

Real Estate and Infrastructure Digest

Volume 2 Issue 1



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Economic Indicators

India's GDP Grows by 8.6%

31 May 2010, On Monday, the Central Statistical Organisation reported that the economy was in touching distance of a talismanic 9 per cent growth rate, having expanded 8.6 per cent in the quarter ending in March compared with the same period last year. For the entire year, India's economy grew 7.4 per cent

Together finance, insurance, real estate and business services gained 9.7%. Other services like social and personal services grew 5.6%.

Another related data showed that India's Fiscal deficit for 2009-10 was Rs 4.12 trillion .In relative terms, the fiscal deficit was 6.6% of gross domestic product as against 6.7% estimated in the budget.

Construction Firms to Post Double Digit Q4 Growth

31 May 2010, Construction and building firms are expected to post double digit growth next year as analysts expect an economic rebound.

According to a Reuters' poll of 16 brokerages, IVRCL Infrastructures is expected to post a 11.20 percent rise in net profit and Lanco Infratech a 58.63 percent jump. However, engineering firm Engineers India is slated to post 19.25 percent drop in profit.

Analysts see robust orders driving revenue growth in FY11, though the first two fiscal quarters are low revenues ones because the monsoon halts building works.

Jobs in Eight Sectors Rise

21 May 2010, The ministry of labour and employment released quarterly survey reports on the effect of recession on employment in selected sectors in India. The changes in employment that took place during the last quarter falling in the financial year 2009-10 indicates that the overall employment in the eight selected sectors has increased by 10.66 lakh during this period. The employment has increased by 0.61 lakh in quarter ending March 2010 over the one ending December 2009.



Green Infrastructure : Waste Management

Green Building, also known as green construction or sustainable building, is the practice of creating structures and using processes that are environmentally responsible and resource-efficient throughout a building's life-cycle. This practice expands and complements the classical building design concerns of economy, utility, durability, and comfort.

A very critical branch of Green Infrastructure is Waste Management. Waste management is the collection, transport, processing, recycling or disposal, and monitoring of waste materials. The term usually relates to materials produced by human activity, and is generally undertaken to reduce their effect on health, the environment or aesthetics.

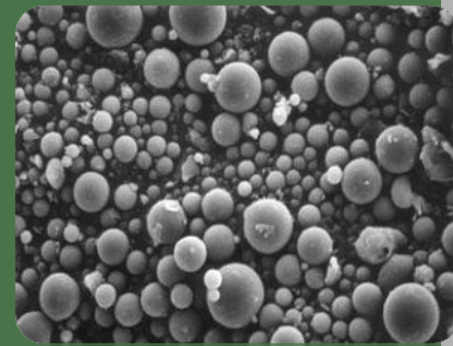
Waste Management in Industries

A major problem that the industries (specially power & O&G) face during production is to optimally dispose off bi-products from the combustion of fuels. This article discusses about the current methods of disposal: (1) fly ash and (2) Carbon Capture.

Fly ash is comprised of the non-combustible mineral portion of coal. When coal is consumed in a power plant, it is first ground to the fineness of powder. Blown into the power plant's boiler, the carbon is consumed — leaving molten particles rich in silica, alumina and calcium. These particles solidify as microscopic, glassy spheres that are collected from the power plant's exhaust before they can “fly” away — hence the product's name: Fly Ash.

The fly ash collected has various uses. The reuse of the engineering material primarily stems from its pozzolanic nature, spherical shape, and relative uniformity. Fly ash recycling, in descending frequency, includes usage in:

- Portland cement and grout
- Embankments and structural fill
- Waste stabilization and solidification
- Raw feed for cement clinkers
- Mine reclamation
- Stabilization of soft soils
- Road sub base

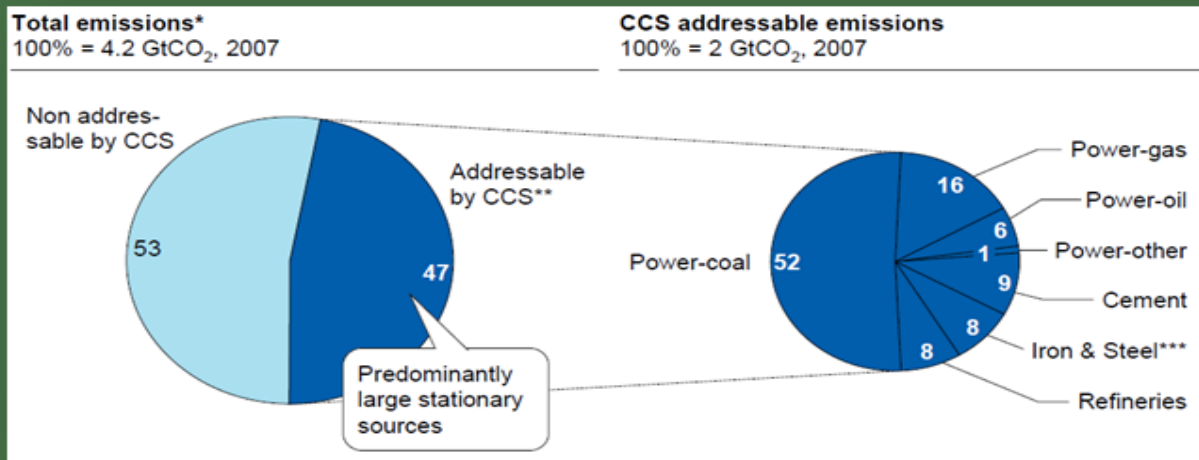


Microscopic view of Fly Ash

The Indian govt. has shown inclination towards promotion of re-use of fly ash . Ministry of Environment and Forest has directed that “Within a radius of 100 kms from coal or lignite based thermal power plants, manufacturers of bricks/blocks/tiles would use at least 25% of ash in their product” and “ Every construction agency engaged in the construction of buildings within a radius of 50 to 100 kms of TPP have to use 100% fly ash based bricks/blocks in their construction project”.

Contd- Green Infrastructure : Waste Management

The other method of controlling pollution created due to combustion is Carbon Capture. Carbon capture and storage (CCS) is a means of mitigating the contribution of fossil fuel emissions to global warming, based on capturing carbon dioxide (CO₂) from large point sources such as fossil fuel power plants, and storing it away from the atmosphere by different means. It can also be used to describe the scrubbing of CO₂ from ambient air as a geo-engineering technique.



An extract from Mckinsey report on Carbon capture and its feasibility. The Pie Charts compare the possible effectiveness of Carbon Capture in Europe

The term *carbon dioxide capture and storage* has also been used to describe biological techniques such as bio charburial, which use trees, plankton, etc. to capture CO₂ from the air. However, it is more conventional to use the term *carbon capture and storage* to describe non-biological processes of capturing carbon dioxide from combustion at the source. After capture the carbon is disposed off in 2 ways: *Geological storage* (directly into underground geological formations) and *Ocean storage* (dissolution' injects CO₂ by ship or pipeline into the water column at depths of 1000 m or more, and the CO₂ subsequently dissolves).

While Fly Ash has been in use for more than a decade around the world, Carbon capture is a relatively new concept for the Indian industries because it faces certain challenges. CCS projects would be likely to include several participating organizations for support with respect to the high costs. Hence, as of date Fly Ash is the major way of disposal of Carbon. CCS seems to be the budding competitor, but major initiatives such as development of Generic Models, Risk allocations and ownership and operation sites need to be undertaken first.

Commercial Real Estate

Indian Realty Firms Show Surge In Profits

31 May 2010, Most Indian realty firms posted a sharp rise in consolidated net profit for the FY'10. This is a clear sign of revival in the real estate industry.

Realty firms including Ansal API , Marathon Realty, Omaxe and Jaiprakash Associates recorded a more than 100per cent jump in consolidated profits.

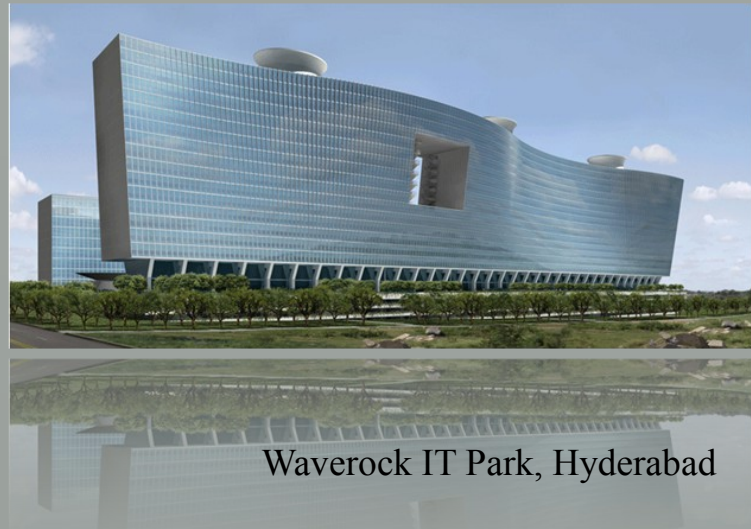
Ansal API registered a 131 per cent rise in consolidated net profit from Rs 30.69 crore in 2008-09 to Rs 71 crore for FY'10. Marathon Realty also registered a rise of 251 per cent to Rs 146.69 crore for this year. Infra major Jaiprakash Associates reported a 166 per cent jump in consolidated net profit to Rs 1,119.18 crore for the same period.

HDIL and Unitech posted a fall in their net consolidated profits for FY'10 of 28.3 % and 43.64 respectively. Unitech accounted the loss to lower margins in affordable housing projects. However, HDIL showed a 187 per cent jump in profit after tax in the January-March quarter of FY 10.

Tishman Speyer Opens its First IT Park in India

1 June 2010,Tishman Speyer, one of the world's leading developers of real estate, unveiled its first property in Asia– the first phase of the Waverock IT Park in Hyderabad. It also launched the second phase of the project, a joint venture between Tishman and ICICI Ventures, at Nanakramguda, Gachibowli.

Waverock has 12 acres of land which will provide 2.46 million square feet of IT office space and employment opportunity to 25,000 people.



Waverock IT Park, Hyderabad

The first phase built at a cost of Rs.600 crore comprises of 700,000 square feet with 10 floors will seat 7,000 professionals. The is estimated to cost Rs.700 crore. When completed, it will provide 1.65 million square feet of office space.

Tishman had signed a memorandum of understanding with the Andhra Pradesh government in 2006 to build the facility. ICICI Ventures is 50 percent partner in the joint venture.



Get Ready To Shell Out More For Homes

Home buyers will soon have to shell out a heavier sum due to recent developments in the real estate market. The Government has decided to levy a service tax on builders and impose a charge on real estate developers to give road connectivity to new properties. Moreover, most of the builders and developers will increase the sales price of houses to make up for this fee.

Service tax

Prices of residential flats are likely to go up by 4% in a couple of months, notwithstanding the recent relaxation in the service tax. The latest Union Budget had imposed a 3% service tax on builders, while the state would impose VAT of 1% on a flat's price.

“Normally, tax provisions in the Finance Bill come into force from June 1, which is when we expect the service tax to come into force. So, if a flat costs Rs 40 lakh, builders will get 75% abatement which leaves Rs 10 lakh, or 25%, on which service tax will have to be paid. The buyer will have to pay around 3% as service tax and 1% VAT (in some states including Maharashtra),” said Confederation of Real Estate Developers Association of India (CREDAI) Pune president Satish Magar.

“There is no constitutional sanction for the levy of service tax on developers, since there is no concept of a deemed service in the Constitution. Builders may not challenge this in court, but it is only a matter of time before someone else does,” said Sachin Menon, executive director, KPMG, and national leader for indirect tax at the consultancy company.

Last year, when the excise department had sent notices to builders in Maharashtra over payment of service tax, CREDAI Pune had challenged this in court. The Bombay High Court had upheld the builders' contention that selling a house is not a service, hence cannot come under the ambit of service tax. This year, however, the provision has been included in the Union Budget, so there is no chance for interpretation, said CREDAI Pune's Mr Magar.

Road connectivity fee

The main impact of this decision will be on people purchasing homes near national highways as these locations have good connectivity with cities. If a developer wants the government to provide roads near real-estates that are being built at other locations, the realtor would still have to pay a fee to the authorities.

At present, metropolises don't have much space for residential properties and companies are building most real-estates in the outskirts. The unique selling proposition of these properties, as claimed by builders, is the proximity to national highways.

The original idea of imposing the connectivity charge came from the finance ministry. "The general view in the government is that if there is any private use of public properties, there should be a revenue generation to the government. It may be in form of tax or cess," a senior government official told Financial Express. The Road Transport and Highways Ministry, which is responsible for building roads, has held a series of meeting with real estate developers and officials from other ministries and has decided to recover Rs 250 per square meter of road that is built to connect the property.

As far as the real estate industry is concerned, it welcomed the decision and said that homes will sell faster even as the prices will be hiked. Country's largest real estate developer DLF's executive director Rajiv Talwar told Financial Express: "It's a good development. At least, the government is making it transparent. The charge will be factored in but the overall impact on home prices will not be as high for buyers as the virtual cost of not getting the road connectivity".

Impact

The builders and developers will pass these taxes and charges onto the buyer and increase prices that will affect the 'aam aadmi', the end buyer. Taking a more optimistic view, Pawan Swamy, managing director, western region of Jones Lang LaSalle Meghraj, or JLLM, a property consultancy, said prices could go up by a more modest 2-2.5%. What is to be seen is how these increases in prices affect the demand for homes in a country bursting at its seams and experiencing high growth rates.

Review -RBI's Housing Index



The RBI has initiated an exercise to set up a housing start-up index (HSUI) to track new residential projects in 31 major cities and measure the changes in construction activities. The housing start up index will be compiled on a quarterly basis and will cover new residential projects in all major cities including Delhi, Mumbai, Chennai, Kolkata and Bangalore



The objective of constructing a Housing Start-Up Index (HSUI) is to track the changes in the level of construction activities in the housing sector, which can identify and signal the growth/recessionary tendencies in housing and related sectors of the economy. The scope of HSUI would be limited to new built residential units in urban India, whose construction is authorised through issuance of building permits.

Housing Start-Up Index- Lead Indicator

Housing starts are considered to be one of the most important economic indicators for many developed countries because of the backward and forward linkages of the housing sector.

The level of activity in the housing market has direct effects on the economic activity, henceforth the interest rates and the activities in linked sectors.

The housing starts figures provide insight into the upcoming demand for consumer durables in near future, since new house constructions/purchases are typically followed by large expenditures on a wide range of consumer products.

The backward linkage of the housing market provides an insight on the demand for steel, cement and all other resources that goes into construction.

Hence, housing starts data carry valuable clues for house-builders, producers and suppliers of construction materials, banks, lenders, and house furnishings companies, for their future decisions.

Methodology:

The housing starts in a particular quarter will be estimated from the permits (building) issued in that quarter and the various past quarters by using the rates at which the permits have got converted into starts in the recent past. Hence, HSUI will be constructed based on two sets of data:-

- (a) The start up coefficients reflecting the recent experience of conversion of housing permits into housing starts and
- (b) the number of permits issued during the last two years or so.

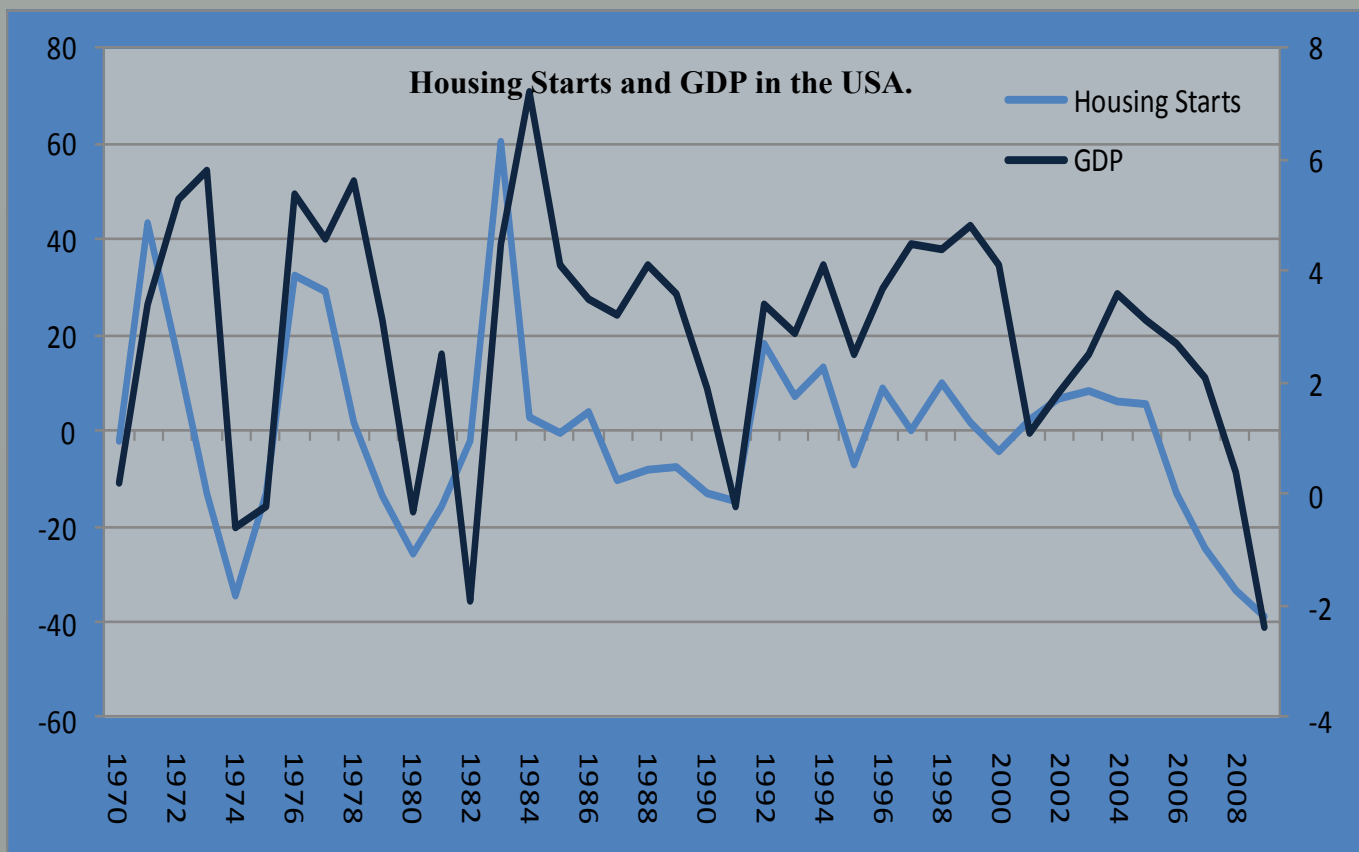
Review -RBI's Housing Index

Data used for the estimation of HSUI will constitute data on building permits reported by the National Building Organization and field surveys. The periodicity for the surveys has been determined to be once in three years. There will two phases for the survey; the first phase (Survey on Building Permits) will collect data on building permits and the second phase which will be conducted after three years would collect data on Building starts.

International Experience:

Globally, Housing starts are a popular indicator reflecting the level of activity across the economy. Countries like Canada, United States, Japan, France, Australia, and New Zealand compile data related to building permits/housing starts on a regular basis. Most of these countries compile housing starts using housing permits data, collected either through census or sampling method.

Historically it has been seen that Housing starts in the US are highly sensitive to mortgage rates and a leading indicator of GDP.





Infrastructure

India Eyeing on More Infrastructure Debt Funds

21 May 2010, The Planning Commission announced that India would set up an \$11 billion infrastructure debt fund by year-end that will help refinance high-cost debt. The Indian Government also announced that it is in the process of launching more debt funds of \$5 to \$11 billion each to help build highways and other large infrastructure projects.

The country aims to spend about \$500 billion in the five years to end-March 2012, to overhaul rickety infrastructure that has been a drag on growth for Asia's third largest economy.

India will double the investment figure in the five years from 2012 and will facilitate policy changes which will encourage greater foreign and private equity participation in infrastructure projects. Presently, the government allows 100 percent foreign direct investment in the road sector, but problems in land acquisition, stringent exit clause and a slow adoption of the toll-road model in India have made foreign investors largely stay away from the sector. In December 2009, India also amended the exit clause to allow road developers to move out of a project after two years of its completion against the previous norm of 20 years.

India has set a target of building 20 kms of roads a day and has increased the capital spending for the sector in the February's budget by 22 percent to about 222 billion rupees (\$4.7 billion).

Tax Benefits on Hospitals Extended

In a welcome move, the Indian Finance Ministry has expanded the scope of fiscal benefits to a larger set of hospitals. In FY 2009 budget, the Government of India provided for a five year tax holiday to the business of operating and maintaining a hospital on derived profits. However, the purview of the income tax provision was restricted to non – metros. Now, with persuasive representation by the industry participants, the finance ministry has now decided to extend the income tax holiday to hospitals operating in metro areas as well. . Hence, all the new hospitals with 100+ beds, set up in the notified areas on or before 31st March 2013 will be eligible for the tax exemptions.

The notification has come as an incentive to major hospital chains such as Apollo and Fortis who have various projects scheduled to commission in these notified areas Fortis is expected to start seven new hospitals by 2013 with total capacity of more than 1,800 beds. Apollo is also planning to start 15 new projects out of which 11 are likely to be eligible for tax benefits.

Merchant Power To Gain From Proposed Tightening of UI

In a bid to further improve grid stability, Central Electricity Regulatory Commission tabled a proposal in April 2010 to increase Unscheduled Interchange (UI) rates by ~70%. CERC has also prescribed to tighten the permissible frequency band for electricity withdrawals to 49.5 – 50.2 Hz as compared to current band of 49.2 - 50.3 Hz.

As per regulators recommendation, the UI rate will increase by ~ 81.25% to Rs. 8.7 / unit at 49.5 Hz. Under the new scale, each 0.02 Hz will cost 21.5 paisa / kWh in the 50.2 - 50.0 Hz frequency range, 13 paisa / kWh in the 50.0-49.7 Hz frequency range and 45 Paisa / kWh in the 49.7-49.50 Hz frequency range. The regulator has increased UI rate to Rs. 17.4 / unit below 49.5 frequency range.



FAQ: What is Unscheduled Interchanges and what is the need for special rates for UI units?

Every state electricity board (SEB) can withdraw power from central grid only up to a specified limit. However, SEBs tend to overdraw power from the grid to meet supply shortages. Such over withdrawals are termed as Unscheduled Interchanges and affect the frequency of the grid resulting in grid imbalances. The regulator strives to maintain grid stability by charging higher rates for such unscheduled over draws.

The CERC narrowed the permissible frequency band for electricity withdrawals to 49.2Hz to 50.3Hz last year in March and proposed changes reflect on CERC continued efforts to enhance grid stability.

UI meet significant chunk of short term demand in India and the draft regulations, if approved, may turn out to be positive for major players in India's short term electricity market as supply from UI may contract going further.

The total short term electricity market in India was around 751 billion units in 2009 and UI made up to 40% of the total volumes. The rest was contributed by bilateral agreements and electricity exchanges. The new UI limits, once applied, may discourage SEBs from over drawing from the grid and in turn, increase their dependents on bilateral agreements with merchant power producers. Such a phenomenon will provide further room for increase in spot prices and bode well for private power producers such as Adani Power, JSW Energy, and Lanco Infratech.



International News

China Realty Bubble Bursts in Bond Markets

01 June 2010, Dollar bonds sold by Chinese real estate companies this year are the worst performers among Asian non-financial corporate debt denominated in the US dollars due to concerns about Chinese asset bubble.

According to data compiled by Bloomberg, yields on the \$3.9 billion of bonds issued by Kaisa Group Holdings, Country Garden Holdings and seven other developers since January widened by an average 2.26 percentage points relative to Treasuries. Investors are demanding a greater yield to lend to Chinese property firms. Even in global credit markets, the extra yield investors demand to own company debt instead of treasuries increased by 5 basis points

to 193 basis points. The amount of dollar bonds issued by Chinese developers represents 45% of all corporate dollar debt sales in Asia outside Japan this year.

Corporate bond issuance worldwide slowed this month to \$66.1 billion, down from \$183 billion in April and the least since December 2000. The cost to insure US corporate debt against default have also risen showing rising fears of a Chinese property bust.

Angola Real Estate Investors Target Low-Cost Housing

19 May 2010, Angolan real estate which was once one of the world's most expensive now holds more promising investment prospects away from the top end of the market, according to real estate consultancy Colliers International.

Until recently, real estate developers in Angola mostly invested in luxury apartments and upscale commercial buildings in Luanda because they were easy to sell to oil companies amid record prices and exports in 2007 and 2008. But the global economic downturn and a sharp drop in oil prices in 2008 and the start of 2009 -- Angola rivals Nigeria as Africa's biggest oil producer —cooled demand for the luxury real estate market.

As the global economic downturn weakens demand for multi-million dollar luxury homes in Luanda, Colliers International in a report said that investors should now look for opportunities in low- and medium-cost homes.

The south-western African nation faces a housing shortage as it recovers from a three decade-long civil war that ended in 2002, which devastated the countryside and prompted millions to flee to the cities. About a third of the country's 16.5 million people live in Luanda. With an overhang of unsold luxury homes, especially in the residential suburb of Luanda, promoters are pinning their hopes on a growing middle class of Angolans now eligible for home loans to drive demand for the medium-to-low income real estate market.

Alumni Interview

The Future of Green Buildings is Very Promising.

Richa Rauniar presently works as an Associate Director for Jones Lang LaSalle Meghraj heading the PDS business for the North & East region. She graduated from ISB in 2007. Prior to ISB she worked on international and domestic architecture projects for six years. Arun Kawatra spoke to her about the future of green buildings in India. Here are some excerpts:



- ***What is the market potential for Green Buildings in India?***

There are two bodies providing the LEED certification in India this includes USGBC(US. Green Building Council) & IGBC (Indian Green Building Council) and apart from this there is another rating called green homes applicable to residential projects.

In my opinion, the market potential for green building is huge and as the awareness is growing the demand is increasing. With events like climate change summit (Copenhagen Climate Conference 2009) etc drawing world's attention towards the threats of global warming, the future of green buildings and clean technologies looks very promising. I would like to enlighten you with some facts which stress need for green buildings today:

- ⇒ Buildings consume 30 % of the total energy and 60% of the electricity produced in US.
- ⇒ Each day five billion gallons of potable water is used in the US to flush toilets.
- ⇒ A typical commercial construction project produces 2.5 pounds of solid waste per square foot of completed floor space.

Hence corporates now see this as a CSR activity and are investing in or building in real estate for their use that is green.

- ***What are the major enablers and challenges for green market ?***

The irony is that the major enabler for green is also the challenge it faces in its usage. This is the “right education/information on Green”. Most people don't understand the basic reason for green buildings but do the same because it is in vogue and a lot of developers like to differentiate their building to their potential tenants by making it Green. They feel that they can command a higher rental for their buildings and attract better tenants. However the real idea is that by doing so they are able to make a better working & living environment and also save on energy consumption as well as operational costs in running such facilities.

Contd: Alumni Interview

In India there are still no sops given to green buildings as in many countries where the property tax structure has been revised to incentivize green buildings. The buildings which produce more waste and consume more electricity have to shell out more municipal taxes. People prefer green technology because of higher efficiency, greater productivity by employees and carbon credits which provide tax incentives. Issues like higher Capex or initial costs, low awareness and misguidance cause hindrances in the adoption of green Building and clean technologies.

- ***How does the economics of green building compare to a normal building – for builders and tenants / owners ?***

There is a marginal increase in cost (approx 5-10%) if one is targeting a Gold rating but beyond that there is a greater cost impact as those features & equipments result in additional cost. I would also like to add here that about 5 years back this cost difference (between a green & regular building) was a lot higher but increased awareness and usage of these technologies have made it more accessible & affordable. In fact there are a lot of other soft issues that could lead to higher rating in LEED which doesn't necessarily cost money e.g. orientation of building, locating building closer to public transport hubs etc.

However if we include factors like operational cost savings, increase in employee productivity, decrease in absenteeism, and improvement of company's brand image, green buildings are less expensive in long run though the initial investment is higher.

- ***Can we make old structures 'green'?***

Yes. There is a separate rating system for existing buildings. It is called LEED EB (Existing buildings): O&M (Operation and maintenance). Following were some of the changes done to existing buildings to make it more green:

- ⇒ MERV filters were added to the AHU's which lead to changing of motors in AHU's as there is a pressure drop due to MERV 13 filters.
- ⇒ The modulation valves were added to the chilled water for AHU for better control resulting in better efficiency & temperature control
- ⇒ CO sensors were provided in the interiors & the same was linked to Fresh air damper for AHU for increasing fresh air supply if CO₂ level is high
- ⇒ Replacement of existing glazing with DGU with high performance glass

- ***What are the major green projects coming up in the country?***

These days, almost all (60-70%) of the upcoming projects are targeting GREEN certification. However, it is still limited to commercial projects more than the residential or retail projects.

- ***What are the green initiatives taken in the development of ISB Mohali project ?***

We have taken some interesting initiatives to make the ISB Mohali campus as green as possible. Some of the major initiatives for Mohali are as follows:

- ⇒ Thermo shield coating on the roofs of the buildings for reflecting the sunlight & lesser solar gain.
- ⇒ High performance glass for glazing & windows.
- ⇒ CO sensors for the interior spaces.
- ⇒ HRV (heat recover areas where the exhaust is substantial).
- ⇒ VRV's & VFD's for Pumps & AHU's respectively
- ⇒ Chillers with COP lesser than 0.65.
- ⇒ LPD to be less than 0.70 watts per sqft.
- ⇒ No indirect lighting
- ⇒ Reuse of 100% water generated from STPI, which should cater to 50% of the horticulture demand & HVAC makeup also the same to be used for flushing system.
- ⇒ 75mm extruded polystyrene for thermal over deck insulation.
- ⇒ Higher fresh air quantity is considered per person in design of AC system.
- ⇒ Segregated storage space for different type of wastes.
- ⇒ Recycling of the wastes i.e. Organic wastes by Composting techniques, Paper & metals to be sold to some of the junk dealer involved with recycling of water materials.
- ⇒ Use of Fly ash bricks .
- ⇒ Use of Low VOC paints & adhesives.

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