

# REAL ESTATE AND CONSTRUCTION INDUSTRY

An overall perspective

December 30, 2017

# REAL ESTATE AND CONSTRUCTION INDUSTRY – A MACRO ECONOMIC VIEW

## Real Estate and construction industry – A macro economic view

1. Real estate sector comprises of four sub sectors - housing, retail, hospitality, and commercial.
2. Fundamental drivers are expanding road network, rapid urbanization, industrial growth, penetration of services sector, rising purchasing power, decline in the age of ownership
3. RE & construction industry combined is the second largest employer after agriculture
4. The construction industry ranks third among the 14 major sectors in terms of direct, indirect and induced effects in all sectors of the economy.
5. The housing sector alone contributes 5-6 per cent to the country's Gross Domestic Product (GDP).
6. The Indian real estate market size is expected to reach US\$ 180 billion by 2020.
7. The private equity investments in real estate increased 26 per cent to a nine-year high of nearly INR 40,000 crore (US\$ 6.01 billion) in 2016.

# REAL ESTATE AND CONSTRUCTION INDUSTRY – FUTURE ENABLERS

## Real Estate and construction industry – Future enablers

1. Make in India initiative
2. Housing for all by 2022
3. 100 Smart cities
4. Rapid urbanization leading to addition of Tier II & Tier III cities
5. Highway Development programmes (GQ, Bharatmala, PMGSY)
6. Real Estate Regulation and Development Act, 2016 (RERA)
7. Availability and innovative sources of finance viz. structured products through CMBS, REITs, PE funding etc.

# REAL ESTATE AND CONSTRUCTION INDUSTRY – CHARACTERISTICS & PECULIARITIES

# Real Estate and construction industry – Characteristics and peculiarities

1. Localized in nature largely owing to:
  - Development potential far sight and land acquisition capabilities
  - Local Development Control Regulations (DCR) understanding and commercial exploitation ability
  - Local liaison (multiple approval and clearances across statutory & regulatory bodies) capabilities
2. Long gestation and capital intensive projects
3. Catchment driven. Value appreciates, for subsequent projects as the catchment matures, till a point of oversupply.
4. Large sized mix-use projects, delivering integrated living and lifestyle spaces, are now increasingly substituting sporadic and standalone developments
5. Piece-meal and multi contractor regime now giving way to lump-sum turnkey (Design & Build) model.
6. Rapidly influenced by ever evolving technology and innovations affecting, living, lifestyle, consumerism. But on the contrary ever firmly being driven by Green Building initiatives
7. Though developers are increasingly seeking sales for Real Estate through on-line channel, a look, touch and feel is inevitable before a final decision is arrived at or a final payment is made for the product.

# REAL ESTATE AND CONSTRUCTION INDUSTRY – CHALLENGES



## Real Estate and construction industry - Challenges

1. Economy driven and amenable to booms and depression cycles
2. Land purchase is not financed by any banking institution (except Private sources, PE Funds etc. albeit at a prohibitive cost)
3. Cost of finance is now a sizeable component of the overall project cost and the same could go well past one – sixth of the project cost, in a stressed market, with excess of supply over demand.
4. Wide range of permission & clearances (esp. environmental clearances could take well over 12 to 18 months)
5. Green Building initiatives significantly adds to the initial design and CAPEX cost for which buyers, in general, are not willing to bear and pay.
6. Labour unavailability invariably affects project schedules.
7. Project quality is still evolving as role of experts is yet to fully recognized. (For e.g. civil engineers deployed in project scope areas involving complex services & utilities such HVAC, mechanical, BMS etc. either due to cost savings or non-availability of talent)
8. Virtual (online) consumerism Vs Brick & Mortar business Model – Especially Retail Industry

# REAL ESTATE AND CONSTRUCTION INDUSTRY – REGULATORY IMPACT

## Real Estate and construction industry – Regulatory impact

1. Decline in speculative (pre-launch) project numbers
2. Project delivery finding its due priority with the developer
3. Long pending projects re-mobilized owing to penal consequences (both civil and criminal)
4. Consolidation of projects
5. Stressed developers resorting to monetising projects and/or joining hands with credible names on a 'Development Management' model
6. Elimination of marginal players
7. Re-entry of private and institutional funding into the sector with credible names at the helm of development
8. Decline in lending and housing finance rates
9. Price correction ?

# REAL ESTATE AND CONSTRUCTION INDUSTRY – PROJECT ACCOUNTING

## Real Estate and construction industry – Project Accounting

1. Revenue recognition and the principle of 'percentage completion'
2. Cost recognition and type of project contracts (Fixe cost, Cost Plus)
3. Quantity survey, billing and certification (Deviation, Variation, Extra excess items)
4. Consumption & reconciliation
5. Work in Progress
6. Provision

# VISUAL QUIZ & INTERACTIVE SESSION QUESTIONS

Cut & Bend steel observed after RCC completion.

What does it indicate?





## Interactive Session: - Visual Quiz & Questions

Why do flooring tiles come off too soon ?

What could be the root causes?





## Interactive Session: - Visual Quiz & Questions

Ceiling works in progress after flooring laid down.

What does it indicate?



## Interactive Session: - Visual Quiz & Questions

Men with helmets,  
at work.

Is everything fine?



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