Re-orienting real estate through smart concepts and technologies

A collection of white papers

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FICCI

Foreword



Indian cities are experiencing rapid urbanization leading to challenges in infrastructure and other urban services. The present levels of urban infrastructure are grossly inadequate. This requires immediate attention of policy makers, city administrators, urban planners, real estate developers, service & technology providers and others to think of innovative solutions to the challenges unleashed by urbanization. In addition to the challenges, this phenomenon has resulted in creation of opportunities for the stakeholders in the sector.

FICCI aims to create platforms to discuss urbanization issues and opportunities for industry to offer smart solutions. Creating a first platform of its kind in South India, the South India Real Estate Conference 2012 is being organized on the theme "Re-orienting Real Estate through Smart Concepts & Technologies".

This conference will bring together experts from across the country, particularly South India, to exchange ideas, innovation and knowledge on latest concepts, trends, technologies and policy issues that can influence the business of real estate in the region. Cities are the growth centers for future development in India. It is time we plan cities that can be called "smart and intelligent".

I wish the conference a grand success!

Niranjan Hiranandani,
Chairman, FICCI Real Estate Committee and
MD, Hiranandani Constructions Pvt. Ltd.





The turn of the century brought a wave of transformation for the Indian economy. With this transformation came the pressing need for Indian cities and, subsequently, for the real estate sector to meet the evolving requirements of corporate India. There was an impending demand on office, retail and even residential space to serve the evolving physical needs, facilitating economic growth. As India continued to attract international attention with multinationals entering the country and penning their expansion further, real estate needed to be stepped up and offer more professionally managed service offerings. Aspects such as design, customer satisfaction and value additions started to find a place in urban India.

Real estate, which was earlier an unorganized, family-driven practice, was slowly and steadily driven to becoming more organized. Opportunities for tie-ups with international real estate organizations and access to funding from international firms saw some Indian players getting out of their comfort zone and adopting international practices. This move was propelled by the unified effort of stakeholders, including the government, to regulate the practice and increase credibility of the real estate industry.

Today, the industry is levitating toward adopting professional practices that have traditionally been characteristic of the service industry. This transformation, however, is bringing in operational hurdles for the industry. Some of the numerous challenges include finding and retaining trained human resources, dealing with aware customers, enhancing customer experience, employing technology to enhance product offering, cutting down on construction cost and time, or just being an environmentally responsible company.

This collection of white papers adopts a macro approach for looking at some of these challenges through what we believe are "the four pillars of a real estate business", namely, people, process, technology, policy and governance. Join us, as we take on a fresh perspective on some of these challenges by "re-orienting real estate through smart concepts and technologies."

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Recent tidings in the South Indian region

Introduction

Over the last two decades, Tamil Nadu, Andhra Pradesh, Karnataka and Kerala have shown accelerated economic development. This development has stemmed from outstanding performance in skill-based manufacturing industries such as automotive and sectors such as biotechnology and IT-ITeS. This has lead to fast paced urbanization with the southern region housing 102.8 million people in urban areas (27.3% of India's total urban population) [1].The pace of development can be gauged from the fact that in 1990, merely seven cities in the four states had a million plus population. The number increased to eleven in 2010[2]. By 2015, this number is likely to touch fourteen with three new cities Hubli-Dharwad, Madurai and Mysore likely to be added to this list of million plus cities.

Drivers for economic development and growth of southern markets

Tamil Nadu, Andhra Pradesh, Karnataka and Kerala broadly constitute 21% of the Indian population and contributed one-fourth (25.4%) of the national domestic product (NDP) in 2011–12 (a marginal increase from 24.9% in 2005–06)[3]. These states have gradually become robust centers for the service industry, in conjunction with maintaining a strong focus on the manufacturing sector for industries such as automobiles, textiles, pharmaceuticals, defense and aerospace. The four states house close to 50% of the total number of SEZs in the country. In conjunction with industrial growth, IT remains the dominant driver for the real estate market, followed by biotechnology.

Contribution of the four states to India's NDP



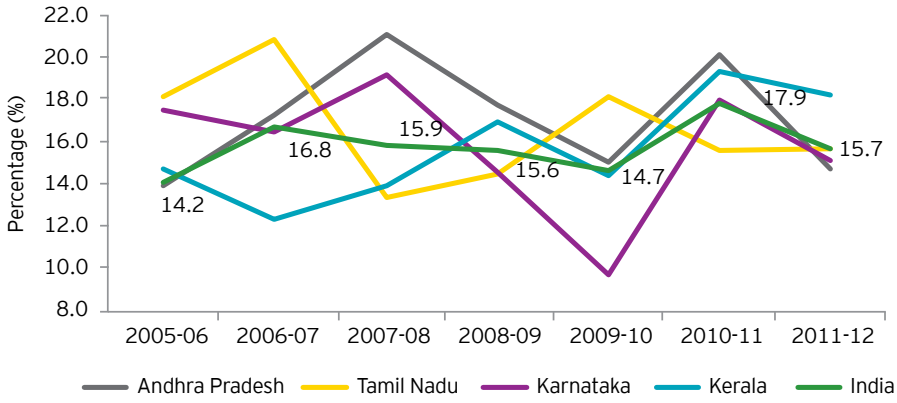
Source: Ministry of Statistics and Programme Implementation

1 *Census of India website*: http://www.censusindia.gov.in/2011-prov results/paper2/prov_results_paper2_india.html

2 "Cities over 750,000, World urbanization prospectus, the 2009 revision," *United Nations Department of Economic and Social Affair website*, http://esa.un.org/unpd/wup/index.htm

3 *Ministry of Statistics and Programme Implementation*

Comparison of growth rate of net state domestic product



Source: Ministry of Statistics and Programme Implementation

Despite the dipping of India's National Domestic Product (NDP) to 15.7% (2011–12) from 17.9% (2010–11), Tamil Nadu is the only state in the southern region which has continued to show growth, though marginal, from 15.62% (2010–11) to 15.89% (2011–12). Between April 2000 and April 2012, the South Indian region attracted 15% of the total FDI into the country.

FDI attracted by South Indian states against the national average (in INR billion)

Year	Andhra Pradesh	Tamil Nadu and Puducherry	Karnataka	Kerala and Lakshadweep	Total South India	India	South as % of India
April 2000 to April 2012	309.85	381.49	444.29	40.29	1175.92	7840.93	15%
Apr-12	3.85	5.9	5.37	0.98	16.1	96.2	17%
2011-12	40.39	67.11	72.35	22.74	202.59	1739.46	12%
2010-11	57.53	61.15	61.33	1.67	181.68	885.2	21%
2009-10	57.1	36.53	48.52	6.06	148.21	1231.2	12%

Source: *Department of Industrial Policy & Promotion website* accessed July 11, 2012

A glimpse into the development profile of key South Indian states

Karnataka[4]

The science capital of India, with more than 100 research centers, contributed 5.6% (2011–12) to the country's NDP. The state rides strong on the back of knowledge-based industries such as information technology (IT), biotechnology and engineering.

4 Ministry of Statistics and Programme Implementation and EY analysis; "States, " *IBEF website*, www.ibef.org, accessed 11 July 2012; "State profile", *Public Private Partnerships in India website*, http://www.pppinindia.com/states.php, accessed 11 July 201

The state has a rich cultural heritage, implying vast potential for sustainable growth of the tourism industry. Recognizing this potential, the Government of Karnataka has announced a dedicated tourism policy for 2009–14 to position the state among the top two tourist destinations in the country by 2016–17, generating nearly USD4.5 billion in private investment. Road infrastructure development has been a key focus, with the National Highway Authority of India (NHAI) aggressively developing highways in the state.

On the back of infrastructure development, the state is poised to attract investments in several industries through fiscal and non-fiscal incentives provided in the Karantaka Industrial Policy (2009–14). The state has an exclusive semiconductor policy to promote the industry and has set up a USD1.8 million fund for semiconductor excellence. Similarly, a dedicated bio-venture fund of USD9 million has been proposed to aid the development of the industry and assist startups.

Key real estate market in Karnataka[5]

Bengaluru

Strengthening of transport infrastructure

- Construction of phase I of the Bengaluru metro is in full swing, and it is expected to be completed by 2013. 'Reach 1' part of the East-West corridor of phase 1 of the project spanning 6.7 km stretch with six stations was commissioned in October 2011. The government has also approved the second phase of the project (72 km), expected to be completed by 2017. The metro project is expected to propel real estate development in the city, changing the landscape of the areas adjacent to the metro line, as seen in Delhi NCR.
- Bengaluru International Airport is undergoing expansion, with the current capacity being fully utilized. Expansion is expected to be completed by end 2012 and would augment passenger handling capacity to 17 million from the current 11 million.
- An elevated expressway connecting Hebbal Junction to Trumpet toward Bengaluru International Airport on the Bellary Road is being constructed under the National Highway Development Project (NHDP). This would reduce travel time to the airport from the city centre significantly.
- Construction work is underway to make the 31 km stretch of outer ring road connecting Hebbal Flyover to Silk Board junction signal free. This project is expected to be completed by end 2012.

Revision in policy

- The guidance value in the city has been revised by the Department of Stamps and Registration. This could lead to rising property prices in the city.

5 "News", *Bangalore Metro Rail Corporation Limited website*, http://bmrc.co.in/news.htm, accessed 12 July 2012; "Aviation analysis", *CAPA Centre for Aviation website*, http://centreforaviation.com/analysis/bangalore-international-airport-to-commence-terminal-1-construction-in-sep-2010-34134, accessed 12 July 2012; "CDP," *JnNURM website*, http://jnnurm.nic.in/citywise-cdp.html, accessed 12 July 2012

Emerging real estate markets in Karnataka

Mysore[6]

Mysore is among the fastest growing Indian cities, with a decadal population growth rate of 20% (population 0.9 million in 2011). The city has several facets working in its favor including economic, institutional and cultural significance. Although the city is renowned for its tourist attractions, the growth of the IT/ITeS industry in recent years has positioned Mysore as the second-largest software exporter in the state, next to Bangalore. Traditionally, Mysore has been home to small- and mid-scale industries. Other key industries include the manufacture of agricultural products and automotive. Presently, four industrial areas are located in and around Mysore at Belagola, Belawadi, Hebbal (Electronic City) and Hootagalli.

Owing to these developments, the city is expected to witness major infrastructure projects in the near future.

Mangalore[7]

Mangalore is the chief port city in Karnataka. The economy of the city is broadly dependant on agricultural processing and port-based activities. The New Mangalore Port claims to be the ninth largest in the country in terms of cargo handling. Other major industries and enterprises include chemical, fertilizers and petrochemicals. The city is home to industrial areas such as Baikampady and Yeyyadi, which have several small-scale industries. The IT industry is also key to the city's economic growth, with a number of IT parks and SEZs. The city currently has about 8 SEZs (6 are IT based). The city also houses other small industries such as boat building, fishing, and production of cashew, coffee, cotton and tile.

Hubli-Dharwad

Hubli-Dharwad is an important educational and commercial center of North Karnataka. Hubli-Dharwad has also been famous for its prominent industries including engineering, automobile, valves, ceramics and agri processing. The establishment of the Aryabhata Tech Park is expected to accelerate IT/ITeS activity in the region. The Karnataka Government has declared Hubli-Dharwad as an "automobile and IT corridor." Additionally, the Hubli Airport is being upgraded to an international airport. Demand for industrial properties has been on the up- swing. Owing to the increased employment opportunities, demand for residential properties has gained momentum. Majority of the developments in the twin cities are centered within a 3–5 km radius of Azad Park Road, SH1 and SH73 on the Dharwad and Gokul Road, Hubli. Navanagar is an upcoming location owing to the region's proximity to the upcoming IT Park, Law University, Byepass and P.B. Road.

6 Provisional Population Totals, Census of India, 2011; "CDP", *JnNURM website*, http://jnnurm.nic.in/citywise-cdp.html, accessed 12 July 2012

7 "Approved special economic zones," *Special Economic Zones in India website*, http://www.sezindia.nic.in/asez-sez-granted-under2005.asp, accessed 12 July 2012;

Tamil Nadu[8]

The state is among the most industrialized states in the country with a manufacturing base for diverse sectors such as automobile and auto-components, textile, cement, engineering and pharmaceuticals. The state contributes 7.7% (2011–12) to India's NDP. It is among the highest FDI attracting states in the country, with an inflow of nearly INR381.49 billion during 2000–11. With two major ports, it has been a gateway to southern India for import-export, developing it as a logistics hub. The industrial parks in Irrungattukottai, Sriperumbudur and Oragadam (covering over 1,000 acres of land) have attracted huge investments from international manufacturing majors. To boost the industry, the state has successfully developed private SEZs and multiple state industrial corporation (SIPCOT) SEZs and industrial parks.

Infrastructure development, strong manufacturing base and tourism, and the presence of two ports are expected to drive sustainable demand for industrial parks and commercial spaces in the key cities of Tamil Nadu.

The Bengaluru-Chennai Expressway (240km) shall connect two of the largest urban centers in the south. This improved connectivity is expected to drive both economic development and real estate.

Key real estate market in Tamil Nadu[9]

Chennai

Transport infrastructure initiatives

- With plans of metro, monorail, IT expressway and major ring roads underway, Chennai is all set to see a makeover and a sea change in the dynamics of the real estate market.
- Modernization and expansion of the Chennai Airport at Meenambakkam would increase handling capacity by 10 million passengers a year, thereby pushing the total handling capacity up to 23 million passengers a year. Expansion plans include the setting up of a greenfield airport in Sriperumbudur Taluk.
- The government has taken initiatives to develop a metro rail project and an outer ring road along the periphery of the Chennai Metropolitan Area to decongest the city. This will attract more companies to set up base in this region.

Urban development initiatives

- Initiatives for the redevelopment of the Rajiv Gandhi Salai, Chennai's IT corridor, are being planned. This would catapult Chennai's positioning as a preferred destination for IT/ITeS and biotechnology industries.
- The government plans to develop a large-scale urban development project (industrial and residential complex) on the outskirts of Chennai to accommodate 50,000 residents.

8 Ministry of Statistics and Programme Implementation and EY analysis; Department of Industrial Policy & Promotion;

9 "CDP", *JnNURM website*, http://jnnurm.nic.in/citywise-cdp.html, accessed 12 July 2012; P. Oppili , "State government has to decide on second airport for Chennai: AAI," The Hindu, 8 August 2011, via Factiva, ©2011 Kasturi & Sons Ltd



Emerging real estate markets in Tamil Nadu:

Coimbatore[10]

It is a renowned centre for education in South India. The city has the second largest population (1 million) in Tamil Nadu after Chennai (4 million). The city has the location advantage of being accessible to three of the largest metros in South India (Chennai, Bangalore and Kochi). The Peelamadu airport is located around 8 km from the city and is due for expansion. In addition to being an emerging IT /ITeS hub, with major IT companies having investments in the city, Coimbatore has an established auto-components manufacturing industry. Several international automotive component manufacturing companies rely on the city for sourcing. The city also houses a number of global textile machinery manufacturing units. A ring road is being planned around the city. A number of residential developments are coming up along Trichy Road and Avinashi Road (parts of which are being converted to four lanes). IT-focused development seems to be driving the growth of the city with the presence of four functional IT parks, in addition to the Electronics Corporation of Tamil Nadu (ELCOT) IT Park. Three IT parks (close to 0.3msf) are under construction, with a number of other parks in the proposal stage.

Tiruchirapally[11]

The city is the fourth largest urban agglomeration in the state and is renowned as a key industrial and educational hub. It is a well-known engineering equipment manufacturing hub in Tamil Nadu. The city is also home to several engineering and chemical-based industrial units, with BHEL having a fairly large industrial complex. The IT/ITeS industries are making inroads into the city. The ELCOT IT/ITeS SEZ park was commissioned in the city in 2010. The addition of an international cargo terminal to the Tiruchirapally airport is also a recent development.

10 Provisional Population Totals, Census of India, 2011; "CDP", *JnNURM website*, http://jnnurm.nic.in/citywise-cdp.html, accessed 12 July 2012; "Coimbatore-SEZ," *Electronics Corporation of Tamil Nadu Ltd. website*, accessed 10 July 2012

11 "Tiruchy SEZ," *Electronics Corporation of Tamil Nadu Ltd. website*, accessed 10 July 2012; "Trichy's int'l air cargo terminal opens at Trichy airport," Times of India, 22 November 2011 via Factiva, © 2011 The Times of India Group

Andhra Pradesh[12]

The fourth largest state by area in the country and the fifth largest by population, the state also has the second-largest coastline among Indian states. The state contributed 8.2% (2011) to the country's NDP.

Pharmaceutical, IT/ITeS, agri and agri-food processing have been chief drivers for the state's economy, with several agro-based projects being undertaken in the region. The IFFCO Kisan SEZ: a 1,000-hectare agribusiness-based SEZ in the Nellore District. IT exports from Andhra Pradesh grew by USD0.7 billion (12.5%) in 2010–11, with the capital city of Hyderabad being home to more than 1,300 IT companies. The city, known for pearls and minars, is now diversifying its canvas from IT to sectors such as research and development, biotechnology, semiconductor and pharmaceuticals.

The state has seen immense development in the infrastructure sector. As of 2010, 31 public private partnership projects had been completed, with another 23 in the pipeline. The government has maintained steady focus on the development of roads, ports, IT and commercial complexes, and power and urban infrastructure. The state has one major port at Vishakhapatnam and 14 non-major ports. Further, the government recently undertook the development of the Gangavaram, Krishnapatnam and Kakinada ports. The Rajiv Gandhi International Airport, with state-of-the-art facilities, is one of the best airports in the country. International airports have also been proposed at Vishakhapatnam and Vijayawada.

Key policy initiatives driving development include:

- New Industrial Policy: The state government has announced a new industrial policy (2010–2015) which offers a series of incentives, especially for micro, small- and mid-size enterprises (MSMEs). The policy has set a target of 17% growth in manufacturing and has increased investment subsidy for micro and small enterprises from USD27,000 to USD36,000.
- ICT Policy 2010–15: This was announced in 2010 to offer incentives for facilitating the growth of information and communication technology (ICT) by introducing business-friendly policies and proactive support.
- Tourism Policy: The policy lays special thrust on preserving biodiversity of the state while focusing on attracting investments in untapped parts including rural areas with tourism potential.

The government has signed 243 memorandums of understanding (MoUs) and announced a future investment plan of approximately USD116 billion, indicating a clear focus on infrastructure development.

12 Ministry of Statistics and Programme Implementation and EY analysis " Compendium of PPP projects in Infrastructure," Secretariat for Infrastructure, Planning Commission, Government of India, March 2010; "State profile", *Public Private Partnerships in India website*, http://www.pppinindia.com/states.php, accessed 11 July 2012; Sreenivas janyala, "Andhra IT sector withstands the Telangana stir, keeps growing," The Indian Express, 27 January 2011, via Factiva, ©2011 Indian Express Pty.Ltd.; "CII Summit: AP signs MoUs worth Rs.6.47 lakh cr," Business Line (The Hindu), 14 January 2012 , via Factiva, ©2012 The Hindu Business Line

Key real estate market in Andhra Pradesh[13]

Hyderabad

Transport infrastructure initiatives

- The city is witnessing extensive development of roads and highways. The longest flyover of the country, PVN Rao Express Highway connecting the International Airport to JN Express Highway, has shrunk intercity distances, particularly to the international airport. The Outer Ring Road (ORR) is the most recently added asset to the city. The 158 km ORR is one of the largest completed ORR projects in the country.
- A proposal has been put forth for the construction of a Peripheral Ring Road in HMDA's extended area. This would cover approximately 250 km and would have connectivity to urban pockets and urban centers growing in peripheral areas such as Chevella, Sankarpally, Sangareddy, Toopran, Agapally, Bibinagar, Shadnagar and Choutuppal in the Ranga Reddy, Medak, Mahbubnagar and Nalgonda districts.
- A 55 acre Inter City Bus Terminal (ICBT) has been proposed in the city at Miyapur. This would be the largest of its kind in Asia, housing 200 bus bays.
- The Hyderabad Metro Rail project is also in the pipeline, with a proposal for three corridors within the city. The move is aimed at reducing intra-city travel time, and it would significantly impact the city's growth patterns after completion. As seen in Delhi and Bengaluru, prices of properties adjacent to the metro line are expected to witness a sharp increase, impacting guidance value in the near term.

Urban development initiatives

- A master plan for the Hyderabad Metropolitan Region is currently in the draft stage. The plan envisages a compact sustainable city with multiple centers and adequate physical infrastructure for the sustainable growth.
- Another key development is the GO 45, issued in January 2011. It has a considerable impact on real estate development in the city. The order requires all construction on properties admeasuring more than one acre, to earmark 20% of developed land for economically weaker sections (EWS) and lower income groups (LIG) in all housing projects. Several projects are currently on hold due to perceived viability issues.

13 "CDP", *JnNURM website*, http://jnnurm.nic.in/citywise-cdp.html, accessed 12 July 2012; "Project description," *Public Private Partnership Cell website*, Finance Department, http://ppp.cgg.gov.in/ProjectDesc.aspx?Recordkey='191', accessed 10 July 2012

Emerging real estate markets in Andhra Pradesh

Vishakhapatnam[14]

Vishakhapatnam has witnessed a decadal growth rate of approximately 13% from 2001 to 2011 in its population , and it currently has a population of close to 1.7 million. The city has traditionally been an industrial hub, with largely PSU units and port-based activities. However, in the recent past, as a spillover from the development at Hyderabad, the city is witnessing an influx of several IT and pharmaceutical companies. This can be partly attributed to the lower land costs as compared to those in the prime and established central business districts and secondary business districts of Hyderabad.

Located on the Chennai-Kolkata coastal corridor, the city is also home to the largest proposed special development zone, called the petroleum, chemical and petrochemical investment region (PCPIR), with an area of 603 sq. km.

The Jawaharlal Nehru Pharma City, developed in a public private participation (PPP) model has 17 pharmaceutical companies.

Vijayawada[15]

Vijayawada city has witnessed a decadal growth rate (2001–2011) of close to 23%. Traditionally a trading and business hub, Vijayawada's focus is gradually shifting to newer industries such as IT/ ITeS, biotechnology, pharmaceutical and engineering, telecom and retail banking, and financial and insurance services.

Oryza Township, covering 1,450 acres of land, is one of the major upcoming projects in the city. It is being promoted by the Vijayawada, Guntur, Tenali and Mangalagiri Urban Development Authority (VGTM-UDA). The project includes housing, a railway freight terminal, a theme park (100 to 120 acres), an industrial hub for logistics manufacturing units, a permanent exhibition ground and some of the government institutions. A proposal has been made calling for the establishment of a theme park at the center of the township under a public private partnership (PPP).

The Gannavaram Airport is set to be developed as a full-fledged state-of-the-art international airport to make the region more easily accessible.

Nellore[16]

Nellore is the sixth largest city in Andhra Pradesh. It has a current population of 0.5 million, with population growth of 24% in the last decade (2001–2011). The city has a strong agricultural base, which has aided in the development of several agro-based industries. Other important sectors promoting the economy are aqua culture, and the handloom and dairy industries.

The ongoing development of the Krishnapatnam port in the recent past is a major economic booster for industrial and allied activities in the Nellore-Krishnapatnam region, with the city being the closest major city/town to the port.

The TADA region near Nellore is already home to several major industries and is being promoted as a key industrial area in the region.

14 Provisional Population Totals, Census of India, 2011; "Project description," *Public Private Partnership Cell website*, Finance Department, http://ppp.cgg.gov.in/ProjectDesc.aspx?Recordkey='191', accessed 10 July 2012

15 Provisional Population Totals, Census of India, 2011

16 Provisional Population Totals, Census of India, 2011

Kerala[17]

Kerala contributed 3.9% to the country's NDP in 2011. In the past couple of decades, one of Kerala's key economic drivers has been tourism. In addition, it is one of the few markets in the country that is heavily dependent on remittances from non-residential Indians (NRIs).

The state also has exposure to other SMEs in the manufacturing and light industrial sectors. Agriculture and aqua-culture also find a strong base in the state. The food processing industry has a considerable role. Other industries include coir, textile and garment. Service sector (public administration, banking and finance, transportation and communication) also form an important component of the state's economy.

The city is gradually shifting focus from SME activity to service-based industries such as IT/ITeS. The state currently has two infotech parks (Kochi and Thiruvananthapuram). This shift has had a positive impact on the real estate market. While the real estate sector is still largely unorganized and dominated by players in the hospitality and residential asset classes with IT/ITeS focus, the commercial sector is likely to become more structured in the medium to long term. While independent housing formats (villas, row houses) still remain the preferred choice, recent times have brought in multi-storied apartments, mainly on account of increasing land and labor costs, as well as access to land in suitable residential pockets.

The government has increased focus on policy and infrastructure initiatives in the recent times. Some of these initiatives include:

- Plans to introduce a new IT policy to provide comprehensive support for the development of the IT sector
- A draft industrial and commercial policy, 2011, to support micro, small, and medium enterprises (MSMEs)
- A draft transport policy 2011 to revamp the public transportation system and to reduce dependence on private modes of transport

Upcoming and proposed projects such as high-speed rail corridor, Kochi metro, a deep-water port at Vizhinjam, a life science park at Trivandrum, an oceanarium are few of the key infrastructure projects that are likely to positively impact the overall economic scenario of Kerala, with derived benefits for the real estate sector.

17 Ministry of Statistics and Programme Implementation and EY analysis; Department of Industrial Policy & Promotion; *Pravasi Bharatiya Divas website*, http://www.pbdindia.org/p10.shtml, accessed on 23 March, 2012

Key real estate markets in Kerala[18]

Kochi

Infrastructure development initiatives

- One of the recent developments is the international container trans-shipment terminal (ICTT) in the SEZ at Vallarpadam Island.
- The Vytilla Mobility Hub is an integrated transit terminal designed over 37 acres as a focal point where various forms of public transportation, such as local and long distance buses, metro rail and inland water transport will be converged. This will have a significant impact on the transportation requirements of the linear Kochi city and influence real estate along the transport corridors and key nodes.

Urban development and real estate initiatives

- SmartCity, Kochi, is a planned IT township covering approximately 9 msf. with the majority of it being dedicated to the IT/ITeS sectors.
- Infrastructure developments such as the ICTT and the SmartCity have had a considerable impact on rising land prices in areas such as Edappilly, Kalamassery and Thripunithura. Demand in areas such as Vypin, Parur, Aluva, Irimpanam and Mulanthuruthy which are close to the city periphery is also increasing.
- Kochi has increased focus on the organized retail sector, particularly, malls. New malls in the city include Emmanuval Silks in Edappally, Kochi which is the world's largest textile hub. The upcoming Lulu Cochin mall is set to be one of the largest malls in India, to be built along with a premium five star hotel proposed to be managed by JW Marriott Hotels. Other mall developments include Baani Mega Mall, Forum Thomsun Mall, The Q1 Mall and Summit Mall.

Trivandrum[19]

- Trivandrum (Thiruvananthapuram), the capital city, houses several central and state government offices and is also home to several educational institutions. The state's signature project is "Technopark", which houses IT/ITeS companies and currently has more than 4 msf. of built up space. It is one of the most successful initiatives of the state and one of the primary drivers for growth. Technopark Phase-III has already commenced construction, with 27.5 acres (total 92 acres) having been granted SEZ status. The upcoming Phase IV development, known as Technocity, is spread over 431 acres and is a mix of SEZ and non-SEZ development. Technopark-Kollam is another IT park under development and has been granted the status of SEZ.
- KSIDC has proposed to develop a Life Sciences Park at Thiruvananthapuram (260 acres) in Veiloor Village to support the life science industry and attract investments.
- The government has proposed to establish a monorail in two phases covering about 42 km.

18 "Vyttila Mobility Hub," *Vyttila Mobiity Hub website*, accessed 2 July 2012; "Smart city Kochi," Official website of Kerala State IT mission; accessed 3 July 2012

19 "Home," *Technopark website*, http://www.technopark.org, accessed 03 July 2012; "On going projects," *KSIDC website*, http://www.ksidc.org/ongoing-projects.php, accessed 03 July 2012

In recent years, several smaller cities such as Coimbatore, Mysore, Thiruvananthapuram, Visakhapatnam, Vijayawada and Mangalore have emerged as key real estate destinations in the southern region. The price of land in tier I cities has reached alarming levels, impeding project feasibility in some cases. In comparison, land prices in tier II and III cities are far more moderate. As these areas are prospering with modern retailing, outsourcing, IT and manufacturing, supply is still inadequate to meet the rising demand. Visakhapatnam is one such city that has drawn developer interest. Although these cities have tremendous potential, the recent slowdown and economic uncertainty have posed threat to their development.

Major trends[20]

Developers reducing debt by non-core asset sale and focus shifting toward regional presence	▶ Most developers are focusing on reducing their high level debts by increasing operating cash flows. Another few are selling assets to strengthen their balance sheet. ▶ Several foreign and domestic fund houses are planning to buy distressed properties in key cities. ▶ Leading developers of South India are better placed to reduce their debts due to healthy absorption and strong pipeline of new launches and shorter execution period. ▶ Post the slowdown, major developers have again started focusing on their core markets and regions.
Major private equity (PE) exits in the real estate industry and selective investments	▶ The real estate industry saw PE investments of USD11 billion during the boom of 2006–08; however, most of it is expected to exit from 2012 onwards at the closing of 5–6 year investment cycle. ▶ Recently, most of the exits (USD3 billion) were through promoters' buyback, which implies the possibility of cash flow pressure for the realty industry in 2012–13 if current projects do not generate adequate cash flows.
Change in product mix by developers due to muted demand and oversupply	▶ A huge oversupply in retail real estate has forced developers to either shelve projects or convert mall projects into mixed-use destinations or residential projects. In 2011, leading developer RMZ converted its 1.1msf. mall plan into a residential-cum-hotel project. ▶ The demand supply mismatch has put a cap on the rising rentals for malls in various locations across cities. ▶ Most of the developers in southern India have revisited development plans for their mixed use projects in Bengaluru, Chennai and Hyderabad.

20 *Census of India website*, http://censusindia.gov.in/2011-prov results/paper2/data_files/india/Rural_Urban_2011.pdf, "Real Estate-USD3bn of PE exits on cards in CY12," Edelweiss, 21 December 2011, via ThomsonOne. "Realty Monitor, Q3CY11," Enam Securities, 29 November 2011, via ThomsonOne, "Real Estate on shaky ground ," IDFC Securities, October 2011, via THomsonOne,; "Companies go bottom fishing; buy out distressed assets to aid ailing realty sector," The Economic Times, 28 December 2011, via Factiva, (c) 2011 The Times of India Group. "Realtors Turn Malls into Housing Projects," The Economic Times - Mumbai Edition, 20 December 2011, via Factiva, Copyright © 2011. Bennett, Coleman & Co., Ltd.

Real estate trends in mature south Indian real estate markets

Segment	Bengaluru[21] (Karnataka)	Chennai[22] (Tamil Nadu)	Hyderabad[23] (Andhra Pradesh)	Kochi[24] (Kerala)
Residential	▶ It is the most active market in South India with annual output of nearly 175,000 apartments and about 17,500 villas. ▶ It continues to attract constant influx of people migrating to work in the IT-BPO industry and has shown higher resilience in residential property demand as compared to Mumbai and NCR. ▶ Major reason of resilience is end-user sales, availability of land parcels across the growing periphery and moderate price rise. ▶ North Bengaluru, including Devanhalli, is the new area with tremendous potential with the new international airport in the vicinity.	▶ It continues to witness healthy absorption trends with 5–10% appreciation in price despite high launch activity. ▶ Value and mid-end housing comprises majority of the supply, while high-end projects are restricted to a few pockets.	▶ The city had remained in a state of flux in 1H 2011 due to strikes on the issue of Telengana. Due to this, the prices of residential properties remained largely flat with sluggish demand. Residential absorption was only ~1,436 units in 3Q2011 against ~2,019 in 3Q2010. However, in 4Q2011, the city saw some new launches in the form of extensions of existing projects and re-launch of old projects. Currently, the market looks favorable for the mid segment, with developers and end-users evaluating options.	▶ The residential market is primarily NRI driven. Domestic and local demand has been sluggish; with the prospect of certain commercial/ industrial projects commencing, the residential market is expected to improve in the near term. The Marine Drive in Kochi is a prime residential area, with new projects.
Commercial	▶ Growth in net hiring of 7% y-o-y by top four IT companies, led to absorption of over 10 msf. in 2011 as compared to 9 msf in 2010 and mere 6 msf in 2009. ▶ The city has the lowest vacancy in the South Indian market and the strongest rental appreciation. The vacancy level of the city is 13%–15% with minimum 4%–6% vacancy in outer ring road and the highest vacancy of 30% in Whitefield due to significant addition in supply during 2009–11. ▶ However, the huge supply expected in 2012–13 may dent absorption and rental levels.	▶ It had a vacancy rate of 20% at end 2011. The level is expected to decrease in the current year; however, the large available supply in Old Mahabalipuram Road (OMR), also known as the IT corridor, would keep rentals under pressure.	▶ Political turmoil in recent years is one of the key reason for newer corporate organizations not setting up shop in the capital city. ▶ However, in 4Q2012, subdued political turmoil and stability in rentals helped the commercial space regain momentum. ▶ Existing companies have shown expansion trend in the city. ▶ Demand is high, particularly in areas such as Madhapur and Gachibowli. Availability of office space across all micro markets has kept rentals stable. ▶ Office space absorption in 2011 was about 3.76 msf., close to 28% lower than that in the previous year. ▶ In the recent past, there have not been many new launches in the commercial office format. If the trend continues, there may be a potential space crunch in the prime CBD areas, particularly for SEZ space. ▶ The emerging IT hubs in the city are Uppal, Pocharam, Shamshabad, Bachupally and Jawahar Nagar.	▶ The government plans to open a Cyber Park in Kozhikode, which is estimated to have an employment potential of ~25,000 people. This is expected to redefine the economic focus of the city. Also, the ongoing project Info Park is expected to create jobs for 80,000 people in the long term. Most of the organized commercial activity is presently centered around these major projects.

21 "B'lore realty sees record launches," The Times of India - Bengaluru Edition, 8 December 2011, via Factiva, Copyright © 2011. Bennett, Coleman & Co., Ltd. ; "Bengaluru real estate," Prabhudas Lilladhar, 28 November 2011, via ThomsonOne; "Bengaluru real estate, " Emkay, 12 January, 2012, via ISI Emerging Markets; "Bengaluru may face oversupply of hotel rooms," The Economic Times, 12 January 2012, via Factiva, (c) 2012 The Times of India Group.

22 Realty check India," J.P.Morgan. 05 December 2011, via ThomsonOne; "Room To Spare," Outlook Business (India), 3 March 2012, via Factiva, (c) 2012. Outlook Publishing (India) Pvt. Ltd.

23 Realty check India," J.P.Morgan. 05 December 2011, via ThomsonOne; "Industry Insight-Indian Hotels," Cygnus Business Consulting & Research Pvt. Ltd., 2011, via ISI Emerging Markets.

24 "KOZHIKODE BOOMING WITH PROSPERITY (HiLite Builders is setting up the HiLite City)," Indian Business Insight, via Factiva, (c) 2011 Informatics (India) Ltd; "Kochi Infopark readies for second phase," Indo-Asian News Service, 12 October 2011, via Factiva, 2011. ©Indo-Asian News Service; "Kochi getting ready to woo more business travelers," Business Line (The Hindu), 31 May 2011, via Factiva, (c) 2011 The Hindu Business Line

Real estate trends in mature south Indian real estate markets (cont'd.)

Segment	Bengaluru[21] (Karnataka)	Chennai[22] (Tamil Nadu)	Hyderabad[23] (Andhra Pradesh)	Kochi[24] (Kerala)
Retail	▶ Developers have stalled initial plans of setting up malls. Nevertheless, more than 30 malls are under construction. These, if completed, would create an oversupply in the market. ▶ Currently, existing malls are enjoying healthy occupancy levels and rentals are at par with those in other major retail markets.	▶ New supply continues to see healthy leasing activity due to low retail stock of the city and higher occupancy in existing malls. ▶ Rentals and vacancy levels are expected to remain stable in the near term. OMR, with a lot of upcoming residential and office properties, promises distinguished opportunity for organized retail spaces.	▶ Currently, the retail sector still appears to be slow and is yet to gain significant momentum. ▶ Most projects underway had been proposed a while back. ▶ Two major upcoming malls are Manjeera Trinity and Manjeera Majestic in Kukatpally. ▶ However, given the future stocks of launched projects, the city may face oversupply in the next couple of years, unless the expansion activity of the organized retail sector picks up momentum. In this light, the government's announcement of FDI in multi-brand retail would be an important factor.	▶ The upcoming Lulu Cochin mall (over 2.2msf) will also be a significant landmark in the city. ▶ Emmanuval Silks Mall (over 0.5 msf area) is one of the largest showrooms in the country. ▶ Unitech is setting up a mall, Great India Place, at Kochi covering more than 400,000 sft.
Hospitality	▶ It mostly caters to business travelers. ▶ The ORR stretch between Marathali and Sarjapur is buzzing with new hotel properties to cater to the demand created by several MNC's situated in the vicinity. ▶ The city currently has approximately 7,000 rooms. More than 9,000 rooms are expected to be added in the next five years. With demand being uncertain, this may create an oversupply scenario in the long term and translate into added pressure on average room rates.	▶ The city services both business and leisure travelers. ▶ Chennai's occupancy rate is 68.2%, which is higher than that of Delhi (66.7%) and Mumbai (62.5%). Chennai currently has more than 3,000 premium rooms and is expected to cross 5,000 by FY15. If the incremental supply is not absorbed, ARR might come under pressure.	▶ The city caters to both business and leisure travelers. ▶ Hyderabad had approximately 3,800 rooms in 2010, and another 5,300 rooms are expected to be added by 2015.	▶ Tourism and hospitality has traditionally been the strength and key economic driver of the state. ▶ However, the landscape has witnessed a sharp change in the profile and quantum of tourists in the past three years post the 2008 recession. ▶ With the business traveler segment gaining momentum on account of the upcoming commercial and industrial projects, the hospitality sector is looking positive in the medium term. ▶ Kerala is home to the finest hotels. With demand gearing up from both tourist and business segments, and focus on meetings, incentives, conventions and exhibitions (MICE) increasing, Kochi alone may see the opening of more than 16 hotels in 2012–13.

21 "B'lore realty sees record launches," The Times of India - Bengaluru Edition, 8 December 2011, via Factiva, Copyright © 2011. Bennett, Coleman & Co., Ltd. ; "Bengaluru real estate," Prabhudas Lilladhar, 28 November 2011, via ThomsonOne; "Bengaluru real estate, " Emkay, 12 January, 2012, via ISI Emerging Markets; "Bengaluru may face oversupply of hotel rooms," The Economic Times, 12 January 2012, via Factiva, (c) 2012 The Times of India Group.

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Real estate trends in mature south Indian real estate markets (cont'd.)

Segment	Bengaluru[21] (Karnataka)	Chennai[22] (Tamil Nadu)	Hyderabad[23] (Andhra Pradesh)	Kochi[24] (Kerala)
Industrial	▶ Industrial rents have risen in 4Q2011.	▶ Chennai is expected to see one of the largest rent increases between 3%–10%. It is considered as the most attractive market in South India. ▶ Sriperumbudur is an industrial area where several auto and electronic components manufacturing companies are establishing base.	▶ Hyderabad is home to India's first state-of-the-art biotech cluster providing world-class infrastructure to over 100 biotech companies. ▶ Some of the SEZ developments in Hyderabad are Fab city, Hardware Park and Gems & Jewellary SEZ. ▶ With companies such as Tata Advanced Systems Limited and Sikorsky showing active interest in the GMR Aerospace SEZ, aerospace and allied units may be a new driver for the city's industrial spaces.	▶ In Kerala, several planned projects, including Electronics Park in Ernakulam and Life Science Park in Thiruvananthapuram and Smart city in Kochi, would throw up opportunities for the industry and would raise demand for other allied forms of real estate.

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Four pillars of the real estate business



People and organization



Process



Technology



Policy and governance

Introduction to the concept

Currently, about 5% of India's GDP is contributed only by the housing sector[1]. The sector is a significant force in fueling the country's economic growth, thus bringing it under the radar of regulatory bodies and governance controls.

As a number of promoter-driven "startups" are heading to become "mid- and large-size companies", they may need to categorically align their policies and processes with their long-term objectives to ensure sustainable growth.

Rising prices (land, labor, capital and enterprise) push up construction costs. Further, volatile financial markets are putting pressure on fund availability. These conditions beckon the implementation of a stricter cost management system, as well as the formulation of out of the box strategies to increase sales. Real estate companies may have to gear up for a major shift in strategy across the business to accommodate these changes.

The Indian real estate business is still manpower intensive, wherein a huge portion of the workforce drives construction and a select few steer the direction of a company's vision. Acquisition of competent talent and retention is a significant challenge for this sector despite being the one of the largest employer in the country.

Building a sustainable customer base is another challenge. A customer typically engages with a real estate developer for a minimum of two to three years spanning the launch of a project to construction completion and finally possession. During this period, developers should ensure the creation of a positive experience to enhance the possibility of reinvestments and referrals, which are the key drivers of sales in the real estate space.

With operational costs touching the sky, players should look to making optimum use of technology across the business. The use of innovative technology could help reduce costs through energy saving, alternative materials and innovative construction methodology. Further, it could help a business gain a competitive edge over peers by allowing automation and the use of information technology.

The nature of the construction business has grown to become harmful for the environment. In the wake of the global focus on reducing carbon footprint, real estate businesses need to ensure the incorporation of such objectives in their operational strategies. Numerous initiatives and regulatory bodies encourage businesses to report the economic, social and environmental impact of their operations. This, in turn, gives customers visibility into their ethics and performance.

Profitability remains the primary goal for all businesses. To ensure strong performance and sustainable growth in the face of the numerous challenges some of which are illustrated above, companies should focus on laying down the right policies and processes. The four core areas of focus remain:

- People and organization
- Process (focusing on customer relationship)
- Technology
- Policy and governance

These four core areas encompass the functioning of the real estate business. Subsequent sections draw upon various white papers to touch up on some of the aspects within these four core areas.

1 "Services sector," *Union Budget & Economic Survey website*, http://indiabudget.nic.in/index.asp, accessed on 27 July 2012



People and organization: establishing an efficient machinery

Introduction

The Indian real estate industry is experiencing tremendous growth, which is translating into evolving human resource management trends and skill requirements. With real estate players relying heavily on technology and mechanization, the proportion of unskilled workmen needed at a construction site is expected to reduce. While facility management is currently a new concept in India, the trend is expected to catch steam soon. An increasing number of developers are expected to offer the whole range of facility management services, spanning from security, plumbing, gas pipe and food stores within the residential complex to television cable, electrical and maintenance services, at an additional cost. This trend is expected to generate employment for people specialized in these services. A research by National Skill Development Corporation estimates that a 20-storey residential building will require around 5 facility management personnel. About 2 persons may be required per floor in a commercial setup. The exact requirement will be driven by demand in the IT space and other SEZ setups.

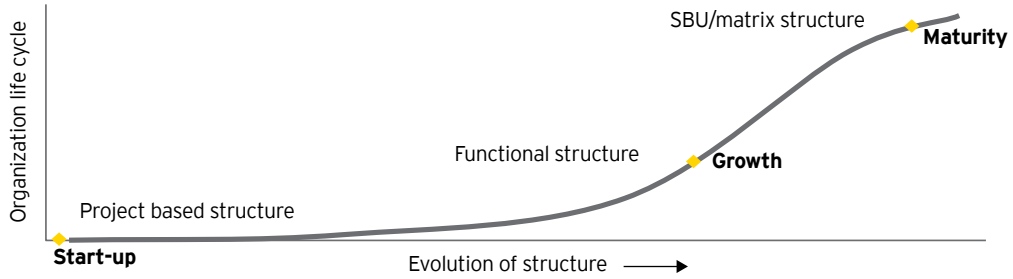
We anticipate that while the total workforce requirement on a site will go down, the demand for skill levels would go up. For example, the requirement for carpenters at a particular location might come down, but the skill requirements would go up. Machinery would become increasingly complex — the market is now flooded with cranes of 3,000 tons and 6,000 tons capacity, which have replaced the traditional ones that could manage less than 500 tons. Construction sites would become increasingly complex, thus generating the need for regular safety audits. All these trends could potentially spike productivity by at least 1.5 times in the next 12 to 15 years in India. In such a complex and competitive environment, all workers would require some form of skill building. Based on growth estimates for the real estate sector, about 25 million persons are likely to be employed in the space by 2022, an addition of about 11 million from 2012 levels.

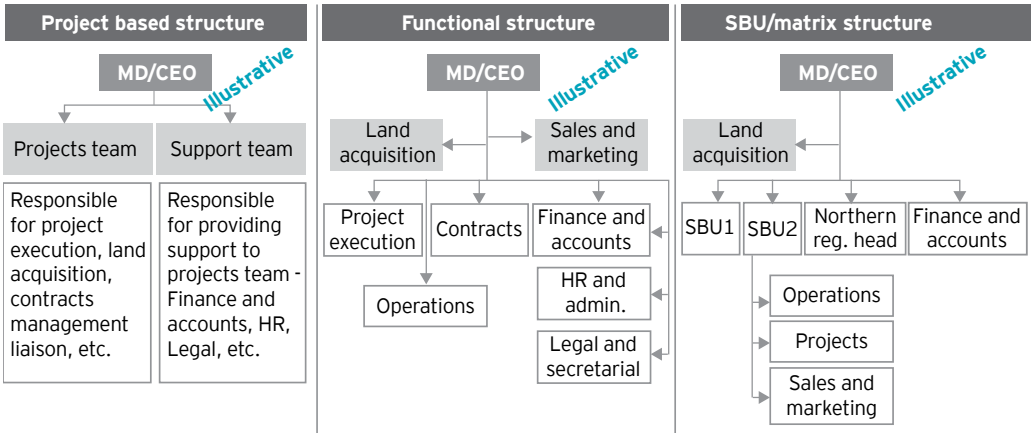
The real estate industry is facing many challenges in its people practices. In most cases, there is a lack of a well-defined organization design, leading to a cluttered and unclear grade structure. Lack of clarity in standard role definition leads to overlaps and redundancies in the allocation of responsibilities, creating scope for discrepancy. While some real estate companies do not make room for a structured performance management system, others base their performance evaluation on improperly "balanced" key performance indicators. This is a deterrent in employee productivity, as they lack confidence in the system assuming their efforts are not headed in the right direction. The industry is finding it cumbersome to retain quality talent, leading to a supply shortfall and lack of quality manpower across levels. Career paths are not properly defined for employees, posing challenges during hiring and leading to negative impact on retention. While increments over the last few years have been good, overall compensation and rewards are not designed to support the needs of this evolving high-growth industry. The focus on talent development is poor, and most organizations do not follow a structured approach for competency identification or development. Most organizations do not have a strong leadership pipeline to ensure business continuity. A handful of organizations have a defined succession planning system. This implies a huge scope for technological intervention to enhance the efficiency of HR processes and reduce the time spent on transactional HR support.

Organization structure and manpower planning

The organization structures typically undergo the following three stages throughout an organization's life cycle to support the evolving scale of operations and the changing business needs:

- Formative stage, which follows a project-based structure
- Growth stage, which follows a functional structure
- Mature/Stabilized stage, which follows a strategic business unit (SBU)/matrix structure





Key characteristics

- Characteristic of startup organizations managing few projects
- Single product portfolio
- Fluid roles and responsibilities
- Multitasking and generalist skill set of people
- Lack of well-defined accountabilities

Key characteristics

- Characteristic of mid-size organizations managing multiple projects
- Diversified product portfolio/ multiple projects of similar product type
- Well-defined roles and responsibilities
- Functional specialization and specialist skill sets of people
- Well-defined accountabilities

Key characteristics

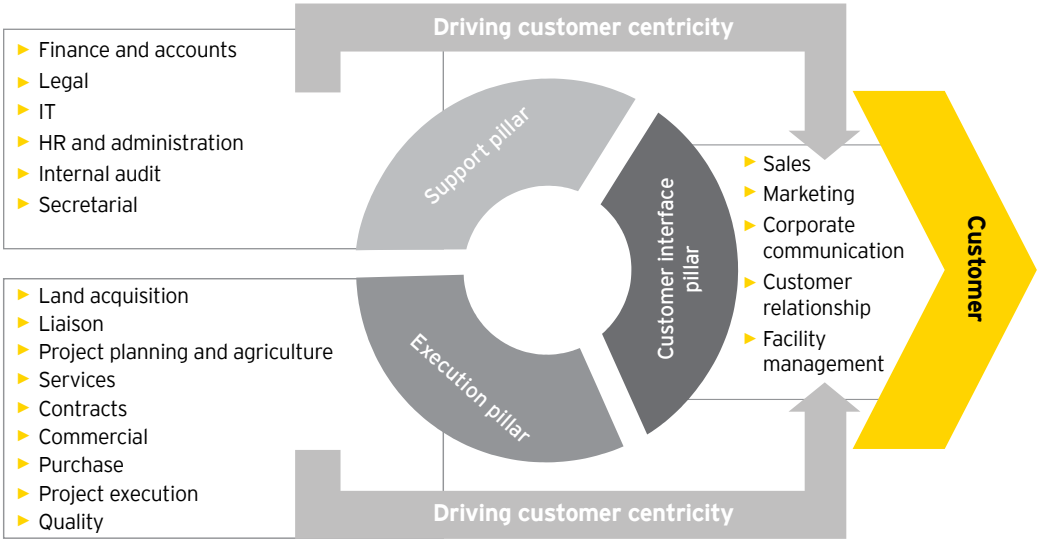
- Characteristic of mid- and large-size organization; multiple SBUs act as separate profit centers
- Diversified product portfolio: multiple product type/ geographies
- Well-defined roles and responsibilities
- Functional specialization and specialist skill sets of people
- Well-defined accountabilities

Source: EY analysis

Most of the real estate organizations are promoter driven, with the owner retaining control of critical functions. All strategic functions are typically controlled by family members and close confidants, with the organization structure comprising a tall hierarchy of grades and designations. Over the last few years, the industry has matured, and organizations have begun hiring professionals with specialized skill sets to manage the business. However, a smooth structural transition is a point of concern, and this could potentially lead to systemic inefficiencies, as has been the case with many companies undertaking ownership restructuring.

The presence of multiple job bands in many growing organizations results in numerous overlaps, generating the need for greater clarity at each band. In the light of this, a few organizations are undertaking activities such as band formation based on a job evaluation exercise. This helps them clearly identify significant shifts in responsibilities, effectiveness and the impact of jobs at distinct inflexion points*.

The value chain of the real estate can be broken down into three functionally distinct value clusters, wherein customer centricity drives the value of all the functions. The organization structure and manpower requirements for each of these three clusters are based on distinct fundamentals.



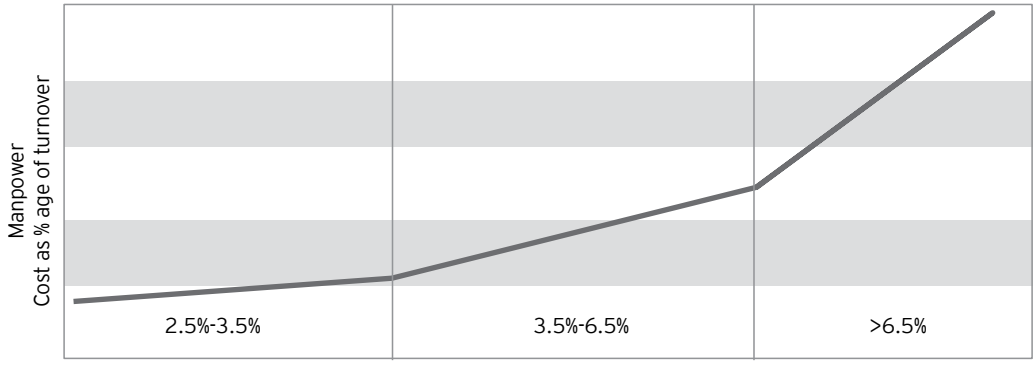
A drop in sales in the real estate sector has made organizations prowl on specialized profiles to tide over the slowdown. Companies in the sector are shedding flab and are looking for cost managers, technical auditors, legal experts, energy-efficiency specialists, quality surveyors and construction project managers. With projects being stuck and millions of square feet left unsold, many developers are looking to hire a second set of CEOs to handle more work and fund managers who can sell off excess land banks. There is increasingly a larger focus on clarifying the role of the corporate organization with respect to projects and on ensuring that role definitions create clarity of information flow and decision making.

*As per the Ernst & Young Job Evaluation Tool™, the worth of a job is ascertained as the sum of its Effectiveness, Responsibility and Impact scores. Responsibility - the degree of change management and decision trade-offs required on the job. Effectiveness - knowledge and experience required to perform the job effectively. Impact - impact of the job on organization success

Manpower costs account for 3%–5% of the turnover of a real estate company. Manpower norms and numbers depend on the operating model of a company – in-house vs. outsourced functions. The following functions are typically outsourced in the Indian real estate sector:

- Designing and architecture
- Construction
- Operational activities in support functions such as payroll administration, IT operations and legal functions

Manpower norms and numbers also vary across the three value clusters. For e.g., the project execution function (under the execution pillar) typically follows modular manpower norms.



- Small- to mid-size organizations with presence in high-margin product category (ultra-luxury housing)
- Operate in a small region to leverage economies of scale in manpower

- Mid- to large-size organizations with presence in a mixed product category (low- and high-margin products)
- Operate across multiple geographies, making it difficult to leverage manpower

- Mid- to large-size organizations marked by systemic inefficiencies

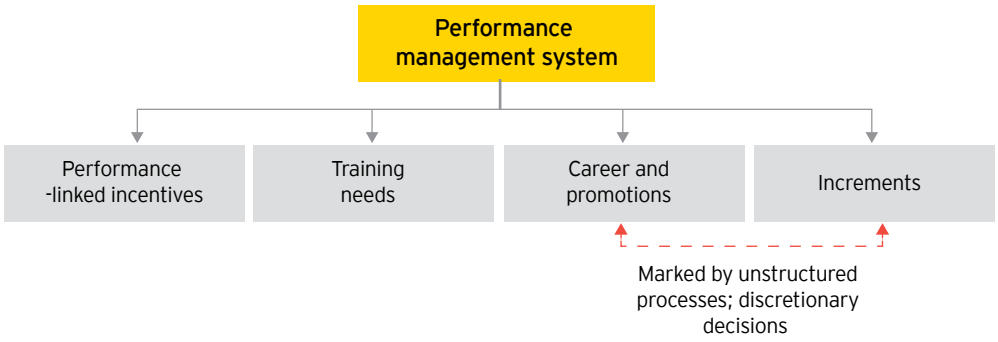
Source: EY analysis

EY point of view:

Organisation design is defined as the way that structure, roles, capability and resources are designed to deliver the strategy and operating model blueprint. It is the formal system of accountability that defines key positions and enables the efficient allocation of resources to support business outcomes.

Performance management and rewards

A limited number of organizations have put a robust and well-defined performance management system (PMS) in place. This scenario is not a progressive one, as the absence of a "balanced" approach implies a lack of alignment of individual goals with business objectives. The balanced scorecard (BSC) framework helps organizations translate strategy into operational objectives that drive both behavior and performance and allows us to look at a coherent set of performance measures aligned to our vision. Organizations are gradually realizing the importance of the BSC framework and are creating a performance-oriented culture by managing performance in a structured manner. Organizations are also becoming increasingly aware of the importance of linking performance with other areas (illustrated below). This awareness needs to be translated into action and process strengthening.

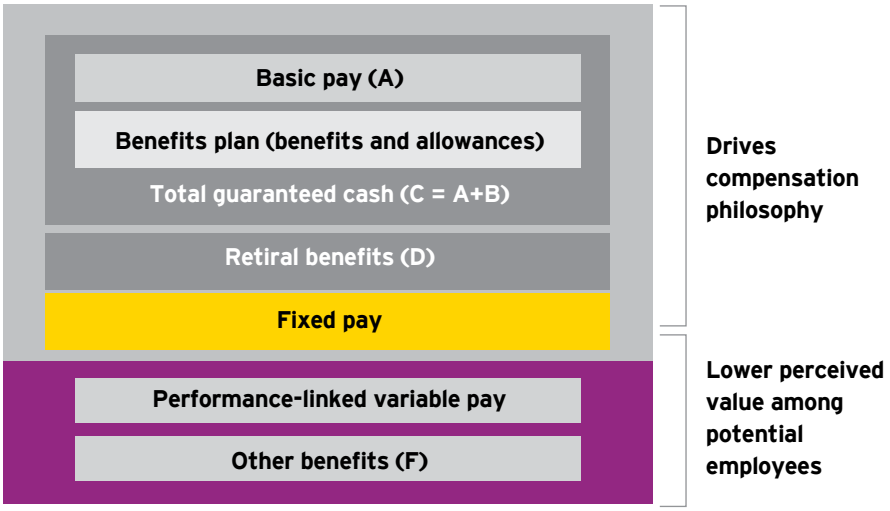


Our research indicates that the sector is marked by competitive salaries and high increments (12%–15%). However, increment percentages have dipped significantly after the global recession, with organizations tightening their belts. The percentages seem to be picking up pace again from 2011 onward.

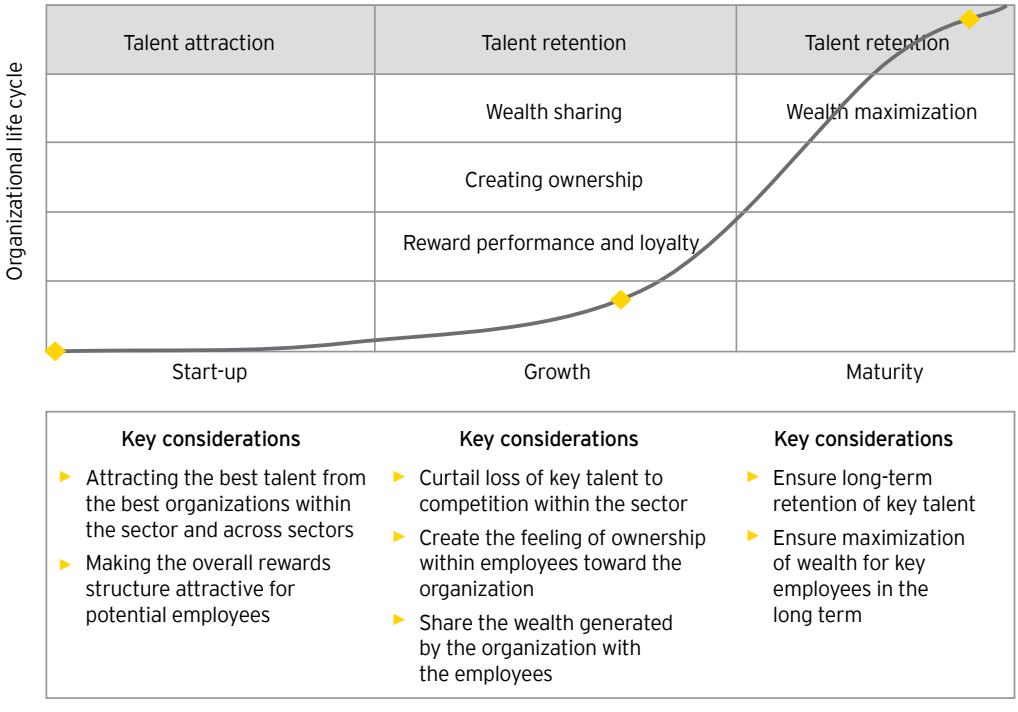
Increment percentages	% Increase
Real Estate	15%
Construction/Engineering	20%
Automotive/Vehicle Manufacturing	13.3%
Chemicals	13.1%
Pharmaceutical/Medical Devices	13.0%
Utilities /Oil and Gas	12.6%

Source: EY analysis

To attract talent, companies follow a compensation philosophy by maximizing fixed salary. Also, high attrition is leading companies to focus on retention through compensation, as the perceived value of non-cash benefits or variable pay components is low.



Organizations are now offering combined incentive schemes to drive performance and retention of talent for ensuring business continuity.



Source: EY analysis



Real estate players rely on a combination of incentive schemes as follows:

- **Individual incentives**: Individual incentives (variable pay) are being linked to a combination of individual and organization/team-based performance. Currently, a few organizations provide 10%–15% variable pay percentage at the junior levels and 25%–30% at the senior management level. Many organizations are increasingly looking at adopting this practice.
- **Team incentives**: Sales incentive plans have been a common practice in the industry. Organizations are also considering implementing project-linked incentive plans for meeting specific business needs such as ERP implementation.
- **Long-term plans**: Companies formulate such plans to drive retention and create wealth for employees. Cash-based plans are preferred to equity-based plans such as ESOPs in the long run.

EY point of view:

Performance management programs that are (a) based on ongoing communication, planning and monitoring, (b) have objective appraisal methods and (c) draw clear linkages to reward and recognition helps elevate employee performance and improve overall business results.

Talent sourcing

The real estate industry has been experiencing the following challenges in talent sourcing:

- Lack of leadership talent availability
- Lack of skilled/quality managerial talent, especially at the middle and senior management levels
- High attrition rate; workforce integrity

Position	Profile of people in a typical construction organization	Employee type	Sub-domains/ skills	Skill gaps
Project manager	Graduate engineers/post-graduate engineers (with related domain/field experience)	Company	Project management, civil, mechanical electrical engineering	▶ Insufficient relevant experience in the specific sub-domain ▶ Inadequate project management, resource estimation skills ▶ Insufficient orientation toward project costing, efficient inventory management and adhering to deadlines ▶ Lack of communication and team-building skills ▶ Insufficient ability to manage multiple contractors and resolve conflicts
Engineer	Graduate engineers/diploma engineers with experience	Company	Civil, mechanical, electrical engineering	▶ Inadequate orientation to develop and adhere to safety norms at the site ▶ Lack of analytical skills for successful execution of the job ▶ Inadequate technical communication skills: interpreting the technical data or specification to the concerned information users ▶ Inadequate exposure to legal, environmental and subject issues pertaining to the commercial viability of the project ▶ Insufficient practical industrial training ▶ Incomplete understanding of risks associated with a project such as time/cost overruns, as well as legal aspects ▶ Lack of willingness in college entrants to opt for civil engineering
Supervisor	Diploma engineers/ ITIs with experience	Company		
Skilled workmen	Essentially ITI	Company/ contractual	▶ Crane operation ▶ Electrician ▶ Plumbing ▶ Carpentry ▶ Welding ▶ Masonry ▶ Bar bending and steel fixing ▶ P&M mechanic ▶ Prestressing	▶ Skill mismatch between demand and supply ▶ Inadequate knowledge of construction-specific areas such as lining, leveling and finishing skills in carpentry, crane operation, etc. ▶ Inadequate ability to understand instructions of supervisors/engineers ▶ Inadequate ability to coordinate with unskilled workmen ▶ Inadequate proficiency in their own trades, e.g., plastering, painting, plumbing ▶ Inadequate safety orientation
Unskilled workmen	Minimal education	Company / contractual		▶ Skill mismatch between demand and supply ▶ Minimal safety orientation ▶ Inadequate workplace skills – discipline, cleanliness, etc. ▶ Inability to follow simple instructions ▶ Low job loyalty: prone to switching construction companies

Source: NSDC, Planning Commission

Players typically adopt the following approaches to cope with talent sourcing challenges:

- The industry taps multiple channels of sourcing, with job portals being the most popular one
- Companies do not rely on internal job portals and referral programs
- Players do not hire from campus, as the nature of the real estate sector demands experienced personnel
- Poaching from competition is rampant in the industry, especially for technical functions
- Players are increasingly poaching from sectors such as BFSI, telecom and BPO for functions including sales and marketing, and customer relations.

Recruitment management is being further streamlined, and the following few trends have emerged:

- Recruitment is carried out in-house for junior- and middle-level recruitments
- Recruitment for the senior level is outsourced to consultants for improving the quality of hire and accessing a greater candidate pool

EY point of view:

A robust recruitment system guides candidate fitment as per job requirements and in line with contributions expected the organization's hierarchy.

Career and succession planning

The real estate sector is grappling with the adoption of a structured approach for career management. Lack of visibility into career profile and progression is one of the key reasons driving high attrition in the sector. In such a promoter-driven ownership environment, the focus on career and leadership development is low, leading to a crunch of good managerial talent. Nevertheless, real estate organizations have recently displayed increased sensitivity toward starting a functional rotation program for senior managers to groom them for COO/CEO roles (second-in-line to the promoter). A handful of organizations are also tying up with premier business schools to design behavioral and leadership training programs. A few established real estate organizations are even sending their top/senior management (VPs) for management development programs to these institutes.

Real estate players can take a few tips from peers in other industries with regard to career and succession planning. In many well-known IT, FMCG and pharmaceutical organizations, the top 20% managerial talent is identified as the high potential pool (HIPO) and is provided with growth opportunities that are in sync with succession planning requirements of the organization. Typically,

HIPOs are identified using a two-stage filtering process: consideration to the individual's performance rating for the last two–three years and an objective assessment of his/her potential to move to the next role in the career ladder. Structured individual development plans are developed for each employee comprising development interventions such as cross-functional assignments, process improvement programs, job rotation and specific training programs.

EY point of view:

A well-defined career management framework helps an organization attract, retain and develop quality talent, as well as foster a culture of shared organizational and employee responsibility. It helps align growth of the organization with that of employees. It helps develop employees' managerial and technical skills, as well as enables the organization to strengthen its brand and reputation in the market as an "Employer of Choice".

Competency-based HR systems

Competencies refer to an individual's knowledge, skills and attitude that are imperative to perform a job effectively. A limited number of real estate organizations have clearly defined a behavioral competency model and a smaller number have a techno-functional competency model in place. Also, the application of competencies to other HR systems is still minimal. However, a few organizations have now begun to see the importance of competencies and the need to link them to other HR systems such as recruitment, training and succession planning.

Competency-based interviewing is becoming increasingly popular. At a few organizations, internal people are being trained to conduct these competency-based interviews. The performance management process is also now factoring in an individual's competencies to evaluate his/her potential. Besides, the competency model is being used as a reference point while assessing individual developmental needs and for crafting highly customized learning plans.

While most organizations employ external HR consultants to develop a comprehensive competency model, a few of them have developed their competency models internally.

EY point of view:

Competencies help translate the organization's vision and critical success factors into behaviors or actions that employees must display. Competency models are not an end in themselves; they become the foundation that aligns all people processes to business results.

Summary

Organizations' increased focus on high-quality execution and tighter cost management has necessitated a shift in the talent strategy. Further, players are also emphasizing on the alignment of workforce goals to organizational objectives through appropriate performance management mechanisms, rewards and related enablers. Organizations are closely monitoring their talent pool and are grooming the second line of leaders to ensure business continuity and to equip them in meeting the increasing expectations of a maturing market.

The relationship between the corporate organization and the projects/sites is a critical one demanding the right structure and governance. The management is increasingly caught up with working out revised norms for the delegation of authority. Manpower models of real estate organizations are being scrutinized to ensure that they are in line with the new business models.

In the area of performance and rewards, there is an increasing focus on creating mechanisms to drive performance-based pay, project-based incentives and long-term incentives to create greater retention. Increment percentages have dipped from 25% a few years ago to single-digit figures and further down to negative increases in times of difficulty. This has forced real estate organizations across the board to come up with mechanisms to attract, retain and motivate their workforce. Attrition rates, which had dropped to almost insignificant levels during difficult times, are expected to pick up with increased investments and new project launches.

Given the increased confidence of customers and investors in this sector and the growth it is experiencing, some specific organizational interventions are imperative. The year 2012 may see organizations heading the way of sustainability.

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Process: the creation of customer delight

The current scenario and the need for change

Customers today are highly aware of the offerings of the market and expect the best-in-class service. Unlike the customer-seller relationship trends in other industries, customers maintain long-term relations with their real estate developers. Given this larger context of "customer relationship", developers compete on their customer service skills and try positioning it as a key differentiating factor to build their brand image and make sales effective. While a customer may not be proactive about spreading a favorable word, any bad experience with a developer would bring massive public criticism and put reputation at stake.

Developers need to tweak their customer service policies due to the following reasons:

- Pressure from consumer forums/regulatory framework: Recent judgments from the Competition Commission of India and the proposed regulatory bill emphasize on the transparency of communication with customers.
- Rising competition: Given the entry of new players (both national and international), RE companies need to constantly improve their service delivery to sustain and grow in the market.
- Inconsistent practices: Treatment of all customers at par is also critical. Developers' actions or responses to customers should be company-policy driven and not case specific.
- Customers' expectations: Timely and correct update on the project, as well as promptness of response to customer queries/complaints, is critical to build the confidence and sustain relations with customers.

An effective customer management process will not only help add to the customer base, but it will also help achieve sustainable growth for the organization with an increase in the number of customer referrals/reinvestments.



Building sustainable and long-term relationships with customers

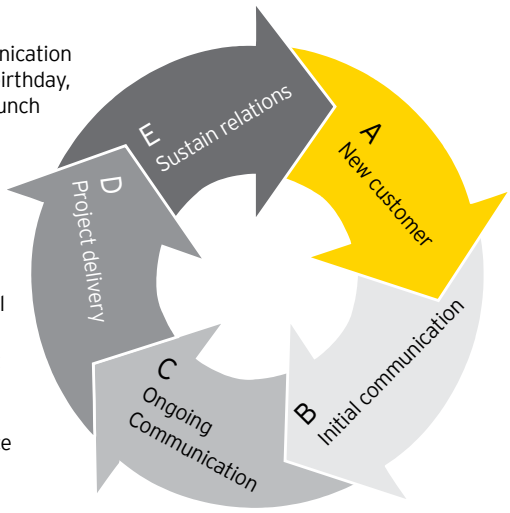
Relationship building and impression forming starts at the very point when a customer connects with a company staff (i.e., project enquiry) to state requirements.

E Sustain relations

- Customer relationship management - communication on important events (birthday, anniversary, project launch party, etc.)

D Project delivery possession/ registration/ handover, etc.

- Communication of final statement of account
- Handover and site visit with the customer
- Customer feedback on site visit and experience during the life cycle



A New customer - enquiry management

- Information to customers about the ongoing projects (sales team/channel partners)
- Follow up on the enquiry /leads - calls, SMS, web, walk-in etc.
- Conversion of enquiries into sales and capturing of feedback (in case of lost enquiries)

B Initial communication - booking, allotment and agreement

- Welcome call post conversion
- Issuance of allotment letter/buyers agreement
- Response to customer queries/requests

C Ongoing communication - demand, response to requests and complaints

- Communication of demands and project updates
- Response to customer requests/ complaints

Source: EY analysis

The quality and effectiveness of communication with customers at various stages of the project life cycle (and even post that) creates the experience of "absolute delight".

Interesting facts — how do service-oriented sectors woo their customers?

Even if a customer's experience has been largely neutral or positive, it is the few negative instances that color the overall impression. Players in the service industry cannot afford negative customer sentiment in view of the rising competition and the increasing regulatory pressure.

Telecom service providers are increasingly turning to outsourcing companies to improve their quality of customer service. Using well-established methodologies such as Six Sigma, outsourcers can significantly improve the efficiency of processes to ensure delightful customer experience. For instance, one outsourcer created templates that advisors could fill in after making calls rather than expecting them to type notes from scratch. This helped reduce the average handling time (AHT) by over two minutes in some cases, creating estimated efficiency savings of more than USD1 million

per year for the provider and cutting down waiting time for the customer. In another instance, process excellence initiatives carried out by one telecom company to increase the "right first time" experience led to cost savings of USD1.6 million.

Outsourcing companies can also help steer customer behavior away from expensive-to-process calls and facilitate a reduction in call volumes. For instance, when customers call regarding routine matters such as checking account balance or paying bills, they can be reminded that this can be done online. Outsourcers have discovered that significant costs are incurred on processing one in five calls seeking confirmation on the completion of a task (e.g., the ordering of a new handset or the dispatch of a replacement SIM). "Reassurance calls" can be cut down by proactively texting or leaving a message for customers when a task has been completed.

Customer care center staff requires good interpersonal skills. Tasks such as the collection of overdue bills require empathy. Customers need to be encouraged to cooperate with the caller rather than ignoring the problem. More importantly, the call center staff needs to be persuasive when a customer calls with the intention of canceling a contract.

Telecom service providers have to strike a balance between encouraging self service to reduce call volumes and retaining an incoming flow of customer enquiries to keep a window of opportunity open to cross-sell additional products.

Although the customer profile and nature of business significantly vary for a service industry (such as telecom or banking) and the real estate space, customer expectations of quality and service are similar or rather higher from the latter, considering the intensive investment. Some of the things that real estate providers need to keep in mind are "providing real-time customer information, differential treatment with the priority customers, transparency in response to customers and quality / timeliness of communication."



Enabling the change – the role of technology

In this complex and competitive business environment, real estate companies are finding it difficult to manage information on brokers, customers, property databases, marketing, campaigns, etc., through manual methods such as excel sheets. Some of the key challenges faced by real estate developers in managing customer relations across various processes are:

Process	Key challenges
Marketing and campaign management	▶ Marketing spend management ▶ Marketing ROI analysis ▶ Campaign execution tracking and efficacy
Enquiry management	▶ Unified customer experience across channels ▶ Integrated lead management and follow-up ▶ Collateral management
Lead and opportunity management	▶ Lead qualification and follow-up ▶ Sales pipeline and forecasting ▶ Direct sales incentive management
Broker management	▶ Broker–customer interaction management ▶ Broker interaction management ▶ Booking and inventory management ▶ Broker performance management
Booking management	▶ Inventory management ▶ Exception approvals and workflow management ▶ Duplicate bookings ▶ Booking form management ▶ Pre authorization letter (PAL) generation
Demand management	▶ Timely generation of demand ▶ Late payment interest and early payment discount management ▶ Regulatory compliances
Receipt management	▶ Demand appropriation against receipts ▶ Timely management of receipts
Complaints management	▶ Unified customer experience across channels ▶ Service level agreement (SLA) based resolutions ▶ Customer communication management

Efficient and consistent service is delivered with the aid of strong internal processes, which rely on the use of appropriate technology. CRM software applications, for instance, can play a significant role in enabling the organization to deliver a truly differentiated customer experience.

Technology is a critical enabler for sharing customer data and analytics across the business. However, it is vitally important that any CRM integration is accompanied by a clear articulation of the organization's customer and market strategy. A clearly defined customer strategy provides commercial design principles that influence the architecture and prioritization of CRM.

What does a good CRM software application look like?

While CRM can support all customer-facing process and functions, the key is to define the common "contact" and "activity" core. A strong core makes customization for each unit much easier, guaranteeing better integration into the business.



A good CRM

- Is simple but specific and has a well-defined core
- Uses customer data to drive effective and personalized interactions across the organization
- Views a CRM program as a culture change initiative and not just a technology implementation
- Balances customer knowledge and process efficiency

Real estate developers are increasingly focusing on implementing the latest technology across the business, especially in customer-facing processes such as sales, marketing and customer service. The CRM application can enable the organization to:

- Empower customers in their account management by providing real-time information on milestone completion, demand letters of payment, status of their requests/complaints, payment history and key events/communications
- Generate information effectively and in real time about customer requirements, behavior and issues using a centralized database for a complete view of all customer interaction (with a faster and easier access to information)

- Provide real-time visibility to the senior management into sales funnel, and insights into future product and service demand trends
- Calculate return on marketing spends, and manage promotion and marketing campaigns accordingly
- Enhance operational efficiency in customer-facing activities and ensure increased productivity of staff (by sending reminders, escalations and pop-ups to reduce errors and rework due to consistent information and data capture)
- Maintain a centralized database for customer transactions, communication, and contact and personal information
- Gain strategic and intangible benefits, as improved performance results in an enhanced brand image and increased awareness about service quality among customers

Making the choice — which CRM to implement?

A host of CRM applications are available in the market to accommodate organizations of varying size and functions. Considering that most of the CRM applications are generic and might require customization to meet the specific requirements of the real estate industry, application selection is vital. It should be carried out based on detailed functional fitment analysis with the involvement of various stakeholders. The key steps for the successful implementation of CRM applications are:

- Establish measureable business goals
- Align business and IT operations
- Get executive support upfront
- Let business goals drive functionality
- Minimize customization by leveraging out-of-the-box functionality
- Use trained, experienced consultants
- Invest in training to empower end user
- Measure, monitor and track the system's effectiveness for continuous improvement

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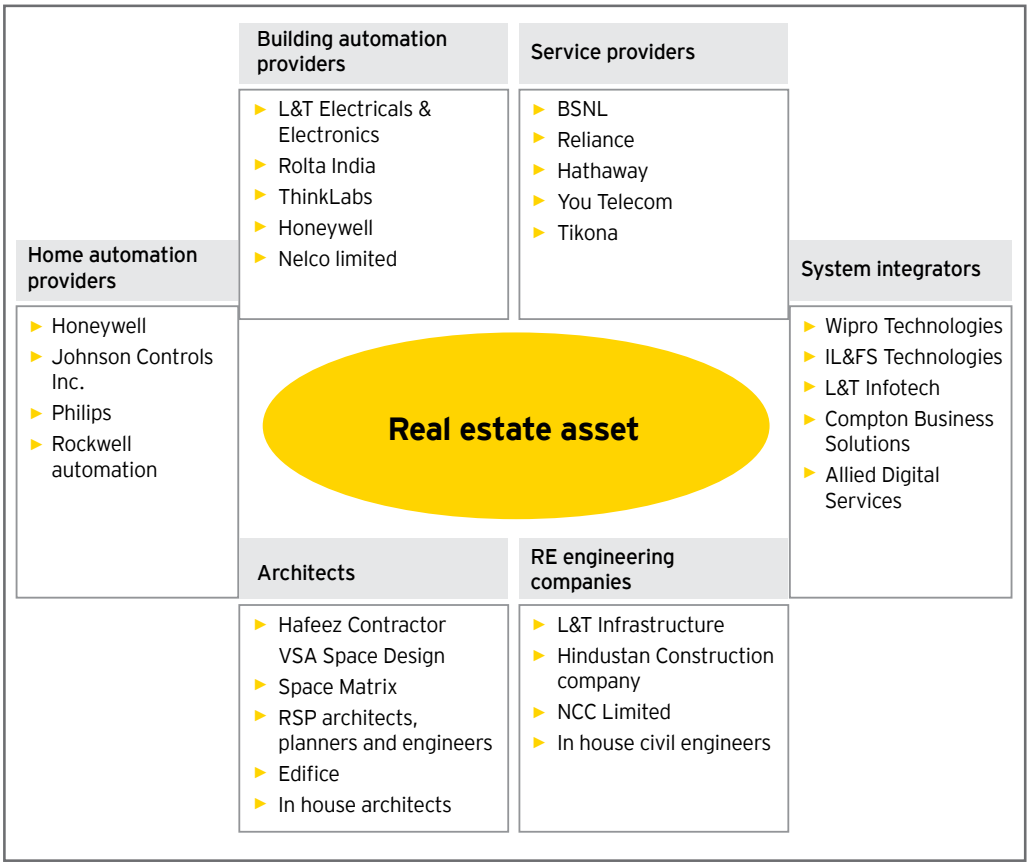
Technology: building smart

Introduction to smart building

A smart building is an integration of building, technology and energy systems. These systems may include building automation, life safety, telecommunication, user systems and facility management. In smart buildings, all the systems of the building run over ethernet or IP to allow people, systems and objects to interact innovatively.

The following players cater to the smart buildings ecosystem (this is not an exhaustive list).

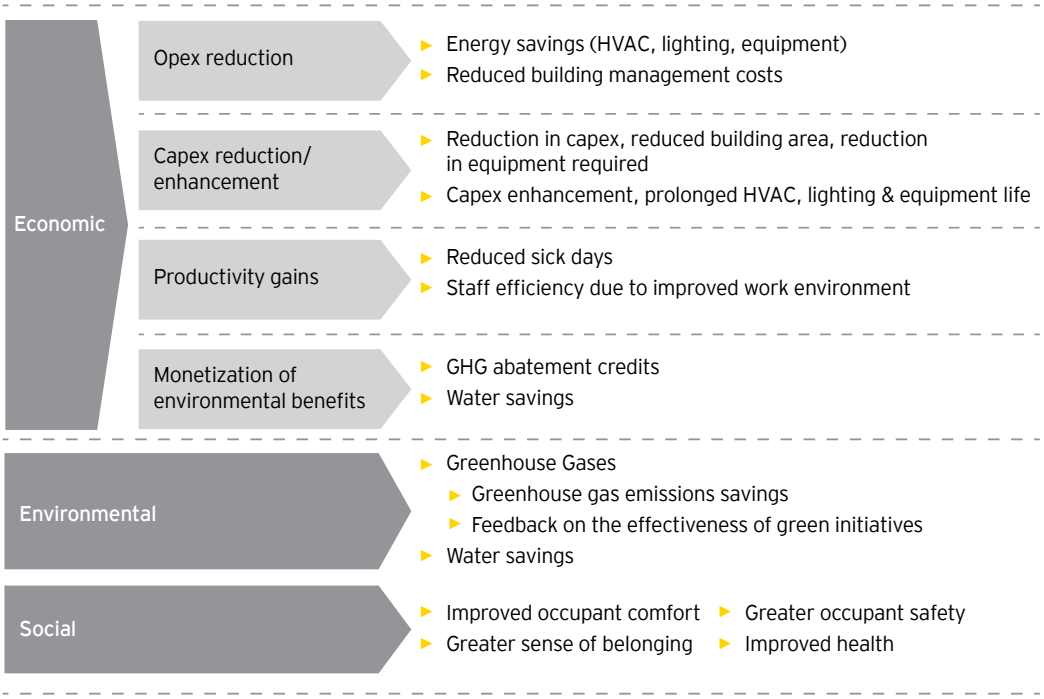
List of players mentioned below are for illustrative purpose only and are not exhaustive



Source : Obtained from publicly available information on corporate websites of the above mentioned companies

The deployment of such solutions has economic, environmental and social benefits.

EY perspective on Ecosystem- Deployment of Information Communications Technology (ICT)



For ensuring the successful deployment of ICT in real estate, technology providers work with real estate developers at each stage ranging from idea generation to execution. The technology providers leverage vertical solutions built on the network as an open, integrated platform, a broad ecosystem of partners and innovative business models to change how communities are designed, built, managed and renewed. Steps in this process include initial feasibility, concept design, schematic design, detailed design, construction, launch and operation. These steps are carried out in a phased manner throughout the ICT deployment cycle.

The implementation of ICT solutions entails five primary stakeholders (depending on the scale of the project) as follows:

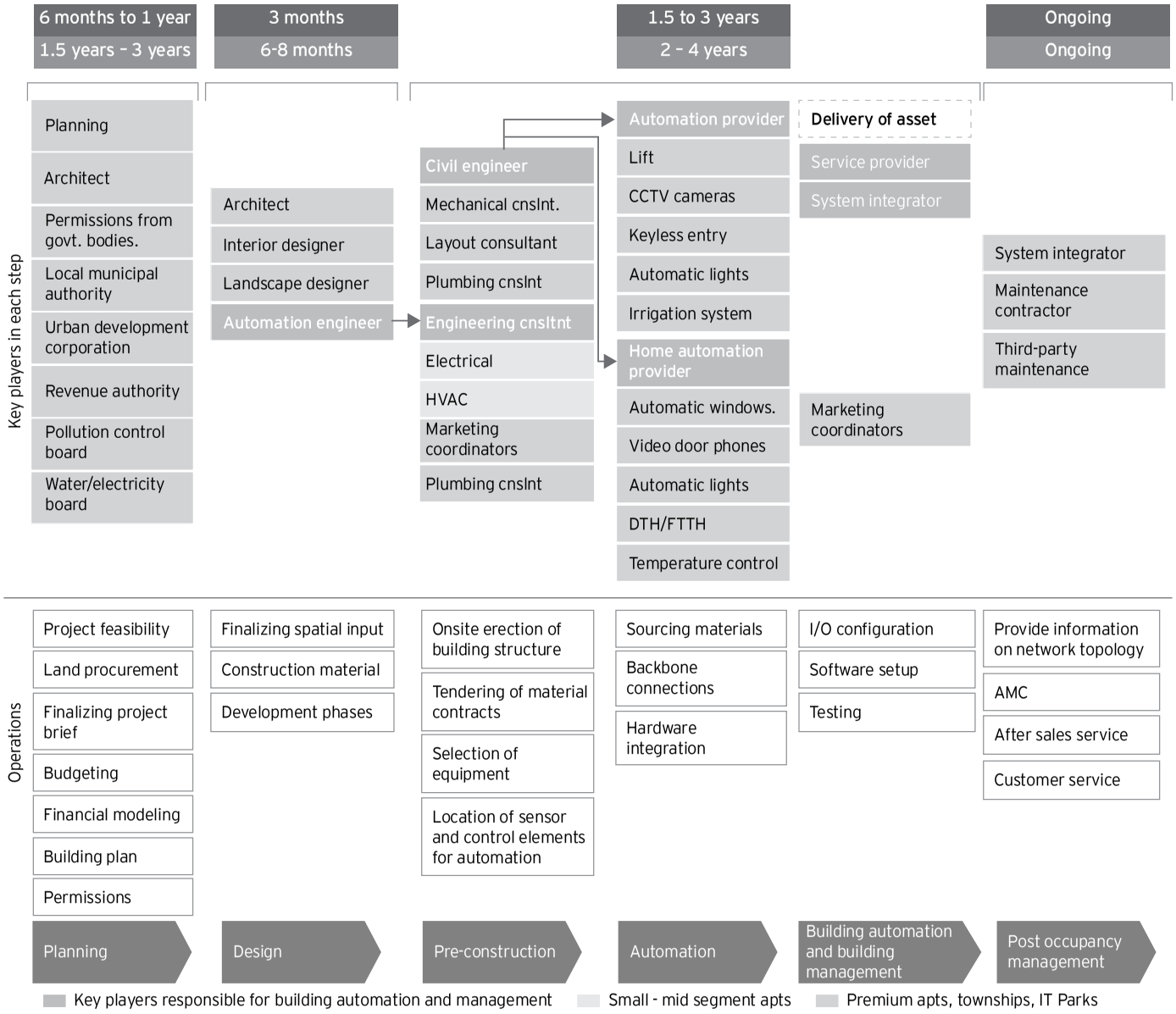
1. Building occupants
2. Property developer
3. Technology provider
4. Facilities manager
5. City government

Real Estate Development Ecosystem for ICT Deployment

The following diagram depicts the key players involved in the deployment of an ICT solution throughout the planning, design, pre-construction, automation, building automation and management, and post occupancy management stages.

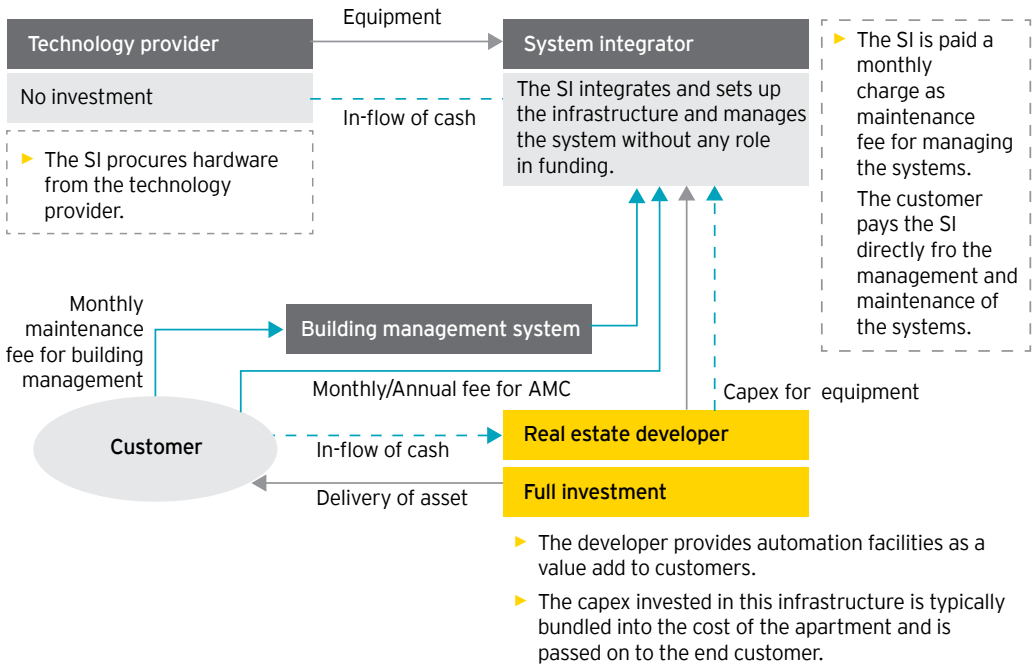
Model 1:

Key players from the ICT deployment perspective while creating an S+CC community



The system integrator (SI) procures the required hardware from the technology vendor. The SI then integrates and sets up the infrastructure, and manages the system on behalf of the real estate developer. The real estate developer is responsible for investment, and the cost is bundled which is eventually passed on the customer as a value add when the real estate is purchased.

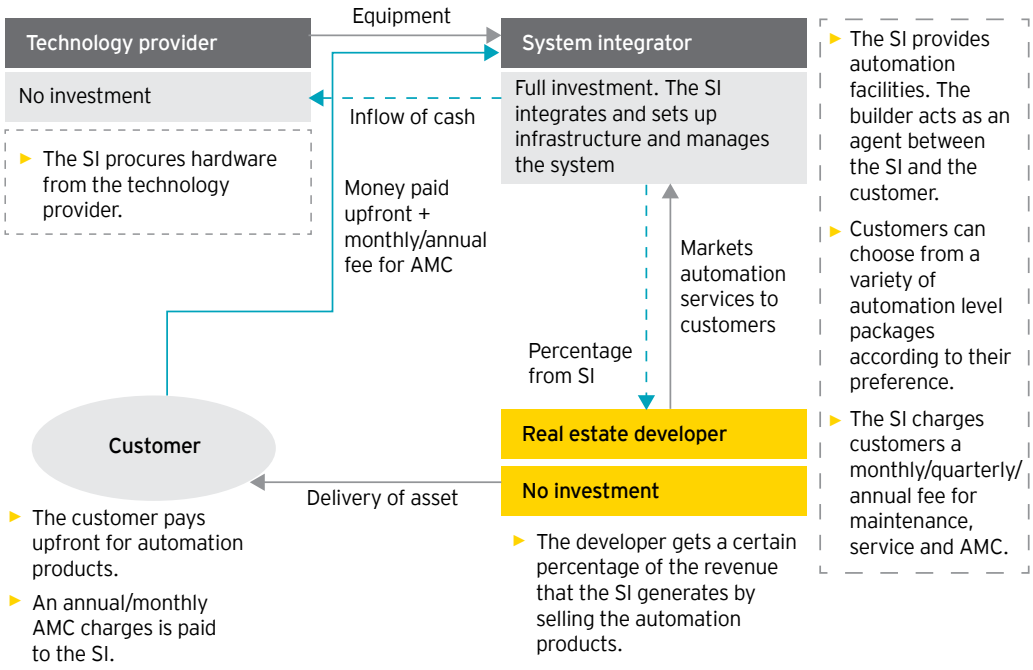
Model 2:





The SI procures hardware from the technology vendor. The SI then integrates and sets up the infrastructure, as well as manages the system. In this case, the SI funds the capital expenditure for the hardware component required for ICT deployment. The SI markets the automation services to customers. Revenues generated from the automation products are shared between the SI and the real estate developer. SI generates additional revenues from maintenance of these systems.

EY perspective – challenges faced by real estate players in the deployment of smart solutions with



current operating models.

Real estate developers are open to adopting a managed services model to leverage the expertise of the technology provider and the SI to deliver a S+CC solution set. However, they are faced with the following challenges

- **Threat of SI/technology provider not adhering to terms of SLAs**: Builders wish to retain some control while contracting an SI/a technology provider as their reputations are at risk.
- **Relaxed attitude of the SI/technology provider over time**: The level of commitment shown by the SI/technology provider reduces over time. This might risk tarnishing the brand image of the real estate developer.
- **Weak perception of automation systems**: Customers perceive building automation facilities as a marketing gimmick and hence do not value the services.
- **Technology obsolescence**: The infrastructure installed at the time of the initial development plan stage often becomes obsolete by the time of the completion of the real estate development project.

- **End users not equipped to handle automated systems**: Housewives and domestic help typically handle the automated products on a daily basis. However, they may not be technically skilled to operate these systems.
- **Integration challenges**: The integration of various subsystems (lights, heating, ventilation, and air conditioning (HVAC), drapes, audio, video, asset management, scheduling, security, intercom, fire alarm, BMS, etc.) to enable a common platform and an open architecture and protocol is a challenge.
- **Deciding extent of automation and number of features**: The SI/technology provider needs to understand the demographics and price positioning of each building and provide the appropriate technical facilities at a reasonable price.
- **Price sensitivity**: The cost of automation increases the overall cost per sqft.
- **Challenges in selling new experiences and technology**: Websites and brochures are not an adequate medium to narrate the benefits and features of automation technology to builders and customers.

Cisco 's smart + connected buildings and communities

Cisco is one of the key players providing smart building solutions.

- Cisco Smart+Connected Real Estate solutions converge building, energy, safety and communications networks on an open Internet Protocol (IP) standard. This helps streamline processes by providing a single connection for building management and IT systems. Convergence acts as a disrupting agent for traditional site and building designs, uses and operations, allowing the transformation of physical space into technology integrated environmental offerings. The network forms the foundation for an intelligent building infrastructure that adds value to every kind of real estate project.
- A number of systems and protocols across an urban center are not interoperable. Converging these systems into a single open system-based network creates significant opportunities for productivity, growth and innovation.
- The S+CC initiative brings together a large set of partnerships, products, services and solutions to address this significant emerging opportunity using the network as a platform. It changes the way cities, towns and villages are designed, built, managed and renewed to achieve economic, social and environmental sustainability.

The S+CC implementation has the following three components:

- **Community+Connect** leverages real-time information and applications to provide a comprehensive set of in-building services for a safer, healthier and more sustainable work environment. This can be extended to include a wide variety of ubiquitous services including health care, education and government for residents and businesses in a connected community.
- **Community+Exchange** is a back-office operations center that facilitates daily operations and management. In a larger community, this solution enables information sharing and collaboration across a community's ecosystem of government agencies and private sector partners.

- **Service Delivery Platform**: Both Community+Connect and Community+Exchange are facilitated by the underlying Cisco Service Delivery Platform (SDP). The SDP consists of a device and infrastructure layer that enables Cisco and non-Cisco devices to interact once connected over IP, a services layer that provides end users with an easy-to-use, intuitive interface of service offerings, and a middleware or platform layer that connects all the smart and non-smart devices (Cisco and third-party applications) to the network in a standardized, open way.

The key benefit of smart buildings is overall sustainability. Apart from this, it aids in:

- **Fostering social sustainability: Services provided on the Cisco Service Delivery Platform enable citizens to enhance their quality of life and increase their standard of living by creating a healthy and interactive environment.**
- **Boosting economic sustainability: S+CC generate job opportunities for citizens. As new businesses and key industries flourish, they drive economic growth.**
- **Promoting environment sustainability: Cisco Smart+Connected communities help reduce environmental damage caused by the improper management of resources over years.**

How does the S+CC concept work: Cisco's perspective:

In a S+CC, all building systems, including energy, HVAC, automation, security and corporate networks, run over ethernet and IP. IT-based analytics allow low-cost monitoring of all the systems in a building. Property managers use a building-wide communication network for managing the property. Such networks are also being used to provide tenants with a web portal for service requests. Various smart buildings can, in turn, be connected to each other and managed by a central NOC server.

Two sides of a building

Information Technology (IT)		Building Automation System (BAS)
High speed internet		Lighting
Wireless		Elevator
VPN		24/7 Monitor
IP Telephony		HVAC - Sensors
Audio and video conferncing		Fire
Guest access		Access
Interactive media		Video Surveliance
Digital signage	IP Communications network	Energy Management

Real estate developers using the network as a platform to plan, build and manage their daily operations will gain significant new efficiencies in every aspect of community life in terms of enhancing productivity among residents, improving availability and access to services, and creating new models for real estate developers to generate the required revenues. The network brings significant benefits for real estate players including:

- Improved project management
- Significant revenue growths
- Enhanced quality of life for residents

Current locations where Cisco has successfully deployed S+CC solutions

Cisco Bangalore campus

Cisco's S+CC solutions combine networking technologies with building systems and infrastructure to increase productivity, improve energy and building process efficiencies, and lower operation cost.

For the S+CC solution at the Bangalore campus, Cisco IT provided last-mile connectivity to many applications and programs that were originally not connected to the building network. This, in turn, served as a central technology backbone that could integrate building automation functions and optimize power management. The intelligent, flexible building design was enabled by seamlessly integrating.

- Third-party providers and their applications
- Cisco products
- End-user applications

Cisco's S+CC solution implemented at the Bangalore campus delivers estimated savings of more than USD150,000 annually.



Songdo City, South Korea

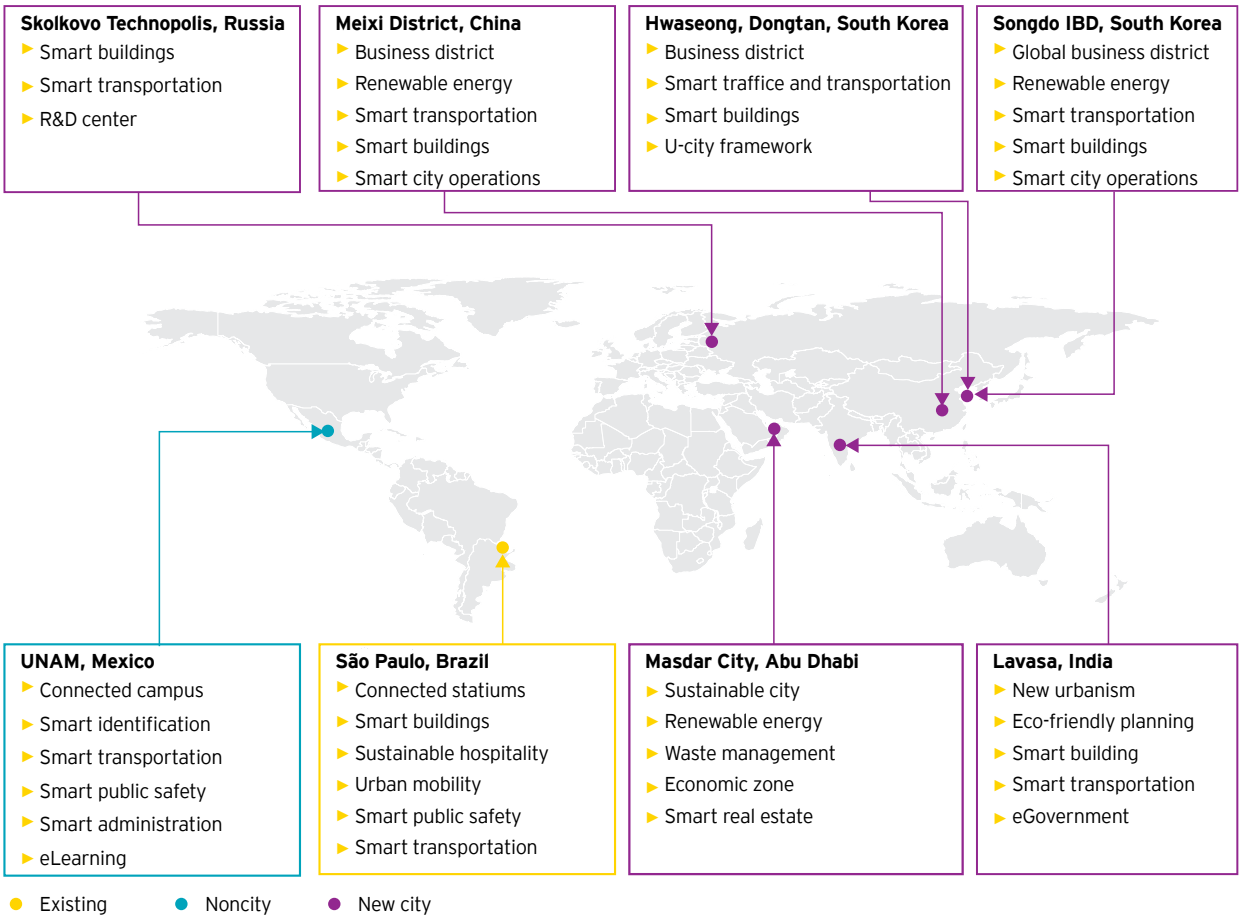
In Songdo, Korea, Cisco is leading a multi-billion dollar transformative "smart-infrastructure" development to position the Songdo International Business District (IBD) as the world's most technologically advanced city. While building this 100-million square foot, master-planned metropolis, Cisco aims to enable greater social, economic and environmental sustainability, as well as ensure a greener, and more intelligent and secure impact.



At Songdo, Cisco has been working with Gale International and the mayor's office at Incheon to implement its S+CC solution at the residential, business and commercial marketplaces. At the residences, each home will have a Cisco TelePresence unit with Cisco Unified MeetingPlace enabled. In addition, Cisco's TelePresence solution will be used for government services (government to citizens and government to businesses), commerce (business to business and business to consumers), as well as citizen-to-citizen collaboration.

Key initiatives undertaken by Cisco and Gale (using Cisco's TelePresence and collaboration solutions) include:

- **The Hub**: A social tool that enables businesses and government institutions to interact with residents and citizens for sharing information.
- **E-Education**: Leveraging the TelePresence platform, parents use this technology to hone the English language skills of their children, as well as to monitor the latter's progress



Overcoming the challenges faced by builders in delivering S+CC

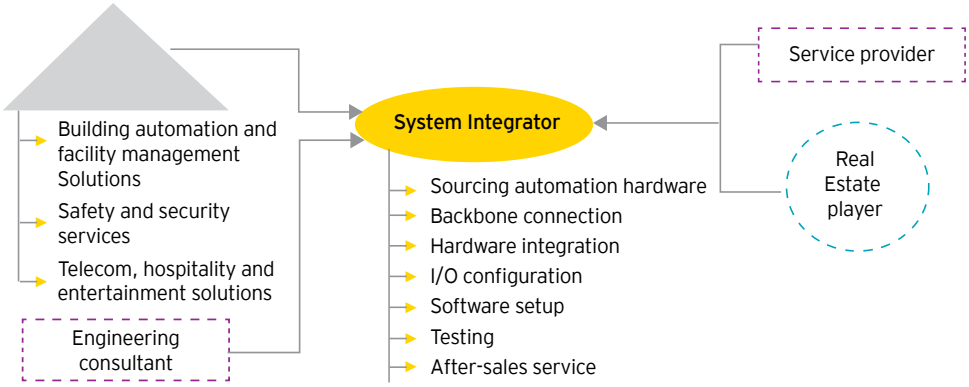
- **Protecting the builder**: The builder, having put his reputation at stake, should have the rights to exercise some control in the form of termination of operating license if expectations are not met, etc., so that the SI/technology provider does not assume complete independence while managing the system. This can be achieved through Service Level Agreements (SLA).
- **Weak perception of automation systems**: The building automation facilities need to be positioned with clear and specific benefits that would enhance lifestyle and comfort. Benefits linked actual savings or productivity could help sell the value to prospective buyers.
- **Ease of usage**: The current generation of automation systems can be easily manipulated using easy and intuitive touch interfaces. Adequate training can be provided to housewives and domestic help, who typically operate the products on a daily basis.

- **Seamless integration**: There needs to be perfect integration between the technology provider, facilities manager and the real estate developer to ensure complete satisfaction among customers. For example, Cisco, in collaboration with experienced engineers, provides interfaces to ensure a hassle-free experience, along with offering after-sales service and support.
- **Commitment from SI/technology provider**: It offers the option of ongoing after-sales support, which includes 24/7 spare parts availability, to customers. The cost could be bundled in with regular maintenance fee charged to occupants either by the building management company or by the SI managing the services.
- **Technology obsolescence**: Technology obsolescence can be minimized by taking into consideration the completion time of a building (three years on average) and planning accordingly. Usually it's the devices that evolve quicker relative to network infrastructure and technology providers can easily help RE firms with investment protection here.
- **Price sensitivity**: It can be overcome by clearly explaining to the customers the value proposition as a business case, along with the benefits. Firms will need better informed and trained sales people to be more effective here.
- **Selling new technology**: A demo setup in a show flat/house or a virtual experience encapsulating all the features must be developed to provide a first-hand feel to customers.

EY model for managed services play in India -

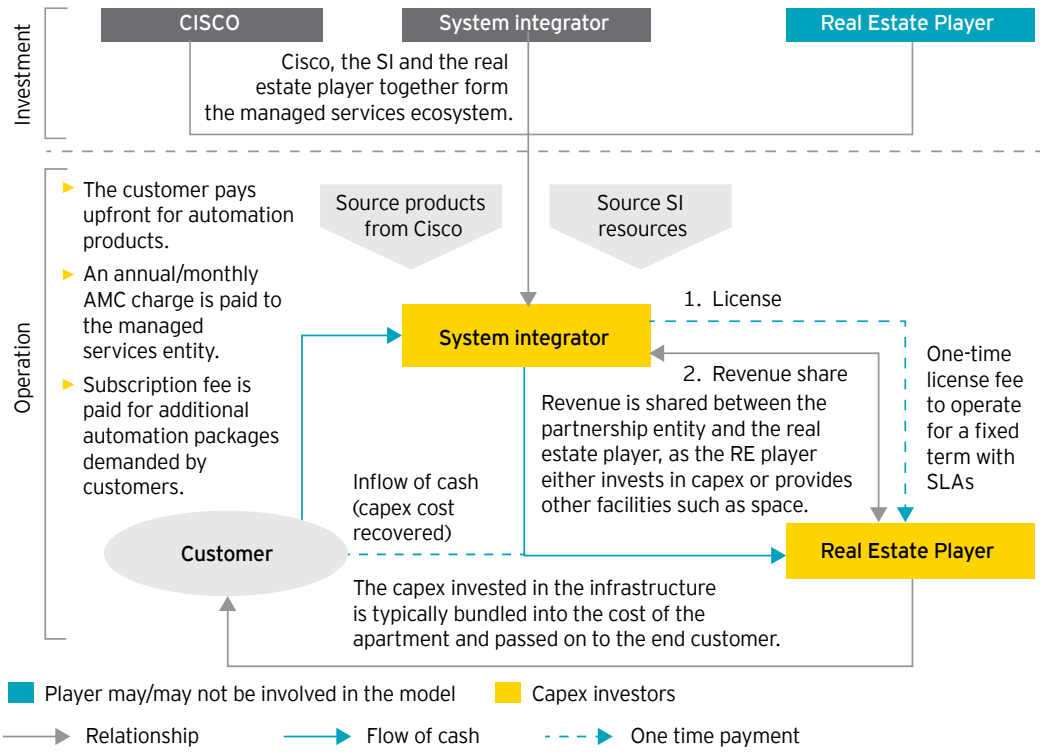
A managed service ecosystem consists of a hardware vendor, an SI and a real estate developer. The SI and the hardware vendor make the investment with or without the participation of the real estate developer. The managed services entity will be responsible not only for integration of technology, but also for providing seamless services to the real estate developer for post occupancy maintenance.

Cisco will fund and provide the required technology to the SI, which will implement and maintain the S+CC solution



The following diagram represents the model for managed services play:

- This model addresses challenges faced by the real estate developer via a single entity that is involved throughout the project's life cycle ranging from project conceptualization to post occupancy management of the asset. The managed services entity typically has an excellent understanding of the network topography, as it is involved from the conceptualization stage until the final delivery and takes complete end-to-end responsibility all the deliverables.
- To protect against cases of non-delivery of services, clearly marked Service Level Agreements (SLA) and penalties will be put in place.



Take away for India

Based on the managed service model envisaged, EY and Cisco have conceptualized an operating model wherein the technology vendor and the SI will collaborate to establish a managed service entity. The suggested model will also help address challenges faced by RE developers in the deployment of such solutions and allow the necessarily support after deployment.

Given the trend towards RE firms looking for additional revenues both from value add to properties and recurring revenues from services, it is expected that S+CC type services will grow and become integral to every real estate development in the near future.

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Policy and governance: operational guidelines

- Corporate sustainability reporting
- Indirect tax issues for real estate
- Revenue generation for developers

Corporate sustainability reporting

Introduction

Sustainability is a term used to describe survival and longevity. Therefore, sustainable development means growth that is sustainable in the long term, more precisely, it refers to successful longevity.

Development and growth are achieved through the ever-increasing use of natural resources, generating a host of direct and indirect social and environmental concerns. While sustainable development is on the agenda of governments, corporations and communities alike, it is of crucial importance to corporations because of the profitability motive.

The increasing awareness and global debate on the responsibilities of business have led companies to reconsider their traditional operational approach. Businesses are now striving to understand the connect between the environment, the economy and the society. They have come to realize that environmental concerns such as climate change and water scarcity have repercussions on business (in terms of increased operating costs, etc.). As per a World Resources Institute (WRI) and HSBC survey, water scarcity, which is already a problem in India, is expected to pose a greater threat by 2030. Demand is expected to outgrow supply by 50%, leading to direct consequences on the cost of water, especially for companies relying heavily on water for their manufacturing processes[1]. On the contrary, recent business trends have led to low carbon economies, thereby creating a low carbon energy market, which is forecast to triple to USD2.2 trillion by 2020[2].

Concept of corporate sustainability

Taking stock of these factors, businesses have begun to measure and manage the impact of their operations and strategies on social, economic and environmental areas.

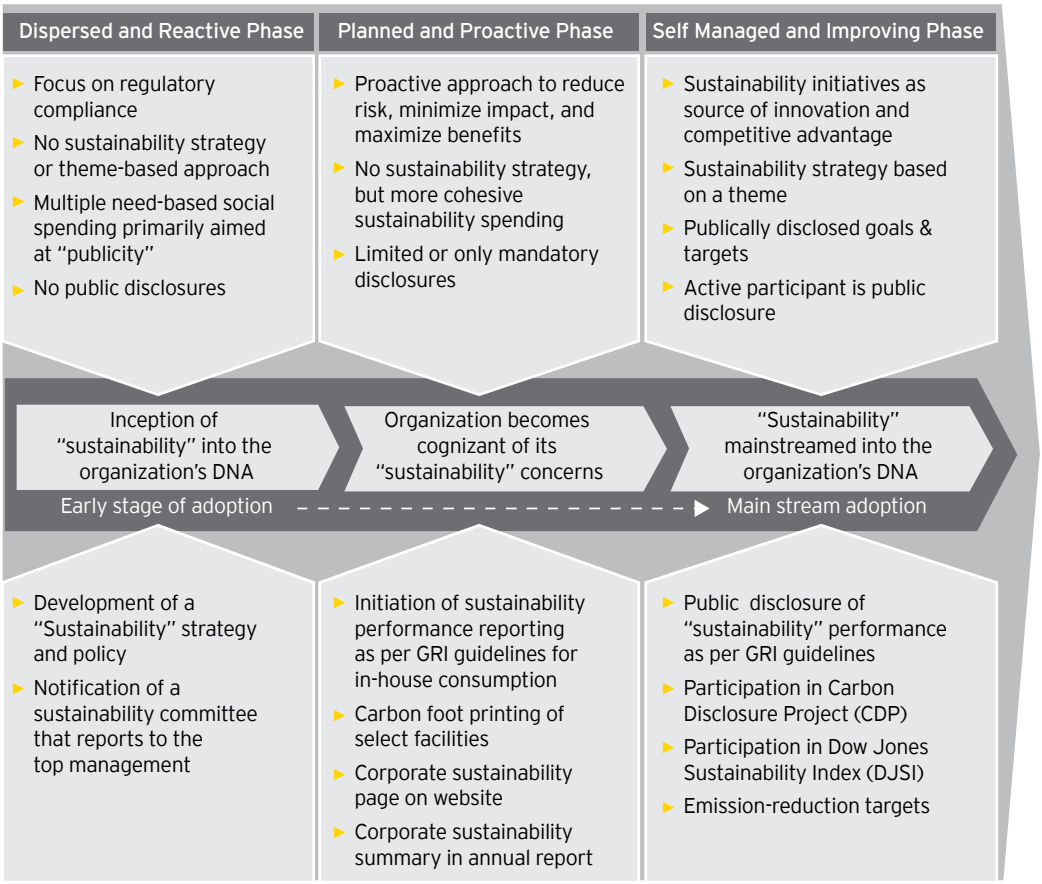
Sustainability has been defined as:

"development that meets the needs of the present without compromising the ability of future generations to meet their own needs" – The World Commission on Environment and Development, 1983 (also known as the Brundtland Commission).

1 "Surveying Risk, Building Opportunity – Financial Impacts of Energy Security, Water Scarcity and Climate Change on Asia's Commercial Real Estate", WRI & HSBC, 2010, p. 14.

2 "Sizing the climate economy", HSBC Global Research, Global Climate Change, September 2010, p. 1.

Sustainability journey of an organization



Sustainability reporting

Businesses want to safeguard rather than jeopardize the prospects of future generations, thus leading to the concept of corporate sustainability. This approach creates long-term shareholder value by embracing opportunities and managing risks posed by economic, environmental and social developments. The corporate sustainability approach focuses on the triple bottom line – economic, environment and social.

The Triple Bottom Line approach

Reporting a Company's Sustainable Performance is `Sustainability Reporting'

Economic performance	Environmental performance	Social performance
▸ Economic performance	▸ Material consumption	▸ Labor practices
▸ Market presence	▸ Energy	▸ Health and safety
▸ Indirect economic impacts	▸ Water	▸ Impact on community
	▸ Biodiversity	▸ Human rights
	▸ Emission, effluent, waste	▸ Diversity
	▸ product and services	▸ Product responsibility
	▸ Compliance	
	▸ Transport	

Sustainability reporting/non-financial or corporate social responsibility (CSR) reporting refers to disclosure of information about social, environmental and economic performance of an organization. It is a transparent disclosure of a company, its policies and strategies, operations, positive and negative effects on the local community, employees and their involvement in community welfare, how the company intends to enhance the positive aspects and how it endeavors to eradicate or reduce the negative effect of its business on the society and the environment. It is, in essence, a glimpse into the company's sustainability performance.

Why should a company report on sustainability performance drivers?

Companies are prompted to adopt sustainability reporting driven by various factors including stakeholder requirements, cost reductions, compliance and branding.

Sustainability reporting: key drivers

A: Stakeholder requirement	B: Business case for sustainability
▸ Building trust ▸ Dialogue with stakeholders ▸ International listing and funding prerequisite (pre-investment due diligence includes sustainability performance)	▸ Illustrating that sustainability is good for business ▸ Reducing cost, creating options, gaining customers and reducing risks
Company	
▸ Compliance with national and international regulations ▸ Compliance readiness for emerging regulatory landscape (eg., sharing of profit - 2% on sustainability initiatives as drafted in the Companies Bill)	▸ What are my peers in the same sector doing ▸ Am I left behind? can I be a leader and set an example? ▸ How do I benchmark against the best practices in the sector?
C: Regulatory	D: Benchmarking

a. Stakeholder requirements

Sustainability reports are used to communicate the company's sustainability performance to stakeholders. Sustainability reporting is an excellent tool for communicating a company's corporate sustainability intent and action to various stakeholders, and it also aids in the continual development of a corporate sustainability vision. The effective use of triple bottom line has the potential to:

- Build stakeholder relationships based on shared values, trust and integrity
- Manage risks by identifying areas of concern to stakeholders

b. Business case for sustainability

The reporting exercise leads to a program built on tangible and intangible benefits, providing an edge over competitors. Many of the sustainability initiatives help in cost reduction; for example, energy and water conservation initiatives. It helps companies to explore more options which lead to newer business opportunities like carbon trading, renewable energy certificates and others. They also help the company:

- To deal proactively rather than reactively to changing market and regulatory scenarios
- Enhance internal management and organization's contributions to global sustainable development

c. Regulatory

Although sustainability reporting has traditionally been driven by market forces rather than regulations, regulatory frameworks are slowly emerging in this space.

The Ministry of Corporate Affairs adopted the National Voluntary Guidelines[3] on Social, Environmental and Economic Responsibilities of Indian businesses in July 2011. These guidelines encourage companies to demonstrate their adoption of the National Voluntary Principles to their stakeholders.

More recently, the Companies Bill 2011 and the SEBI mandate[4] (Nov 2011) are aimed at making CSR disclosure mandatory for listed companies in India.

The launch of Greenex (2012)[5] – a theme based index, by the Bombay Stock Exchange, was the latest addition to sustainability related regulations in India. This index will track the carbon footprint of companies. It also proposed to launch guidelines that will help investors under the concept of carbon footprint and its impact on the Company returns.

3 National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business, Ministry of Corporate Affairs, Government of India, July 2011

4 "SEBI Board Meeting", SEBI Press release, http://www.sebi.gov.in/sebiweb/home/detail/22104/yes/PR-SEBI-Board-meeting, 24 November 2011

5 "BSE launches Greenex, India's first energy efficient index", Moneycontrol, 22 February 2012

d. Benchmarking

Sustainability reports are an effective tool to benchmark organizations both internally (year-on-year) and externally (against peers).

Given the global standards of reporting, it makes it convenient for comparison between peers of the sector and their year on year performance on sustainability. This disclosure also makes way for best practices to be shared in the public domain.

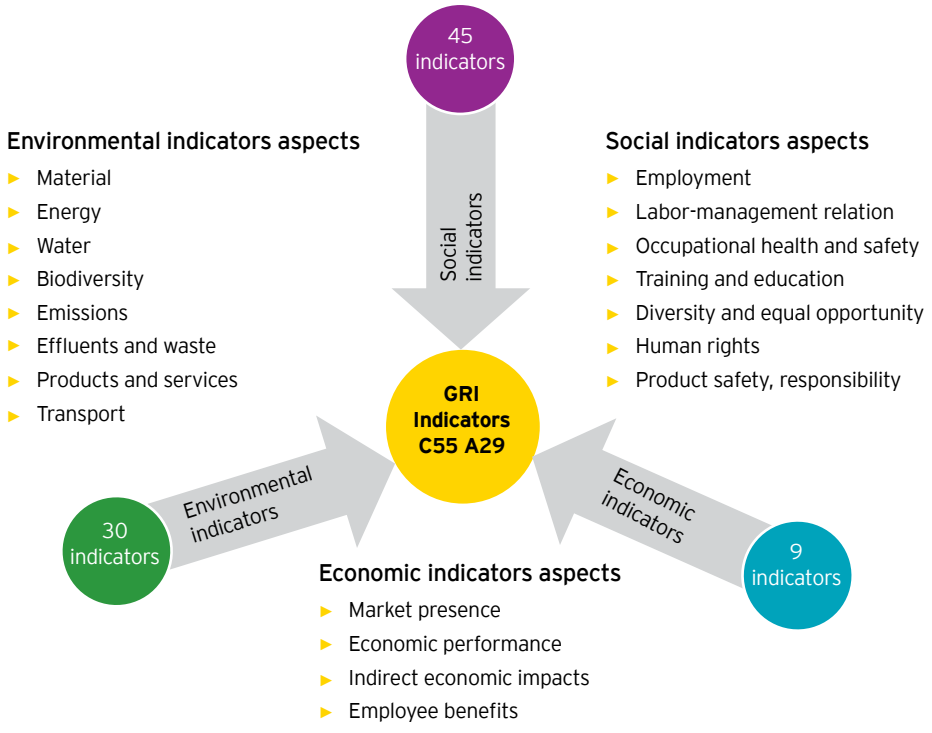
Further, communicating sustainability targets to stakeholders, both internal and external, enhances brand image.

How to report on sustainability performance?

In the context of corporate sustainability, companies required a common sustainability performance structure/format of a universal nature to facilitate ongoing performance comparison against that of their competitors. This resulted in the emergence of a global standardized framework for disclosure.

The Global Reporting Initiative (GRI) rolled out a sustainability reporting framework comprising GRI guidelines to facilitate transparency and comparability among companies, as well as enable a standardized approach to disclosure.

GRI indicators

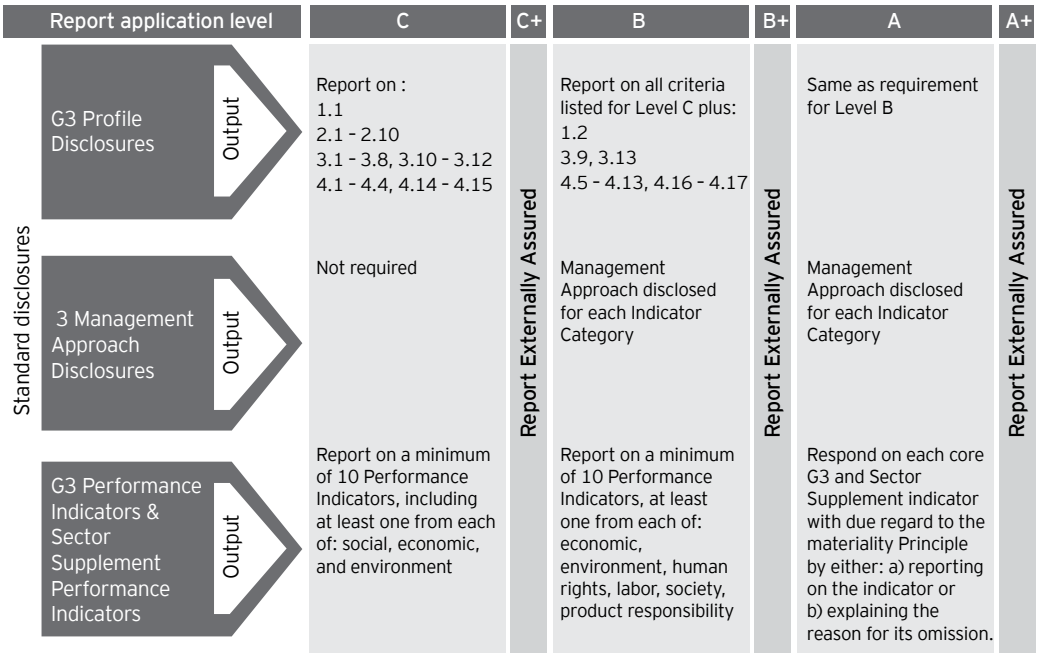


There are 84 GRI performance indicators covering three main categories namely; economic, environmental and social, with the last section being sub-divided into human rights, society, labor, and decent work and product responsibility. The Voluntary Guidelines for CSR issued by Indian Ministry of Corporate Affairs (MoCA) draws upon the GRI framework.

GRI has launched sector-specific guidelines as well to facilitate better and more transparent reporting. Guidelines for mining, construction, power, airports, food processing and NGOs are currently available.

GRI application levels indicate the extent to which information has been disclosed, with the highest rating being an A+ (+ indicating that the report has been externally assured).

GRI application level



Who is reporting?

The GRI has seen an increasing trend in the number of companies reporting their triple bottom line performance. In the year 2011, a total of 824[6] sustainability reports were published with the GRI.

In India, about 25[7] companies have published sustainability reports in 2010.

6 "GRI Sustainability Report Lists", Global Reporting Initiative's reporting trends, 2011.

7 "GRI Sustainability Report Lists", Global Reporting Initiative's reporting trends, 2010.

Reporting by real estate sector

There are over 37 sectors that have been reporting through the GRI. The construction sector currently has over 73[8] companies globally reporting (2011), of which 25 are in the real estate sector.

Summary

Corporate sustainability and sustainability reporting are becoming the order of the day. Sustainability leadership, today, has more to do with competitiveness and success than just a feel-good-factor. The recent regulatory initiatives related to sustainability underline the significance of corporate responsibility.

The real estate sector, by its nature, has significant environmental and social footprints because it requires (i) large parcels of land for development, (ii) building materials, (iii) labor, (iv) transportation and related infrastructure, (v) fuel & power, and (vi) water, among others. At the same time, the sector caters to one of the core needs of the economy by providing housing and other commercial infrastructure. While the Indian real estate developers are conscientious about these aspects of their business and initiatives such as green buildings are adapted in projects, there is a need and an opportunity to disclose these to the stakeholders through sustainability reporting.

8 "GRI Sustainability Report Lists", Global Reporting Initiative's reporting trends, 2011.

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Indirect tax issues for real estate

Introduction

The real estate industry makes a significant contribution to a country's economic growth. This sector is estimated to account for approximately 5% of India's current GDP. The sector, which consists of both organized and unorganized players, is considered to be the second-largest employer in the country. It is extremely diversified and encompasses verticals such as investment, development, architectural design, construction, and brokerage and lending. The real estate sector continues to provide impetus to the economic growth and social security of the country, with the last decade seeing an unparalleled boom.

However, this manifold growth in the sector also brings along associated issues/challenges, both in terms of macroeconomic conditions and fiscal policy decisions. One such challenge is the management of the multifaceted indirect tax levies such as VAT, service tax, excise, stamp duty and registration fees.

In the ensuing paragraphs, we have discussed the key indirect tax issues faced by the real estate sector, particularly by the construction industry, and the impact of the the Finance Act, 2012 on the said industry.

Typical transactions in the real estate sector

The construction sector has seen tremendous growth in the last decade. The growth has resulted in real estate players exploring multiple transaction models for the construction and sale of residential and commercial properties.

Some of the typical models adopted by the construction sector are:

- **Agreement for Construction and Sale**: The developer enters into two separate contracts with the customer – one for the sale of undivided share of land and the second for the construction of an apartment. Construction activity may be undertaken by the developer either on its own or through a third-party contractor. In addition to the cost of land and construction, the developer charges for the provision of additional facilities such as clubs and parks.
- **Development Agreement Model**: The developer and the landowner enter into an agreement for the development of land owned by the latter. The landowner typically gets ownership rights for a certain number of constructed units.

  In some cases, the landowner, the developer and the contractor undertake construction jointly (Tripartite Agreement). The landowner is provided certain number of constructed units as consideration. The developer, in turn, enters into an agreement with buyers/tenants for the sale/lease of constructed units.
- **Joint Development Model**: The landowner and the builder/developer either jointly create a "new entity" or operate as an unincorporated association on a partnership/ joint or collaboration basis to share common risk/profit.
- **Investment Model**: Before commencement, the project is on offer to investors. Investors are provided constructed units/area/interest upfront. After a specified period, investors may choose to exit the project on receipt of the amount along with interest, resell the allotment to another buyer or retain the flat/house for own use.

- **Association/Society Model**: Land is owned by a society where each member owns some units. The developer undertakes work on the land for the society and not for individual members. The developer may derive additional profit from constructing additional flats for non-members/ third parties.

Regulatory framework

Typically, the execution of a construction contract at the pre-construction stage qualifies as a works contract and is accordingly subject to service tax and VAT. Stamp duty may be applicable on the sale deed after the completion of the construction.

In India, VAT is a state levy, and the regulatory framework of this tax varies across states.

In Karnataka, construction contracts are subject to VAT if they qualify as works contract as per the following schemes:

- **Regular Scheme**: VAT is applicable at the rates prescribed in the schedules to the Karnataka VAT Legislation on goods transferred under the contract. Standard deductions/abatement is allowed if the value of goods transferred cannot be identified.
- **Composition Scheme**: VAT is levied as a lump sum payment at 4% on total consideration received for the contract.

Service tax is leviable on construction contracts as given below.

- Construction of a complex, building, structure, etc., except where the entire construction is received after issuance of completion certificate
- Services portion in execution of a works contract
- Renting of immovable property service

Key issues

The real estate sector is not new to indirect tax disputes and related litigations. These tax disputes and litigations reflect the dire need to tax revenue from this sector despite the key role played by the industry in providing social security in terms of jobs and in GDP contribution.

Some of the key disputes resulting from the service tax and VAT position under the stated transaction models are:

- **Applicability of VAT on construction undertaken by the developer/construction companies before the execution of sale deed**: This question was first considered by the Apex Court in the case of K. Raheja Development Corporation [2006 (3) S.T.R. 337 (S.C.)], wherein it was held that construction on behalf of the prospective buyer qualifies as "works contract" and is leviable to VAT. However, the same judgment has been referred to the Chief Justice of India for reconsideration by a larger bench in the case of Larsen & Toubro [2008 (12) S.T.R. 257 (S.C.)].

- **Whether the transfer of property in goods takes place more than once under a works contract**: Developers usually sub-contract construction activity to third-party sub-contractors. As tax is levied on the transfer of goods, in the case of Larsen & Toubro [2006 148 STC 616 AP], the High Court of Andhra Pradesh had to consider whether this transfer can take place twice, i.e., from the sub-contractor to the developer and from the developer to the end customer. It was held by the Hon'ble High Court that under a works contract, goods can only be transferred once, and the subsequent transfer by the developer to the end customer is that of immovable property. However, this position may be yet open to litigation where specific provision for deduction of amount paid to sub-contractor has been provided under VAT legislation.
- **Applicability of service tax on construction undertaken by the developer/construction companies before the execution of sale deed**: The issue was considered in Magus Construction [2008 TIOL 321HC GUW ST], wherein the Gauhati High Court held that as construction was carried out for self, no service tax was leviable. The recent explanation added to the definition of the construction services w.e.f 1 July 2010 had sought to reverse the said position and had included provision for taxing any amount paid by the prospective buyer before the issue of completion certificate by the competent authority. The said position also holds good under the new service tax regime wherein the same has been included as a deemed service.
- **Taxability of joint development agreement**: Various caselaws have held that joint ventures are not subject to service tax. However, in the ruling of the Apex Court in **Faqir Chang Gulati (2008)**, it was held that a builder entering into a joint development agreement with a land owner is to be treated as a service provider under Section 3 of Consumer Protection Act, 1986. Further, the recent circular dated 10 February 2012 provides that under a joint development agreement, the new entity would be considered a separate person providing and receiving services and, thus, the transaction between the new entity and the land owner and the builder/developer would be a taxable service. Similar circular has been issued by the VAT authorities also.

Recent developments

The levy of service tax on construction contracts has been evolving ever since its introduction in 2004. A number of important developments have been reported on the levy in the recent past, the most important of which are given below.

- Issuance of circular dated 10 February 2012, which seeks to clarify levy of service tax on various transaction including the Tripartite Agreement, Investment Model, Conversion Model, Joint Development Model, the Build-Operate and Transfer Model. The essence of the said circular has been retained in the new service tax regime.
- Introduction of Point of Taxation Rules, 2011 ('PoTR'), under which works contract service and construction services have been notified as "continuous services". The levy of service tax on such contracts depends on the date of completion of each event/milestone specified in the construction contract.

- The Finance Act, 2012 has shifted the classification-based regime to the negative regime. Under the negative list regime, all services would be taxable excluding a defined list.
- For the purpose of works contract, the following amendments in the Service Tax Valuation Rules would be relevant to the real estate sector:
  - Value of services would be the total value of the contract less the value of goods transferred (may be taken as declared for state VAT purpose)
  - If the value of goods is not ascertainable, the value of services would be 40% for original works (i.e., new constructions, etc.,) or 60% (for other works)
  - If the value of original works includes the value of land, the value of service would be 25%
- Place of provision of Service Rules, 2012 have been introduced to determine if a service has been rendered in the taxable territory.
- Receipt of works contract services from an individual, hindu undivided family proprietary or partnership firm would attract service tax under the reverse charge mechanism, wherein the recipient of the service would be liable to pay 50% of the service tax.

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Revenue recognition for developers

Background

The increasingly complex nature of real estate transactions has resulted in diverse practices being followed by players to calculate revenue. To make accounting practices uniform, the Institute of Chartered Accountants of India (ICAI) has issued a revised Guidance Note on Recognition of Revenue by Real Estate Developers which now covers various types of real estate transactions like

- Sale of plots of land (including long term sale type leases) with & without development,
- Development and sale of residential and commercial units, row houses, independent houses, with or without an undivided share in land,
- Utilization and transfer of development rights,
- Redevelopment of existing buildings and structures and
- Joint development agreements etc.

The Revised Guidance Note primarily deals with revenue recognition in the financial statements of a real estate developer. Revenue recognition issues arise from the fact that real estate developers often enter into agreements for the construction/sale of real estate before the construction is completed. The key point of contention in accounting for such agreements is the identification of the applicable accounting standard. One view is that the agreement is a construction contract within the scope of AS 7 Construction Contract and, therefore, revenue should be recognized as construction progresses. The contrary view is that the requirements of AS 9 Revenue Recognition concerning the sale of goods are applicable.



Existing guidance and challenges

The erstwhile Guidance Note (GN) on Real estate Developers required developers to recognize revenue when all significant risks and rewards of ownership were passed to the owner. Further, it required the application of percentage completion if substantial acts were pending on the part of the developer. The erstwhile GN mandated real estate companies to use percentage of completion (POC); however, it was silent on how real estate companies should compute the POC and revenues thereafter. This has resulted in a diversity of practices around revenue recognition, especially in areas such as:

- Computation of project cost: what all is to be included and excluded for the computation of POC, eg, whether land cost is to be included in the computation of POC
- Timing of revenues recognition: from a project under construction, eg, minimum completion percentage and minimum collection percentage after which revenue recognition will commence

Companies	Threshold policy	Minimum project sale criteria	Minimum collection	Land cost in POC computation
Company A	30%	None	No policy	Considered
Company B	20%	None	No policy	Considered
Company C	25%	None	Yes	Not considered
Company D	20-30%	None	No policy	No policy
Company E	25%	None	No policy	Not considered
Company F	30%	None	No policy	Considered

Global practice

The Financial Accounting Standards Board (FASB) Statement 66 governs revenue recognition for real estate sales under USGAAP. Under IFRS, IAS 18 and IFRIC 15 lays down the various principles for real estate revenue recognition. Significant differences exist between USGAAP and IFRS on revenue recognition for real estate contracts.

For eg, condominium unit sales and other construction-type sales are generally accounted for under the percentage of completion method in U.S.GAAP, while IFRS may require gains from such construction-type sales to be deferred until the completion of construction, depending on the ability of the buyer to provide inputs in the construction design and the continuous transfer of risks and rewards of the real estate during construction.

In view of the significant differences, The International Accounting Standards Board (IASB) and US FASB recently released an exposure draft on accounting for revenue from contracts with customers.

Overview of the Revised Guidance Note

The revised GN requires fulfillment of all the conditions specified in paragraphs 10 and 11 of Accounting Standard (AS) 9, Revenue Recognition. On fulfillment of the conditions specified in paragraphs 10 and 11 of Accounting Standard (AS) 9, Revenue Recognition, the GN then prescribes accounting for real estate agreements depending on whether the agreement has an economic substance of the construction-type contract or that of the sale of goods. For a construction-type contract, revenue is recognized using the POC method (POCM) as prescribed in AS 7. Given below are some indicators of a construction-type contract.

a. The project period is longer than 12 months. The commencement and completion dates for the project fall into two different accounting periods.

b. It involves features, viz., land development, structural engineering, architectural design and construction, which are common to a construction-type contract.

c. While individual units in the project are contracted to be delivered to different buyers, these are interdependent on or interrelated to the completion of multiple common activities.

d. The construction/development activities form a significant portion of the activity.

In accordance with paragraph 5.3 of the GN, a company starts recognizing revenue from a project only after all the following conditions are satisfied:

a. All critical approvals necessary to commence the project have been obtained.

b. The project has reached a reasonable level of development. There is a rebuttable presumption that a project has not reached a reasonable level of development if expenditure incurred, excluding land cost, is less than 25% of the total estimated construction and development cost.

c. A minimum of 25% of the estimated project revenues is secured by binding contracts/ agreements with buyers.

d. At the reporting date, the company has realized a minimum of 10% of the total estimated revenue on each of the contracts pertaining to the sale of real estate. In addition, it is reasonable to expect that the parties to such contracts will comply with the payment terms.

Once the outcome of a project can be estimated reliably and the above criteria are satisfied, a company starts recognizing revenue and costs associated with the project in accordance with its stage of completion. However, the revenue recognized cannot exceed estimated total revenue from contracts mentioned in (d) above or other legally enforceable agreements for sale. Although the GN excludes land cost in measuring progress made to determine whether the revenue recognition criteria are met, the same continues to be a part of the project cost in measuring the stage of completion to apply the POCM. Further, whenever there is a probability that total project costs will exceed total project revenues, the expected loss should immediately be recognized as an expense.

The GN also proposes similar revenue recognition criteria for the sale of plots involving significant development activity. Revenue recognition from the sale of plots with insignificant development and real estate activities, which are not part of substance construction-type contracts, is governed by AS 9. If a company also delivers other goods or services, e.g., property management services, sale of fittings, to the buyer, the contract is split into separately identifiable components, including one for real estate development. The company allocates consideration received/receivable to each element on the basis of the respective fair values and applies the revenue recognition criteria accordingly.

Key impact of the ICAI GN

The ICAI has issued a revised GN to bring uniformity in revenue recognition by real estate developers. Its applicability may significantly impact revenue recognition of many real estate companies. However, no generic statement can be made whether this impact will be positive or negative. Rather, this will depend on facts and circumstances of each case. For example, a perusal of publicly available Indian GAAPfinancial statements of a few real estate companies indicate the following:

a. Currently, certain companies may have applied only the "project progress" criterion to start recognizing revenue from a real estate project. In such cases, the application of additional criteria, viz., securing all critical approvals, minimum 25% contracts and 10% collection, may require the company to defer revenue recognition.

b. Certain companies may have included the land cost to assess whether they satisfy the "project progress" criterion to start recognizing revenue. As land constitutes a significant portion of the total cost, this may allow them to start recognizing revenue from day one. The application of the GN to such cases will require companies to defer revenue recognition.

c. Currently, certain companies are following a higher threshold on "project progress" than the 25% criterion specified in the GN to start recognizing revenue. Assuming that these companies also satisfy other criteria in the GN, its application may require them to start recognizing revenue early.

d. Many real estate companies currently measure progress to apply the POCM based on costs excluding land cost. They apply the same progress to all costs, including land. This results in the recognition of proportionate land revenue over the period. The GN proposes to include land cost as part of the project cost in measuring the stage of completion to apply the POCM. This will allow companies to recognize higher revenue upfront.

Key challenges in implementation of Revised GN

The ICAI in the revised Guidance Note has attempted to provide specific guidance to bring in uniformity and thus removing judgement in revenue recognition by real estate developers. However there are few areas which might pose challenges in bringing uniformity in implementation of Revised GN.

- Joint development agreements: The Revised GN also deals with accounting for joint development agreement. However no specific guidance is available in this regard
- Definition of project: The Revised ED defines project as the smallest group of units/plots/ saleable spaces which are linked with a common set of amenities in such a manner that unless the common amenities are made available and functional, these units/plots / saleable spaces cannot be put to their intended effective use. It further states that a larger venture can be spilt into small projects if the basic conditions as set out above are fulfilled. There could be differences in interpretation of on what constitute a project.
- Critical approvals: The Revised GN requires all critical approvals to be completed before revenue recognition. On account of numerous approvals that are required in real estate it will require application of judgment on what constitutes critical approvals.

Summary

This guidance will enhance consistency in the accounting practices of real estate developers and, in particular, in the application of the percentage completion method. The application of revised guidance could have a significant impact on revenue numbers. Companies need to proactively prepare investors/stakeholders to anticipate and accept the impact of the change.

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About FICCI

Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence, its industrialization, and its emergence as one of the most rapidly growing global economies. FICCI has contributed to this historical process by encouraging debate, articulating the private sector's views and influencing policy.

A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry.

FICCI draws its membership from the corporate sector, both private and public, including SMEs and MNCs; FICCI enjoys an indirect membership of over 2,50,000 companies from various regional chambers of commerce.

FICCI provides a platform for sector specific consensus building and networking and as the first port of call for Indian industry and the international business community.

Our Vision

To be the thought leader for industry, its voice for policy change and its guardian for effective implementation.

Our Mission

To carry forward our initiatives in support of rapid, inclusive and sustainable growth that encompass health, education, livelihood, governance and skill development.

To enhance efficiency and global competitiveness of Indian industry and to expand business opportunities both in domestic and foreign markets through a range of specialised services and global linkages.

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