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Savills Research
India

India Market Watch
Office

Year-end 2019

Contents

INDIA ECONOMIC OVERVIEW: A YEAR OF CONTINUED INITIATIVES

Through 2019, India witnessed a contrasting combination of slowing economy on the one hand, with accelerating reforms momentum on the other. From a high GDP growth of 8% per annum in the second quarter of 2018, the corresponding period's growth in 2019 was down to 5%. The next quarter, July to September 2019, reported a further drop to 4.5%. Similarly, industrial output (as indicated by IIP) dropped by 4.3% Year-on-Year in September 2019. It is to be noted that the decline on several fronts was concurrent, to some extent, with the global-slowdown and economic deceleration around the world.

The brighter side of the picture lies in steadfastness of reforms that gathered momentum in 2019, and which is acknowledged globally. India rose further on World Bank's 'Ease of Doing Business' rank in 2019, to the 63rd position. This was a steady climb after breaking into top-100 two years ago, and from the 77th position last year. It also needs to be noted that despite the downgrade in country's credit ratings in November on account of sliding growth, India still remains one of the fastest growing major economies.

Steady Reforms and Policy Upgrades

2019 began with a long-awaited cut in interest rates by the Monetary Policy Committee (MPC), which followed it up with five successive rate-cuts before holding the rates in December. This made it an aggregate of 135 bps reduction in 2019, bringing down the rates from 6.5% to 5.15% in one year.

Next, real estate industry and the economy in general, received a series of fiscal and policy-incentives throughout 2019. To begin with, at the close of the first quarter, the GST Council recalibrated, radically, the GST rates on housing. The revised rates were fixed at 1% for affordable housing (from the previous 8%) and 5% for others (from 12% earlier). However, this came with a rider which kept the supply side on the edge. The Input Tax Credit (ITC) accumulated over a period by the suppliers, was made redundant under the new regime (refer Appendix for details).

Besides GST revision, the government announced a bundle of incentives, both for the supply and demand sides, twice: once, in the interim budget of February 2019, and again, in the full budget of July 2019, a few weeks after general elections delivered a strong mandate of continuation for the ruling political alliance.

Real estate remained a high-focus area in both these budgets. Some key benefits emanating from these two budgets include:

1. Exemption from tax on notional rent on unsold properties extended to 2 years from the date of project completion (compared to one year earlier) to help developers clear the inventory pile;
2. Section 80-IBA (of Income Tax Act) benefits for affordable housing extended for one year on projects approved till March 31, 2020;
3. Allowance to buy a second home, without being taxed on the deemed rent;

"The economies with the most notable improvement in Doing Business in 2019 are Afghanistan, Djibouti, China, Azerbaijan, India, Togo, Kenya, Côte d'Ivoire, Turkey and Rwanda."
-World Bank's Doing Business 2019 report

NOTE TO THE READER

1. The figures and terms used here are as per the Indian system to represent the announcements made by the government or authorities. Explanations are available in Appendix and Glossary of Terms at the end. 1 lakh means 100,000 while 1 crore means 10 million.

2. Currency exchange rates at the end of December 2019 were as follows:
   a. 1 USD = 71.32 INR
   b. 1 GBP = 93.79 INR

4. 33% increase in TDS threshold for deduction of tax on rent, from INR 1.8 lakhs to INR 2.4 lakhs;
5. Rollover of capital gains of up to INR 2 crores towards buying two houses (compared to only one) once in a lifetime;
6. Committing to Model Tenancy Law, paving the way for rental housing development;
7. Draft National Logistics Policy for establishment and development of warehousing and industrial real estate;
8. Reviving Special Economic Zones (SEZs) by allowing operations of REITs (Real Estate Investment Trusts) and InvITs (Infrastructure Investment Trusts);
9. Increase in the limit for interest deduction, by adding another INR 1.5 lakh, thereby taking it to INR 3.5 lakh per annum to increase household incomes.

The policy initiative was also evident in the focus on reviving funding ecosystem, restructuring the regulatory environment and commitment to infrastructure. Some of the key features to be noted are:

1. A one-time partial guarantee for loan-loss to banks that acquire up to INR 1 lakh crore of high-rated pooled assets from NBFCs (Non-Banking Financial Companies);
2. Recapitalization of public sector banks by infusing INR 70,000 crores;
3. Changing the regulator for housing to Reserve Bank of India from the earlier National Housing Bank (NHB);
4. Provision of INR 100 lakh crore for development of infrastructure over the next five years.

Another set of announcements came during the third quarter, as Finance Ministry rolled back the tax on super-rich segment. The biggest of policy-measures was the change in Corporate Tax in September 2019. From an average of approximately 30%, the Corporate Tax was reduced to 22% for domestic companies, making it an effective 25.17% rate, inclusive of cess and surcharges. Similarly, the rate for manufacturing companies was reduced to 15% - effectively 17.01%, with cess and surcharges.

Indicative of a strong effort to bolster flagging residential real estate, the government announced in November, the establishment of INR 25,000 crore stressed assets fund, to be called the Special Window. The government committed to deploying INR 10,000 crores to this Category-II Alternative Investment Fund (AIF), while the remainder is expected to be infused via the fund manager SBICAP Venture Limited and the Life Insurance Corporation of India (LIC). The fund is expected to generate investments from sovereign funds, pension funds, High Net worth Individuals, etc. The AIF would be available to all residential projects which are RERA compliant and net worth positive, regardless of their stage of construction. The ticket size limit for these target-projects has been set at INR 2.00 crores per unit in Mumbai, while for other metro cities, it is specified as INR 1.50 crores per unit. We believe, this would lead to large-scale project completions, and release of stocks. More details on the same are given in Appendix.

It is evident from the events and initiatives described here, that though India continued to face headwinds on the economic growth front, its strong reforms-engine gathered more steam in 2019. The latest action of holding interest rates at the end of year by the RBI did cause anxiety for the credit-starved real estate industry, but there are reasons to look forward. The upcoming budget in February 2020 gains unique importance, as does the general global environment, which seems to be riding out its tough phase of trade wars and geopolitical tensions.

The year 2020 begins with enormous expectations for businesses across the country.

INDIA OFFICE MARKET UPDATE

In this India Office Market Watch for the year 2019, we cover key office markets of India, namely, Bangalore, Chennai, Hyderabad, National Capital Region (NCR), Mumbai and Pune. Savills **India Office Market Watch 2019** is a comprehensive reference report, which takes the reader through key highlights in a concise manner.

This section provides a summary for India in 2019, along with YOY comparisons.

Absorption Highlights

Office demand in 2019 crossed the historic benchmark of 2018. Gross absorption in 2019 was 57.7 mn sq.ft. which is the highest ever on an all-India basis. This implies a 22% annual increase in office demand.

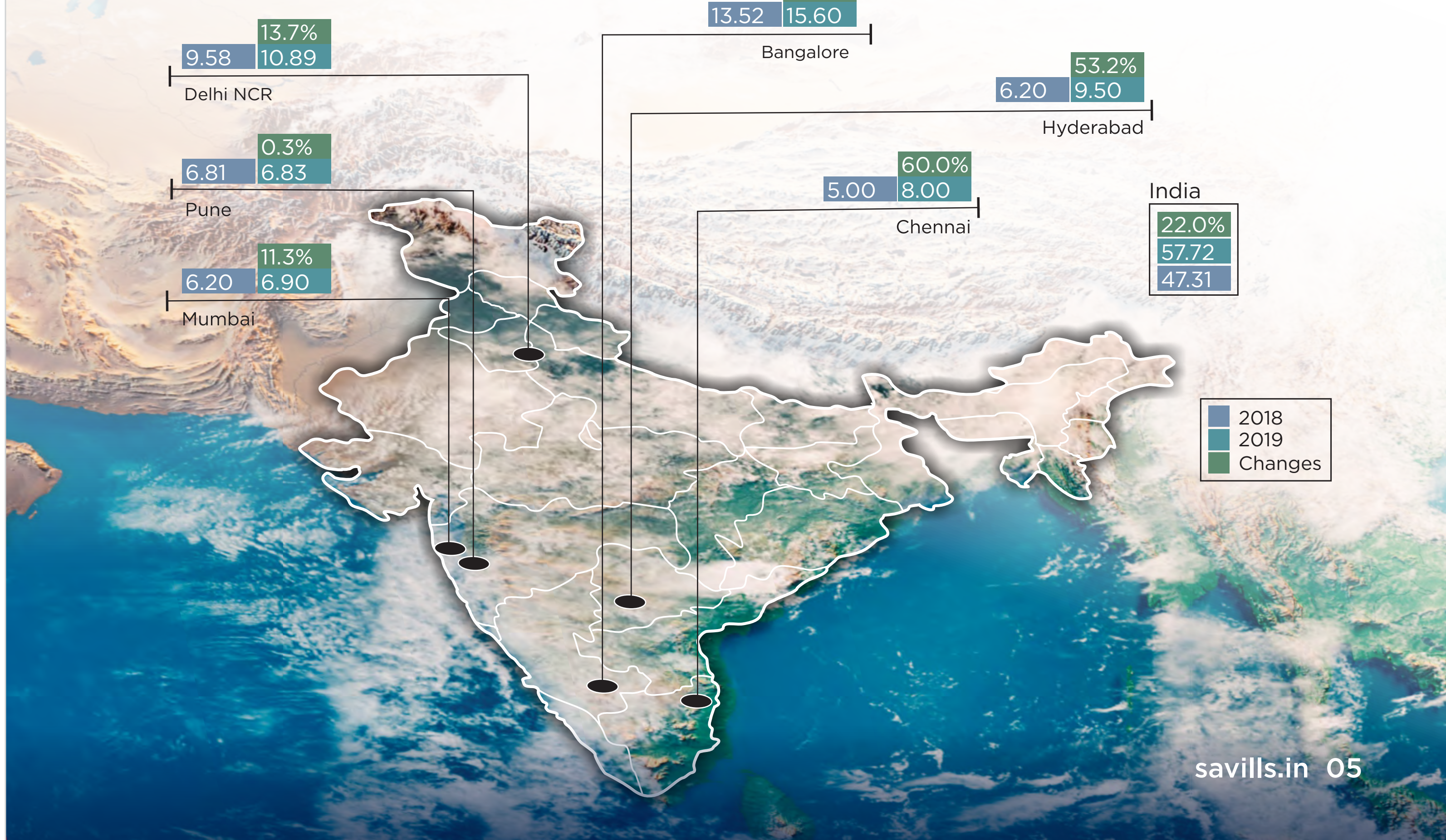
Annual absorptions for 2018 and 2019 with % changes are shown below.

In 2018, office leasing had demonstrated a strong resurgence of Hyderabad, along with a persistent strength in Bangalore. This has improved further in 2019.

Hyderabad: THE HIGHLIGHT

2019 absorption in Hyderabad was 9.5 mn sq.ft. making it the market with highest momentum of 53.2% YOY growth, along with a 9.9 mn sq.ft.stock-addition - a 21% growth.

YOY Absorption in India
(in mn sq.ft.)



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YOY Absorption in India
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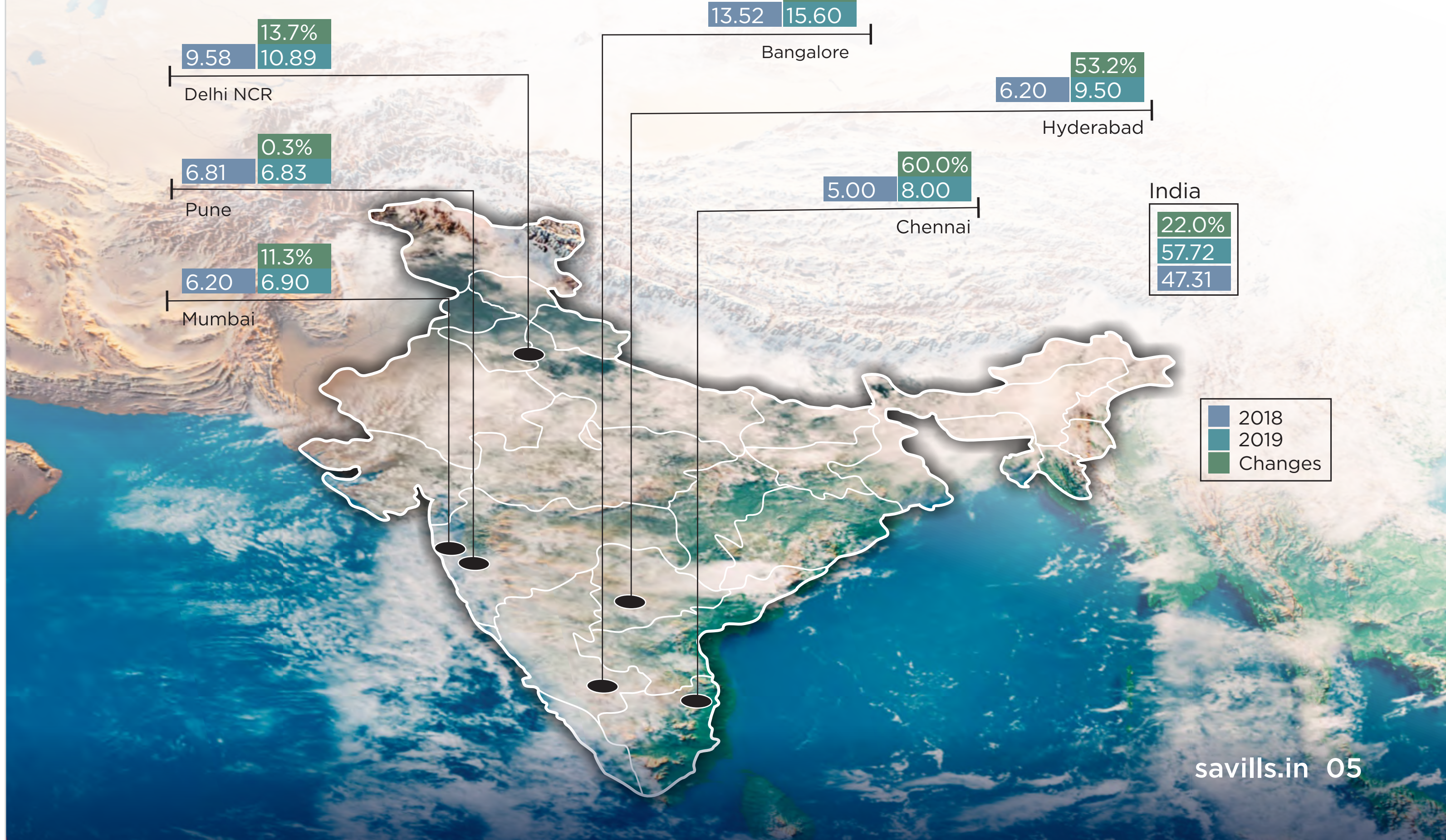


Bangalore continues as the biggest market in India, with 15.6 mn sq.ft. absorption, a YOY growth of 15.4%. This is remarkable as it comes off a large base of 13.9 mn sq.ft. absorption in the previous year.

NCR, the third highlight of 2019, also crossed the 10-mn sq.ft. mark. It is the only market apart from Bangalore, to do so.

Chennai recorded 60% YOY growth, which is mainly on account of approximately 2 mn sq.ft. of pre-commitments. On fresh leasing, Chennai still demonstrated a strong growth of about 20%. **Mumbai's** increase in absorption was 11.3%. **Pune** was the only market to register negligible (0.3%) growth. Pune had recorded its all-time high absorption in 2018 and was able to maintain its previous level.

Bangalore, NCR and Hyderabad together accounted for 62% of the all- India demand.

G-3: The 10 Mn Sq.Ft. Group

2019: The first year when three markets (Bangalore, NCR & Hyderabad) approached or breached the 10 mn sq.ft. absorption mark

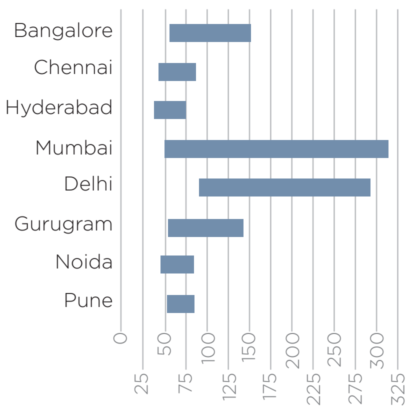
Rental Ranges

Base rents across India showed improvements in varying degrees, during the year.

Bangalore & Chennai recorded significant increases between 15% and 20% in different micromarkets; while Hyderabad's rentals remained constant for its higher-grade stock.

Mumbai and Pune recorded 4-5% annual increase in rents, as NCR's rents remained stable through 2019. The rental range for the cities included in NCR are shown in the figure below.

Base Rents in 2019
(INR/sq.ft./month)



Source: Savills India Research

Approximate rental-ranges for all markets, in USD/sq.ft./year (@ 1 USD = 71.32), are:

Base Rents in 2019
(USD/sq.ft./year)

	Low	High
Bangalore	9.3	25. 2
Chennai	7.1	14.6
Hyderabad	6.2	12.6
Mumbai	8.4	52.6
Delhi	15.1	49.2
Gurugram	8.8	23.9
Noida	7.6	14.3
Pune	8.3	13.6

Grade-A Stock

All-India Grade-A office stock rose by 46.9 mn sq.ft., i.e., by 8.9%, to reach 576.9 mn sq.ft., in 2019.

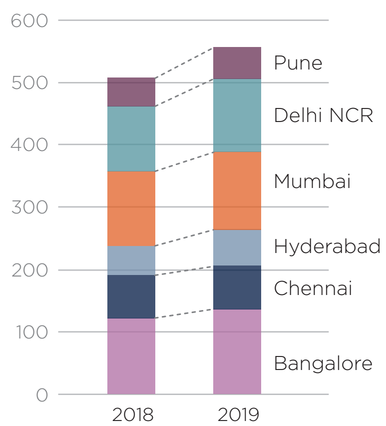
Big Three Led Stock Increase

NCR, Bangalore and Hyderabad together accounted for 77.6% of All-India stock-addition in 2019.

The largest volumes were added in NCR and Bangalore at 14 & 12.3 mn sq.ft. respectively.

At 9.9 mn sq.ft., Hyderabad too witnessed a strong infusion, which was approximately 21% rise over its previous year's Grade-A stock.

Grade-A Stock 2018-19
(mn sq.ft.)



Source: Savills India Research

Vacancy Rates

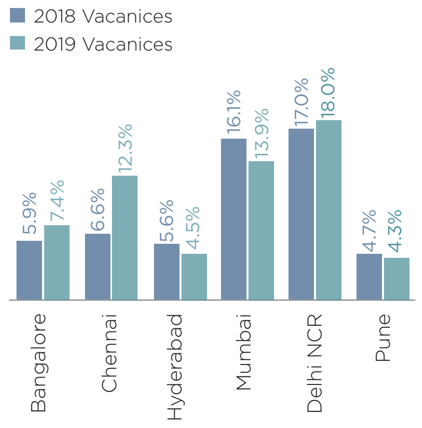
Vacancy rates showed varying trends across cities during 2019.

Strong absorption in 2019 led to marginal decline in vacancy-rates in Hyderabad, despite large volume stock augmentation. Similarly, Mumbai and Pune witnessed declines to the extent of -2.2% and -0.4% respectively.

Bangalore, which had reached sub 6% vacancy in 2018 has witnessed strong supply infusion, leading to its vacancy-level rising by 1.5% in 2019. Chennai experienced large supply volumes along the Pallavaram-Thoraipakkam stretch, resulting in 5.7% rise in its vacancies - the most among all cities. NCR registered a 1% rise, despite being one of the markets that added most stock during 2019.

Marginal rises in vacancies are reflective of markets anticipating of heightened demand in the near future.

Vacancy 2018-19



Source: Savills India Research

Demand Segments

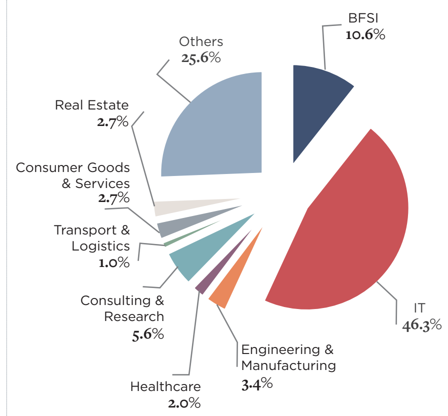
Major demand generator for Grade-A office spaces on a pan-India scale were technology sector companies including IT and IT Enabled Services (ITeS). The approximate share of the estimated at over 46%.

Banking, Financial Services & Insurance (BFSI) were estimated to have leased about 10.6% of the overall space. Engineering and related industrial sectors accounted for approximately 3.4%.

Coworking has been among the fastest growing demand segments for last 3 years. In 2019, coworking or flexible space operators retained the momentum with a 14% share of office leasing.

It may be noted that coworking is implicit in the sectoral split given above.

Office Demand in India
(Sector-wise)



Source: Savills India Research

NOTES

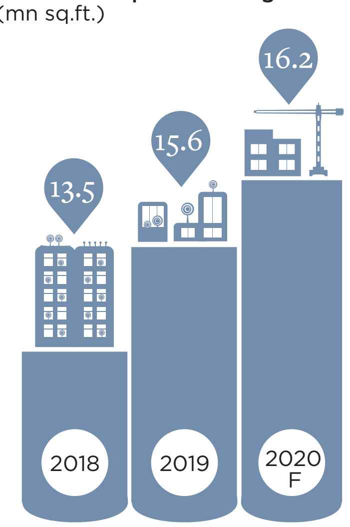
- *Absorption includes fresh leases as well as pre-commitments during the year, but does not include lease renewals*
- *Rents shown are average base rents as transacted*
- *Stock includes only those buildings which are fit for occupancy as per local laws*

Key features of India Markets

- **Strong Demand Growth & Projections:** The markets demonstrated a strong growth of 22% which is the strongest in recent history of office markets. Moreover, growth estimates for the next year are projected to be over 10%, which is backed by the strength of technology companies, and the coworking segment.
- **Data Centers:** Growth of Data Centers is another key feature of India's markets. With India's strong position in AI, Big Data and Analytics we expect office real estate to flourish on the back of these in key locations discussed in this report.
- **REITs:** India's first REIT was listed in 2019, and more REITs are anticipated. Since REITs are primarily dependent on office assets under current regulations, it will be a key area for investors to look forward to, in the coming year.

BANGALORE
OFFICE MARKET UPDATE

Office Absorption in Bangalore
(mn sq.ft.)



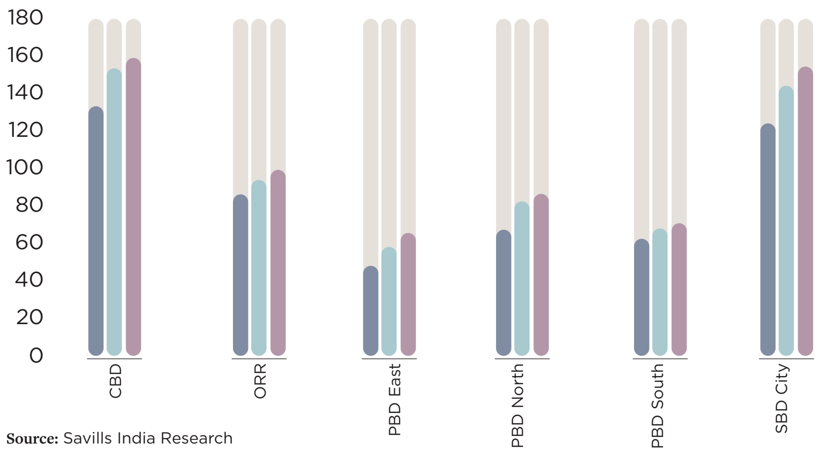
Source: Savills India Research

Grade-A Office Stock & Vacancy

	Stock (mn sq.ft.)	Vacancy (%)
2018	145.5	6.0
2019	157.8	7.0
2020F	175.1	5-7

Source: Savills India Research

Average Rents
(INR/sq.ft./month)



Source: Savills India Research

Leasing and Completions

Absorption:
Bangalore remains the frontrunner of office markets in India like earlier years. It continued to lead other cities in 2019 by a large margin, and saw leasing activity to the tune of 15.6 mn sq.ft. This implies an increase of 15.4% YOY led by strong demand in Outer Ring Road (ORR), Brookefield and Whitefield. The micromarkets of ORR and Peripheral East accounted for approximately 60% of total leasing activity in the city.

Medium (0.1-0.2 mn sq.ft.) to large sized deals (> 0.2 mn sq.ft.) deals dominated leasing activity with the major deals being concentrated in ORR and peripheral business districts.

Sector Split:
Demand for commercial office space in Bangalore was driven primarily by technology and financial service companies and flexible working spaces as well. Together they constituted approximately 70% of total leasing activity during 2019.

Supply:
The city saw additional completions of around 12 mn sq.ft. with majority completions being on the ORR, eastern peripheral business district including Brookefield and north Bangalore.

Vacancy Rate

Vacancy levels in Whitefield witnessed an increase due to significant consolidation and renewals. Demand for new completions including that in SEZs remained high. It is worth noting that the city's average vacancies had declined to alarmingly low levels in 2018. For a high-growth market like Bangalore, a buffer of vacancy rates is needed.

Vacancy levels in micromarkets of Central Business District (CBD), ORR, Secondary Business District (SBD) City continue to be negligible in 2019.

Rents

As availability of ready to move in Grade A office spaces remained constrained, rents witnessed a consistent increase in most micromarkets, with good quality buildings witnessing a steady upward movement. Average rentals of Peripheral North micromarket has increased significantly by 25% YOY in 2019; whereas other micromarkets like Peripheral East, CBD and SBD City saw an increase in rentals by 15-20%.

Bangalore's Key Highlights

Coworking:
Foreseeing high demand, coworking operators have been leasing out entire buildings in certain micromarkets like ORR.

Most major developers now have their own coworking brands in the city. Bangalore also saw a substantial increase in the number of local/homegrown coworking operators.

While HSR layout and South Bangalore have witnessed space take up by local coworking/flexi space operators, other micromarkets have witnessed leasing activity by larger players of the segment. Average transaction size of coworking operators is 150-300 seats in the IT locations of the city.

ORR and Whitefield:
ORR has become a preferred location for key tenants. Whitefield and Brookefield are expected to retain the second spot for absorption, next to ORR. It is noteworthy that office developments have started to emerge in northern Bangalore beyond Hebbal.

Bangalore Market Outlook

Bangalore has outpaced each city market in India over the last several years. The IT Capital of India retains its unblemished record in 2019 as well and is poised to retain the position in 2020. Bangalore is likely to continue with infrastructure upgrade with infusion of electric buses, and completion of the much delayed metro line of Silk board – K R Puram, Kempegowda International Airport which is also expected to begin in 2020.

Demand:
We expect a YOY growth of 4-5% in leasing activity over the next 1 year in the city. Specifically, the micromarkets of Outer Ring Road, SBD City and Whitefield are likely to constitute a significant share of the total leasing in 2020.

Sectors:
In the short term, the sectors that are expected to lead the demand are technology and flexible working spaces.

Rents:
Led by a strong leasing activity, Peripheral East micromarkets is likely to see a YOY growth in rentals of over 10% in 2020 whereas other micromarkets are likely to witness a rental growth of 3-7%.

Supply:
2020 is expected to witness large volume completions along the ORR, Peripheral East district and North Bangalore.

Major Transactions in 2019

Tenant	Micro market	Building	Transacted Area (mn sq. ft.)
Amazon	Outer Ring Road	Bagmane Constellation	0.68
Cognizant	Peripheral East	Bagmane Solarium	0.48
Harman International	Peripheral East	Sattva Knowledge Court	0.35
STT GDC India	Peripheral East	EPIP Layout	0.40
Exxon Mobile	Peripheral East	Prestige Shantiniketan	0.25
Mercedez Benz	Peripheral East	Brigade Tech Garden	0.48
Paypal	Outer Ring Road	RGA Tech Park	0.15
Legato	Outer Ring Road	RGA Tech Park	0.15

BENGALURU MICROMARKETS
Central Business District (CBD) - MG Road, Millers Road, Vittal Mallya Road, Residency Road
Outer Ring Road (ORR) - Zone1: Sarjapur to Marathahalli, Zone2: Marathahalli to KR Puram, Zone3: KR Puram to Hebbal
Secondary Business District (SBD) City - Indira Nagar, Old Airport Road, CV Raman Nagar, Koramangala, Jayanagar, Domlur, Bannerghatta Road, Rajaji Nagar, Malleshwaram
Peripheral East - Whitefield
Peripheral South - Electronic City, Hosur Road, Mysore Road
Peripheral North - Bellary Road, Thanisandra Road, Tumkur Road, Hebbal to Yelahanka

CHENNAI OFFICE MARKET UPDATE

Office Absorption in Chennai
(mn sq.ft.)

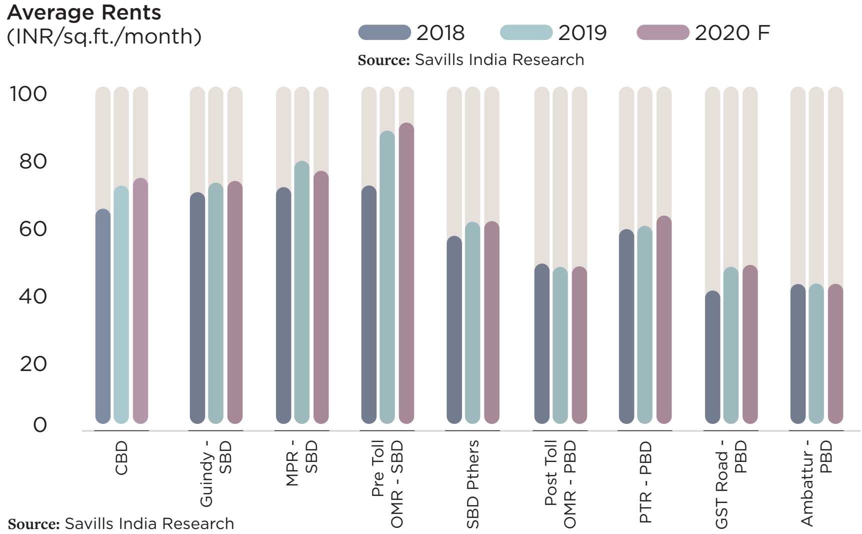
Source: Savills India Research

Grade-A Office Stock & Vacancy

	Stock (mn sq.ft.)	Vacancy (%)
2018	67.7	6.6
2019	71.2	12.4
2020F	81.1	11-13

Source: Savills India Research

Average Rents
(INR/sq.ft./month)



Source: Savills India Research

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Leasing and Completions

Absorption:
Chennai witnessed 6 mn sq.ft. of fresh leasing activity, in addition to large volume pre-commitments of approx. 2 mn sq.ft. The micromarkets of Old Mahabalipuram Road (OMR) – both Pre- and Post-Toll as well as the Pallavaram Link Road – accounted for approximately 50% of total leasing activity in the city.

Sector Split:
Technology, engineering and manufacturing, along with pharma and healthcare sectors constituted over 70% of total leasing activity during 2019.

Much like other key cities of India, the rise in flexible spaces is witnessed in Chennai too, which accounted for approximately 14% of the demand, and is projected to continue growing over the next year.

Supply:
The city saw completions to the tune of 3.5 mn sq.ft. with close to 60% of the additional supply being on the Pallavaram - Thoraipakkam Link Road. The post toll micromarket of OMR also saw approximately 1 mn sq.ft. completions in 2019.

Vacancy Rate

Despite a healthy growth in leasing, vacancy levels saw a spike in Chennai from 6.6% in 2018 to 12.4% in 2019, representing a market that anticipates further growth. The rise in vacancy is mainly attributed to significant project completions on Pallavaram-ThoraipakkamLink Road.

Rents

Rentals recorded an upward trend across most micromarkets on a YOY basis. The key southern stretches of Chennai, namely, OMR (Pre-Toll) in the south, and the Guindy – Mount Poonamallee stretch to the south west, witnessed noticeable increases in rentals. The growth rates in these two micromarkets was reported at 23% and 11% respectively.

The rise is mainly attributed to robust demand, dearth of quality supply as well as proximity to public transport and infrastructure which has pushed the rentals to higher levels.

Chennai's Key Highlights

Three Drivers

Rise of Coworking:
Driven by technology companies and the demand for efficient, contemporary and open office needs, sizeable consolidations as well as relocations have been increasing. Coworking operators are expected to lease out significant spaces in the near term. The current number of seats in the city is estimated to be close to 20,000 and rising.

Funds & National Developers:
India is on the global map as a preferred destination for investment from private equity players, pension and sovereign funds as well as institutional investors; Chennai as a city is attracting a fair share of investment from the pie. Some of the key investors include Xander, Mapletree, Blackstone, CapitaLand and GIC.

Foreign PE funds have made heavy investments in Chennai through assets like SP Infocity (bought by Mapletree) and One India Bulls Park (bought by Blackstone) while some others like GIC have invested in pan India developers like DLF and Brigade groups for their projects in Chennai.

Greenfield Projects:
Chennai has been a preferred destination for industrial, warehousing, manufacturing and campus developments. The demand for land and greenfield projects is expected to witness a further increase in the city as well. Some of the big names in this sector who have invested in Chennai include Indospace, Ascendas First Space ESR and Mahindra.

Chennai Market Outlook

Backed by a strong demand base, Chennai office market is projected to witness a firm leasing activity in 2020 as well.

Demand:
We expect a YOY growth of 3-4% in leasing activity over the next 1 year. The expected absorption is therefore pegged at approximately 8.3 mn sq.ft., during the year 2020. Specifically, the micromarkets of Mount Poonamallee Road, the Pallavaram-Thoraipakkam stretch as well as the Pre-toll OMR micromarket are likely to constitute a significant share of the total leasing in 2020.

Sectors:
In the near term, industry sectors expected to lead the demand side are technology, financial services, manufacturing, coworking, as well as healthcare technology firms. India is witnessing a rise in warehousing and logistics, for which Chennai has a natural advantage, being a key port city. These will contribute to the rise of workspaces in the long term.

Rents:
Similarly, base rents across the central business district, Pre-Toll OMR and Pallavaram-Thoraipakkam stretch are likely to witness an average increase of approximately 3-5% as well, on the back of traction in leasing as well as preleasing activity.

Supply:
In terms of supply, 2020 is projected to witness major completions along the micromarkets of GST Road and Pallavaram-Thoraipakkam Link Road and Mount Poonamalee Road leading to a 2-3% rise in vacancy levels in the short-term.

Major Transactions in 2019

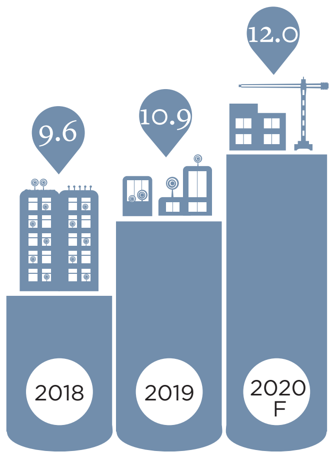
Tenant	Micro market	Building	Transacted Area (mn sq. ft.)
Accenture	PTR	Embassy	0.25
Pfizer	CBD	VST	0.16
First Data	PTR	Embassy	0.15
Cognizant	Post Toll OMR	Ozone Tech Park	0.60

CHENNAI MICROMARKETS

CBD - Anna Salai, Nungambakkam, R K Salai, Egmore, T Nagar, Gream Road
SBD - Guindy & MPR- Guindy Estate, Little Mount, Ekatuthangal, Mount Poonamalle Road, Manapakkam
SBD - Pre Toll OMR- Tharamani, Perungudi, MGR Salai
SBD Others - Velachery, Arcot Road, Arumbakkam, Anna Nagar
PBD - Post Toll OMR- Thoraipakkam, Shollinganallur, Navalur, Siruseri
PTR – PBD - Pallavaram Link Road
GST Road – PBD- Perungalathur, Maraimalai Nagar
Ambattur – PBD- Ambattur

DELHI NCR
OFFICE MARKET UPDATE

Office Absorption in NCR
(mn sq.ft.)



Source: Savills India Research

Grade-A Office Stock & Vacancy

	Stock (mn sq.ft.)	Vacancy (%)
2018	103.3	17.0
2019	117.3	18.0
2020F	124.6	16-18

Source: Savills India Research

Leasing and Completions

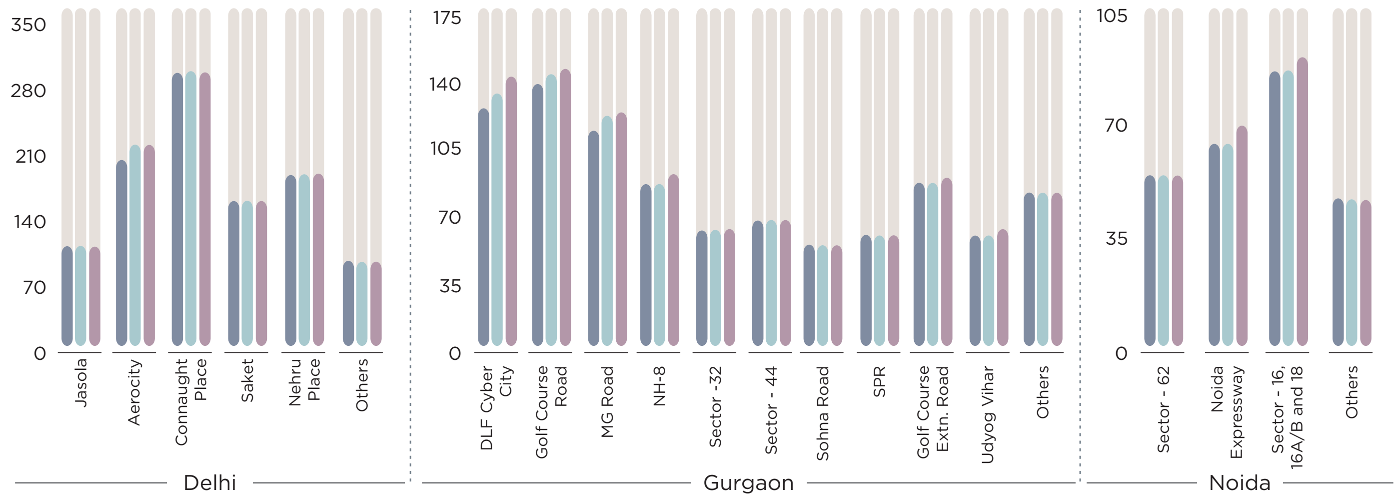
Absorption:
National Capital Region (NCR) recorded an office space absorption increase of 14% YOY in 2019 to reach 10.9 mn sq.ft.

The growth was mainly led by a 15% YOY growth in Gurgaon and 26% growth in Noida.

The micromarkets of NH-8 and Udyog Vihar in Gurgaon constituted over 50% of absorption in 2019. DLF Cyber City and Southern Peripheral Road (SPR) each constituted around 10% of the total absorption in 2019. In case of Noida, the absorption of Noida Expressway increased three-fold to reach 1.8 mn sq. ft.

Overall absorption in Delhi, however, remained muted with absorption in Jasola and Connaught Place constituting close to 60% of the city demand.

Average Rents
(INR/sq.ft./month)



Source: Savills India Research

Supply:
NCR witnessed project completions to the tune of 14 mn sq.ft. in 2019. Whilst Gurgaon witnessed completions of 7.7 mn sq.ft, those in Noida stood at 6.2 mn sq.ft.

In Gurgaon, Golf Course Extension Road constituted approximately 50% of the completions, followed by the NH-8 stretch at 32%.

Noida market also witnessed significant completions. The distribution was broadly between the Noida Expressway micromarket which added close to 60% of stock, followed by over 25% completions in Sector 16 and Sector 18 micromarkets.

Vacancy Rate

Substantial completions kept vacancy levels range-bound despite healthy absorption levels.

In Delhi, vacancy levels in Jasola stood above 15% levels, whereas in Saket, the vacancy levels were approximately 10%. In all other micromarkets of Delhi, the vacancies recorded were around 5%.

In Gurgaon, vacancy levels in Sohna Road, SPR and Golf Course Extension Road were reported to be high at around 30%. DLF Cyber City, Golf Course Road and Udyog Vihar reported lower vacancies.

The levels in Noida Expressway micromarket were reported at 14-15% whereas Sector 62 was higher, close to 18%.

Rents

Base rents remained largely stable across most micromarkets, in all 3 key cities comprising NCR, on a YOY basis.

However, minor movements in rentals were recorded for some of the micromarkets. For instance, in Delhi, the Aerocity micromarket saw an increase of 5-7% compared to rents in the previous year.

Similarly, in Gurgaon, rentals recorded an upward movement of approximately 7%, in DLF Cyber City and on MG Road.

On an overall basis though, rentals in NCR remained at the levels recorded in 2018.

NCR's Key Highlights: Most Steady Market 2019

Strong Demand Base:
NCR recorded absorption in excess of 10 mn sq.ft. in 2019, making it the only market apart from Bangalore to cross the 10 mn absorption mark. This has confirmed its strong performance for two years beginning 2017-18 when it recorded a growth in excess of 15%. NCR's demand is mainly driven by the growth in technology sector, but the rise of coworking has accelerated its absorption in 2018 and 2019. We estimate that the same trend will continue over the next year.

Strong Supply Pipeline:
NCR's YOY supply growth of approximately 14% was among the highest in 2019, with only Hyderabad growing at a higher rate of 21% on a YOY basis.

It is worth noting that the total addition of nearly 14 million sq.ft. to stock in NCR was the largest addition to a market in 2019. This was marginally ahead of Bangalore's 12.3 mn sq.ft. This was the most unique aspect of NCR's market, which helped maintain its rentals in balance despite a strong demand. Further, NCR was able to maintain its vacancy levels at near steady levels, with merely 1% increase on a YOY basis.

Demonstrating strong absorptions, while maintaining steady rentals and vacancies are clearly the most outstanding highlights of NCR in 2019.

NCR Market Outlook

New Delhi will begin the year 2020 with state assembly elections, which will have a short-term impact on hastening of some projects. Over the last two years NCR has witnessed a flurry of projects including Eastern Peripheral Expressway, Delhi-Meerut Expressway and UER (Urban Extension Road), etc. However, a part of real estate does face roadblocks as construction ban may further affect the residential segment. NCR market has undergone a strong transformation in the current year.

In 2019, it is the third market to have recorded close to 10 mn or higher absorption – the other two being Bangalore and Hyderabad. It is expected to maintain its momentum going into the next year.

Demand:
Healthy demand across sectors is likely to drive absorption in 2020. We expect a YOY growth of 8-10% in leasing activity over the next year. The expected absorption could reach 12 mn sq.ft. during the year 2020. We expect the growth to be largely led by a 14-15% YOY growth in Gurgaon facilitated by micromarkets of NH8, SPR and Golf Course Extension Road. Delhi is also likely to see a healthy absorption growth in 2020 albeit on a lower base.

Rents:
We expect base rents in certain micromarkets to increase by around 5-6% in Gurgaon whereas by 7-8% in Noida.

Supply:
In terms of supply, CY 2020 is likely to see muted completions of around 7-8 mn sq.ft of which over 60% is likely to be completed in Gurgaon and balance in Noida.

Major Transactions in 2019

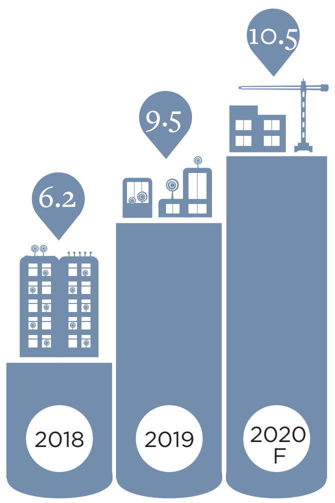
Tenant	Micro market	Building	Transacted Area (mn sq. ft.)
American Express	SPR	DLF Corp. Greens	1.2
Vivo	Tech Zone	World Trade Centre	0.8
Google	Nh8	Vatika One on One	0.7
Google	SPR	Tril Commercial Tower	0.5
UHG	Golf Course Extn. Road	Ascendas ITPG	0.5
E&Y	NH8	DLF Cyber Park	0.4
Qualcomm	Expressway	Candor Techspace	0.3

NCR MICROMARKETS

Delhi – Jasola, Aerocity, Connaught Place, Saket, Nehru Place.
Gurgaon - DLF Cyber City, Golf Course Road, MG Road, NH-8, Sector-32, Sector-44, Sohna Road, SPR, Golf Course Extn. Road, Udyog Vihar.
Noida - Sector 62, Noida Expressway, Sector 16, 16A/B and 18.

HYDERABAD
OFFICE MARKET UPDATE

Office Absorption in Hyderabad
(mn sq.ft.)



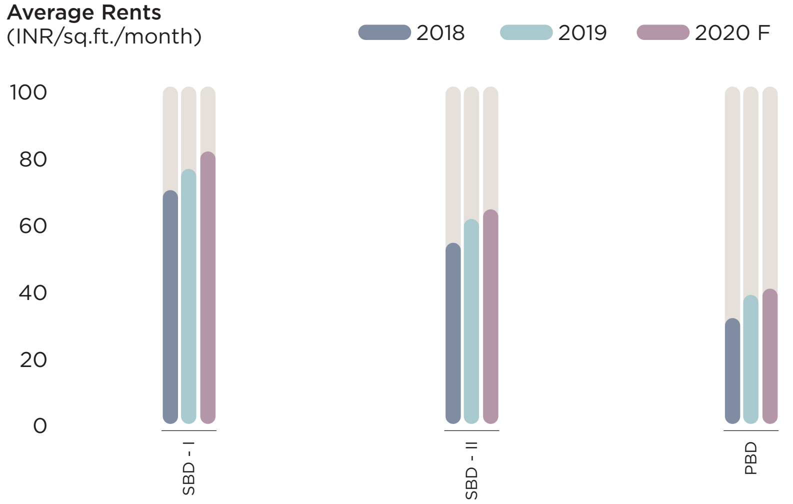
Source: Savills India Research

Grade-A Office Stock & Vacancy

	Stock (mn sq.ft.)	Vacancy (%)
2018	47.2	5.6
2019	57.1	4.5
2020F	69.9	5-7

Source: Savills India Research

Average Rents
(INR/sq.ft./month)



Source: Savills India Research

Leasing and Completions

Absorption:
Hyderabad witnessed a YOY increase of over 50% in 2019. The micromarkets of Secondary Business District-I (SBD-I), primarily Madhapur and SBD-II, primarily Gachibowli, constituted over 90% of total leasing activity in the city. Absorption in Madhapur almost doubled in 2019. The Peripheral East micromarket too witnessed minor leasing activity this year vis-à-vis 2018.

Sector Split:
Technology, Financial Services and coworking operators constituted significant share of total absorption.

Supply:
The city saw completions close to 10 mn sq.ft. with significant completions of around 8 mn sq.ft. in Madhapur micromarket.

Vacancy Rate

Strong leasing led to a marginal decline in vacancy levels which decreased to 4.5% in 2019, from 5.6% in 2018.

With completion of 0.7 mn sq.ft. in the eastern peripheral micromarket of Pocharam and Uppal, the vacancy level increased by 3 times. However, in Madhapur, the same almost halved to reach 1.3%. The reduction in vacancy levels in Madhapur despite supply growth, can be attributed to strong leasing activity driven by the technology sector.

Rents:
Strong leasing activity and low vacancy levels led to a sharp rise in rentals. Average rentals increased by 14% in Gachibowli and by 9% in Madhapur.

Hyderabad's Key Highlights

A historic high:
Hyderabad witnessed a record total absorption of 9.5 mn sq.ft. In the past, only Bangalore and National Capital Region (NCR) had registered absorptions in the vicinity of 10 mn sq.ft. or higher in a calendar year.

This is the first instance of two technology focussed cities outpacing other key markets in the country.

The annual leasing activity in Hyderabad in 2019, was close to the combined fresh leasing activity witnessed in Pune and Chennai.

IT Focus:
The supply was concentrated in the IT parks of Madhapur-HITEC City and Gachibowli. Interestingly, most supply in HITEC City witnessed high pre-commitment and became operational at almost full occupancy. The continued expansion by technology occupiers combined with increasing interest from large coworking occupiers have led to a substantial increase in the rental values too across the secondary and eastern peripheral business districts.

Hyderabad Market Outlook

Hyderabad's unprecedented rise to the second largest market, after Bangalore, is indicative of two features, which bode well for its future. First, Hyderabad had remained subdued over a prolonged period owing to socio-political issues. The quantum leap in absorption in 2018 and 2019 indicates its strong inherent potential which will hold it in good stead in near future. Second, Hyderabad, like Bangalore, remains a focus of technology occupiers. The strong performance of 2019 is a clear indication of these companies' growth plans, which would bode well for Hyderabad's future absorption patterns. Hyderabad's rentals are almost 25% lower than those in Bangalore which makes it attractive for occupiers.

Demand:
The office market in Hyderabad can expect a further 9-10% increase in absorption in 2020. Both Madhapur and Gachibowli are well placed to record significant leasing activity. We foresee demand to be stable from existing occupiers of Hyderabad and some growth with new firms taking up space in the city.

Sectors:
Technology sector accounted for more than 50% of the leasing activity in 2019. The trend is expected to continue in 2020 as well.

Rents:
Led by significant completions, vacancy levels are likely to increase marginally from the current sub 5% levels but strong demand is likely to support a modest growth in rentals of 5 - 7 % across all micromarkets.

Supply:
In terms of supply, 2020 is likely to see substantial completions to the tune of 13 mn sq.ft. Gachibowli is likely to constitute 40% of these completions whereas Madhapur will constitute the balance.

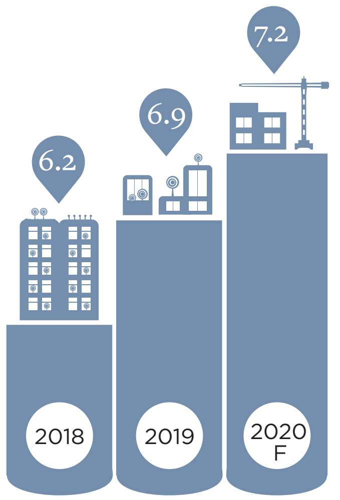
Major Transactions in 2019

Tenant	Micro market	Building	Transacted Area (mn sq. ft.)
Wells Fargo EGS India Private Limited	Madhapur	DivyaSree Orion - Block 5	0.37
Xilinx India Technology Services Private Limited	Madhapur	Knowledge City (Parcel-4)	0.36
Micron Technology Operation India Limited Liability Partnership	Gachibowli	The Skyview	0.36
Qualcomm India Private Limited	Gachibowli	The Skyview	0.41
Mahataa Information India Private Limited	Gachibowli	Salarpuria Sattva Knowledge Capital - Block 1	0.37

HYDERABAD MICROMARKETS
Secondary Business District I (SBD-I) - Madhapur- Madhapur, Kondapur, Raidurg
Secondary Business District II (SBD II) - Gachibowli- Gachibowli, Nanakramguda, Manikonda
Peripheral East - Pocharam, Uppal

MUMBAI
OFFICE MARKET UPDATE

Office Absorption in Mumbai
(mn sq.ft.)



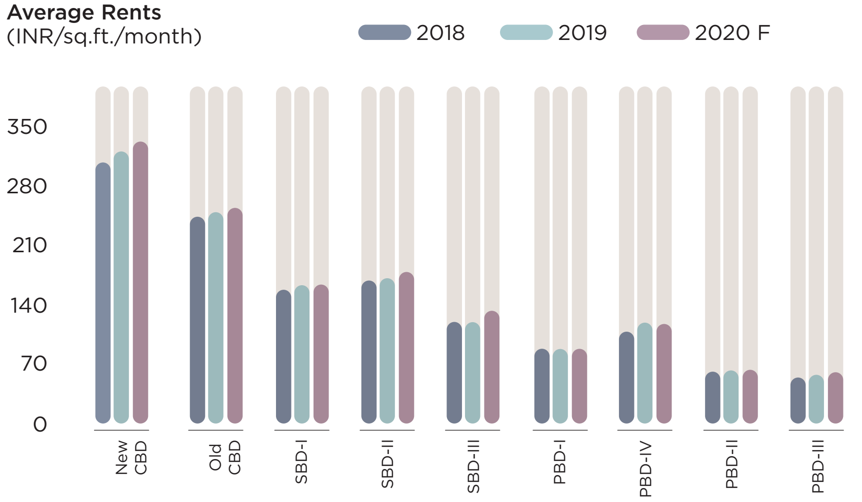
Source: Savills India Research

Grade-A Office Stock & Vacancy

	Stock (mn sq.ft.)	Vacancy (%)
2018	120.3	16.1
2019	124.1	13.9
2020F	130.4	12-14

Source: Savills India Research

Average Rents
(INR/sq.ft./month)



Source: Savills India Research

Leasing and Completions

Absorption:
Mumbai Metropolitan Region (MMR) saw an absorption of 6.9 mn sq.ft., a YOY increase of 11% in 2019. Micromarkets like New Central Business District (CBD), defined as Bandra Kurla Complex (BKC) and off BKC areas, the Secondary Business Districts (SBDs) of North Central Mumbai & North Mumbai constituted over 50% of the total leasing activity in the city. Nesco, Nirlon and Oberoi saw tremendous pre-leasing and leasing in 2019 and rental strengthening in that market.

This absorption pattern became an established trend in Mumbai and continued to be such, during the year.

Sector Split:
Financial Services, Technology, along with Engineering & Manufacturing sectors constituted over 60% of total leasing activity during 2019.

Coworking spaces accounted for approximately 9% of the total absorption.

Supply:
The city market saw completions of about 3.7 mn sq.ft., of which, almost 80% was in the PBDs of North Mumbai, Thane & Navi Mumbai; whereas the traditional micro-markets of Old CBD & New CBD witnessed negligible completions during the year.

Vacancy Rate

Sound leasing activity during the year led to decline in vacancy levels, from about 16% in 2018 to approximately 14% in 2019. However, the micromarket of Navi Mumbai stood at around 20% vacancy, whereas North Central Mumbai reported approximately 16% vacancies. Vacancy levels in major micromarkets like BKC were lower than the city-average, at about 11-12% in 2019.

Rents

With heightened leasing and decline in vacancy levels, rentals firmed further, though gradually, across micromarkets in 2019.

Average rental growth for most micromarkets was recorded at 5% for Thane, Navi Mumbai and BKC. The SBD of Eastern Suburbs witnessed highest annual rental growth of approximately 10%.

Mumbai's Key Highlights

Strong office markets & increasing investor interest:
Mumbai's position in 2019 moved from being in the top three to the fourth largest office market in terms of absorption. Towards the end of 2018, Mumbai's new DCPR (Development Control and Promotional Regulation 2034) came into effect with while creating more jobs as one of its objectives. It will however, cast its impact in due course. Mumbai's office markets witnessed another strong year in 2019, with its rental growth expected to sustain in the near term. This continues to attract institutional as well as private investors. As observed across most major cities of the country, the commercial segment acted as a buffer for real estate, which is otherwise under pressure on account of a slow-moving residential sector.

REIT listings are being closely analysed by major players, including Brookfield and K Raheja Corp. Investments in core built up assets were led by private equity players. Interest in warehousing is resurgent and land investments remain a focus of developers and logistics.

Mumbai Market Outlook

Momentum in Mumbai's infrastructure upgrade remains strong, with upcoming trials for metro lines and planned introduction of water taxis. A portion of Mumbai-Nagpur Expressway is also expected during 2020. Moreover, the work on USD 8.5 bn Mumbai-Pune hyperloop is expected to begin during 2020. Key projections for real estate are as follows:

Absorption:
Absorption is likely to increase by 4-5% in 2020 owing to increase in leasing activity in BKC and off BKC, South Central Mumbai and Navi Mumbai micromarkets, which are witnessing major completions. Fresh absorption in the range of small to medium sized transactions of approximately 10,000 to 40,000 sq.ft. are likely to contribute most to absorption in matured micromarkets of BKC and Lower Parel. Absorption will continue to be driven by Fin-Tech, Flexible spaces and financial services occupiers.

Flexible office stock is expected to continue space take up in 2020 as well, however it is noteworthy to observe that a large portion of that stock comes out in the market as available seats in a few months. What is also being observed is that several coworking players are taking up new spaces only when they are backed by an occupier that will take up 20 to 50% of the space that they are committing to. The new tech-revolution led by AI, Blockchain, IOT and others, has paved the way for a surge in demand for data centres, which is also backed by the anticipation of the Data Protection Bill. E-commerce and retail sector will continue to provide impetus to the warehousing and logistics landscape in real estate. Traditional demand drivers like Engineering, Technology, BPO and Financial Services will remain major contributors in the near term.

Rents:
Key micro markets like BKC and vicinity are likely to witness a higher rise, whilst suburban and peripheral markets like Andheri, Goregaon and Thane Belapur Road may see a marginal hike. Rental ranges in certain markets like Lower Parel and Old CBD are expected to remain stable. New Grade A supply in suburban and peripheral markets will drive most leasing activity which can lead to northward movement of rental averages. Overall, we foresee rents to remain stable in most micromarkets and strengthening in some key markets like BKC.

Supply:
BKC may witness supply additions in 2020; these are new developments which have been built for end-use by companies but parts of it might be available in the market for leasing/sub-leasing. There are some occupiers in BKC that may evaluate alternate markets in Mumbai owing to further strengthening of rents in prime buildings at BKC; and this may result in some secondary supply coming up in 2020. Lower Parel, the other key micromarket in Mumbai does not have much fresh supply anticipated in 2020. On the other hand, there are several mid-sized ongoing projects in Andheri which are poised to get completed in 2020. The peripheral markets of Navi Mumbai, Thane and Thane Belapur Road would see some fresh supply as well. There are also some projects which have been launched and will be available for leasing; some of these prominent projects are on the JVLR corridor and in Goregaon – all in the North Central Mumbai SBD.

We expect BKC and Lower Parel vacancy levels to be in the range of about 8 to 10%. Andheri, with a large overall and diverse stock, could record vacancy levels of about 14-15%. The overall vacancy levels in the city have been about 14% and with steady demand on the one hand and upcoming supply on the other, we anticipate that vacancy is likely to remain range bound in 2020.

Major Transactions in 2019

Tenant	Micro market	Building	Transacted Area (mn sq. ft.)
WPP	SBD - North Central Mumbai	The Orb	0.30
WeWork	SBD - Eastern Suburbs	Chromium	0.25
Tata Communications	SBD - South Central Mumbai	Equinox Tower 4	0.24
Yes Bank	PBD - Thane	Empire Tower	0.23
WeWork	SBD – North Central Mumbai	Nesco IT Park - Building 4 (Ph-2)	0.23

MUMBAI MICROMARKETS
Old CBD (**South Mumbai**) - Nariman Point, Cuffe Parade, Ballard Estate, Fort, Churchgate.
SBD - I (**SBD - South Central Mumbai**) – Mahalaxmi, Worli, Lower Parel, Prabhadevi, Dadar West, Dadar East, Parel.
New CBD (**BKC**) - G Block, Other than G Block.
SBD - II (**SBD - BKC Periphery**) – Bandra E, Bandra W, Kalina, Vakola, Khar E, Khar W, Kurla, Santacruz E, Santacruz W.
SBD - III (**SBD North Central Mumbai**) – Vile Parle E, Vile Parle W, Andheri E, Andheri W, Jogeshwari E Jogeshwari W, Goregaon E, Goregaon W.
PBD – I (**North Mumbai**) - Malad East, Malad W, Kandivali E, Kandivali W, Borivali E, Borival W.
SBD - IV (**SBD – Eastern Suburbs**) – Sion, Chembur, Ghatkopar, Mulund, Kanjurmarg, Powai, Vikhroli.
PBD – II (**Thane**) – Thane.
PBD – III (**Navi Mumabi**) – Airoli, Vashi, CBD Belapur, Mahape, Turbhe.

PUNE
OFFICE MARKET UPDATE

Office Absorption in Pune
(mn sq.ft.)

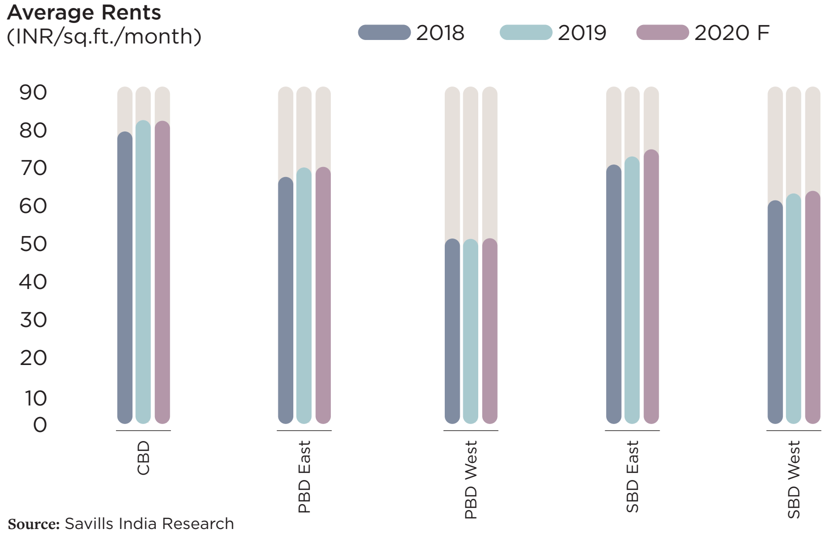
Source: Savills India Research

Grade-A Office Stock & Vacancy

	Stock (mn sq.ft.)	Vacancy (%)
2018	46.0	4.7
2019	49.5	4.2
2020F	53.7	3-5

Source: Savills India Research

Average Rents
(INR/sq.ft./month)



Source: Savills India Research

Leasing and Completions

Absorption:
Pune witnessed leasing activity to the tune of 6.8 mn sq.ft. in 2019. The leasing activity was concentrated in Secondary Business District (SBD) East, which accounted for close to 50% of the absorption of the city.

Sector Split:
In 2019, the technology sector constituted over 55% whereas the coworking segment stood at 20%. While the western SBD saw high space intake by coworking sector, leasing activity in the eastern SBD was dominated by technology sector.

Supply:
The city market saw completions of about 3.5 mn sq.ft.. In terms of micromarket wise addition, Baner-Balewadi in SBD-West is witnessing heightened activity, with the area contributing to over 60% of the supply additions in Pune. This trend is likely to continue in the near term as, strong connectivity via National Highway 48 and the upcoming metro project is expected to drive developer interest to meet the increasing demand of commercial space in the area.

Vacancy Rate

Continued traction in leasing activity during the year led to decline in vacancy levels from about 4.7% in 2018 to 4.2% in 2019. The decrease in vacancy levels was primarily driven by strong leasing activity across most micromarkets.

Rents:
Increase in absorption coupled with decrease in vacancy levels, led to rents in Pune increasing by 3-5% across most micromarkets. Peripheral Business District (PBD) East and Central Business District (CBD) witnessed a rental growth of 4.4% and 3.7% respectively.

Pune's Key Highlights

Flexi Coworking spaces gain significant market share:
Demand from flexible space operators remained strong in 2019 as well.

Access to robust technology driven infrastructure, seat wise rentals, availability of commercial spaces of smaller sizes and overall economic viability of flexi spaces have been the main demand drivers of such spaces, leading to growing market share of the segment in the city. The current number of seats in the city is estimated to be close to 150,000 and rising.

Evolution of new commercial areas due to limited vacant space in established sub-markets:
Pune has witnessed the emergence of new commercial hotspots such as Nanded City, and the Pimpri- Chinchwad Municipal Corporation (PCMC) area. These areas have managed to attract prominent developers due to their strategic location and good connectivity to central areas. The crisis of limited space in the central business districts have supported the emergence of new areas.

High degree of pre-commitments: The Pune market has witnessed high degree of pre-commitments in the last few years and the same is expected to continue in 2020 as well. Technology and coworking sector led the market in terms of percentage share in the pre-commitments observed in the city.

Pune Market Outlook

Demand:
The office market in Pune is likely to see an absorption of around 7 mn sq.ft. in 2020. With the announcement of completion of Hinjewadi to Balewadi phase of the Pune metro line 3 by 2020 end, significant traction in leasing activity is expected to be witnessed in SBD West. With rising demand across the city in the near to medium term, pan-India developers and global funds are looking forward to increasing their footprint in the city.

Sectors:
Driven by technology companies and the demand for efficient, contemporary and open office needs, the Pune market is expected to witness sizeable relocations and consolidations as well. As seen across the country, coworking sector is likely to remain attractive to players with low to medium office space requirements.

Rents:
Vacancy levels are likely to remain at the levels recorded in 2019. We expect rentals to increase by around 2-4% per cent across all micromarkets.

Supply:
In terms of supply, 2020 is likely to see completions to the tune of 4.2 mn sq.ft., a 20% growth from 3.5 mn sq.ft. in 2019. The western secondary business district is likely to continue to constitute majority of the supply additions, as was the trend in 2019 as well.

Major Transactions in 2019

Tenant	Micro market	Building	Transacted Area (mn sq. ft.)
Smartworks Coworking Spaces Private Limited	SBD East	Marisoft Annexe	0.14
Barclays	SBD East	Gera Commerzone	0.70
Infosys	PBD West	ITTP, Phase III	0.20
HCL	PBD West	Embassy	0.26
WeWork	SBD East	Futura Tower	0.19

PUNE MICROMARKETS
CBD - Laxmi Road Camp, Bund Garden, Boat Club, Koregaon Park, Dhoel Patil Road, Pune station, Shivaji Nagar, FC Road, JM Road, Wakdewadi, SB Road, Model Colony, Ganeshkhind Road
PBD East - Phursungi, Wagholi, Charoli, Solapur Road, Saswad Road
PBD West - Hinjewadi, Wakad, Pimpri, Bhosari, Chinchwad, Bavdhan Mulshi, Talewade, Tathewade, Nanded City, Pimple Saudagar, Katraj
SBD East – Kalyani Nagar, Kharadi, Mundhwa, Yerwada, Nagar Road, Viman Nagar, Hadapsar, Kondhwa
SBD West – Aundh, Baner, Pashan, Kothrud, Karve Nagar, Khadki, Paud Road

APPENDIX

Several changes that took place on the funding and taxation scene have a direct bearing on supply and demand dynamics in real estate. These are important to be understood in detail since they can lead to shifts in real estate sales or absorption patterns. We discuss briefly some of the key issues which have been mentioned in the report.

Alternative Investment Fund (AIF)

In order to help stalled and middle-income residential projects, on the 6th of November 2019, the government announced INR 25,000 crore last-mile funding through Special Window. The fund is proposed to be set up as Category-II AIF debt fund registered with SEBI[1]. This is meant for completion of around 350,000 stuck housing projects including those which are Non Performing Assets (NPAs) or facing bankruptcy proceedings under National Company Law Tribunal (NCLT)[2]. As per an earlier condition, to be eligible for funding, the projects should have been 60% complete. However, in the latest announcement, the condition of the stage of completion was removed. As per the Press Information Bureau[3] of the Government of India, projects which are undergoing NCLT proceedings can be considered for funding through the Special Window up to the stage where the resolution plan for such insolvency resolution process has not been approved / rejected by the committee of creditors.

The government, acting as the sponsor, committed to contributing INR 10,000 crore; whereas the remaining needs to be raised via the fund manager – the State Bank of India's SBICAP Ventures Limited, the Life Insurance Corporation of India (LIC), as well as other investors. Following 5-point criteria has been laid down for the eligible Assignment:

- Stalled for lack of adequate funds;
- Affordable and Middle-Income category;
- Net worth positive projects (including NPAs and projects undergoing NCLT proceedings);
- RERA registered;
- Priority for projects very close to completion.

The table below highlights some important definitions and issues pertaining to the fund.

Definition/ Issue	Explanation
Net worth positive projects definition	These are those projects where the sum of value of receivables and the value of unsold inventory is higher than the sum of completion cost and outstanding liabilities. These should be calculated at the project level only.
Affordable and Mid-income project definition	For the purposes of the first fund under the Special Window, Affordable or Mid-Income Housing shall be defined to include any housing projects wherein housing units do not exceed 200 sq. m. RERA carpet area and are priced as below: • Up to or less than INR 2.0 crores in Mumbai Metropolitan Region • Up to or less than INR 1.5 crore in National Capital Region, Chennai, Kolkata, Pune, Hyderabad, Bangalore and Ahmedabad • Up to or less than INR 1.0 crore in the rest of India.
Maximum finance for a project	The maximum cap for any single project will be INR 400 crores. The government has also proposed to put in place caps for any single developer or any city in the final detail of the scheme.

1. Securities and Exchange Board of India, the capital market regulator of India
2. A quasi-judicial body that adjudicates on matters pertaining to Indian companies
3. https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1590799

Corporate Tax Change

The government announced a change in corporate tax rate for existing companies to 22% from approximately 30% earlier. For new manufacturing companies, the tax rate was reduced to 15% from the earlier 25%. This meant that the effective tax rate for existing companies would be approximately 25.17% (including surcharges and cess) instead of the previous effective rate of about 35%. Companies have been provided the flexibility to shift to the new tax rate whenever they want, but once done, they cannot revert to old rates. It is possible, however, that effective rate of some companies – especially the ones in the manufacturing sector – which avail of several exemptions and deductions, is less than the new rate of 25.17%.

There are some areas of confusion, and companies have been analysing whether to opt for the new rate to claim profits, foregoing carrying-forward of losses. Several companies have used depreciation on plant and machinery for an eight-year period, in accordance with the law, to lower profits and the resultant lower taxation. Apart from an end to exemptions, as per the Finance Ministry, the companies opting for the new tax rate would not be able to use Minimum Alternate Tax (MAT) credits accumulated over years and would not be eligible for setting off their brought forward losses on account of accelerated depreciation. MAT credit is the difference between the tax the company pays under MAT and regular tax; and can be carried forward for 15 financial years. Companies are therefore, understood to be weighing all options to estimate the benefits of shifting to the new rates vis-à-vis continuing with the old rates with exemptions, carrying-forward losses, MAT credit etc.

Goods & Services Tax

Goods & Services Tax (GST) was introduced in 2017 to bring the whole country under a federated taxation. There have been several revisions, and currently the applicable rates for real estate are 1% for affordable housing and 5% for others. These were at 8% and 12% respectively till 31-March-2019. Moreover, GST is applicable only for under-construction sales. Under the earlier system, GST council had allowed Input Tax Credit (ITC) for the developers. However, after the rate-revision mentioned above, ITC was made inapplicable.

Input Tax Credit

Input Tax Credit is a process where suppliers of goods or services can reduce their tax burden by receiving tax credit on inputs used to manufacture the goods/services.

From the table here, it is evident that due to the change in GST rate from 12% to 5% (without ITC) for other than affordable segment, the price reduction is 3%, while for affordable housing, the price would have to be increased. Market realities imply that instead of price-increases, the developers would need to adjust increased costs within their profits.

Section 80 IB (A) of Income Tax and its applicability to Affordable Housing

The projects that are approved under Section 80-IB (A), are eligible to claim 100% deductions from profits. The condition – as per the Budget 2019-20-is that the project needs to be approved between June 1, 2016 and March 31, 2020. It is important to note that the dates are for project's approvals, and not for commencement of construction.

ITC Calculation (Old vs. New GST rates)

Description	Rate	Value (INR Crore)	Description	Rate	Value (INR Crore)
Non-affordable segment	**CA[4] 1200 sq.ft.**		**Affordable Housing**	**CA 600 sq.ft.**	
Sale Price	**10,000**	**1.20**	**Sale Price**	**3,500**	**0.21**
Construction Cost (INR/Sq.ft.)	2,300	0.28	Construction Cost (INR/Sq.ft.)	1,500	0.09
ITC (@18% on Const. Cost)[4]	414	0.05	ITC (@18% on Const. Cost)[5]	270	0.02
Old GST			**Old GST**		
GST (@12%)	1,200	0.14	GST (@8%)	280	0.02
Net Sale Price	**10,786**	**1.29**	**Net Sale Price**	**3,510**	**0.21**
New GST			**New GST**		
GST (@5%)	500	0.06	GST (@1%)	35	0.00
Net Sale Price	**10,500**	**1.26**	**Net Sale Price**	**3,535**	**0.21**

4. Carpet area.
5. It is assumed that the blended rate is 18%.

GLOSSARY OF TERMS

1 Crore: 10,000,000 (ten million)

1 Lakh: 100,000 (one hundred thousand)

Cess is a tax on tax in the Indian system, levied for specific purposes.

Ease of Doing Business Rank: World Bank has published Doing Business 2019 which is its 16th annual edition. It ranks 190 countries globally on 11 parameters for assessing the effectiveness of these countries in enabling businesses.

GST Council: Tax-rates and laws pertaining to Goods and Services Tax (GST) are governed by the GST Council comprising finance ministers of the Centre as well as all the states of India. GST is intended to replace the complex system of indirect taxes across the country with federated taxation.

IIP or Index of Industrial Production is a measure of industrial output, comprising manufacturing, mining and electricity production in India.

MPC or Monetary Policy Committee of India comprises members of the Reserve Bank of India and Government of India nominees, and is responsible for setting benchmark interest rates. It usually meets every two months and publishes its decisions on the benchmark rates as well as its outlook.

TDS or Tax Deducted at Source is a kind of advance tax, deducted for certain payments above a prescribed threshold limit.

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