



CARE REAL ESTATE STAR RATING

Rating Methodology

Industry Overview

The real estate sector in India can be broadly divided into residential, commercial and retail segments. The industry is highly regional and a fragmented industry. Due to absence of any independent regulator, and low entry barriers, India has seen a huge influx of developers and builders, many of whom have significant presence in their respective local markets. Due to requirement of host of central and state government clearances and long gestation period of projects, the industry does witness instances of delays in the project execution, cost escalations, etc. Also, due to non-availability of standard disclosures to be made to the customers, ambiguity does persist among the buyers with regards to transparency and delivery of final product with promised deliverables. As a result, all developers are painted with the same brush, which is not always the case. Recently many well-known corporate houses have marked their presence in the real estate industry, which is likely to increase the benchmarks in the industry in terms of disclosures, quality of construction and use of advanced technologies. In an attempt to help developers promote their abilities and improve branding while facilitating the consumers for informed decision, CARE has initiated rating of real estate projects under “CARE Real Estate Star Rating”.

Characteristics of CARE Real Estate Star Rating:

- CARE’s Real Estate Star Rating is a city-specific project rating which covers Residential, Commercial, Retail, Township, Mix-use development, SEZ, and IT parks.
- The Star Rating is an opinion on the quality of the project and the ability of the developer to complete the project within specific timelines adhering to agreed specifications.

Rating Methodology

CARE’s Real Estate Star Rating assigns the city specific rating based on the following four parameters:

1. Project Developer Quality
2. Project Construction Quality



3. Project Legal Quality
4. Project Financial Quality

Project Developer Quality

For any project, one of the major factors to be evaluated is sponsor risk. CARE's Real Estate Star Rating evaluates the developer quality based on developer's track record in the industry which includes assessment of the capabilities of the developer in terms of geographic experience, ability to mobilise funds and number & type of projects completed. Besides, the developer's ability to deliver the projects as per the promised standards in a timely manner is evaluated. Furthermore, organizational strength as well as systems and processes available with the developer are examined to assess the organizational bandwidth of the developer to execute committed ongoing projects.

Moreover, developer's communication with the existing customers and feedback from past customers is also evaluated. For instance periodic disclosure of project status with buyers, detailed website guiding the potential buyers are viewed favorably.

Project Construction Quality

The project quality refers to the construction quality, project location, amenities provided and the innovative concepts used in the project. CARE evaluates the construction quality through analyses of the track record of various contractors deployed by the developer, such as structural consultants, architects, civil contractor, and project management consultants. Apart from the adequate track record of the contractors in the industry and construction technology, CARE views positively, the consistency in the set of contractors which provides stability in the quality of construction. Besides, the time bound - fixed price nature of the contracts reduces the likelihood of cost overruns.

Further, the availability of raw materials and project features / facilities are evaluated. The project location which provides easy accessibility to the project site reduces the hurdles to transport the men and material to the site aiding the smooth construction. Project features / facilities such as adequacy of power back up systems, safety provisions, recreational facilities, and connectivity of the project with other parts of the city as well as major commercial hubs are



assessed for assigning a rating. Moreover, presence of innovative concepts like green building, solar paneling, rain water harvesting is viewed favorably.

The above parameters are juxtaposed with the past track record of completed properties of the developers and current status of the project to be rated, so as to evaluate the conformity of the project with various approvals and promised deliverables in stipulated timeframe. CARE evaluates the project throughout the construction period of the project with site visits at regular intervals.

Project Legal Quality

One of the major reasons which would cause delay in the real estate project is the legal aspect involved. CARE assesses the adequacy of the title search carried out for land and clarity of land title. Further, CARE assesses various approvals required for the project, in line with the type and magnitude of the project, and the status of the same. The approvals assessed are usage of land (use of forest, agriculture or industrial land for real estate development) environment clearance, aviation clearance, CRZ clearance, high rise clearance and commencement certificate. Besides, conformity with rules such as distance to be maintained from sensitive set ups like – Nuclear sites, defense base, and other national security set ups and regulations associated with usage of FSI (Floor Space Index) and any negative covenants in case the developer is planning for any additional FSI are also assessed. Besides, any pre-approval / APF (approved project finance) from housing finance companies is viewed favorably. Further, the sales agreement is evaluated to opine on the level of transparency followed in the sale transactions.

Project Financial Quality

Timely completion of any project is always subject to adequacy of the funds. CARE evaluates the various sources as well as adequacy of funds planned for the execution of the project. The first and the foremost funding source is sponsors equity, CARE evaluates the proportion of funds committed by the developer for the project depending upon the type of the project, and further, financial flexibility of the developer is evaluated to assess resourcefulness during stressed conditions. As real estate projects are capital intensive, these are financially leveraged to enhance returns. CARE evaluates the proportion of debt in total funding and status of debt tie-up. Low level of debt provides cushion to increase the leverage in case of any unwarranted scenario.



CARE assesses the amount of customer advances planned for project funding, adequacy of booking status. Booking status is also a testimony for reasonable project location and provides financial flexibility to complete the project. Moreover, breakeven sales point is also analyzed to evaluate margin of safety and likelihood of the project to be completed.

Conclusion

The rating outcome is ultimately an assessment of the developer's capability and the likelihood of the timely completion of the project. CARE analyses each of the above factors and their linkages to arrive at the overall opinion of the real estate project with respect to the timely completion with promised performance standards.

DISCLAIMER:

CARE's star rating of real estate projects is an opinion on the developer's ability to execute the real estate project in timely manner and with the agreed upon quality standards. Besides, it is an opinion of the legal quality of the project. The analysis draws heavily from the information provided by the developer and information obtained from sources believed by CARE to be accurate. However, CARE does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Also, CARE does not guarantee the adequacy of title search done to arrive at the legal quality of the project. CARE's Real Estate Star rating is also not a recommendation to buy, sell or hold the rated real estate property. CARE shall also not be liable for any losses incurred by users from any use of such rating. Most of the developers whose real estate projects are star rated by CARE have paid a rating fee.