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Ref. No. MCHI/PRES/18-19/038

November 1, 2018

To,
Hon'ble Shri Piyush Goyal
Minister for Railways
Government of India
Rail Bhawan,
New Delhi

Sub: Financial Turmoil in the Real Estate and Housing Sector.

Dear Sir,

This is in reference to the recent events in the financial markets, which started with ILFS defaulting on its Commercial Paper borrowing leading to Mutual Funds and Banks becoming cautious towards funding of NBFC's. Over the last 12-18 months, due to the stress in the banking sector, banks had curtailed their exposure to the real estate and housing sector, whereby the only source of capital available to our industry was from NBFC's or Private Equity firms. This premise gets further strengthened by KPMG's report stating that till date USD 4 billion of FDI has been invested in the real estate sector this year and FDI investment is expected to increase to USD 1 trillion by 2030. It's also important to note that Indian banks can only fund a maximum of 5% of their balance sheet size to the real sector which also includes home loans. This is another key reason that the real estate and housing sector has no option but to rely on funding from NBFC's and Private Equity.

Banks to be Allowed to Fund Land Purchase

With the advent of RERA and the banking law prohibiting lending for land purchase by banks, the need of capital from NBFC's has increased manifold, primarily because land construes 40%~45% of the overall project cost today in the metros and 30%-35% in the tier II cities. In such a scenario, NBFC's not being able to have sufficient liquidity to support the sector or stopping to disburse even home loans is likely to bring this industry to a standstill, leading to shutting down of a number of projects.

Estimated Capital Requirement to Fulfil Housing For All

The government's data on need for Housing For All, published in 2016, stated that 6 crore urban homes were needed to meet the need of housing; even if we assume a conservative average home loan size of Rs.15 lacs per home, the total capital required for 6 crore homes is approximately Rs.9 lac crores.

Importance of Real Estate & Housing Sector

Sir, we would also like to bring to your attention that the real estate and housing sector is the second largest provider of employment in the country and a 7%~8% contributor towards India's GDP. However, this sector has been hit by a series of slowdowns in the last two years, starting with demonetization, then RERA followed by GST, which have had a large impact on the sales and general well being of the industry.

Over 1% Increase in Rates Making Buying & Building Homes Unaffordable

In light of the liquidity crisis facing the NBFC's, capital availability to the sector has further decreased leading to a major crisis in the industry, especially since a lot of banks and NBFC's have even stopped disbursing home loans of customers as well. Apart from this the cost of borrowing has gone up for everyone including home loans by over a 1% from the NBFC's and in some cases even more than 2%. Such an overnight increase of more than 1% on loans has further made it unaffordable to both build and buy homes in the country. This is creating a vicious cycle, where the developer is not in a position to get home loan disbursals or disbursals for supporting the construction and other activities of the projects currently underway, with the cost of borrowing having gone up more than 1%.

CREDAI-MCHI's Prayer

Sir, we write to you today as we, as an industry, need your undivided support to bring us out of this vicious cycle or the current crisis may culminate in the shutting down of the industry. We need you to kindly provide us with a path in order to achieve the following:

- 1) Immediate liquidity in the industry, either to the NBFC's or direction to banks to support real estate and housing funding by increasing their exposure norms, whereby the bank's can re-start funding developers and home loans;
- 2) Allowing banks to fund land acquisitions;
- 3) Until the liquidity situation eases, allowing a one-time restructuring of all developer loans as was allowed in 2008 during the Lehman Crisis; and
- 4) Urging Banks/ NBFC's to reduce the overnight increase in cost of borrowing effected by them.

Sir, as in the past, we need your support at this crucial juncture, as the industry finds itself caught in a tough cycle for none of its fault; and just because a company and a NBFC, which was an infrastructure company, has had financial issues, the ripple effect should not be allowed to bring an entire industry of NBFC's and Real Estate and Housing sector to a standstill.

We earnestly hope you would consider our request and thanking you in anticipation of a favorable response.

Yours Sincerely,
For CREDAI-MCHI



Nayan A. Shah
President



Bandish Ajmera
Hon. Secretary



Sanjiv S. Chaudhary MRICS
CREDAI-MCHI Secretariat