

REPORT

CATALYSTS FOR RESIDENTIAL REAL ESTATE

*KEY INSIGHTS FROM
GRI CLUB INDIA'S EXCLUSIVE EVENT*

GRI Club

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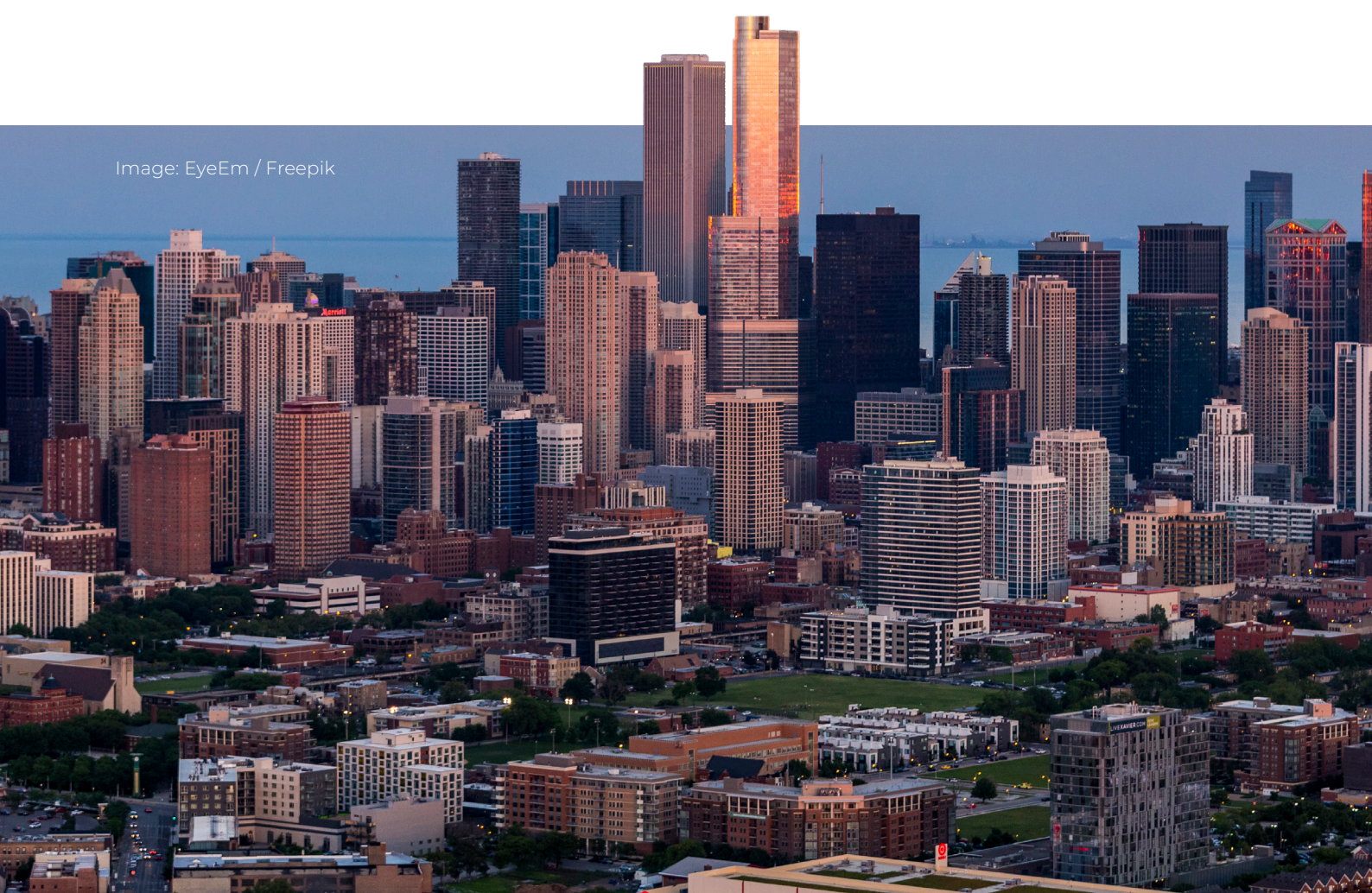
INTRODUCTION

For more than 25 years, GRI Club's exclusive networking events have been providing unique opportunities for the industry's decision makers to exchange valuable insights and experiences, igniting deal flow and potential using the real estate market.

GRI Club reports provide the key takeaways from these events, including the most valuable insights, the most ardent discussions, and the most intriguing strategies.

This report was compiled following the discussions that took place at **GRI Club India's** event **Catalysts for Residential Real Estate**, where prominent developers, investors, and decision-makers in the country gathered to network with industry peers, explore upcoming trends and real-world case studies, and discover the latest advancements and funding models shaping the sector.

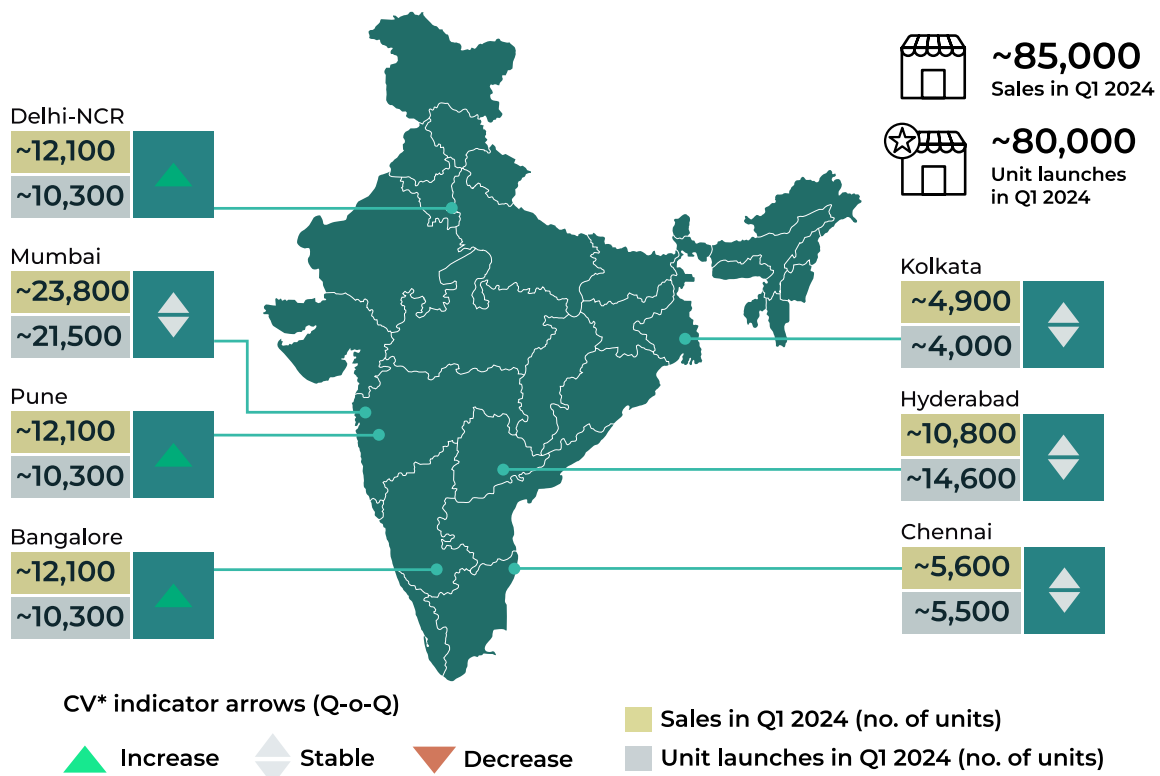
Image: EyeEm / Freepik

An aerial photograph of a city skyline at dusk. The sky is a deep blue, and the city is illuminated with warm lights. The skyline is dominated by numerous skyscrapers of varying heights and architectural styles. In the foreground, there are lower-rise buildings, some with green roofs, and a large green field. The overall scene is a dense urban landscape.

CATALYSTS FOR RESIDENTIAL REAL ESTATE

The residential real estate market in India has been witnessing significant growth, driven by rapid urbanisation, a burgeoning middle class, and government initiatives aimed at affordable housing. With cities expanding at an unprecedented rate, there is a rising demand for residential properties across metropolitan, tier 2, and tier 3 cities.

The government's "Housing for All" initiative, along with subsidies and tax incentives for homebuyers, has further fueled this growth. Moreover, the implementation of regulatory reforms such as RERA have brought in much-needed transparency and accountability, boosting consumer confidence and investment in the sector.



*Capital value. Please note that the numbers have been rounded off and might not add up to the exact total.
Source: CBRE Research, Q1 2024.

In recent years, the market has also seen an increased interest from non-resident Indians (NRIs) and institutional investors, contributing to its robust expansion. Technological advancements and the adoption of digital platforms have revolutionised the way real estate transactions are conducted, making the process more efficient and accessible.

The shift towards sustainable and smart housing solutions is another trend shaping the market, as developers strive to meet the evolving preferences of modern homebuyers. Despite the challenges posed by the COVID-19 pandemic, the residential real estate sector in India has shown remarkable resilience and adaptability, positioning itself as a key driver of the country's economic growth.

EMERGING TRENDS IN LUXURY REAL ESTATE

The evolving luxury real estate market in India has seen significant growth in recent years. Featuring properties priced between INR 30 and 100 crores, the high-end segment is flourishing in major cities, including the Mumbai Metropolitan Region (MMR) and Bangalore, as well as micro-markets, such as Karnivali and Dheri.

Several factors drive this sector, including an increase in high-net-worth individuals (HNIs) and a growing urban population. Developers are responding with state-of-the-art amenities, smart home technologies, and eco-friendly designs. Additionally, NRIs contribute significantly, with their investments playing a crucial role in the luxury real estate landscape.

PREVAILING TRENDS IN UNIT LAUNCHES IN Q1 2024



MID-END

40%

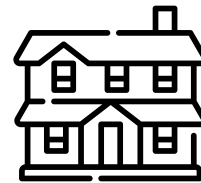
share in
Q1 2024



HIGH-END

31%

share in
Q1 2024



PREMIUM

8%

share in
Q1 2024

Source: CBRE Research, Q1 2024. *Note - Definition of segments as per ticket size (INR): Affordable / Budget - Up to 45 lakh; Mid-end- 45 lakh to 1 Cr, High-end - 1 Cr to 2 Cr; Premium - 2 Cr to 4 Cr, and Luxury - Above 4 Cr.

» Defining Luxury

In real estate, while affordable housing and middle-income categories have clear definitions, the concept of luxury remains complex and subjective. Luxury is interpreted differently by each individual, shaped by their background and personal preferences. For some, even a modest studio apartment can be considered luxurious.

Luxury does not have a fixed price point; it varies based on location and the specific priorities of residents. Today's luxury is defined by practical elements such as abundant natural light, ventilation, ceiling height, open spaces, expansive windows, and greenery, rather than just lavish features like Italian marble and multi-bedroom configurations.

TOP 3 HOMEBUYER DEMANDS

75%

Balcony Availability

74%Construction Quality
Improvement/Assurance**31%**Office/study
room/corner availability

Source: Anarock - Homebuyer Sentiment Survey | H2-2023

Convenience and efficient use of time are also key aspects of luxury. Well-planned amenities that offer easy access and save time are highly valued, especially in major cities with significant traffic issues.

The product itself is vital, encompassing amenities, design, scale and layout. These elements, combined with the lifestyle offered, significantly impact market perception. Additionally, the brand and credentials of the developer are critical factors.

Locality plays a crucial role in defining luxury, distinct from the broader location. In cities like Bombay, the difference between areas such as Pali Hill and Carter Road in Bandra can be substantial due to the unique characteristics of each locality.

Luxury is not merely about size or monetary value - it is defined by the extra value created compared to the market standard. It is an evolving concept that reflects the changing desires and expectations of Indian society.

As the country grows, the consumer's perceptions of luxury evolve. What is considered luxurious today may not hold the same value tomorrow. The concept of luxury must adapt to remain relevant, continually reflecting the changing aspirations and expectations of the population.



» High Demand, Rising Prices

Post-COVID, the real estate market has experienced a significant surge in both demand and supply. Despite ample inventory in Bombay and Maharashtra, there is a consistent stream of buyers, robust sales rates, and rising prices.

Top industry players have been steadily increasing their prices per square foot each quarter, reflecting a positive trend for both developers and investors. The sustainability of these high prices remains uncertain, influenced by various factors such as elections, economic growth, and purchasing power parity for buyers and homeowners.

The surge in supply is largely due to regulatory changes, new parking schemes, and an influx of external developers, particularly listed ones, seeking high-premium projects to enhance their portfolios. Shareholders prefer premium projects over affordable ones, influencing market offers and acceptances.

Concerns about potential oversupply have emerged before but have not materialised due to unexpectedly high demand absorbing the supply. Historically, even with fears of oversupply, the market has managed to absorb it, surprising developers with the level of demand.

QUARTERLY SALES SURGED AS THE LUXURY SEGMENT CONTINUES TO THRIVE

Ticket Size Break Up - Sales (%)

Ticket Size INR	Q1 2022	Q1 2023	Q1 2024
Less Than 50 lakh	27%	18%	15%
50 lakh-75 lakh	23%	22%	21%
75 lakh-1 crore	15%	17%	17%
1 crore-1.5 crore	16%	20%	19%
1.50 crore-3 crore	14%	14%	17%
3 crore-5 crore	3%	4%	7%
Above 5 crore	2%	5%	4%
Total	100%	100%	100%

Source: Real Estate Intelligence Service (REIS), JLL Research

In general, the luxury market represents a small percentage of total inventory. The majority of sales fall within a mid-range price bracket, making high-end transactions more challenging. Attempts to create niche luxury markets have seen mixed results, with some projects struggling to achieve expected sales despite segmentation and product differentiation efforts.

A successful approach involves understanding market sentiments and targeting the right segment. It is crucial for developers to choose concepts that work for their specific target audience and to understand their market deeply. By doing so, they can create successful projects that meet the needs and desires of their customers rather than merely aiming for high-end luxury that may not align with market demand.

A recent Anarock report indicated that only 58 units priced over INR 40 crores were sold in the city last year, compared to just 13 units in 2022. This raises questions about the demand for properties priced above INR 10 crores. Despite the surge in development, similar patterns have been observed in previous years, such as 2008 and 2012-13, where developers were overly optimistic about the market.

A recent Colliers report highlighted that Mumbai's property prices have nearly returned to their peak levels from ten years ago, despite a 7-10% annual increase in residential prices. This suggests that the market has stabilised, but the exact demand for properties priced above INR 10 crores remains uncertain.

A few years ago, a study showed that there were only around 200 apartments in Mumbai priced over INR 10 crores. The high-end market, especially for properties over INR 40 crores, typically sees more activity post-Occupancy Certificate (OC) issuance rather than pre-sale, making it challenging for brands to attract high-end buyers in these areas.

This indicates that while there may be significant interest in high-end properties, actual traction in the market can be limited. The post-COVID surge in sales may not sustain the same rapid growth, emphasising the need for cautious optimism among developers.



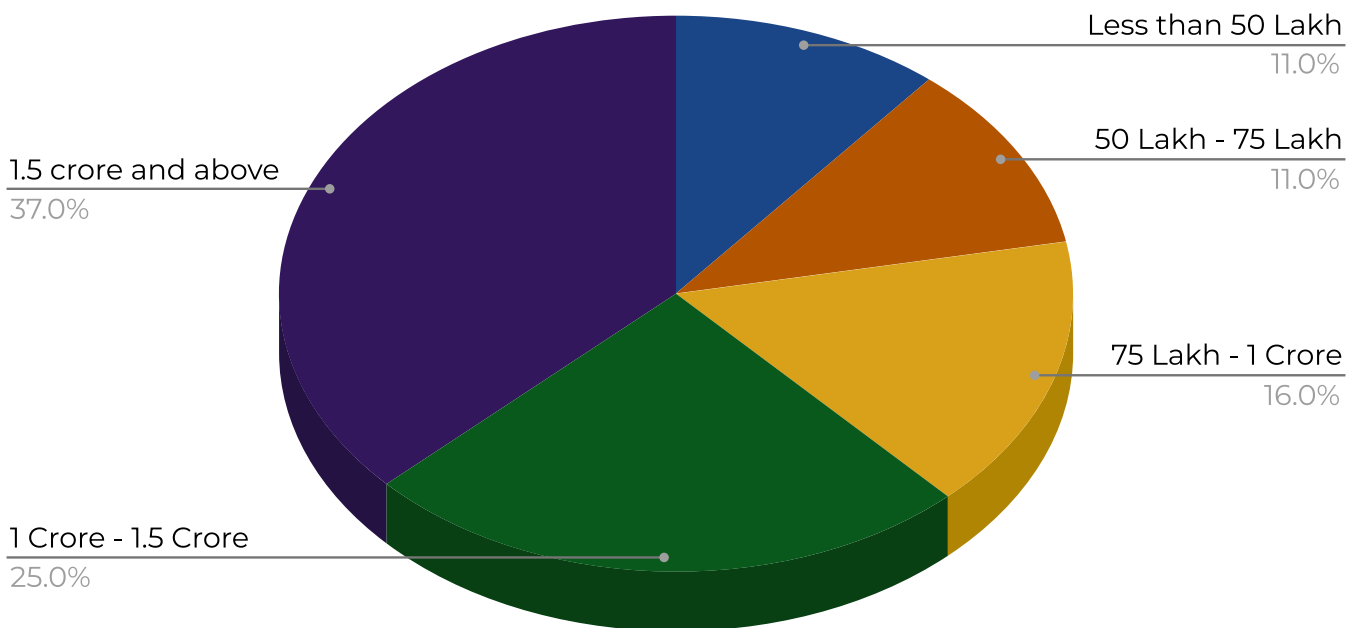
Photo: GRI Club

In high-end real estate markets, pricing is expected to stabilise over time, even though current selling prices may be higher. The market for ultra-high-value properties is niche and tends to capture headlines, but it is not deeply rooted. It's less about whether people have the money and more about whether they are willing to spend it. Many potential buyers in this category have likely already made their purchases, making it a limited market segment.

As a result, new developments are focusing on more conservatively priced luxury properties where there is more activity and potential. Redevelopment projects and new landowner deals offer significant value with ample space and amenities, but the market will need to evaluate these factors carefully to determine their impact.

Additionally, recent high-value deals often involve promoters who have retained equity stakes in their companies, driving these transactions. While booking figures may appear impressive, the true measure of success lies in actual collections and registrations.

NEW UNIT LAUNCHES IN Q1 2024



Source: Real Estate Intelligence Service (REIS), JLL Research

» Luxury vs Affordable

High-volume developers are currently facing significant challenges in the real estate market. While luxury real estate captures headlines, the majority of sales occur at lower price points. This focus on high-value transactions raises questions about market dynamics and sustainability.

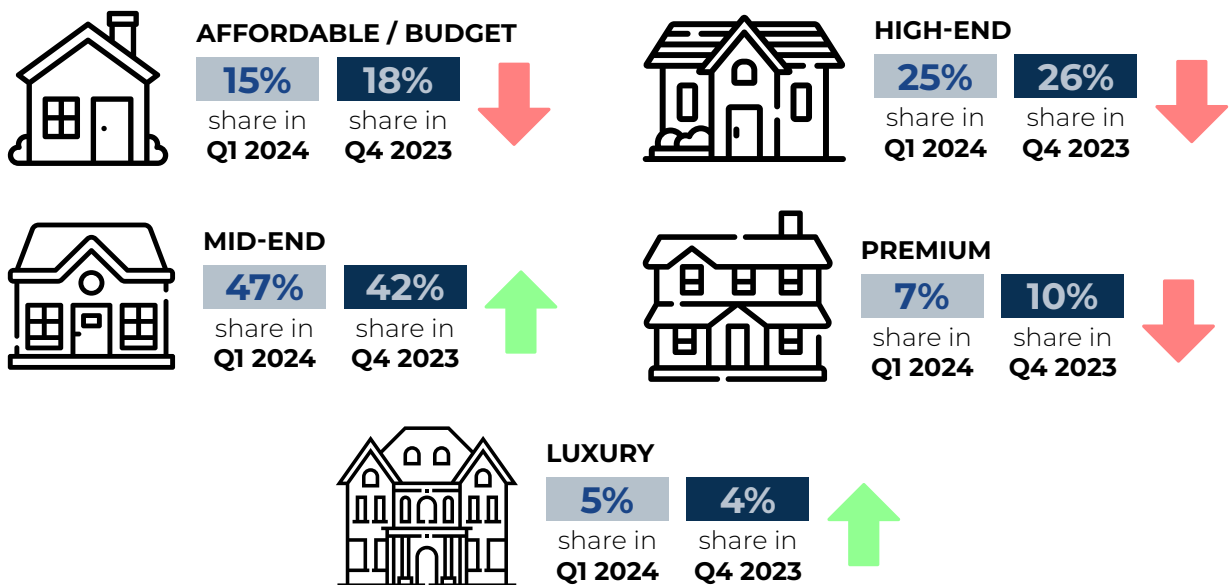
Real estate prices and demand are heavily influenced by location-specific factors. High-end areas often see a wide range of property values, with significant differentiation based on local amenities and developments. Some properties that once commanded high prices now struggle due to newer, more attractive developments nearby.

The availability and price of land play crucial roles in determining the feasibility of new developments. In prime locations, land prices can be prohibitively high, limiting options for affordable housing and making it challenging to introduce new projects without significant investment.

Recently, there has been a noticeable slowdown in sales of high-end properties, indicating potential saturation at the top of the market. This trend is evident not only in luxury properties but also in premium and affordable segments, and it raises concerns about market dynamics and the distribution of demand across the economic pyramid.

The top of the pyramid, representing high-end buyers, is significantly smaller than the bottom, which comprises the majority of the population seeking affordable housing.

CATEGORIES THAT DROVE SALES*



Source: CBRE Research, Q1 2024. *Note - Definition of segments as per ticket size (INR): Affordable / Budget - Up to 45 lakh; Mid-end- 45 lakh to 1 Cr, High-end - 1 Cr to 2 Cr; Premium - 2 Cr to 4 Cr, and Luxury - Above 4 Cr.

This prompts questions about the sustainability of focusing on the top of the pyramid. How many buyers are there at the top, and what happens to the vast number of buyers at the bottom who are being overlooked?

The key issue is whether real demand is coming from the top of the pyramid or the bottom. With the market heavily skewed towards the luxury segment, the demand from those at the bottom risks being neglected.

This shift raises a critical question for experienced developers: will this focus on luxury cause harm by neglecting the majority of potential buyers at the bottom of the pyramid? The sustainability of the market and the well-being of all segments of buyers need to be carefully considered to avoid adverse effects on the broader real estate ecosystem.



Image: EyeEm / Freepik

» **Elevating Living with High-End Homes**

Currently, the most significant trend observed by developers is the demand for upgraded lifestyles. Customers seek slightly larger homes, additional bedrooms, and spaces that accommodate expanding families.

For the first time in India's economic history, there is a convergence of increased customer wealth and heightened expectations. The primary buyers are well-educated and inquire about specific details such as plumbing systems and waste management solutions, highlighting the growing importance of quality behind the scenes, not just visible features.

The key parameters influencing the market include location, locality, and amenities. Within the same micro-market, there can be a price difference of INR 15,000-20,000 per square foot between projects offering different levels of amenities.

Unique selling points (USPs) such as golf courses or private clubs, add exclusivity to a project, a significant factor that people seek, preferring not to be part of a "regular" or "ordinary" crowd. The concept of experience will likely become increasingly important in the future.

However, beyond these, the innovativeness of the design and the overall look, feel, and experience of the property play crucial roles. Despite good intentions, many developers struggle to deliver the expected product quality, underscoring the importance of continuous improvement with each project.

A notable trend in luxury real estate involves the sale of high-value apartments, often in bare shell form, allowing buyers to bring in their own interior designers. While many buyers prefer this customization, it presents challenges for developers, such as delays in completing civil work and managing noise complaints from other residents.

Some buyers now request that developers finish the civil work to avoid these issues, preferring a ready-to-move-in property. However, the market has not yet fully adopted the fixed, non-customizable approach seen in cities like London or New York, where buyers must accept the property as-is.

This trend indicates a desire from buyers for uniqueness and exclusivity in their homes. However, institutions and lenders often prefer faster-moving, smaller projects due to the slower capital turnover in luxury real estate.

For developers, the challenge is securing appropriate funding. Domestic lenders offer high-interest rates, making it difficult to achieve desirable returns, especially for foreign investors facing additional costs and currency exchange issues.

To succeed in the luxury market, projects must be well-capitalised, requiring developers with the financial strength to support such ventures. Without adequate capitalization, many luxury projects may struggle to progress. Long-term equity investments are needed to support luxury developments, but these are currently scarce.

» **Transforming Urban Landscapes**

The redevelopment trend in luxury real estate has become a significant driving force in transforming urban landscapes, particularly in premium areas in South Mumbai. This trend is reshaping the market by offering modern amenities, larger living spaces, and a renewed focus on community needs, attracting discerning buyers who seek both luxury and convenience.

Over the past 2-3 years, the surge in redevelopment has significantly transformed the region. The ability to deliver distinctive features, supported by a reputable brand with a proven track record, enhances the value of luxury projects and contributes to their success.

One primary consideration is the size of the apartments, with a growing demand for larger carpet areas and more flexibility in acquiring additional space. Large plots are now emerging due to regulatory amendments that allow for redevelopment under new schemes.

In South Mumbai, it is common for buyers to purchase entire floors in redevelopment projects, with typical floor sizes ranging from 7,500 to 8,000 square feet. Some buyers are even expanding beyond a single floor plate.

This contributes to the rental landscape, since residents of redeveloping buildings are often given temporary housing during construction work, creating a surge in demand and attracting investors back into the market.

UNLOCKING CAPITAL FOR RESIDENTIAL FUNDING

The Indian market is experiencing substantial growth, evidenced by significant doubling in several areas over the last decade, including the number of airports, infrastructure spending, GDP, and per capita income.

The residential real estate market has been a major beneficiary of this growth, receiving substantial financial inflows. Statistics from the past year show thousands of unit launches and absorptions on average, with prices and rental yields increasing. The overall market narrative is positive, making it an exciting yet cautious time for developers.

From a funding perspective, this buoyant period presents both opportunities and challenges. The sentiment among developers and investors is generally positive, with changes in regulations and sales performing well. Despite this, there is still a degree of caution, with market participants well aware that potential missteps are likely over the next few years, necessitating careful planning and strategy.

» Discipline, Stability and Strategic Growth

The residential sector can be characterised by two distinct phases: pre-RERA and post-RERA. Many difficult projects originated in the pre-RERA era, which lacked stringent regulations. In the post-RERA period, there are more rigorous checks and required approvals before funds can be collected, with varying degrees of stringency across states. The implementation of RERA has ensured better financial discipline, secure cash flows, and reduced risk of fraud.

REGISTERED PROJECTS UNDER RERA

Nov/2021	Nov/2023	% Growth
71,307	1,16 lakh	63%

Source: Anarock Research.

Improved project monitoring and financial closures have significantly benefited the industry, introducing essential discipline and aiding fund managers in maintaining order and learning valuable lessons. Funds that cover the entire balance cost of projects have become resources for developers with strong track records and approvals.

Post-COVID, there was a surge in demand due to a lack of supply, leading to substantial appreciation and growth rates of 60-80% in various micro-markets. However, it is uncertain if this growth trend will continue, as absorption rates may have plateaued, potentially indicating a stable demand trend.

» Capital Structures and Funding Dynamics

Although the ideal capital stack for a real estate project typically involves a mix of equity, debt, and presales, the theoretical model and practical reality often differ. In a typical project, equity investment is usually limited to around 20%, with construction finance (CF) utilised after securing initial approvals. The aim is to cover approximately 60% of the project cost through sales, though ongoing adjustments may change these ratios and the overall debt structure.

Newer developers may be more open to CF, backed by investors seeking high returns. Financing a portion of the project cost through construction finance while exploring equity funding for the remaining costs is a common approach.

However, rising interest rates on internal capital and increasing costs of materials such as steel, cement, and paint have squeezed margins, particularly in affordable housing. Regulatory pressures further complicate profitability, making the market more challenging.



» **Emerging Trends and Financing Models**

The residential real estate market is exhibiting several notable trends. Standard financial products such as Lease Rental Discounting (LRD) and construction finance are increasingly being handled by public and private sector banks, with competitive pricing and ample availability for reputable developers.

Strata sales and presales remain common in some markets, particularly in commercial segments, though their sustainability is debated.

Family offices are increasingly engaging in direct equity investments, particularly at the land acquisition stage, either through joint development agreements or pure equity with structured buyback options. These investments provide flexibility and align with the developers' needs for capital without diluting ownership.

Currently, the market landscape shows a reduced role for Non-Banking Financial Companies (NBFCs) in providing substantial funding due to regulatory pressures and risk aversion. This gap presents an opportunity for new capital providers to address the unserved middle market, while banks and large Alternative Investment Funds (AIFs) continue to dominate the higher and lower ends of the funding spectrum.

There is substantial pressure and limited opportunities for post-approval project funding due to strong internal cash flows, making it more of a developer's market. However, pre-approval or land-stage funding is seeing increased activity. Many are now open to discussing various funding structures for land parcels, indicating a willingness to share riskier capital with lenders. This trend is helping to facilitate pre-approval funding.

Current data shows that the market may have passed its peak in terms of the velocity and number of units sold. Sales have become rationalised. There is a noticeable decline in walk-ins and conversions, resulting in more realistic sales figures.

This may be attributed to the nature of concrete investments, which typically spread out over time, lacking the initial excitement investors might expect at the start of a project. Typically, as a cycle turns, sales velocity slows, increasing the cost of holding expensive debt and eventually leading to discounts.

Fringe markets, defined as areas on the periphery of major cities or less developed urban areas, are struggling nationwide. Developers, even those with strong brands, are finding it difficult to sell properties in these markets, regardless of whether they position them as super-luxury or affordable.

The most affordable market segment is also facing challenges. Customers are facing challenges with disposable income, making them more inclined to rent rather than buy. There are a significant number of inquiries about renting first and then looking for investors who can purchase on an inter-rental basis.

Local brands are performing better in this market, with quality and timely delivery being key factors in their success. Projects under construction are selling better than completed ones, demonstrating the importance of perceived value and brand strength.



Photo: GRI Club

» Navigating Gaps and Challenges

In examining the capital providers, particularly banks and NBFCs, there has been a significant shift in the past three years. Regulatory pressures have driven NBFCs to move away from complex financial structures and towards more conservative practices.

This shift has led to a reduced presence of NBFCs in the market, with only a few large players willing to undertake significant financial commitments. Most NBFCs now limit their exposure to smaller amounts, typically between 50 to 80 crores.

This has created two primary challenges: a reduction in the number of NBFCs willing to provide large-scale funding and increased regulatory scrutiny, leaving the market for large checks under-served.

Banks and NBFCs are increasingly aligned in their lending practices, particularly concerning regulatory compliance. This alignment has opened a significant gap in the market, specifically for funding needs between INR 100 and 400 crores. Large AIFs tend to operate above this range, leaving a substantial demand for mid-sized funding unaddressed.

There has been a notable compression in interest rates for high-quality developers, with rates dropping over the past two years. This rate compression results from increased competition among capital providers for top-tier developers. However, this trend leaves smaller or less established developers with limited options, as NBFCs retreat from offering large-scale funding.

For investors, managing cash flows and sales is crucial, as these can either exceed or fall short of expectations depending on the market cycle. It is essential to build structures that ensure stability across different market conditions. Over the past decade, the importance of financial stability across cycles has become evident, fostering longer-term track records that aid in securing capital during downturns.

While the market's depth and parameters are improving, the challenge remains in anticipating and preparing for cyclical downturns. Both developers and investors must maintain realistic expectations and sufficient buffers to mitigate risks when the market cycle inevitably turns. Aggressive underwriting without these precautions can lead to significant challenges if projects encounter difficulties.

The focus remains on delivering high-quality products that align with customer expectations. While there are still buyers, the speed of sales has slowed compared to last year. However, collections are timely, indicating the genuineness of the current market study. Stress projects continue to pose challenges, particularly regarding recoverability.

The Indian real estate industry also suffers from a trust deficit, exacerbated by past practices and a lack of transparency. This has led to a demand for regulatory measures, such as the planned rating system for developers. This system will rate developers based on their performance and transparency, making it easier for investors like NBFCs, AIFs, and banks to assess the reliability of developers.

The emphasis should be on transparency and trustworthiness regardless of the developer's experience level. Both new and established developers must adhere to these principles to foster a healthier investment environment. The upcoming regulatory measures, including developer ratings, are expected to further enhance transparency and trust in the industry.

The implementation of a rating system will be a driving force in market evolution. As developers are rated after each sale, their commitment to transparency and delivery will be scrutinised, leading to more accountable behaviour.



Photo: GRI Club

» **Market Readiness for Real Estate IPOs**

The viability of public markets for residential developers is an oft-discussed topic, with the selectivity of public markets being a critical factor for residential developers considering an IPO, as public markets strongly emphasise brand reputation.

Institutional investors, such as mutual funds, insurance companies, and Foreign Institutional Investors (FIIs), typically filter opportunities by size. To anchor a transaction, mutual funds require a minimum raise of about INR 1500 crores, with INR 1000 crores being the lower threshold for highly reputable brands. This ensures a sufficient allocation to justify their involvement.

For a successful IPO, a company must adhere to regulatory requirements, including a minimum 10% float at the IPO and reaching 25% within three years. A viable IPO would involve valuing 30% of the company at INR 1500 crores, implying a company valuation of at least INR 5000 crores. This valuation typically correlates with annual pre-sales of INR 2.5-3000 crores, sustained over several years.

The market shows that money is available post-RERA, especially for strong brands. Of the 27 listed real estate stocks, mutual fund managers often recognize no more than eight, preferring to invest in the most well-known entities. This preference highlights the difficulty of attracting attention to new real estate development companies without established credibility.

Compared internationally, India ranks as the fourth most valuable stock market. While the US and China offer comparable examples, 75% of global listed real estate securities are REITs, focusing on yield and annuity rather than development. China, with more disciplined market practices, requires projects to be 30% complete before sales, ensuring a level of investment before involving end-users.

The gap between strong brands and tier 2 developers is substantial, particularly regarding the cost of capital. While branded developers can secure funding at single-digit interest rates, others may face rates as high as 20%. This disparity highlights the market's difficulty in accurately pricing real estate risk, often leading to uniform treatment across diverse projects.

For residential developers, accessing public markets requires significant brand strength, substantial pre-sales, and adherence to regulatory requirements. The disparity in the cost of capital between top-tier and lesser-known developers underscores the need for strategic positioning and robust market practices to bridge this gap.

Predictable cash flows are essential for obtaining favourable valuations and convincing investors to participate. For merchant bankers, assessing cash flow projections over the next four to five years, ensuring predictability through land ownership or joint ventures, is crucial. This predictability is vital for obtaining favourable valuations and convincing investors to participate.

Many developers struggle with this predictability, leading to discounted valuations. For instance, while a developer may have ambitious plans for future projects, only the current, predictable cash flows can be considered for valuation. This challenge underscores the importance of building a consistent and reliable cash flow stream to attract public market investment.

Building a brand in the public market requires compromises and a strategic focus on creating a proper corporate structure, maintaining a robust balance sheet, and avoiding opportunistic business practices. Developers often operate with fragmented structures, such as multiple LLPs, which do not convey a strong net worth or balance sheet. To demand single-digit debt rates and attract public market interest, developers need to present a consolidated and reliable financial profile.

The mindset required to succeed in public markets is often lacking among developers. While many aspire to list their companies following the success of others, the rigorous preparation and willingness to share control and profits are necessary.

Developers need to build management teams and be ready to undergo the stringent scrutiny of public markets. Interestingly, the conversation among developers has evolved. Previously, developers approached investment bankers with a desire to list based on the perceived success of others, but the focus has now shifted to understanding the steps required to prepare for a listing in the future. This shift indicates a more strategic approach to public market participation, although whether developers will follow through remains to be seen.

From a customer perspective, the perception of investing in a developer differs significantly between shareholders and homebuyers. Shareholders seek intrinsic value and business growth, while homebuyers prioritise quality and timely delivery. This dual customer base impacts how developers conduct business and highlights the different orientations of investors and end-users.

Equity funding in residential projects also faces challenges, primarily due to taxation issues and the complex nature of ongoing accounting compared to office investments. This has led to a preference for debt-like instruments such as Non-Convertible Debentures (NCDs) that offer similar financial benefits without the burdensome tax implications.

Another challenge with equity investments lies in the alignment of interests. When projects perform poorly, the firm bears the financial burden. Conversely, when projects succeed, early buyouts prevent the firm from reaping the full benefits.

At the project level, this conduct is often lacking. Developers may prioritise quick exits once projects are launched, which undermines the long-term interests of equity investors who have taken on substantial risks. This misalignment makes it challenging for the firm to ensure returns.

Analysing the characteristics of each deal is essential, including the developer's brand, project specifics, and market conditions. The perception that larger players do not borrow at high rates is a misconception. In reality, the cost differences between various funding sources, such as NBFCs and AIFs, are often justified by the stage and flexibility of the investment.

Lenders typically adopt a diversified portfolio approach, balancing aggressive and conservative investments to achieve a targeted portfolio-level return. Despite the availability of multiple funding sources, developers choose their paths based on their risk tolerance and market conditions.



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16TH OCTOBER

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INDIA 2024

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