White space in terms of capital availability for the Real Estate Sector

- CRE exposure of Scheduled Commercial Banks (SCBs)[1] has grown at a slow pace over the last 5 yrs
- Moreover, NBFC's CRE exposure reduced by 44% from INR 1.5 trn in FY19 to INR 0.8 trn in 1HFY24
- Significant capital vacuum in capital availability for performing, unlisted developers
- At the same time, residential real estate sector is in the middle of a robust upcycle
- This has led to a unique, attractive opportunity for creating a credit platform to plug this funding gap

Declining traditional sources of capital for the Real Estate Sector

RBI has recently shared a report on Trend and Progress of Banking in India (2022-23). Few points caught our attention related to the deployment by SCB and NBFC credit in Commercial Real Estate (CRE) and housing loans:

✓ Traditional sources of finance to CRE are not meaningfully active

- Total CRE exposure of Banks and NBFCs has grown at a CAGR of just 4.4% from FY19 to 1HFY24 (refer figure 1)

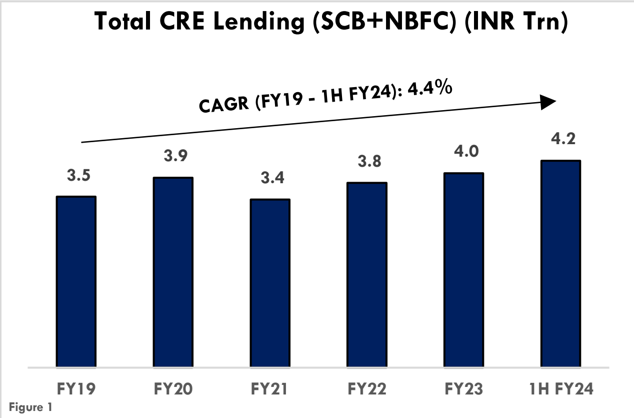

Figure 1

- Share of CRE to total credit to industry and services has fallen from 5.1% in FY19 to 4.6% in 1HFY24

✓ If we dig deeper, NBFCs have continued to shrink their CRE lending book:

- NBFCs' CRE exposure reduced by 44% from INR 1.5 trn in FY19 to INR 0.8 trn in 1HFY24 (refer figure 2)
- NBFCs' CRE exposure to NBFCs' overall lending book reduced from 6.5% in FY19 to just 2.3% in 1HFY24 (refer figure 2)

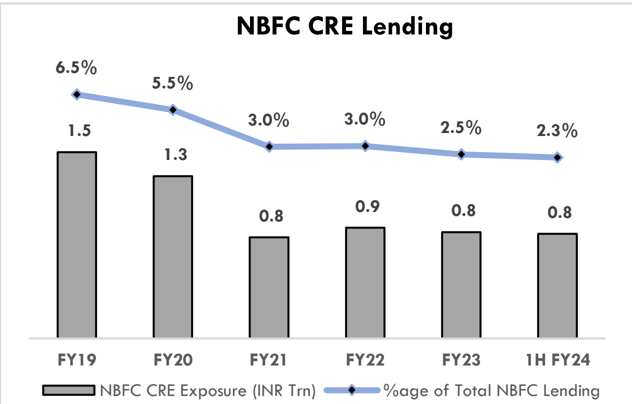

Figure 2

- NBFCs' share of credit to CRE (as %age of Bank and NBFC CRE) has reduced from 42% in FY19 to less than 20% in 1HFY24 (refer figure 3)

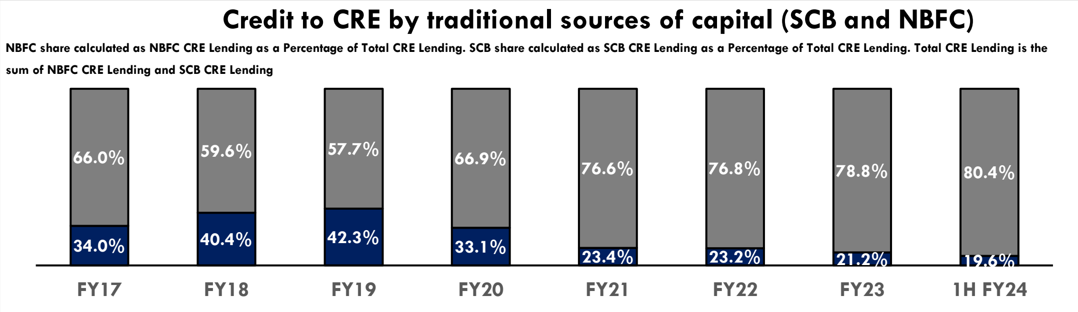

Figure 3

✓ At the same time, residential estate remains robust with strong sales and launch momentum across cities in India (Refer our earlier insight on [Higher mortgage rates have been absorbed well)]():

- 9MCY23 sales have already reached 91% of the CY22 sales
- Sales and launches in 9MCY23 have grown by 21% and 24% y-o-y respectively.
- 9MCY23 pan India inventory (in terms of years-to-sell or YTS) was 2.3, which is the lowest in last several years
- FY23 was the best year in terms of sales volume for all listed developers and it appears that FY24 would beat this record

✓ Credit to retail housing loan from both Banks and NBFCs remains robust

- Overall housing loan (Banks and NBFC) has increased at a CAGR of 13.7% from FY19 to 1HFY24 (refer figure 4)
- NBFCs' share of credit to housing loan (as a % of SCB and NBFC housing loan) has improved from 1.3% in FY19 to 1.9% in 1HFY24 (refer figure 4)

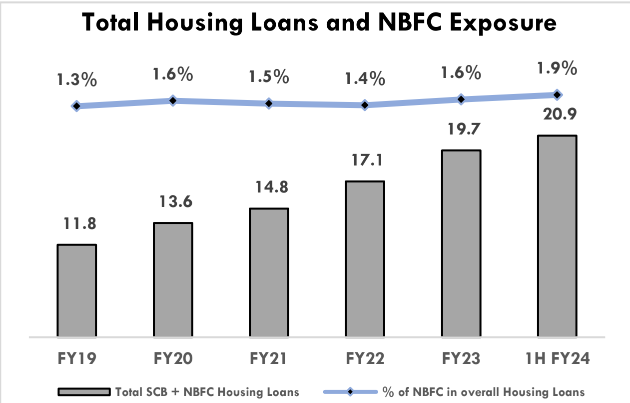

Figure 4

Certus view:

Clearly, SCBs aren't too active in the CRE sector and NBFCs have significantly vacated this space. There is a massive white space in terms of capital availability for performing, unlisted players. On the other hand, residential cycle remains strong and we are in the 3rd year of a multi-year housing cycle. This unique situation has created an attractive opportunity for creation of a specialized CRE credit platform to plug this funding gap.

1. Scheduled Commercial Bank; excludes the impact of the merger of HDFC Bank and HDFC Ltd.

Source: RBI, JLL

Founded in July 2018, Certus Capital is an independent, team-owned platform. Certus partners with institutional investors and family offices to invest in real estate opportunities in India. For more information, please contact us on contact@certus.co.in or visit us at https://certuscapital.in

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