</td>
<td>47</td>
</tr>
<tr>
<td>China - Tier 3 cities</td>
<td>72</td>
<td>54</td>
</tr>
</tbody>
</table>

Source: JLL Global Real Estate Transparency Index, 2014
For further details on real estate transparency please visit JLL’s Global Real Estate Transparency Index webpage.
Retail Sector Challenges

The rise of e-commerce and persisting restrictions on foreign investment into multi-brand retail are two issues facing the Indian retail sector. The emergence of online retail, which saw Indian online sales grow by nearly 50% in 2014 (eMarketer, Dec 2014), has intensified competition and had a major impact on bricks-and-mortar retailers and mall landlords. The development of this marketplace has taken place with minimal government involvement and there are growing concerns that it should be moved within the regulatory realm to ensure uncompetitive practices are not being used.

In regard to foreign investment, currently 100% FDI is permitted in single-brand retail while a 51% cap is placed on multi-brand retail. The previous government had liberalised FDI restrictions during its tenure and was willing to open up multi-brand retail for foreign investment beyond the existing cap if certain conditions were met - e.g. minimum local sourcing requirements. Retailers such as Walmart, Tesco and Carrefour had expressed their desire to invest if 100% FDI was permitted. However, Mr. Modi’s BJP government had vehemently opposed loosening multi-brand FDI restrictions and were anticipated to reverse the previous government’s liberalisation after being elected. In spite of this rhetoric, Mr. Modi’s cabinet decided not to reverse the FDI policy. A removal of the 51% cap restriction would likely see a further rise in the entry of foreign retailers.

“Among the key takeaways from the government of India that was represented is that policymaking is moving forward. While there were no big bang reforms as many expected, several incremental steps have been taken, across the spectrum, with the primary objective of making Doing Business easier. The government is mindful of getting some irritants removed.”

- Chandrajit Banerjee
  Director General of the Industry Lobby Group, the Confederation of Indian Industry
India Real Estate Outlook

- India’s first REIT is expected to be launched in 1H16.
- Improving macroeconomic environment, real estate transparency and investment inflows should feed through to stronger office demand in the medium term (2015-17).
- Higher occupier demand in Tier 1 and 2 cities is expected to see vacancy decline while activity is likely to be strongest in Tier 1 markets.
- IT and software companies are likely to continue to underpin demand, although e-commerce firms should increasingly be an area of strength benefitting from rising sales.
- Although manufacturing is expected to see strong growth, demand from this sector is likely to be limited in the medium term.

- Robust growth of e-commerce and persisting restrictions on multi-brand retail will continue to present challenges to retailers and landlords.
- With consumption expected to rise amid an improving domestic economy, retailers are likely to try to tap into this potential demand. As such, net absorption is forecast to rise with Tier 1 markets being the primary contributors to the improvement.
- However, vacancy is expected to remain elevated, in part due to new supply, and retailers are likely to focus their attention on quality malls with good management.

- The low-to-mid priced housing segment is likely to continue to be the primary focus of developers amidst support from government initiatives. Currently, 60% of new residential launches are in this segment.
- Capital value growth has moderated sharply in recent years and this phase of readjustment is likely to persist in the short term. Buyer demand is likely to be strongest for the low-to-mid priced segment.

- Government initiatives and reforms such as “Make in India”, the introduction of GST and the development of dedicated freight corridors should foster growth in key industries (e.g. manufacturing) that support demand for industrial real estate.
- At the same time, rising income levels and a growing presence of internet accessible devices will continue to fuel growth of e-commerce and in turn necessitate the need for modern logistics facilities.

- A further recovery in hotel trading performance is anticipated as supportive government policies encourage the development of recreational tourism and increased economic activity underpins business travel.
Conclusion

More than one year has passed since Prime Minister Modi and his BJP party were elected by Indian voters to lead the country into what many hope is a period of positive change. The pro-business party has moved forward with many initiatives that are helping advance core themes of their election platform, but nevertheless, many challenges persist.

Although the effectiveness of the policies and reforms can only be judged over a long time frame, the positive intent to push ahead with change makes us believe that the Modi government is moving more or less in the right direction. From an economic standpoint, the government has taken steps to improve governance and reduce corruption, simplify taxation, and foster the development of industries deemed vital (e.g. manufacturing, tourism) to supporting the economy and creating millions of jobs. Prime Minister Modi’s extensive travels abroad have also helped promote India as a place to do business.

From a real estate perspective, the sanctioning of REITs has the potential to be a transformational step for the industry and India’s first REIT is expected to be launched in the first half of 2016. Though progress on other real estate reforms (e.g. Real Estate Bill) has been less swift, there is nonetheless headway being made.

The final verdict on the success of Mr. Modi’s government will ultimately require more time and further progress on key policies and reforms. However, it will be increasingly important to effectively communicate objectives and plans to ensure realistic expectations are being set by stakeholders, including global investors, political allies and state governments, to guarantee their continued support.

About the authors

Sujash Bera
Manager
Research & REIS
sujash.bera@ap.jll.com
+91 98305 43922

Akshit Shah
Assistant Vice President
Capital Markets Research
India
akshit.shah@ap.jll.com
+91 98195 78866

Suvishesh Valsan
Assistant Vice President
Research & REIS
svishesh.valsan@ap.jll.com
+91 22 3985 1309

Lee Fong
Senior Manager
Asia Pacific Research
lee.fong@ap.jll.com
+65 2846 5000

Ashutosh Limaye
Head, Research and REIS
ashutosh.limaye@ap.jll.com
+91 98211 07054

Bibliography

Asia Pacific Real Estate Association (APREA). 2015.
eMarketer (December 2014), “In India, Ecommerce Takes Tiny Share of Retail Sales”.
JLL (2014), “Global Real Estate Transparency Index, 2014”.

With Contributions from:

With thanks to Dr Jane Murray, Ashutosh Limaye and JLL India Leadership Council.