PE investors cautious on real estate Rera

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Private equity (PE) investment in Indian real estate fell to $3.1 billion (Rs 20,000 crore) in 2016 from $3.6 billion in 2015, with investments in housing projects during this period more than halving to $1.1 billion (Rs 7,100 crore).

UK-based property consultant Knight Frank, which provided the data, says it is still cautious on the outlook for PE investment in the sector, despite the Real Estate (Regulation & Development) Act (Rera, in summary), 2016, getting enforced from this month.

"Rera is a positive move for PE, as it brings in a level playing field. But, acceleration in investment by PE in the sector would depend on many other factors, including speedy approvals for projects by the government," says Rajeev Bairathi, executive director & head, capital markets, Knight Frank.

He adds: "Institutional investors are watching the change in the environment closely but their investment decisions will depend on the change in the on-ground realities."

Real estate demand has been hit by unaffordable prices, attributed to high land prices and approval delays.

Bairathi has reasons for being cautious. On May 1, implementation deadline for Rera, only seven of 29 states were able to roll it out. Even those who officially did had diluted the central law in many ways, by notifying local rules that they were given the liberty to frame. Some of these, for instance, exempted ongoing projects, while the central Act desired these to be brought under it. In fact, 13 of the 29 states are yet to publish the draft rules. In eight states, the draft rules have been published but not finalised.

M K Sinha, managing partner at IDFC Alternatives, is also cautious on PE investment in the sector. "Rera is only a facilitator," he says. "Acceleration of PE investments in real estate will depend on how the economy does and how GDP (gross domestic product) grows."

The hope is that Rera will be implemented in letter and spirit, gradually, with pressure groups taking the legal route. "With the use of black (undisclosed) money coming down to a minimal level, developers' need for funds will increase, as they would now need it from ethical sources," says Ruchir Sinha, co-head of private equity and mergers at Nishith Desai Associates. "This will help PE investors who earlier had investor rights but found its enforcement difficult."

Under Rera, only big-ticket developers are expected to survive, as 70 per cent of money for a project now needs to be put in an escrow account and cannot be diverted to any other.

"We expect increased private capital flows, especially into the larger fast-moving affordable housing projects," says Sanjay Nayar, chief executive officer at KKR India, a PE entity. The government gave infrastructure status to affordable housing in this year's Union Budget. This is expected to open more institutional sources for developers to raise funds at a competitive price.

Rera also has strict regulations for developers, including penalties for delayed projects. It can even lead to a jail term for a developer or a broker if authorities' orders are violated. Castellino Suresh, national director, investment services, Colliers International, says: "Though Rera brings a lot of transparency, it is also a double-edged sword. Now, PE will have to bear liability if a project gets delayed or any other guideline is not met."

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