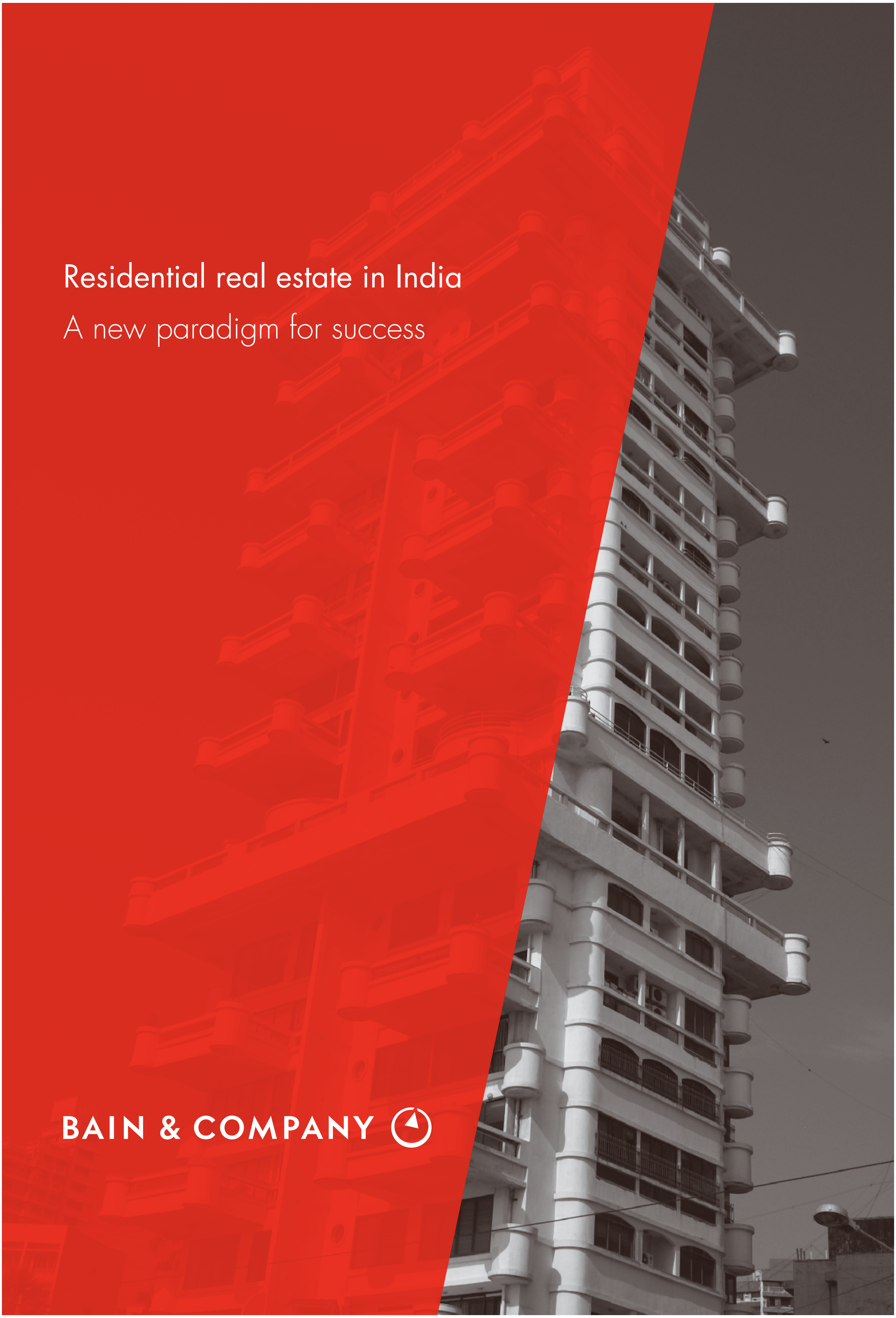
Residential real estate in India

A new paradigm for success



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Executive summary

India's residential real estate market hasn't had it easy in recent years. Short-term demand factors have stalled growth, and low consumer demand at current prices has accentuated the problem. Absorption rates have stagnated, causing high levels of overhang across all major cities, with Gurgaon and Mumbai among the worst hit. Developers, especially those with holding capacity, remain largely in "wait and watch" mode without lowering prices. Customers seem intent on waiting out the slowdown. On the other hand, developers who are cash-crunched or who have been unable to sell their products have either closed up shop or are borrowing money at high costs to survive.

Yet there are signs of light at the end of the tunnel. The Reserve Bank of India (RBI) is leading the way in initiating a virtuous cycle of consumption and growth. The Real Estate (Regulation and Development) Bill is expected to increase transparency, customer-centricity and process adherence. Required approvals have historically put extreme pressure on developers. Greater transparency should reduce approval charges and help lower construction costs. It will also help accelerate the construction process and reduce overall costs for consumers.

In addition, inflation rates appear to have stabilized and lending rates have started to come down. While quoted property prices have yet to correct for the overhang in supply, discounts (both up front and discreet) and innovative pricing schemes, such as possession-linked payment plans and subvention schemes, have increased.

And so, beyond the short-term demand factors, there is immense potential in residential real estate in India. Organised Indian real estate demand is estimated at roughly 880 million square feet. It is forecast to reach approximately 1.35 billion square feet by 2020, a 9% annual growth rate. Residential real estate is responsible for 85% of the demand. This growth is supported by robust underlying market drivers such as favourable macro-economic conditions, increasing affordability and urbanization, improved access to credit and the gradual shift from unorganised real estate construction to organised development.

Due to the confluence of these factors, the Indian real estate market is starting to witness a substantial shift. What it used to take to win in this space is very different from what it will take in the future. In this environment, we believe that real estate developers must understand five fundamental dynamics in order to succeed. Each dynamic carries a specific implication for businesses. We will discuss all five dynamics and their implications in this report. They are:

- **Emerging competitive forces giving rise to distinct business models.** New business models are rapidly evolving. Focusing on land acquisition and effective management of regulatory bodies is no longer sufficient; developers must also focus on becoming strong local market leaders in order to build a platform for sustainable growth. They are doing this by being more thoughtful about the operating models they use to compete in different marketplaces.

  The main implication for developers hoping to successfully weather changing competitive dynamics is to select the right business model. Due to the low overlap of costs and customers across disparate locations, real estate projects across markets are truly distinct businesses. Within each local market, there are a multitude of developer types. The key to building a sustainable business is to achieve local scale first, as most traditional players, such as Sobha and the Prestige Group, have done. Another increasingly common option for developers is to forge joint development agreements (JDAs), in which they partner with land owners and share profits. In addition to reduced upfront land costs, developers tend to benefit from land owners' deep local knowledge.

Furthermore, developers must define the key priorities for their business models and assess their core competencies across the value chain. Developers can build strong businesses by focusing on certain core elements of their value chains and building effective outsourcing models for other activities. They must also be "intelligent customers"—possessing enough knowledge about outsourced activities to avoid getting taken advantage of by vendors.

There are certain activities across the value chain that help create value—typically these include business development, land acquisition and design. Other activities, such as planning, budgeting and project management, protect value. Businesses should focus on building critical capabilities when deciding which of these activities to undertake themselves and which to outsource. It is important to note that there are segments of businesses in which some of the value-preservation activities could be a competitive advantage. For example, a developer adept at strategic procurement will have a sustained competitive advantage over competitors in the affordable housing segment.

- **Complex market and regulatory environment.** The new regulatory bill, combined with region-specific regulations across the country, means that real estate developers face higher levels of scrutiny and greater complexity than ever before. To stay afloat, businesses must actively manage risk through both internal and external processes.

  The implication for developers is to drive excellence in process execution in the preconstruction phase, during construction and post-handover. Customers expect a level of maintenance and upkeep of the property post-handover. Indeed, the brand image of some developers has taken a hit due to suboptimal property upkeep and maintenance or because of consistent delays during construction.

  To a significant extent, companies can drive improvement merely by focusing on processes and running a tight ship. Key processes to optimise include those related to change management, risk mitigation, cross-functional processes, key performance indicators and incentives, organizational setup, IT setup, optimal management information systems (MIS) and governance.

  Developers can use tools such as project trackers to view and manage the many interlinked processes that make up a construction project. Trackers can alert companies to critical bottlenecks before construction initiation, allowing teams to take corrective actions before problems occur.

- **Shifting profit pools.** There has been a tectonic shift in the Indian real estate market in the last 10 years. Costs of both land and key inputs (primarily steel and ready-mix concrete) have skyrocketed. Raw material prices have grown by a factor of 2 to 3 times since 2005. Land prices have increased even more dramatically. This means that while sales numbers may have increased, developer margins are lower than before.

  This leaves developers with no choice but to focus on tight cash management by project and cash flow return on investment (CFROI). Fundamentally, a real estate business is the sum of its projects plus overhead and corporate expenditures. Cash is king in this project-based business, and it will remain so. The unique nature of the real estate business, which includes high peak investment levels, a long cash flow break-even cycle and inflows skewed toward the end of projects, lends itself to particular financial challenges. Yet traditional profitability metrics, such as EBITDA and PAT, can vary based on accounting methodologies. CFROI, in contrast, reflects the true cash generation ability of a project and, ultimately, of a developer. A critical way businesses can maintain a CFROI focus is by organizing around projects and empowering project heads to lead.

- **Increase in customer awareness and rapid changes in customer expectations.** Buying real estate is often the largest, most significant purchase people make in their lifetimes. As such, customers have high degrees of involvement and investment in their decisions. There is greater emphasis than ever on word-of-mouth information, including online reviews. Currently, Indian residential real estate developers do not have a customer mindset. This has resulted in poor advocacy, with few customers saying they would recommend a developer's projects to a friend or colleague.

  Customers' expectations of residential apartments have also changed rapidly. What was considered top of the line in 2010 is a base expectation in 2015. We expect this trend of fast-changing demands to accelerate over the coming years. Given that many residential projects take more than five years from conceptualization to handover, developers must anticipate what customers will want 3 to 5 years in the future—and then begin building that today.

  There is a major opportunity for developers to tailor their brands to key purchase criteria, both current and projected. Creating strong product and brand strategies to match target customer preferences is more important than ever. Delivering key attributes, from pricing and payment to clear communication, requires managing key touchpoints with customers before, during and after purchase. Developers should also consider segmenting their customers and building their brands to position themselves for various customer types. Each of these changes requires developers to transition from a transaction-based approach to a relationship-based one.

- **Innovative selling approaches and channels.** As inventory levels remain high, selling properties has become increasingly challenging, particularly in the post-launch phase. Once developers have their internal processes in order, they must turn their focus outward.

  To best reach customers, developers have begun to employ integrated, multichannel go-to-market (GTM) strategies that include multiple channel pipelines. These channels could include direct sales, customer referrals, international initiatives, collaboration with channel partners, corporate sales and more. Indeed, major developers are already focusing on building this multichannel sales strategy and creating "excellence niches" where they can excel.

Many changes have taken place in the residential real estate market in India, with further changes still to come. While it is still too early to predict the outcome of new regulations and the impact of short-term factors, with these recommendations in mind, developers can better prepare themselves for whatever lies ahead.


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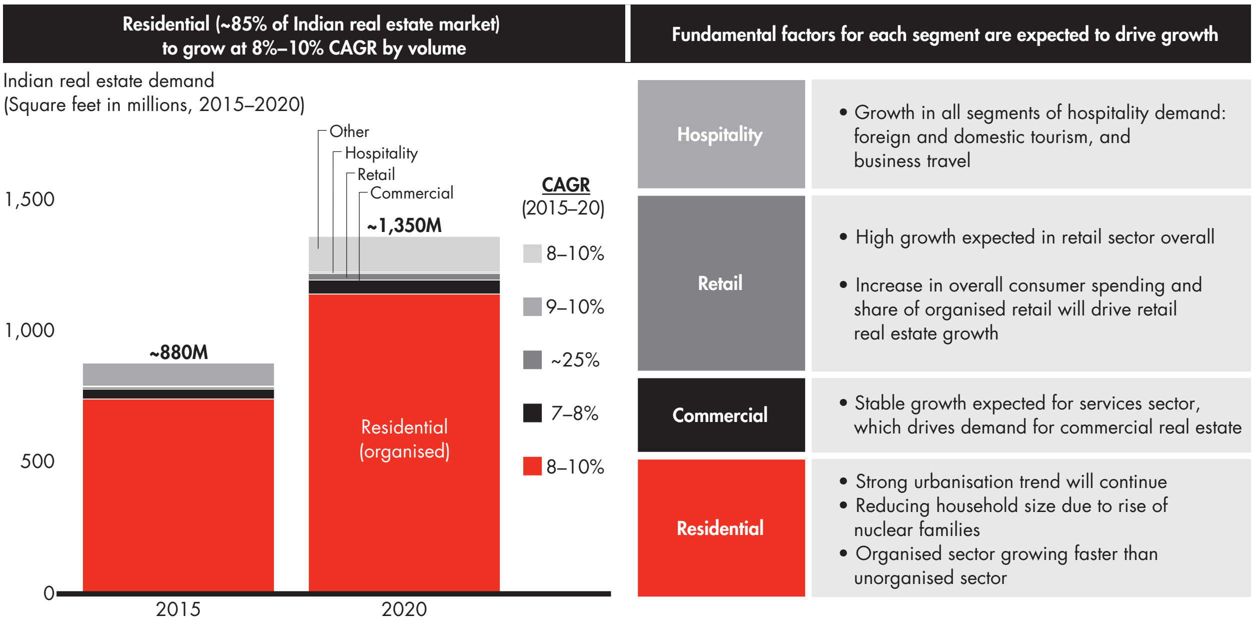
1.

Residential real estate market: Gaps between demand and supply

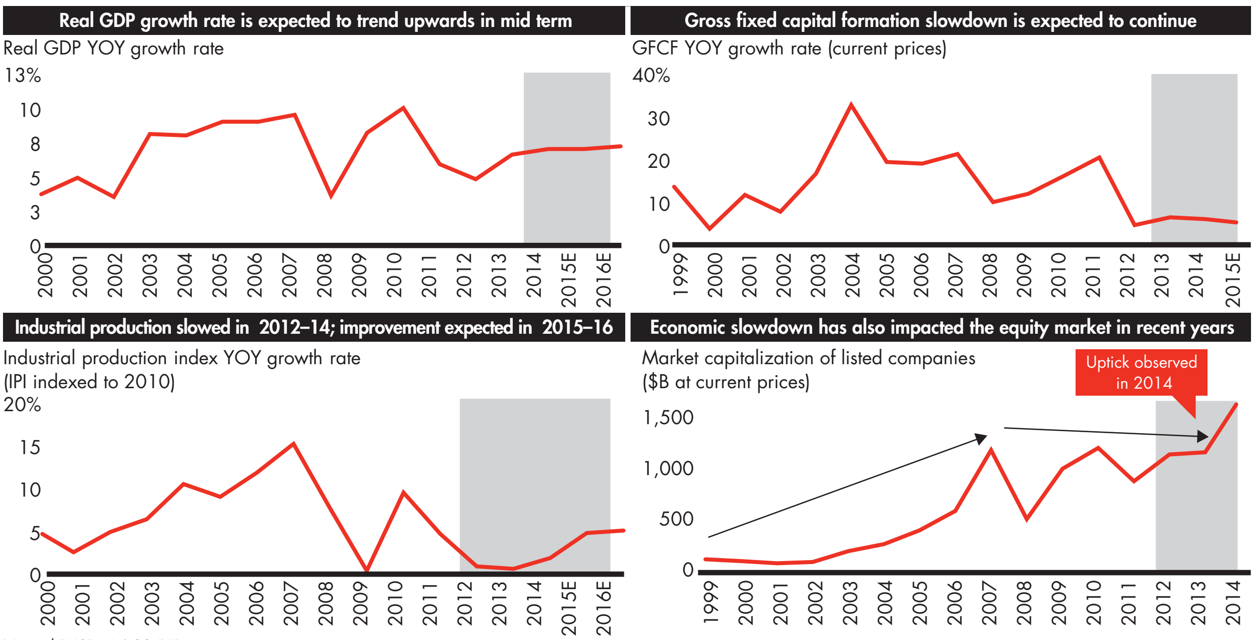
- Residential projects make up 85% of the Indian real estate market. Between 2015 and 2020, we expect demand to grow from approximately 880 million square feet to 1.35 billion square feet. While we also expect demand for hospitality, retail and commercial real estate to increase, residential real estate will continue to represent the bulk of the demand.
- Reasons for high demand for residential real estate include a continuing urbanization trend and reduced household sizes due to the rise of nuclear families.
- However, after a long period of growth, the Indian economy dipped in 2012. The GDP growth rate has stagnated (but is expected to begin trending upward), and gross fixed capital formation (GFCF) and industrial production have slowed.
- The downturn has contributed to inventory "overhang," in which supply exceeds demand but prices remain high. The situation seems to have worsened in the last few quarters.
- The RBI has encouraged developers to lower prices, but pricing has yet to correct. To compensate, developers have been using innovative pricing schemes to attract buyers. For example, under the 20:80 scheme, home buyers pay only 20% of the cost upfront, with the rest funded by banks.
- Cash-crunched developers have either closed shop or are borrowing money at extremely high costs. In some of the pricing schemes, developers are actually borrowing money from people.
- Early indicators suggest that the residential real estate market may be on the road to improvement. During 2015, interest rates decreased by 0.75% and inflation leveled off. Major developers are continuing to expand in developable areas and consumer confidence is rising.

Figure 1: Organised Indian real estate demand is estimated to be ~880M square feet and is forecast to reach ~1.35 billion square feet in 2020



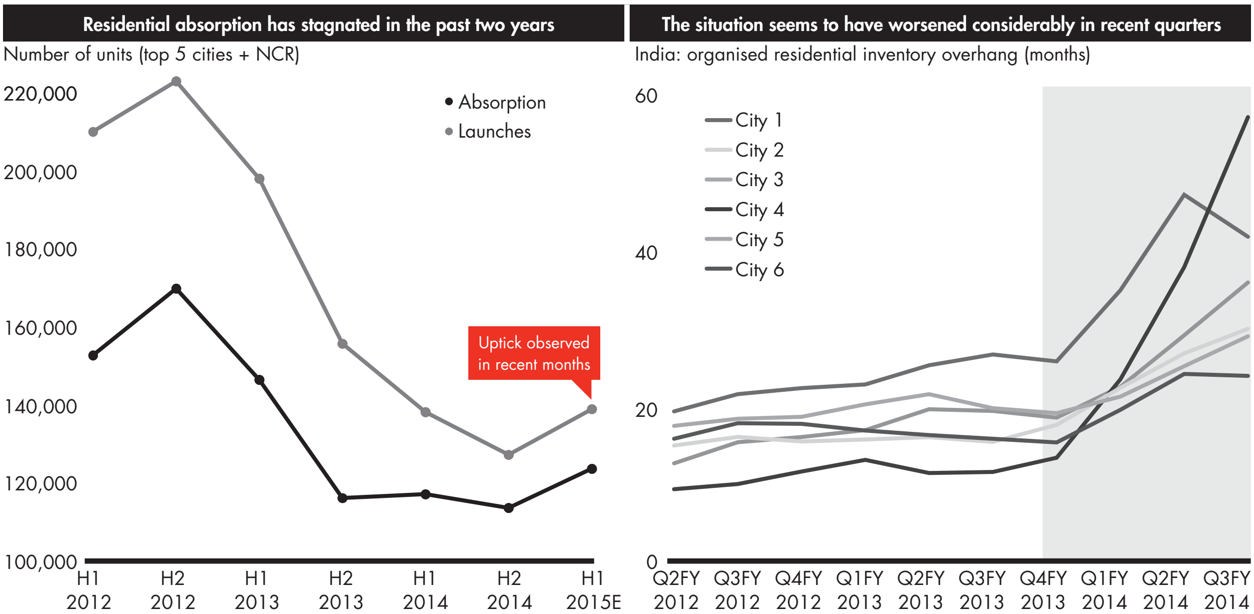
Notes: Other includes hospitals, special economic zones and education; residential segment includes only the organised portion of residential real estate
Sources: India Brand Equity Foundation report; Bain analysis

Figure 2: However, there has been a dip in the economy in recent years after a long period of robust growth



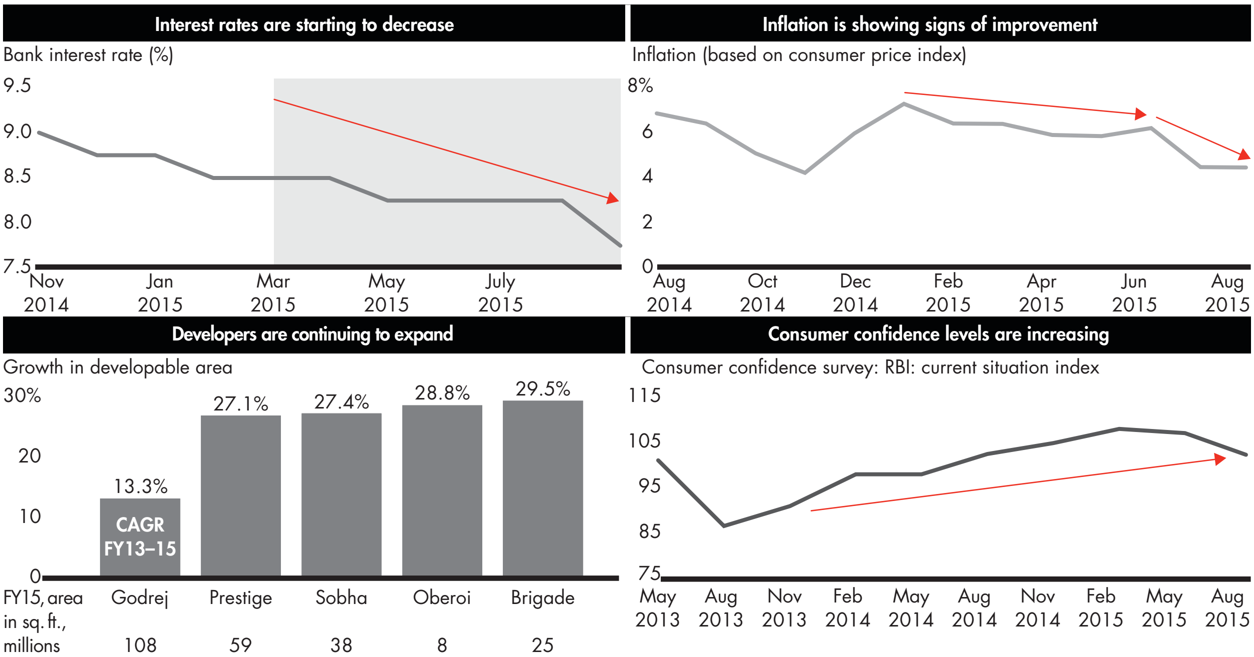
Note: $1USD=64.93 INR
Source: Euromonitor

Figure 3: Demand factors accentuated the problem as absorption rates have stagnated, causing high inventory levels



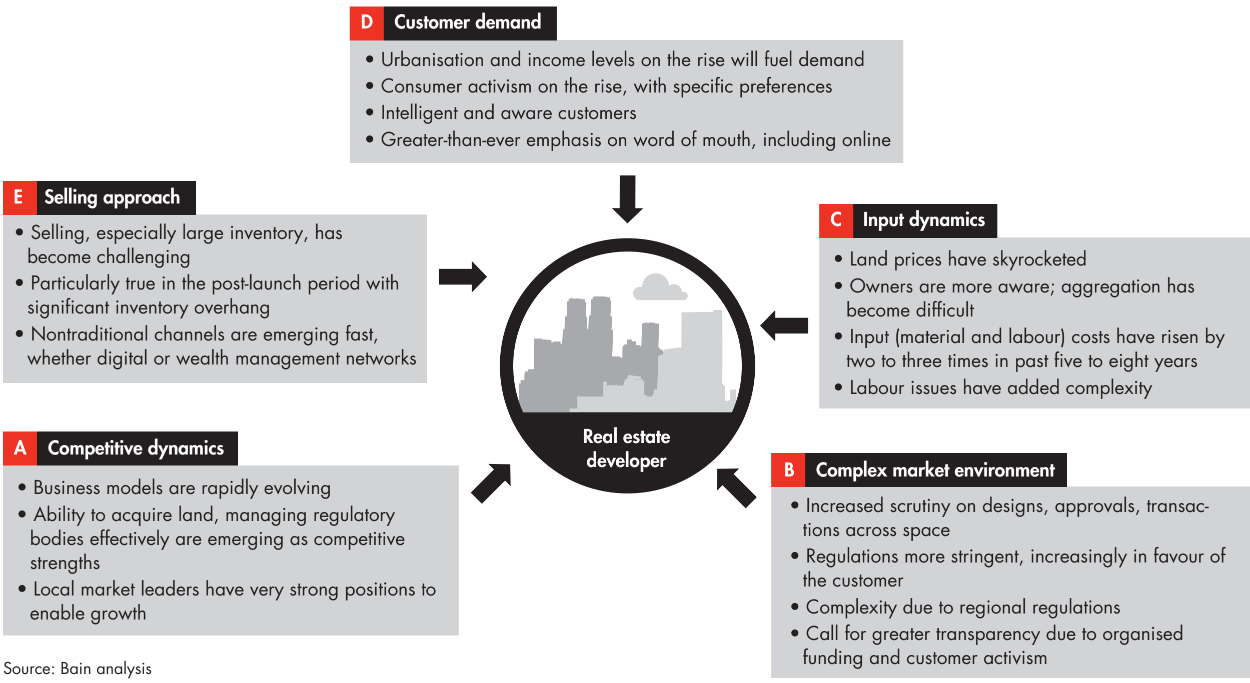
*Mumbai, National Capital Region, Bengaluru, Pune, Chennai, Hyderabad
Sources: Bain Analysis; Knight Frank

Figure 4: Initial indicators suggest that the real estate market may be showing some signs of improvement



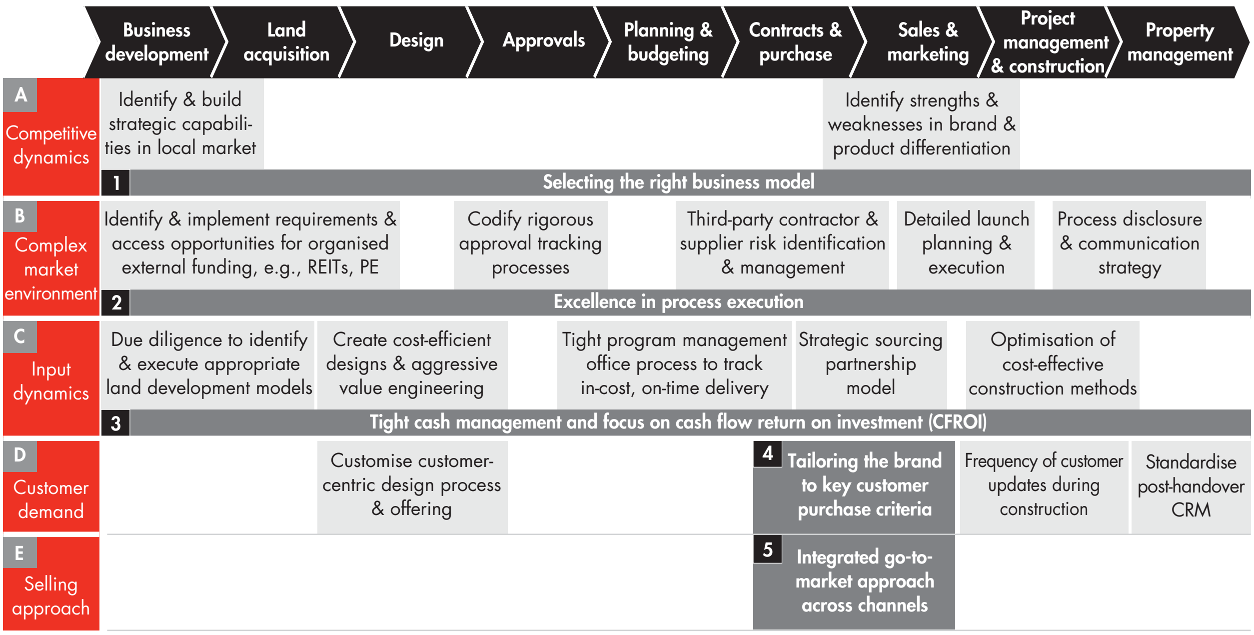
Sources: CEIC database; IndiaStat; RBI; Inflation.eu; company reports

Figure 5: Real estate developers in India need to contend with significant evolution across external forces



Source: Bain analysis

Figure 6: Five key topics matter differentially regarding what these ecosystem forces imply for real estate developers



Note: REIT refers to Real Estate Investment Trust
Source: Bain analysis

Figure 7: Adapting to these five business implications is critical to successfully building a profitable real estate business

Key industry trend	Business implication
A Competitive dynamics **Business models have evolved** and new ones have emerged	**Selecting the right business model** Need for increased focus on core capabilities, as well as the importance of local scale
B Complex market environment **Regulatory environment is becoming more complex;** fund sources are becoming organised	**Driving excellence in process execution** Ensuring tight internal and external processes to offset an environment of complexity
C Input dynamics **Profit centres are shifting** due to steep rise in land and input costs	**Focus on tight cash management by project** Project-centric cash flows will be the cornerstone for defending and expanding margins
D Customer demand **Customers have evolved and are** more intelligent and aware	**Tailoring the brand to key purchase criteria** Deliver across touchpoints on what customers value most to build advocacy for the brand
E Selling approach **Selling (especially large inventory) has become challenging,** particularly after launch	**Building a multichannel GMT strategy** Go to market with an integrated and coordinated strategy across multiple channel pipelines

Source: Bain analysis

2.

Selecting the right business model: Aiming for local scale

- Distinct markets can be described by the extent to which they share capabilities and customers. The markets for shampoo and conditioner, for example, share both capabilities and customers. Video on demand and video rental, in contrast, compete for customers but do not share capabilities. Real estate projects across two different cities share few capabilities and customers. Local regulations and customer preferences are different enough that developers should consider them completely separate businesses.

- Real estate in India is a local business. To be relevant to customers and build a local brand, it is critical to create local scale. This should be the goal of developers in all markets.

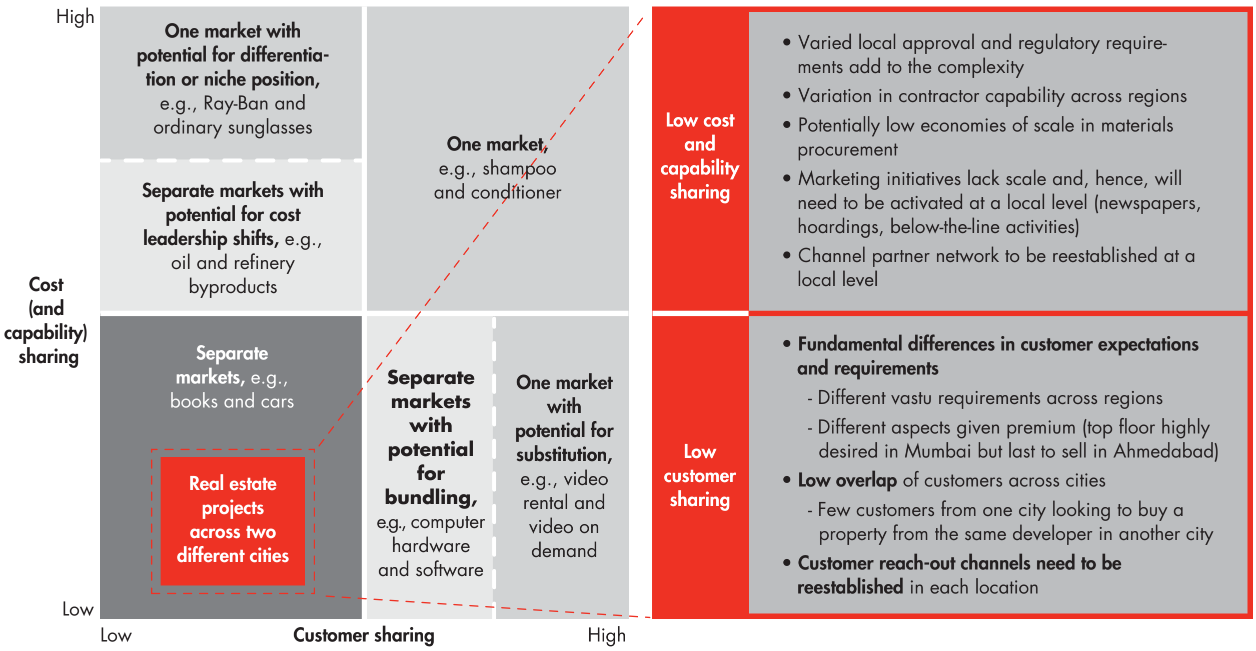
- Prestige in Bangalore is a good example of a company that is building local scale. Prestige had 10 to 15 million square feet of property under development in Bengaluru alone in 2007. In 2013, Prestige had 47 million square feet under development, and a significant presence in southern cities.

- To succeed, developers must assess competencies across the value chain that both create and protect financial value. Companies should evaluate the relative importance of various activities for their businesses, then determine which activities they want to control in-house and which they want to outsource.

- This self-assessment has led developers to different operating models. Some conduct most activities in-house, while others outsource some activities for a leaner approach. Some developers use a hybrid model of the two.

- Joint venture (JV) models and JDAs have become commonplace. JVs occur between two developers who share risks and access one another's capital and expertise. JDAs, in contrast, tend to be agreements with land owners. The land owner contributes land, while the developer oversees approvals, construction and marketing.

Figure 8: Real estate projects across two markets are different businesses altogether due to low cost and customer sharing



Source: Bain analysis

Figure 9: There are a multitude of developer types within each local market

		Striving to achieve local scale	→ Desired end state ←	Striving to achieve scale in all markets
Business model	**Small local players**	**New and upcoming local players gaining scale**	**Established players having local scale**	**National players**
Description	• Focus on smaller stand-alone developments within a particular city • Limited access to capital	• Focus on specific location and local expertise to scale up • Limited access to capital for expansion	• Rapid growth and scale achieved through focus on specific location and harnessing local expertise	• Decentralised operational model • Growth and scale achieved by harnessing brand and capability
Key capabilities	• Strong relationships with local authorities • Small but loyal local investor and customer base • Track record of successfully completing few projects	• Strong relationships with local authorities • Growing local investor and customer base • Proven track record across several projects	• Deep relationships with local authorities • Strong local investor and customer base • Large capital pool and local product portfolio • Established track record across multiple projects	• Nationally recognised brand and reputation • Streamlined processes and decision roles • Strong organisation capability with multiple leaders within organisation
Examples	Savvy, Akshaya, Sanjeevani, Omkar	Emaar, Adani, M3M, VGN, The 3C Company	Sobha, Lodha, Hiranandani, DLF, Prestige	Godrej Properties, Tata Housing

Achieving local scale in real estate development business is key to building a sustainable and scalable business

Source: Bain analysis

Figure 10: Most traditional players have focused on one city and then expanded to other cities (Godrej)

Godrej Properties

2007
- Modest scale of area under development overall (~3.5M square feet)
- Spread across Mumbai, Bengaluru and Kolkata
- No significant local scale in either city

Equal focus on three different cities; lack of local scale

2010
- Mega township project shifted focus to Ahmedabad
- Ahmedabad, Pune, Hyderabad were leading cities for areas under development
- Live projects in eight other cities

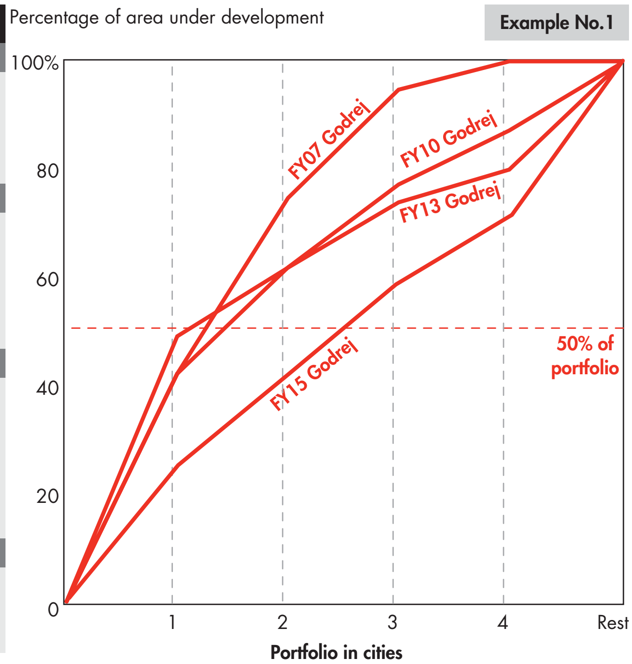
Focus on three new cities implying Pan-India focus in the long run

2013
- Continued focus in Ahmedabad; significant local scale in Ahmedabad (among top two players)
- Live projects in nine other cities
- Large number of upcoming projects in Mumbai

Pan-India focus ongoing but starting to strategically achieve local scale in select cities

2015
- Local scale in Ahmedabad
- Live projects in 11 other cities

Pan-India focus; local scale in Ahmedabad and Mumbai



Sources: company annual reports; analyst presentations; Bain analysis

Figure 11: Most traditional players have focused on one city and then expanded to other cities (Prestige)

Prestige Group

2007
- Completed ~4M square feet and ~11M square feet under development in Bengaluru in 2007
- Started expanding in Kochi and Goa

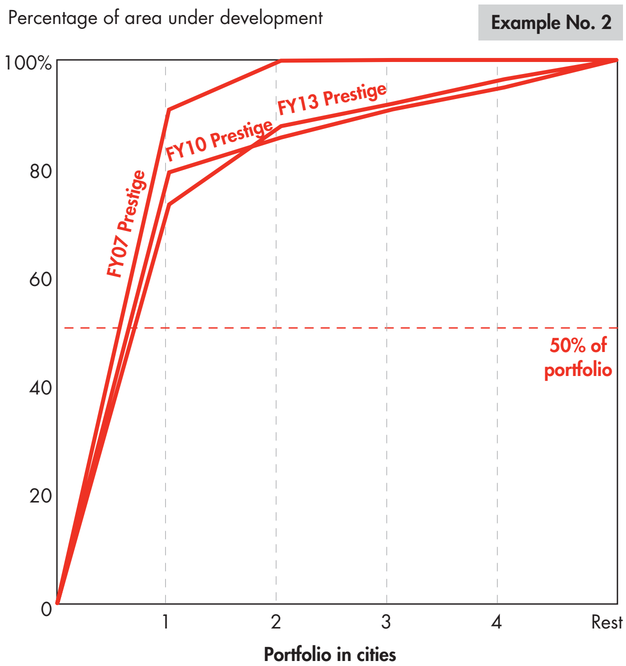
Focused on Bengaluru with slow expansion in South India

2010
- Further expansion in Bengaluru with ~42M square feet under development
- At the same time, started expanding primarily in Chennai along with Kochi, Hyderabad

Market leader in Bengaluru and focused on Chennai

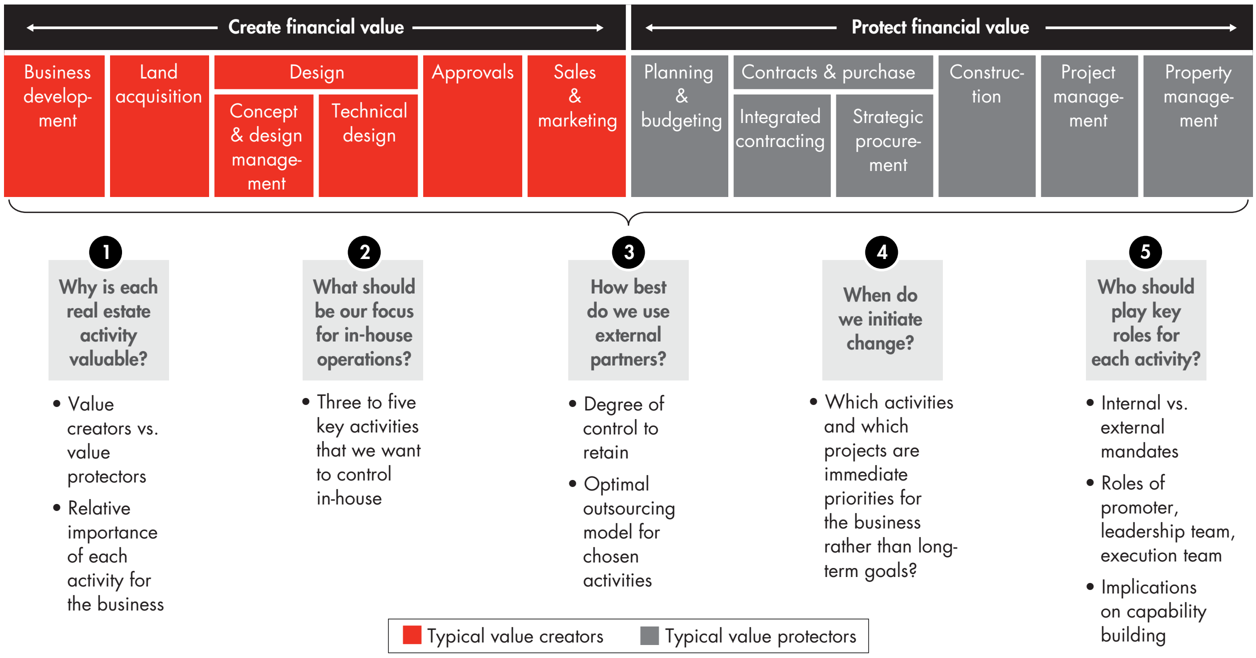
2013
- Further expansion with primary focus on Bengaluru and Chennai market; ~41M square feet under development
- Significant presence in Southern Indian cities

Market leader in Bengaluru and Chennai market



Sources: Company annual reports; analyst presentations; Bain analysis

Figure 12: It is important to define the business model priorities and to assess core competencies across the value chain



Source: Bain analysis

Figure 13: Unique models have emerged within the Indian real estate landscape as developers focus on key strengths across value chain…

	Business develop-ment	Land acquisition	Design: Concept & product	Design: Architectural & structural	Approvals	Sales & marketing	Planning & budgeting	Contracts & purchase: Integrated contracting	Contracts & purchase: Strategic purchasing	Construc-tion	Project manage-ment	Property manage-ment
	Create financial value						Protect financial value					
Developer 1	✓	✓	√		Not available	√	✓	Not available		✗	Not available	√
Developer 2	✓	✓	✗		Not available	√	✓	✓	Not available	✗	Not available	✗
Developer 3	✓	✓	✓		Not available	√	✓	✓	✓	√	✓	Not available
	Internally focused business model, capabilities built in-house across entire value chain											
Developer 4	✓	✓	√			√	✓	Not available		✗	✓	✓
Developer 5	✓	√	√		√	✓	✓	✓	✗	✗	√	✗
	Lean business model, outsourcing all but noncore capabilities											
Developer 6	✓	✓	√		Not available	√	✓	Not available		✗	Not available	✗
	Hybrid model											

✓ In-house √ Partially outsourced ✗ Outsourced

Sources: Annual reports; company websites; news reports; Bain analysis

Figure 14: ...including joint development models

	Land bank model	Joint venture model (Nontraditional models)	Joint development agreement model (Nontraditional models)
Developer 1	✓	✓	✓
Developer 2	✓	✓	✗
Developer 3	✓	✓	✓
Developer 4	✓	✓	✗
Developer 5	✓	✗	✗
Developer 6	✓	✓	✓
Developer 7	✓	✓	✓
Developer 8	✓	✓	✓
Developer 9	✓	✓	✓
Developer 10	✓	✓	✗

Joint venture model

- Joint venture for:
  - Access to partner's expertise or capital
  - Gain access to a project or asset that would have been inaccessible otherwise
  - Share risks
  - Strategic reasons
- Example: 50:50 joint venture between DLF & Nakheel Properties (Dubai-based real estate developer)

Joint development agreement model

- **Tie up with land owner** for developing projects
  - Land owner contributes land
  - Developer responsible for approvals, construction and marketing
- **Asset light model**
- Financial agreements with land owners
  - Revenue share
  - Area share
  - Profit share
- Example: Godrej Properties' joint development agreement with Ador Group to develop a project in Mumbai

Source: Bain analysis


10%
10%
50%

3.

Driving excellence in process execution: Running a tight ship

- There are six key enablers real estate companies should focus on to promote excellence. Underlying all six is a focus on process. Well-defined processes running throughout the value chain, from pre-construction through the construction cycle, handover and beyond, can create alignment and increase companies' ROI.

- Companies can also apply disciplined process execution throughout their internal operations, developing clear procedures for organisational setup, governance, IT setup and risk management. For example, real estate companies can optimise how they collect payments from customers. Rather than waiting until after a due date to request payment, companies can send reminders to customers at scheduled times before the due date.

- Similarly, companies can use a detailed MIS to raise key issues across the firm. A robust governance system can help leaders make timely decisions, keeping projects on schedule and improving organisational productivity and performance.

- Many interlinked and overlapping processes run through the construction value chain. Developers can improve their processes by using a detailed tracker to monitor all construction steps. A tracker is a visual aid that provides visibility into project tasks; it helps identify the critical path and proactively alerts teams to potential conflicts. Use of these tools reduces time to launch and thus increases return on capital employed (ROCE).

- Finally, the right set of key performance indicators (KPI) and incentives can ensure targeted efforts by employees. This in turn also improves productivity and results. For example, sales heads should also be responsible for collections. Leadership share in the company's fortunes should be based on rigorously defined metrics and indicators.

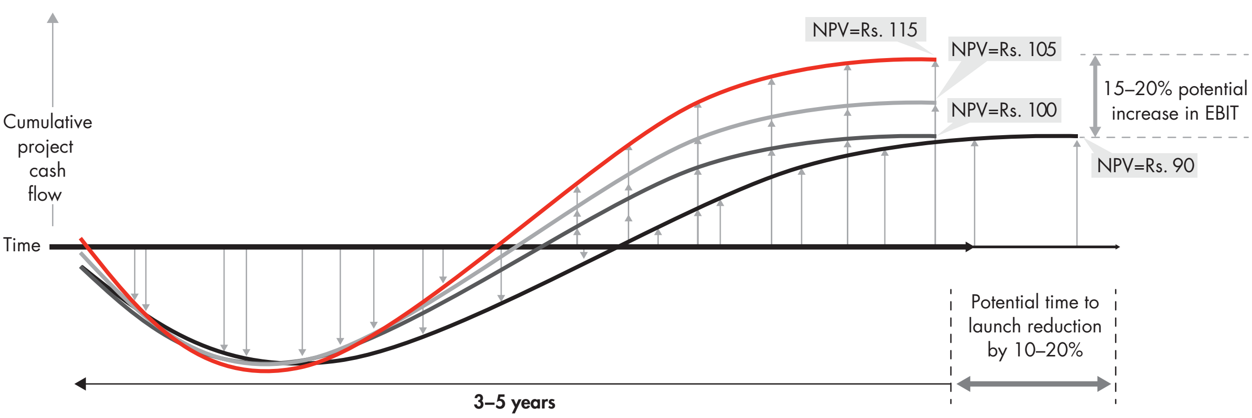
Figure 15: Six key enablers that lead to success in real estate

Process optimisation	Organisational setup	Key performance indicators (KPIs) and incentives
Seamless cross-functional alignment across all key processes Well-defined processes running throughout the duration of the value chain, before and during construction	**Project-centric organisation structure that creates empowered project heads** End-to-end accountability with authority to project heads to deliver on time, on cost, with quality	**Focus on controllable operational, financial, people, strategic goals** Leadership share in company's fortunes based on rigorously defined, periodic metrics and indicators
Management information systems and governance	**IT setup**	**Change and risk management**
Project and overall governance across all key business elements Cross-functional reviews and reports focusing on the few outcomes and metrics that differentially matter	**Governance, KPI measurement, key transactions fully IT enabled** IT functioning as a differentiator, providing live, accurate and actionable inputs to management	**Mitigating risks actively through appropriate interventions** Handling volatility through appropriate measurement and control of business or people risk, including fixing talent gaps

Source: Bain analysis

Figure 16: Following a robust preconstruction tracking process helps identify the critical path and raise flags proactively, thus reducing time to launch and increasing ROCE

Illustrative residential project under different cash flow and NPV scenarios



Inventory management
- Genetic algorithms could be used to model optimal NPV, EBIT scenario

Defined timelines & boundary conditions for all preconstruction processes (design, contracting, marketing) helps limit the expectations and targets

Value engineering across
- Shell & core
- MEP
- Finishes
- Waterproofing

Potential overall increase in EBIT of 10–20%; NPV by 20–30%

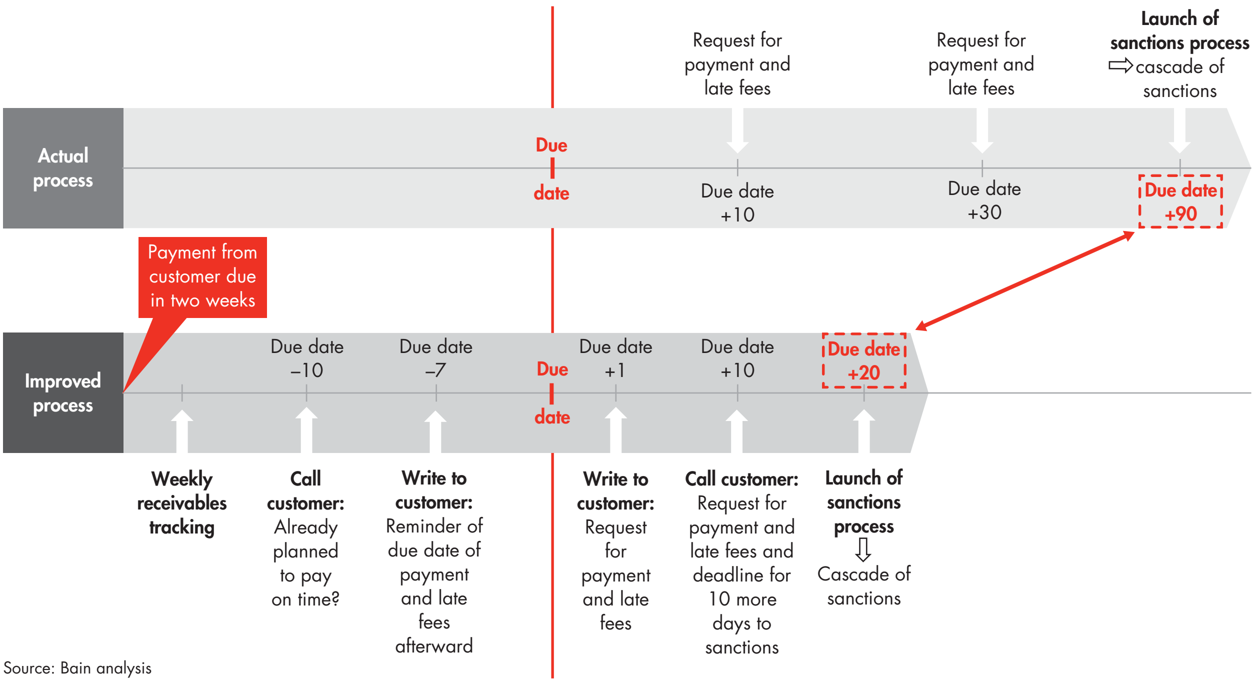
Source: Bain analysis

Figure 17: A well-structured MIS would enable quick decision making along with clear business targets

Projects	Area (square feet) Target (YTD)	Area (square feet) Current status (YTD)	Bookings (Rs. crore) Target (YTD)	Bookings (Rs. crore) Current status (YTD)	Work completion (%) Target (PTD)	Work completion (%) Current status (PTD)	Overall collections (Rs. crore) Target (YTD)	Overall collections (Rs. crore) Current status (YTD)	Contribution (Rs. crore) Target (YTD)	Contribution (Rs. crore) Current status (YTD)
Project X	x	x	x	x	x		x	x	x	x
Project X	x	x	x	x	x		x	x	x	x
Project X	x	x	x	x	x		x	x	x	x
Subtotal	x	x	x	x	x		x	x	x	x
Project X	x	x	x	x	x		x	x	x	x
Project X	x	x	x	x	x		x	x	x	x
Project X	x	x	x	x	x		x	x	x	x
Project X	x	x	x	x	x		x	x	x	x
Project X	x	x	x	x	x		x	x	x	x
Subtotal	x	x	x	x	x		x	x	x	x
Project X	x	x	x	x	x		x	x	x	x
Project X	x	x	x	x	x		x	x	x	x
Project X	x	x	x	x	x		x	x	x	x
Subtotal	x	x	x	x	x		x	x	x	x
Total	x	x	x	x	x		x	x	x	x

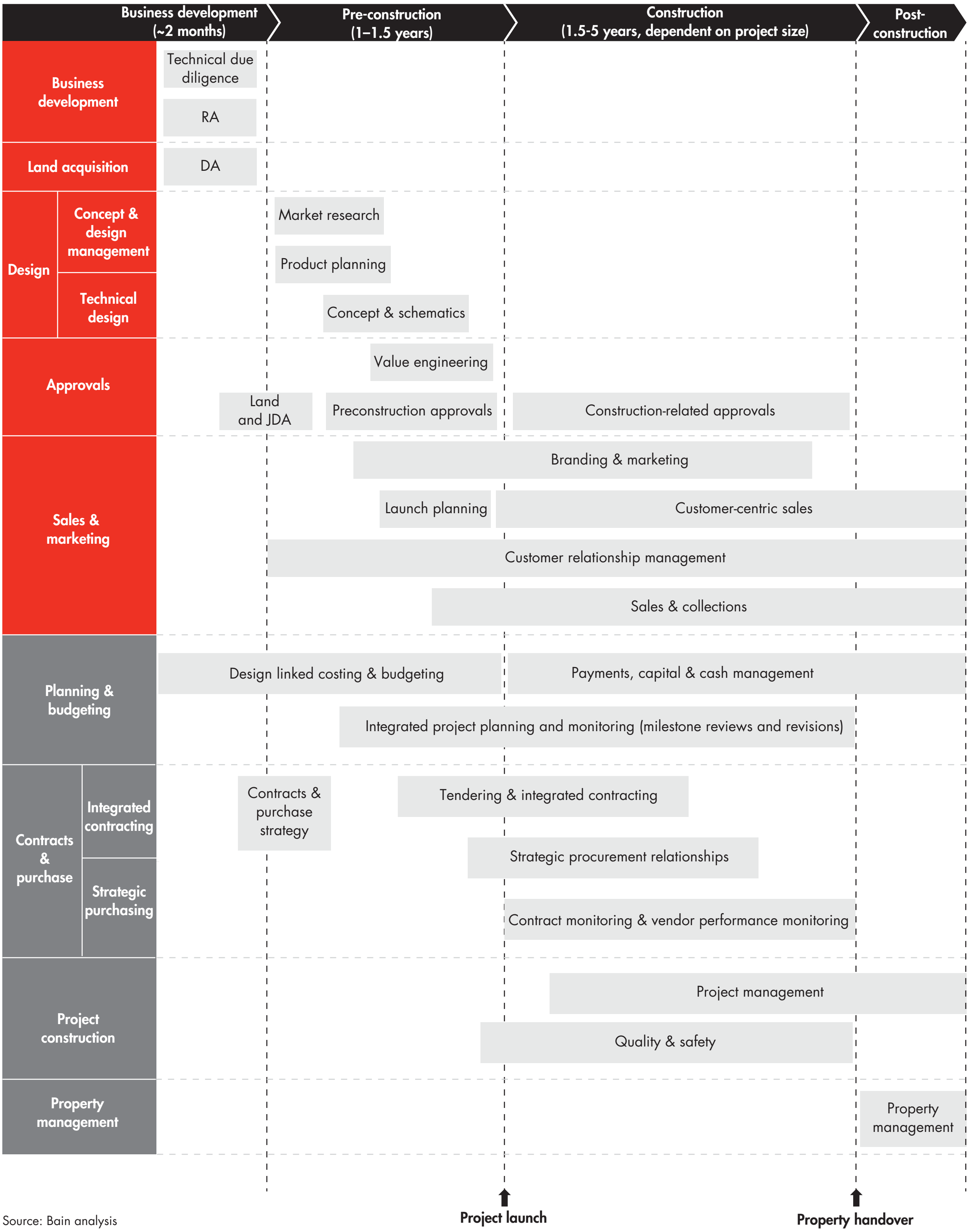
Variance: < –25% | –25% < x < 0% | >0%

Figure 18: Example: Thoroughly running an efficient dunning process can significantly improve collections



Source: Bain analysis

Figure 19: Multiple interlinked processes run through the duration of the value chain



Source: Bain analysis


THE SUM OF FIVE
HUNDRED RUPEES
5
RUPEES
2001
RUPEE
2001

4.

Focusing on tight cash management: Choosing the right success metrics

- The price of key construction inputs, including land and materials, has increased dramatically over the past decade. Raw materials have doubled or tripled in price, while land prices have increased even further. In Mumbai in 2015, land cost has increased to many times that of the 2005 levels. Delhi, Bengaluru and Chennai saw similarly rapid increases.

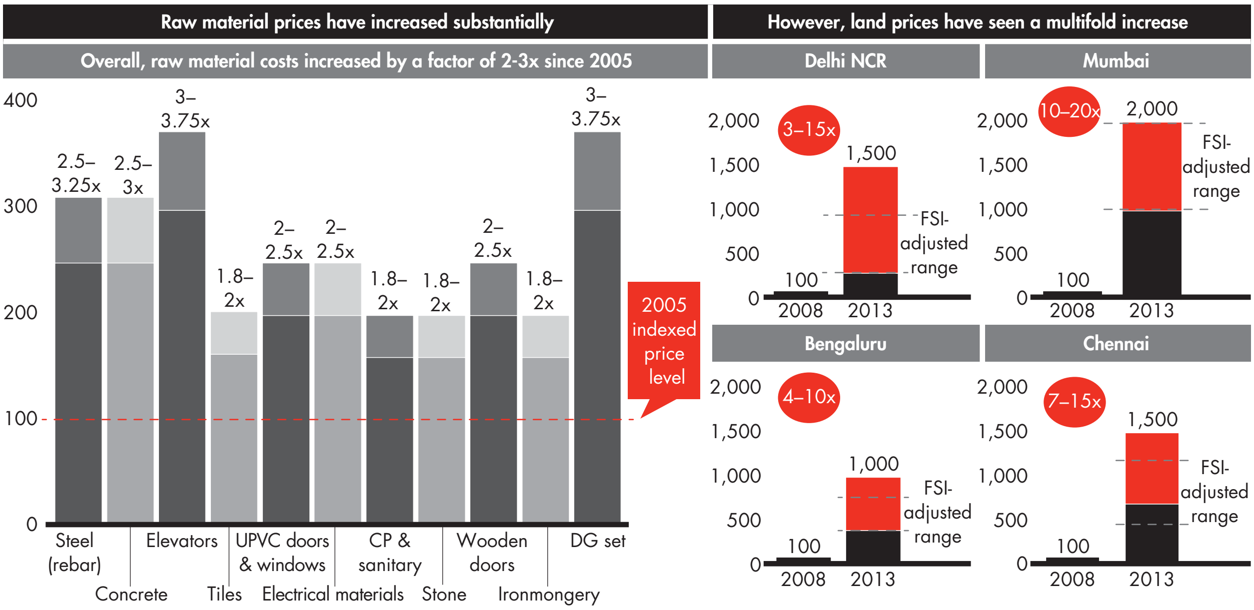
- Whereas typical developer profits were once 20% to 25% of the cost of a project, they made up only 8% to 10% of price realisation currently. In 2005, land costs comprised an average of 20% to 25% of the total price of a project; currently, they comprised roughly 40% on average.

- Squeezed margins, combined with elongated construction cycles and the unique nature of staggered cash inflows in the real estate business, present challenges for developers. The fact that traditional profitability metrics depend on completion of work further complicates this matter. Because developers often do not see significant cash inflows until the later stages of projects, common revenue and profit metrics (such as EBIT, EBITDA, and PAT) do not provide a complete picture of firm performance.

- However, solvency and access to cash are more important for developers than accounting profits. Instead of traditional metrics, developers should use CFROI to judge their returns and business health. CFROI logically measures returns against invested cash in a project-based, capital-intensive industry that often faces capital crunch.

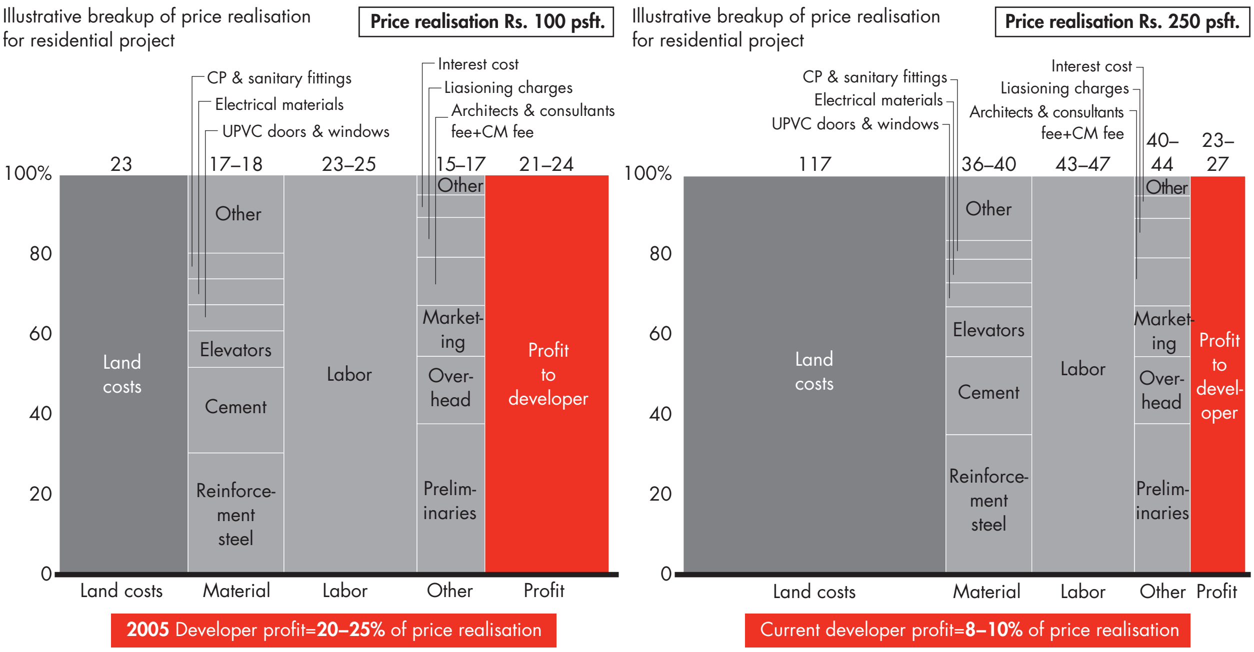
- To maintain focus on CFROI, companies should organize around projects and empower project heads to maximise returns. They should give project heads full, end-to-end responsibility for the time, cost and quality of their projects. They should also plan to measure cash flow and other milestone metrics on a monthly or quarterly basis. Specific initiatives, such as upfront project inventory management and project phasing and pricing strategy, could release significant value in terms of overall project net present values (NPV), rather than just end-of-project accounting metrics such as EBIT and PAT.

Figure 20: The price of land and materials has increased significantly over the past decade



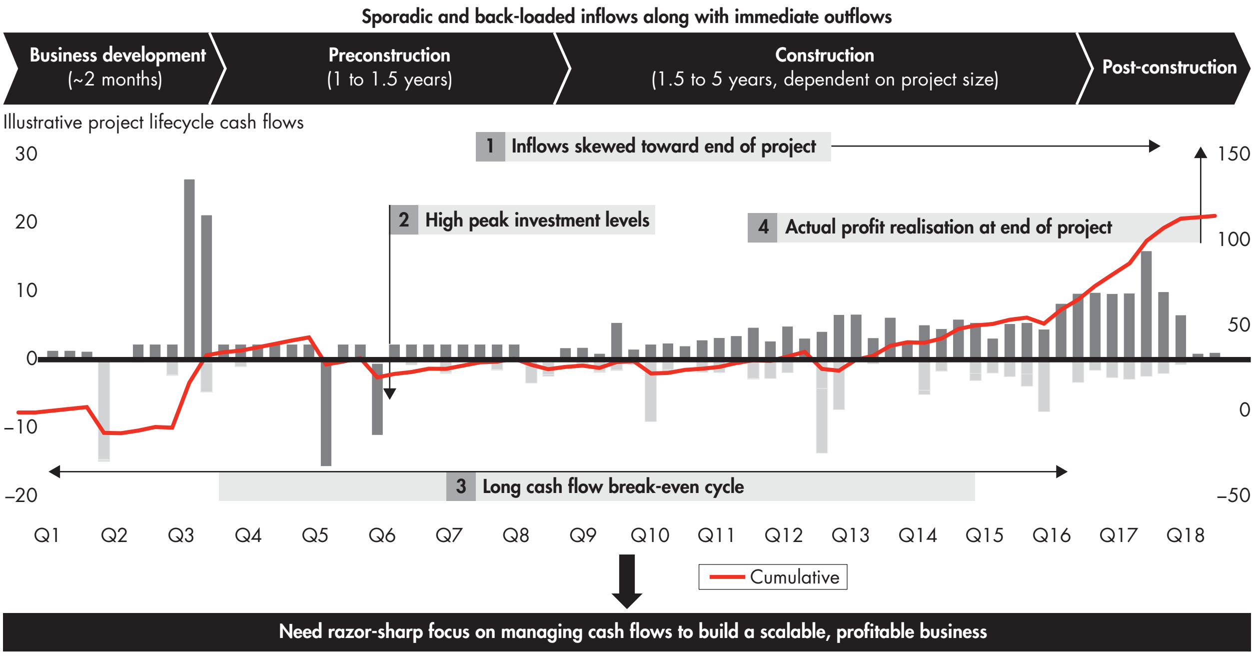
Notes: Land price appreciation estimated from actual deals conducted or circle rates where available; FSI-adjusted range accounts for higher floor area ratio; raw material price increases weighted by percentage age of total cost for each input
Sources: Bain analysis; interviews with 20 property dealers across four cities and four industry experts across three sectors

Figure 21: The land and materials price increases have eaten into the profit margins of developers



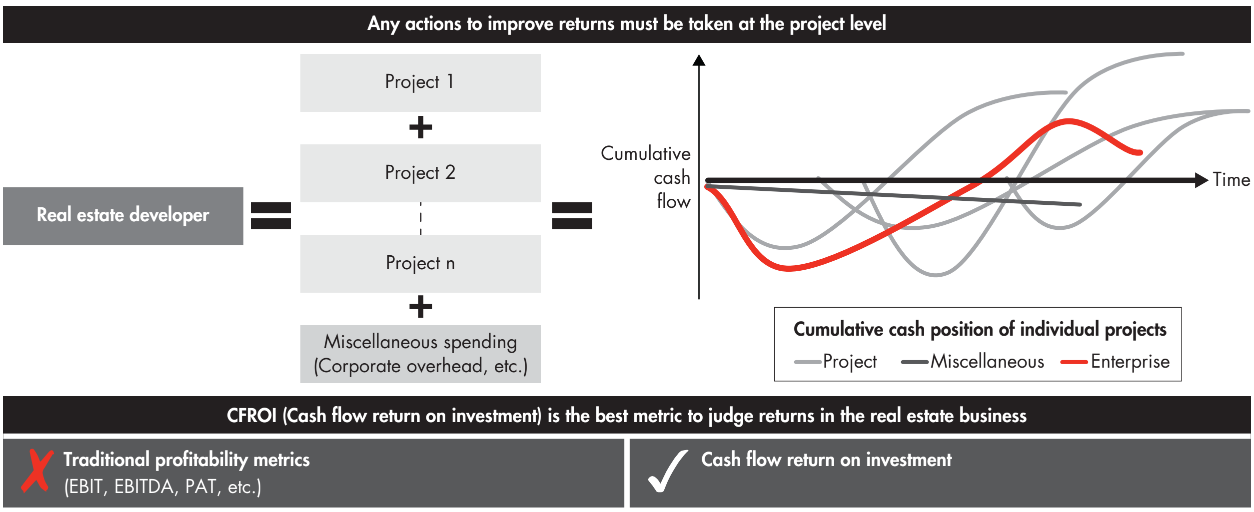
Note: All values indexed to 2005 total price realisation

Figure 22: The unique nature of the business lends itself to very peculiar financial challenges



Source: Bain analysis

Figure 23: Fundamentally, a real estate business is the sum of its projects; CFROI is the best metric to measure business health

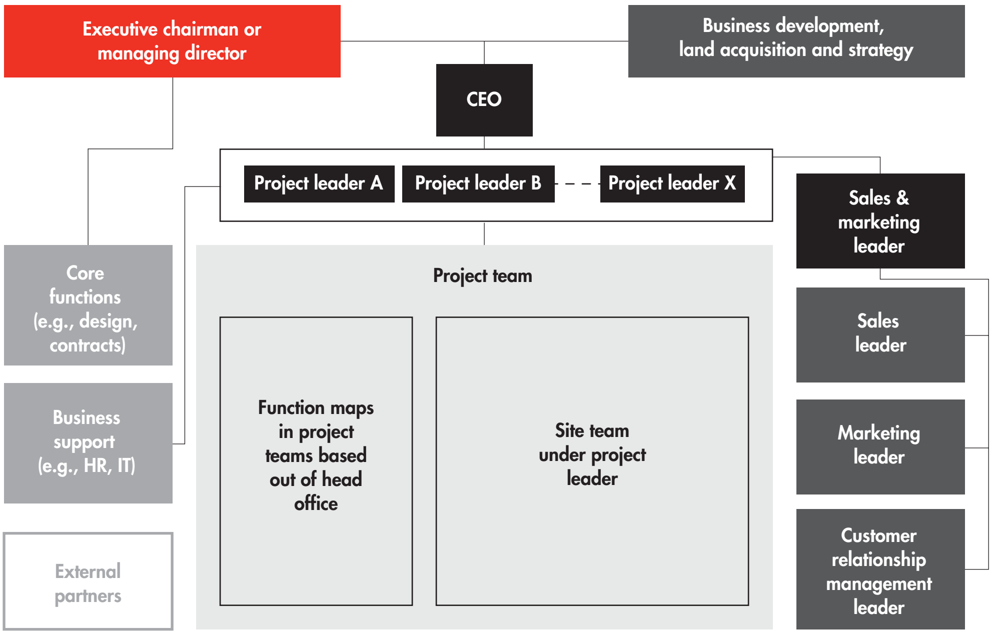


- Income statement line items are skewed due to their dependence on work completion accounting methodology in real estate
- Both revenue and profit metrics are mere accounting line items and don't reflect real state of affairs

- Reflects true cash generation ability of the project and eventually of the developer
- Logically measures returns against invested cash in a capital-intensive industry that often faces capital crunch

Source: Bain analysis

Figure 24: Organising around projects and empowering project leaders is critical



- Project heads responsible through the preconstruction and construction phases
  - Including business development, design and contracting
- End-to-end project responsibility: on time, on cost and of the right quality
  - Cash flow and milestone metrics measured on a monthly or quarterly basis

Source: Bain analysis

5.

Using an integrated go-to-market strategy and tailoring your brand: Building a customer mindset

- Brand building is critical to real estate developers' long-term success. Few developers have the luxury of an existing parent brand. As Lodha Group and Prestige have demonstrated, creating a scalable, local business can help create sustained and profitable business growth.

- In real estate, customers are highly invested and involved in the buying process. Developers therefore must create brand awareness and anticipate customers' needs during product conceptualization and design. Because projects can take more than five years to complete, developers must design products and amenities their customers are likely to want when the products launches—not currently.

- Customer segmentation, product conceptualization and design are critical for project success. Often, project designs change close to the project launch based on poor responses from customers. This increases time to launch and significantly increases overall costs.

- In our surveys and interviews, customers in Mumbai and Bengaluru listed on-time delivery, luxury interiors, financial strength, track record, premium location and trust, among other factors, as the attributes that drive their purchase decisions. But when customers rated their perceptions of 17 major real estate developers, fewer than half received a positive Net Promoter Score®, a well-established measure of customer loyalty.

- Developers have opportunities to differentiate themselves and their engagement with potential customers. We found seven key attributes that matter most, and they fall into two categories: those that drive consideration and those that drive advocacy.

- On the front end, customers can increase customer satisfaction by matching customers with a single point of contact and collecting all feedback over the course of a sale. On the back end, developers can give customers a choice of location and project features.

- Elements of customer-centricity should be just one piece of a developer's overall GTM strategy. To scale up rapidly, businesses need integrated, multichannel strategies that help them grow on multiple fronts. Developers have already begun to build "excellence niches" based on their strategic priorities.

Figure 25: In real estate, the customer journey requires the highest involvement and investment

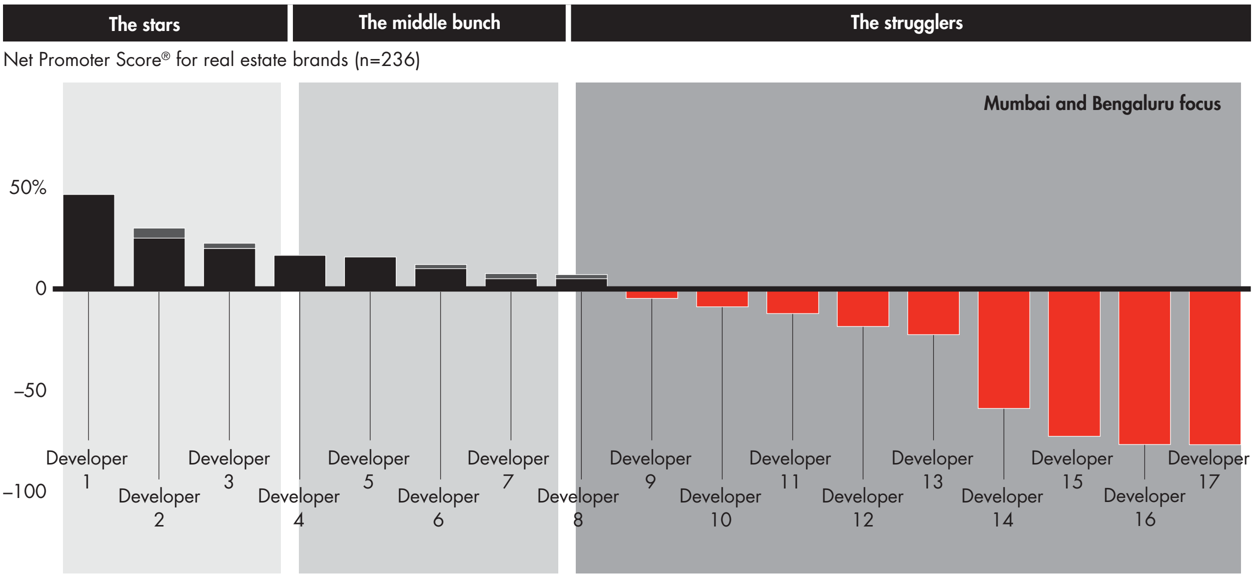
	Pre-sales 6–9 months		Sales 3–4 months		Post-sales 36–60 months	
	1 Need & brand awareness	2 Initial enquiry or outreach	3 Direct engagement	4 Sales process	5 Project construction	6 Post-handover support
Description	• Begin customer journey—identify needs and constraints • Initiate initial enquiry—through a variety of models		• Short-list property, engage and negotiate with sales team • Apply, complete paperwork and registration, make payments • Appoint relationship manager as single point of contact		• Get updates on ongoing progress • Have property handed over	• Monitor ongoing activities, get complaints resolved
Focus area for developer	**Attributes that attract a potential buyer initially** The developer brand, location, etc.		**Attributes that convert a potential buyer** Outcomes in projects already delivered, such as quality and timely handover		**Attributes that continue to build advocacy** Delivering those outcomes in the project a customer invests in	
	Consideration shortlist (after stage 2)		**Project purchase** (after stage 4)		**Property handover** (after stage 5)	

Source: Bain analysis

Figure 26: There is significant room to demonstrate greater customer centricity in most attributes that contribute to purchasing decisions

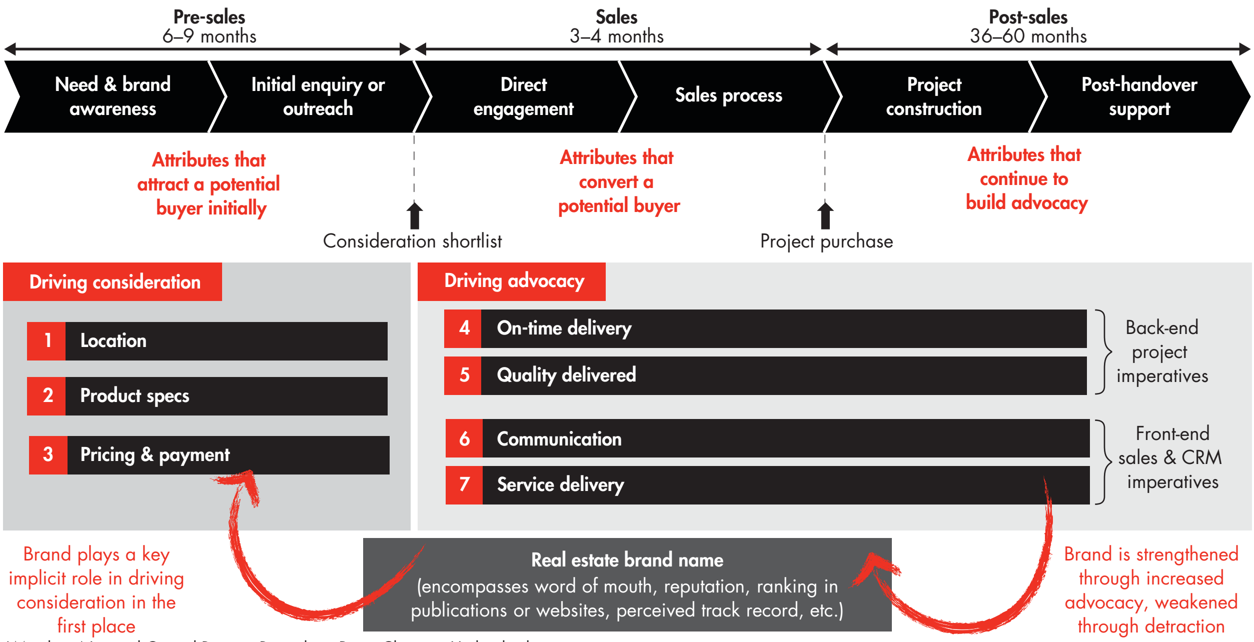
Notes: Word size indicates frequency of mentions by survey respondents
Sources: Field survey; focus group discussions; detailed primary interviews

Figure 27: Indian residential real estate industry does not have a customer mindset, with poor advocacy as a result



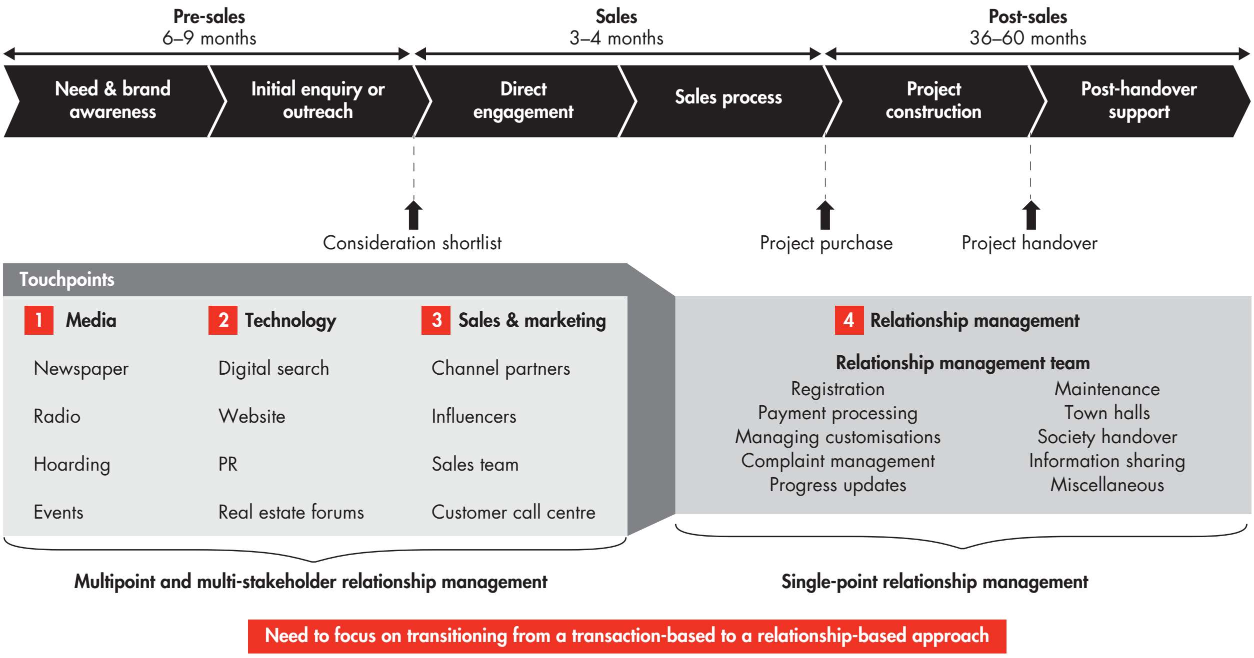
Notes: Focused on Mumbai and Bengaluru respondents; Net Promoter Score corresponds to "On a scale from 0-10, how likely are you to recommend projects from the following groups to a friend or colleague for purchase of a new residential apartment?;" Net Promoter Score is the percentage of promoters (score 9/10) minus the percentage of detractors (score 0-6); Net Promoter Score is a trademark of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc.
Sources: Field survey; Bain analysis

Figure 28: Across these attributes, seven key attributes differentially matter; brand both influences and is influenced by them



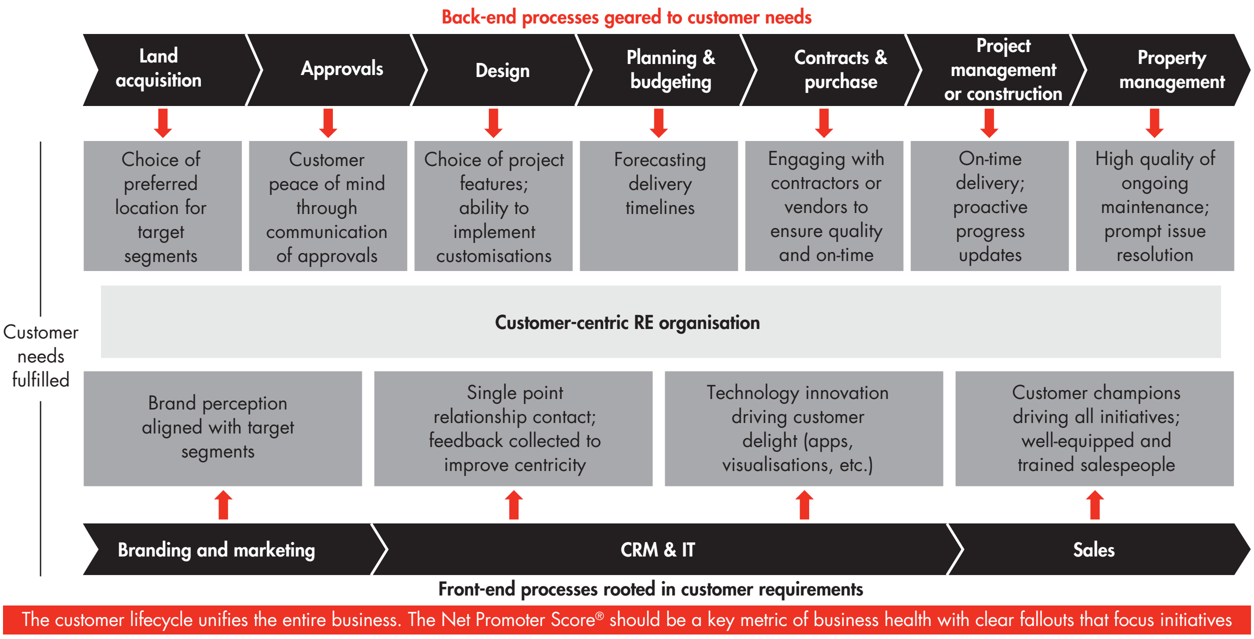
*Mumbai, National Capital Region, Bengaluru, Pune, Chennai, Hyderabad
Sources: PropEquity; Knight Frank

Figure 29: Achieving those attributes involves managing key touchpoints with the customer before, during and after a purchase or handover



Source: Bain analysis

Figure 30: It is critical for companies to manage front- and back-end interfaces to truly delight customers



*Mumbai, National Capital Region, Bengaluru, Pune, Chennai, Hyderabad
Source: Bain analysis

Figure 31: To scale up rapidly and maximise their reach, developers need a structured go-to-market strategy across multiple channels

1 Direct sales

- Brand awareness and perception
- Extent of reach via marketing initiatives
- Direct sales force effectiveness
- Sales force motivation and incentives

Examples:

- Aggressive and skilled sales force
- Attractive incentive programs
- Structured cross-sales teams and initiatives
- National-level events with pan-India portfolio on offer

Godrej Properties, Sobha

2 Channel partner

- Strength of relationships among CPs
- Competitive brokerage terms
- Brokerage payout time and transparency
- Brand perception among CPs

Examples:

- Majority sales done through channel partners (>60%)
- Pre-launches done through channel partners
- Volume-based brokerage slabs
- Rewards and recognition for on-the-ground channel partners salesforce

Prestige Group, DLF

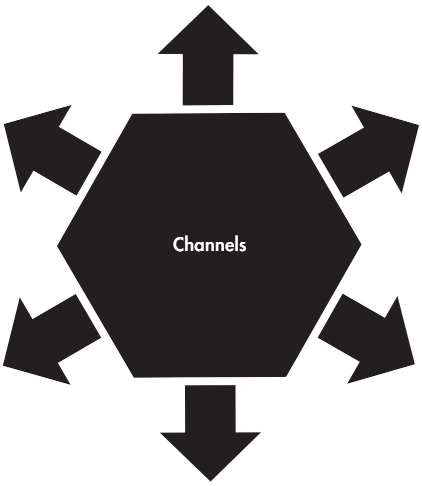
3 International

- International marketing initiatives
- Direct or indirect overseas presence for lead follow-up and conversion
- Strength of relationships among international channel partners

Examples:

- Special pre-launches in international markets and expos
- International offices and significant time and effort spent on the ground
- Large nonresident Indian base developed in GCC, US, UK and Australia
- Sobha: 25%–30% of sales coming from nonresident Indian customers

Lodha, Sobha



4 Corporate

- Structured reach-out program for corporates
- Exclusive value proposition
- Trustworthy brand image for corporate interest
- Structured follow-up process

Examples:

- Top-level corporate tie-ups
- Structured corporate reach-out and follow-up processes
- Exclusive corporate deals on specific projects

Godrej Properties, Tata Housing

5 Customer referrals

- Strength of relationships and loyalty of customers
- Structured and attractive customer loyalty program

Examples:

- Exclusive tiered customer rewards programs
- Rewards ranging from cash payouts to gifts
- Exclusive events and launches for loyal customers

Hiranandani, Lodha

6 Emerging channels

- Online
- Wealth management networks, banks, NBFCs

Examples:

- Strong focus on online platforms:
  - Tata Housing: tie-up with Google Online Shopping Festival 2013
  - Unitech: 14% of sales generated from digital platform (FY13)
- Strong tie-ups with wealth networks and NBFCs

Unitech, Tata Housing

Source: Bain analysis

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