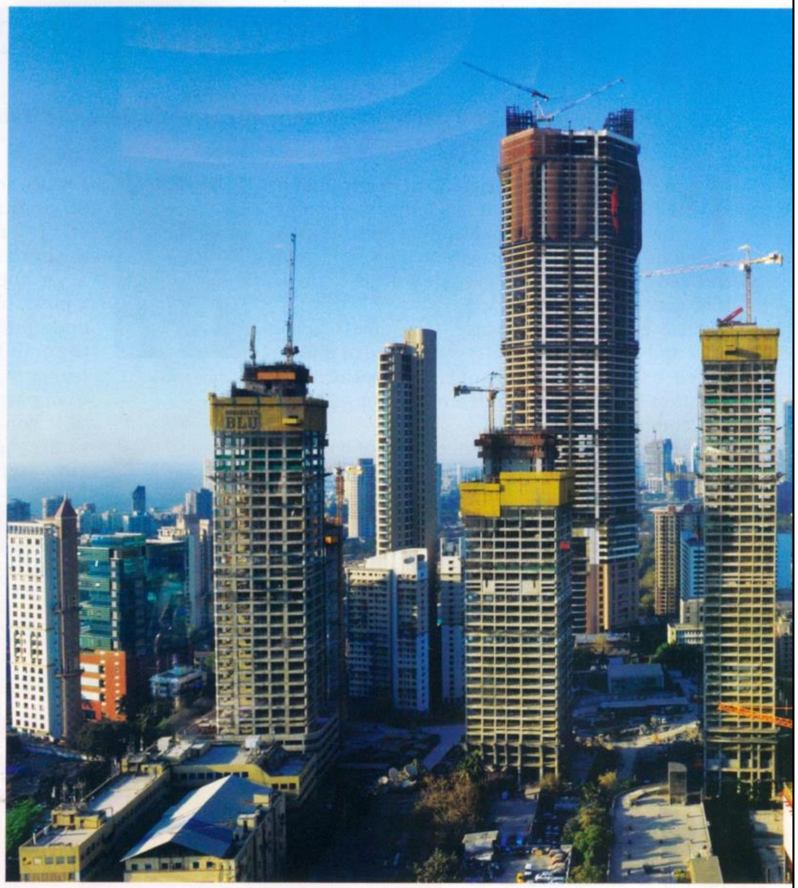


Partnering for growth

Realty players adopt a collaborative approach to face market challenges

The last couple of years have certainly been a game changing period for domestic real estate. A slew of regulations and measures, led by RERA, has completely transformed the whole scenario, forcing the industry to commence its migration journey. Like any other matured markets, the domestic real estate market is also getting into a consolidation mode and, as a result, stakeholders are revisiting their strategies and re-positioning themselves to face the challenges and opportunities emerging in the changing market conditions. While, on the one hand, the market has been moving slowly for some time now and thus impacting the overall business, on the other hand, resources/finances have been scarce, as there are limited funding options left. Many industry players are heavily leveraged, even as cash flow is severely impacted.

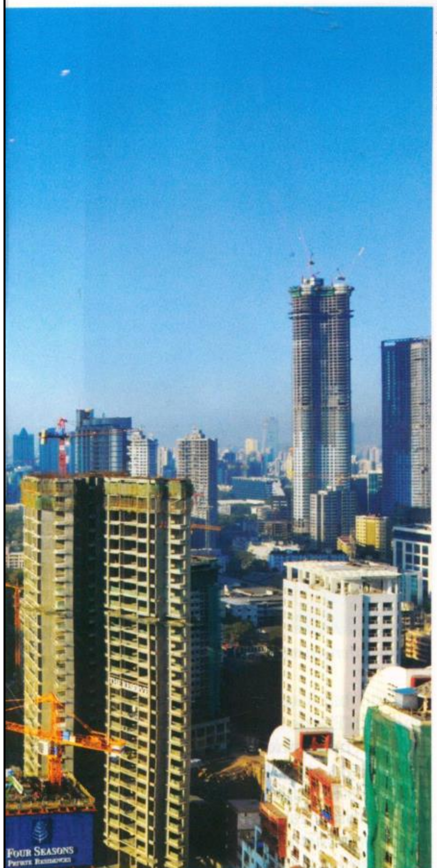
Realty developers, the lead stakeholder of the market, are hard-pressed to not only prepare themselves to face the challenges and headwinds, but also chart their long-term business models, for exploring the market in an effective manner. As part of this entire exercise, the industry players are forced to pursue a collaborative approach, where they are trying to be more focussed and looking to leverage their core competencies.

In other words, the developers, who had all these years been carrying out the entire operation across the value chain on their own, are now looking to focus on particular areas that can fetch them the maximum returns or where they can perform and deliver well. Put another way, the realty developers have started collaborating with each other on various fronts and there is an emergence of a distinct trend, which is likely to be more prominent, going forward.

While the joint development model, where developers join hands with landlords for certain projects, has been present for some time now, the market has seen increased incidences of other forms of collaborations too, in the last couple of years. Development management (DM) model, which has so far been rare, is gradually gaining in prominence and, that too, in various forms, where the partners are trying to complement each other in more than one way.

In a typical DM model, large realty firms step in as development managers for smaller developers and landowners, in return for a share of the revenue, share of profit or a management fee. Pioneered by branded builders like Tata Housing and Godrej Properties, this partnership model has got a boost in the last few years due to a rise in distressed projects in the changing market condition. Such partnerships are often a win-win proposition for both parties involved. While the smaller players who already have land parcels and project approvals gain execution bandwidth and brand credibility to sell in a weak market by associating with the larger and well-established ones, the latter gets project revenues without putting in equity.

Under the DM model, the partner executing the project in the current situation is also increasingly helping the project by chipping in the gap existing in the available capital, apart from executing and marketing the



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same. The primary partner is either putting in its own money or helping raise finance through the floated SPV. These projects are often co-branded. The DM model often provides good opportunity for developers to expand their portfolio even during difficult times. As they follow an asset-light DM model, they can expand their business without experiencing too much strain on their resources. Moreover, developers who are participating in this model can leverage and monetise their expertise in the market too.

"The market has been changing and, that too, quickly in the last couple of years," remarks Ashok Kumar, founder & MD, Gennex Partners India, a leading corporate real estate advisor. "This has forced developers and other stakeholders to adapt to the situation in a quick fashion. The migration, coupled with the prevailing market woes, has compelled the industry to revisit their strategies afresh. Collaboration is one of the options and a tool, which will help facilitate the migration process. Going forward, it could become a part and parcel of the market".

"Collaboration or partnering with another group is an art of alliance to enhance the ability of two different businesses," concurs Rohit Poddar, MD, Poddar Housing & Development Ltd. "In fact, there is a huge upswing for joint ventures after the implementation of RERA. A joint venture not only improves the credibility but also helps meet their targets better. One of the prime aims is to deliver better products and services by adopting out-of-the-box strategies. For instance, if a builder, who is focussed on the residential market, wants to explore the commercial or retail space, they can collaborate with an established brand of that particular sector".

"In this phase of transformation, agility and innovation becomes the name of the game," comments Ashish R. Puravankara, managing director, Puravankara Ltd. "Every player has to be cognizant of their business environment and leverage that to strengthen their existing market position. The real estate sector has witnessed several instances of collaboration in the last 12-18 months. With the sector undergoing transformation, developers have collaborated and innovated to mitigate risks and grow the business. There were also instances, where builders have partnered to play on each other's strengths".

Partnerships and collaborations

The Bengaluru-based builder, which has expanded its business to other southern cities like Chennai, Hyderabad, Mangaluru, Goa and Coimbatore and is also in the process of re-entering Mumbai, has jointly developed its Marina One project in Kochi, in a joint venture with another A grade developer to use each other's domain expertise to offer a better product to discerning customers.

Mohit Malhotra, MD & CEO, Godrej Properties Ltd (GPL), feels that the recent changes in market conditions, as also the regulatory environment, provide a greater incentive for all

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Puravankara: innovation is the key

players in the real estate ecosystem to adopt a collaborative approach. This allows different stakeholders to focus on their respective core strength areas across the real estate value chain and offer a better value proposition for the customers.

"We are already seeing an increasing trend in collaboration among developers as well as with contractors, vendors and other service providers," adds Malhotra. "Owing to our JV partnership model, we have been able to leverage this trend by entering into innovative deal structures with land owners and JV partners to secure more projects". GPL has been in the forefront of implementing DM projects for quite some time now and, with the market scenario undergoing a change, other players are also following this model in an aggressive manner. In fact, the DM model is so popular now that, reputed/corporate builders have built up substantial exposure in this segment, with many getting into the process of ramping up the presence in their portfolio. These builders, who enjoy their brand value with their good track record in the market, are also finding today's market an opportune place to

Malhotra: collaboration is trending

leverage their expertise and capability and expand their portfolio in an asset-light manner in a resource-tight situation.

Mumbai-based Radius Developers, which came into being in 2014 (a Sanjay Chhabria venture, the promoter was part of the core team of the renowned Wadhwa group and instrumental in the group's unprecedented progress in recent years), has almost 40 per cent of its portfolio (total size: 15 million sq ft) under the DM model. The total cost of these the DM projects being carried out by the developer is to the tune of ₹8,000-10,000 crore.

In one such case, Radius has entered into an agreement with Hubtown for its stressed Hughes Road property in South Mumbai. The developer also has an agreement with Rohan Lifescapes' luxury project on Hughes Road. In this ₹750-crore project, Radius is also chipping in with ₹150 crore of capital. (Rohan Lifescapes at one point had tied up with Trump Organization, of the US to build a Trump Tower at this location.) Radius has also inked a tripartite joint venture deal with DB Realty (whose promoters were earlier embroiled in the 2G scam) in the latter's MIG colony project in Mumbai's Bandra suburb. The project had been languishing for years. In most of these cases, Radius is searching for opportunities and bringing in its execution capability in play to bale its partner out of distress situations. In return, it is in a position to quickly expand its portfolio in an asset-light fashion.

Similarly, today corporate developer Shapoorji Pallonji Real Estate (SPRE) has got more than 20 million sq ft of projects under the DM model, as against about 1 million sq ft, a couple of years ago. The developer currently boasts of a total portfolio of 80 million sq ft and, out of this, only about 30 per cent is outright development, with the remaining projects being spread across DM and other modes of partnerships, including joint ventures and joint development.

"The scenario has changed significantly and we are evaluating the market closely," says Venkatesh Gopalkrishnan, CEO, SPRE. "We have also taken strategic decisions to come up with a business model that can help explore the market in a more efficient manner. We have altered our strategy and approach, as per market dynamics, where collaborative efforts will play a major role going forward".

DB agreements

As a part of its strategy, SPRE has entered into a DM agreement with the Mumbai developer Nirmal (erstwhile Nirmal Lifestyle), under which, it will be a development manager for two of Nirmal's projects, where the latter will be responsible for the permissions and land, with the former handling development, marketing and execution. Both these projects are located in Mumbai's central suburb of Mulund. The projects spread across more than 3 million sq ft of residential development (City of Joy and Olympia) are expected to generate a revenue of about ₹5,000 crore over a period of six years. These projects will have joint branding.

Nirmal has been facing various market challenges and is aggressively looking for alliances with large, reputed developers. The company, facing liquidity issues and execution-related delays across its projects, has also decided to monetise some portion of

Gupta: strengthening relationships

its land bank (about 100 acres in the Mulund/Thane area). Piramal Realty has recently purchased a land parcel of 3.2 acres at Mulund from Nirmal for ₹153 crore. This plot is located right next to the Piramal Realty's residential project in the area.

Previously, Nirmal had also entered into a DM agreement with GPL, under which, a residential project (1,200 flats) is being developed in Thane, spread across 14 acres and with a saleable area of 2.1 million sq ft. Here, GPL will execute and market the project as a development manager – as it has been doing in several other cases.

For Nirmal, such an alliance will help it tide over its ongoing problem of liquidity crisis it has been facing in the subdued market conditions, while, for GPL, it will be a faster way to expand its portfolio in an asset light way, as also leverage its corporate brand and execution capability. Over the last few years, homebuyers are increasingly putting their trust in large branded names and as the market progresses this phenomenon will become more prominent.

Nirmal has also entered into an agreement with L&T Realty to jointly develop a nearly 20-acre parcel of land

Atallah: capital light model

on LBS Marg in Mumbai's central suburb of Mulund. The proposed development will be funded by L&T Finance to the tune of ₹570 crore. About ₹400 crore of this funding will be used to redeem NCDs of Green Maiden A 2013 Trust, Kotak Investment Advisors and INQ Holding – acting through Debenture Trustee IDBI Trusteeship Services. The balance is expected to be used for the residential project, which has a saleable development potential of about 3 million sq ft and is expected to generate an estimated revenue of ₹5,500 crore over the next 6-7 years.

"We have a huge land bank of about 100 acres in the Mulund area," says Rajiv Jain, director, Nirmal. "And, we have decided to develop some portion of this land parcel in joint ventures with good brands, which will help increase our execution capability and thus expand our portfolio in a major way". Nirmal has also managed to raise funds (over ₹1,000 crore) out of these alliances and partnerships.

"This is also an opportune time to look for and pick up stressed assets at good locations on competitive terms," suggests M. Murali, MD, Shriram Properties. "Collaborative effort is another form of consortium which would mean, joining together in business for a common or a shared purpose. In this business model, risk is shared, while the capital outlay is minimised. It will also leverage the brand value/image. This is an emerging trend, where consensus of partners becomes vital. At Shriram, we are open to this model. But all depends upon good and viable projects and the identical mindset of partners".

"The Indian real estate industry has been reeling under the effects of the recent government reforms," explains Naaman Atallah, CEO, Piramal Realty. "Consequently, many developers are opting for collaborations/joint development models that facilitate shared costs and risks. This approach is expected to grow as it is a capital-light model and brings in much needed liquidity, helping developers to focus on construction and delivery". Atallah is of the view that, while the realty sector is eligible for 100 per cent FDI through the automatic route, developers also have the option to collaborate with international developers and leverage their architectural expertise and world-class building techniques. This in turn helps developers to customise their products, according to the changing needs and lifestyle of today's buyers, who are well aware of international trends and standards.

Impact of reforms

Pursing the trend, Piramal Realty, the real estate development arm of the Piramal group, has entered into a development agreement with Omkar Realtors for a 12-acre project in Mahalaxmi, a prime location in South Mumbai. Piramal Realty intends to invest ₹2,600 crore in this development. It will pay a deposit of ₹400 crore and will have a 60 per cent revenue share in the project. As per the agreement, Piramal Realty leads in design, development and construction, as also sales and marketing of the project. With over two million sq ft of development, Piramal Mahalaxmi is one of the largest premium residential projects in South Mumbai. The developer has recently launched (July 2018) the second 70-storey tower offering luxurious 3- and 4-bed private residences, starting at ₹6.64 crore. Under this scheme, 150 units have

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Shah: leveraging expertise

been released for booking. Earlier, in the first tower, the company has sold 300 units for about ₹1,500 crore and is left with about 150 units for sale. The company plans to launch one more tower in this project.

"Reforms such as RERA, GST and demonetisation are driving consolidation in the real estate industry," says Anand Piramal, founder, Piramal Realty. "This is a great time for institutionalised players with a strong track record and robust balance sheet, to grow and expand their footprint". The developer is backed by private equity firm Warburg Pincus and investment bank Goldman Sachs Group Inc, which have invested ₹1,800 crore and₹900 crore, respectively, in 2015.

"Our association with the Piramal group dates back to 2010, with the group funding many of our projects," says Gaurav Gupta, director, Omkar group. "The recent transaction with Piramal Realty will strengthen our relationship further and we are excited to partner with them to deliver an excellent value proposition for all our stakeholders".

Marathon group, in association with Adani Realty, is developing a premium

Yagnik: next phase of growth

residential property, Monte South, at Byculla in South Mumbai. The group will launch the second tower of its ambitious luxury project soon. With over 43 slabs of construction completed for the first tower, the JV partners recently unveiled its swanky, new dream flat on the 28th floor of the first tower.

"Over the years, as a developer, we have created capabilities across the value chain, starting from concept and planning to execution and delivery," says Mayur Shah, MD, Marathon group. "Now, the time has come for us to leverage the expertise in various ways and we are evaluating various market opportunities in order to maintain our growth momentum". The group has got over 18 million sq ft of land under development (affordable housing projects, luxury projects, office and large business centres) in the Mumbai Metropolitan Region and plans to deliver more than 15,000 homes in the next five years.

"The recent reforms have expedited the process of consolidation," says Manju Yagnik, vice-chairperson, Nahar group. "As part of this, the market will witness a varied nature of partnerships and collaborations. In fact, going forward, it will be a norm which will drive the real estate market to enter its next growth phase". The group is also evaluating the market for such partnerships.

"The Indian real estate sector is under transition, following a series of reforms carried out recently," says Ambar Maheshwari, CEO, Indiabulls Assets Management. "The market condition has become more demanding and in order to be competitive, one has to focus on their strengths and core competencies. This will definitely call for sharing and partnership and that is what we are witnessing of late".

"The real estate market is also becoming broad-based, with several sub sectors emerging across the business," says Ravi Ahuja, senior executive director, Colliers International India, Mumbai. "This is also making partnerships imperative. The time has come when developers will have to recognise their strengths and, accordingly, focus on specific segments of the business".

Future trends

All these years, the domestic market had been offering basic products, without any specific segmentation. But, as the market evolves, there is need for specialisation, in order to cater to the specific needs of the market. In the residential sector, segments like affordable, student housing, senior citizen housing and many other sub sectors have emerged, while in the commercial sector, there are now also newer segments like warehousing, logistics, industrial and co-working. Indian developers, who have been primarily present in basic commercial and residential segments all these years, are now looking to source expertise and ability to explore these areas. And, this is where collaborations and partnerships will become crucial.

Experts are of the view that the developers in the changed market condition will prefer to be selective and try to build expertise around certain segments of the real estate business. In other words, the market will see the emergence of specialisation, where there will be lots of sharing of knowledge and resources, going forward. All this will also see the creation of a higher entry barrier – something that has been missing all these years. This will not only limit the entry of players (there are more than 1,000 players in the domestic real estate market today), but also ensure that, in future, only serious and capable developers stay back in the industry.

Murali: an opportune time

All in all, the market will be more demanding and challenging, going forward, and this will call for efficiency and specific expertise on the part of developers.

The domestic market has already entered into a consolidation phase and is pursuing a migration that will take it to a much matured and evolved set-up where the situation will be more transparent and robust for businesses. Demand-supply dynamics will be more predictive and hence it will help create a marketplace where buyers as also investors feel more determined and secured. Institutional players across the value chain will be more active and will bring in a whole lot of resources and expertise, paving a way for the creation of a robust real estate market in the country.

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