

The Future of the Indian Residential Real Estate Sector for International Brands.

Alexander (Sandy) Moore – Chief Executive Officer LJ Hooker India

The Indian demographic is now very well known, with the numbers seeming almost fanciful by those of us more used to mature western market statistics.

A population of over 1.2 billion, with a median age of only 25.9 years and growth that will see India surpass China as the most populous place on earth by 2025 – by 2050 India will have a population larger than China by the quantum of the United States, a difference of some 500 million.

But these raw statistics are only the tip of the iceberg. The Indian Real Estate sector currently deals with less than 20% of this population, with only 29% of the population residing in its cities urbanisation is one of the lowest levels in the world today, but the rate of change is one of the highest in the world at 2.4% per annum, leading to expectations of a 590 million urban population by 2030.

The average household size in India is over 5.5 people/dwelling against a world standard of less than 2.5 people/dwelling. Given that most new buyers in the Indian market mirror their western counterparts as young dual income couples, we are seeing a rapid change in this number, potentially leading to a doubling of the market size.

The real estate market size in India is expected to reach around \$180 billion USD by 2020, and it currently sits at around 6% of GDP. It is growing at compounding rates of 19% per annum.

So, what is the existing state of the organised transactional real estate practice in the country ?

There is no licencing or registration process for real estate sales in India so tracking accurate numbers of participants (and sales volumes) becomes very difficult. At this point the only national body (NAR India) claim 1,700 members, even if we factor this at only 10% of the more organised 'professional sector' we would come up with less than 20,000 active participants nationally.

As a comparative guide the US market is roughly the same size as the existing 'transactional' market in India, and the US has some 1.5 million NAR members with an estimate of over 2.5 million licenced sales people working out of over 200,000 established offices, controlled by 98,000 separate firms.

This means that the organised transactional real estate sector in India currently sits at a penetration of less than 1% of the world's most mature real estate market.

As at today there are no local national chains and few local State based groups with multiple office strength.

International brands that have entered the market include Remax, LJ Hooker and Century 21. Others such as Coldwell Banker are starting to set up and some such as Australian brand Ray White have been and left. IPC brands which are in the main commercial in their set up and generally company owned include Knight Frank, JLL, Cushman & Wakefield, and Colliers.

Both the primary and secondary residential markets are predominantly requirement driven with little in the way of controlled stock or managed marketing programs.

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What we see in India today is a proliferation of small independent offices that are generally sole traders, with some larger offices, and a few multiple branch office structures (such as Gulshans in the north and Hannu Reddy in the south).

On the primary sale front there are a number of web based companies looking to try and leverage their web presence by providing on the ground sales teams in the major cities (Prop Tiger, India Homes) as well as some large underwriting/wholesale firms such as Investor Clinic in the north. A number of the major banks also run home search teams to assist with loan dispersal.

Operational features of the majority of traders is a lack of technology usage and marketing reach coupled with poor structures and processes, and limited if any training of staff.

The question then is how do international brands used to dealing in mature organised markets enter India and establish viable business models ?

Remax have worked their normal strategy which is essentially a top down model. You firstly sell the national rights and that entity then sells regional territories, they in turn sell offices, and the offices sell desks to sales executives. Remax have driven their network to well over 100 offices at one point until a clean-up was done that reduced this to around 50, a rebuilding has now taken the numbers back up to north of 75.

The issue for this style of model is that while it is strong at the top end, it is inherently weak at its base. In a mature market you have mature sales executives that have risen to the top of the profession and are entrepreneurs under the brand of a network, in India these people rarely exist at an employee level; they have opted out into their own small business.

A report just released shows that an astounding 45% of India Business School MBA graduates between 2010 and 2013 opted for self-employment. This is one of the critical areas for branded players to look at – how do you attract (and keep) high quality transactional staff that are the style and calibre you attract in a mature market.

If you apply a basic DISC profile test across existing sales staff in Indian real estate offices (be it transactional offices or developer sales teams) you will see almost no 'D' profile and a predominance of 'C'. It is almost the reverse of what you would expect in a normal real estate office.

For a model to succeed in India it needs to address the basic issues and practical limitations in the marketplace, and allow your network to organically expand from a position of growing revenues.

You need to have a bottom up model that works at the sales executive and office owner level. It must provide the things they most need; operational systems, CRM, on line marketing, training and operational support.

Experience in Asia has shown that support levels can be as high as 1:1 (one corporate employee for each office) especially in the early growth phase where processes are being established. These sorts of support levels are unheard of in a mature market but it has to be recognised that to bring an unorganised market into a manageable format it takes a great deal of support and management.

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Without going into commercially sensitive areas of our format and roll out plans I can say that LJ Hooker in India took a deliberate strategic move to cease the growth of franchise services until a time where we were happy that our operating systems and model were proven and tested in the local market. The speed at which you finish the race being more important than the speed at which you start.

This has led to LJH working a hub (corporate transactional) and spoke (franchise network) model, where the corporate entity leads from the front and provides market leads and presence to the network as well as the traditional pillars of Systems, Training, IT, Support and Marketing.

It remains to be seen what the optimum model is in the Indian marketplace, and as the market matures the appropriate model will change and adapt. My belief is that at this stage a number of models are viable as long as the operator provides adequate resources and time.

In the context of the uniqueness that defines India it also needs to be understood that the country is best viewed like the EU. There is a common thread and purpose but the parts that make up the entity also have great differences, different languages, food, culture and even different ways of describing and measuring property. To set up a nationally useable web portal in India you need to be able to describe property size in terms of square feet, square yards, square metres, acres, hectares, cents, and guntas – dependant on which part of the country you are talking to.

These variances from region to region are one of the many challenges for a national operator. Developing systems and processes that work effectively across the country, and are also flexible enough to be modified for regional needs is difficult to manage, more so if you are looking at integrated data systems.

So India is indeed the future for the larger branded players. The potential is massive and the market could easily absorb a dozen serious players, all with network sizes of 500 + offices.

I believe in coming years we will see many brands here, some run locally as wholly owned local businesses running under licence, and others running initially as wholly owned subsidiaries taking advantage of the allowance for 100% FDI into the consulting sector, still others will be set up as partnerships between the foreign parent and a local operator.

The one thing that has been proven not to work is to simply licence a local operator to manage a brand without real on the ground support.

Working with the local associations and practitioners (and each other) to get the market to a more organised platform is undoubtedly the main challenge ahead.