Sushil Kumar Sayal

PORTFOLIO PENGUIN

INSIDE unREAL ESTATE

A JOURNEY THROUGH INDIA'S MOST CONTROVERSIAL SECTOR

FOREWORD BY
SUNIL BHARTI MITTAL

'It is an excellent entrepreneurial story of grit, determination and fearlessness'
Kishore Biyani, Group CEO, Future Group

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Contents

To my father, Girdhari Lal Sayal (1936–2013)

Foreword

In his book *Inside unReal Estate*, Sushil Kumar Sayal, who has spent over three decades in the real estate sector, gives an insider's view of the ever-evolving dynamics of the property market space in India.

His first-hand account of the complexities in the sector—where necessity coexists with luxury and affordability with opulence—gives useful insights into the challenges in developing housing for all.

Going by estimates, by 2030, 500 million people will be living in cities. This would require 800–1000 million square metres of residential and commercial space. This space would have to be built keeping in mind the aspirations of 'young' India—more aware of its rights as well as its obligations.

Today, the challenge of urbanization is being addressed through progressive initiatives by the government. 'Smart Cities' and 'Digital India' have opened up new avenues for investment that would also contribute to growth and help provide jobs. As we build our towns and cities, we have to make informed choices to achieve the desired trade-offs and build sustainable cities.

What sets this book apart is the fact that Sayal has penned his experiences candidly. His journey offers useful lessons as we develop inclusive and empowered cities.

A good read for all seeking genuine insights into the sector.

Sunil Bharti Mittal,
chairman and group CEO, Bharti Enterprises

Preface

Indian real estate—can one ever say enough about it? The sector is vibrant with ceaseless transformation, innovation and activity. It is also a hard, demanding taskmaster. Many venture into it with stars in their eyes, but very few make a significant mark in the field. Success smiles only at those with above-average insight and acumen—at those people with progressive vision, uncommon courage and zeal.

The story of Indian real estate is worthy of a book—several books, in fact. Truth to be told, an entire encyclopedia would be required to cover all its facets and manifestations. To say that such an exercise would be a tedious one to take up is an understatement. What is doable is a book which talks of the companies and people who have given the Indian real estate sector the form and shape it has today.

India's real estate market does have its heroes. These people were able to observe the larger picture, and then they proceeded to add their own indelible brushstrokes to the canvas. What differentiated them from their contemporaries was a deep understanding of what makes this sector tick. They accepted the overall scenario with all its flaws, loopholes and inconsistencies, harnessed their resources and bravely put them on the line.

And this is the foundation of every success story. While many recognize the amazing potential of the Indian real estate sector, few are willing to go all the way in helping shape its direction and, thereby, its future. To carve a niche in this highly unorganized business arena is comparable to building on shifting desert sands—impossible for most, yet those who succeed leave monumental pyramids in their wake.

In penning this book, Sushil Kumar Sayal has rendered a valuable service to the sector. The living legends of this dynamic field come to life within its pages, and he has drawn generously from his own experiences over several years. I commend him for writing this exemplary book, which has obviously taken a long time to complete. I am confident that this work will set a new benchmark in literature, and I look forward to more such offerings from his fertile pen.

Anuj Puri,
chairman and country head, JLL India

Introduction

Zar, Zoru, Zameen

‘Buy land, they are not making it anymore.’

—Mark Twain

There is an old saying in northern India that three factors are at the root of all conflict: *zar*, *zoru* and *zameen* (gold, woman and land). Wars have been fought over the three from time immemorial. These have been the cause of much of the fratricide we see in history and have led to innumerable families being torn asunder. In modern times, it is often said that behind most controversies is zameen—land or real estate.

It may be embroiled in scams and scandals, but land is a highly sensitive issue in India. That’s why emotions run high every time the issue of taking farm land away from cultivators for commercial or industrial purposes comes up. It is seen as a grand conspiracy to deprive the farmers of their only possession. Naturally, this is an issue that political parties just don’t want to let go off as farmers make up a large chunk of the vote bank.

There’s a reason why Indians are so emotional about real estate. For several generations, we have been taught that our first investment should always be a house: a roof over one’s head. Everything else can wait. Apart from education, it is the single possession that Indians value the most. A man who doesn’t own a house is seen as incomplete or poor.

From the long-term perspective, almost all Indians see it as the safest investment. Not just in India, wherever Indians go in the world, they quickly emerge as the movers and shakers of the property market: London, New York, Singapore, Dubai.

Because it is perceived as precious—the ultimate security against life’s unforeseen contingencies—and because it has been grossly unregulated, it is also one of the most maligned sectors of the economy; the breeding ground for a million scandals.

The thought of writing this book occurred to me some time back when I realized that the whole sector had—unfairly—a very bad reputation. Everybody, whether perfectly honest or a crook, was painted with the same brush.

I would hear other industries talk with pride about their high ethical practices, stringent governance and absolute transparency; why, I would wonder, weren’t the country’s real estate barons talking about such things? Not everything was rotten in this sector.

There was good reason for it: nobody, including the common man, was prepared to believe that the business of real estate could be carried out in a clean and transparent way. I felt that somebody had to set the record straight.

At the end of the day, real estate development is a business like any other. Why should its rules and moral standards be different? Having always played by the rules, I felt it was important to tell my story; a journey of over three decades, where things got done only the way they should.

I also felt that the negative publicity around the sector should not deter youngsters from entering the field. India today produces some of the finest young talent in the world, but many of them choose to steer clear of real estate. Unless they are told that this sector, too, can be clean and free of manipulation, it will never be able to attract fresh talent.

Real estate as a sector is constantly evolving, though the changes may be slow. The big leap came when humans moved from caves to houses. Then in 1853, when Elisha Otis invented the elevator, construction began to grow vertically. It became possible for people to live in high-rise buildings. Had it not been for Otis, the world would not have seen skyscrapers. This contribution to human civilization needs to be appreciated.

The recent drive in India for smart cities is another step in this direction. Through smart constructions and information technology, the whole look and feel of habitats will change. Lifestyles will improve. Chores will become less burdensome. The quality of life will go up.

The contribution of builders in wealth creation has always been grossly overlooked. Those who bought houses twenty or even ten years ago have seen a huge appreciation in their net worth. Real estate, I felt, needed an authoritative book to point out these factors. Somebody had to tell the full story—faults and all.

But, I have to concede that there is a lot of merit to the popular perception that real estate is a cesspool of corruption and irregularities. This fact cannot be brushed under the carpet. It cannot be wished away.

One of the factors that brought disrepute to the Congress-led United Progressive Alliance, and played no small role in its ouster in the May 2014 general elections, was the Adarsh Housing Society scam in which the high and mighty—politicians, bureaucrats and senior armed forces personnel—conspired to bag prime real estate in south Mumbai at throwaway prices.

The flats were meant for war widows and defence personnel, but the powers that be conspired to twist the rules and apportioned these at rates way below the market price.

In the infamous telecom spectrum scam, two of the alleged conspirators happened to be real estate tycoons. The real estate angle was talked about in the murder of a senior bureaucrat in Karnataka.

Right through the first few months of 2014, when he was in the thick of his campaign to become the prime minister of the country, Narendra Modi was accused by his opponents of giving away land to Gautam Adani, a businessman he is supposedly close to, virtually free when he was the chief minister of Gujarat.

It was contested by Modi, as well as Adani, that the land was unfit for agricultural use and was, therefore, sold at a low price. Also, large tracts of it was awarded to Adani when the Congress was in power in the state.

Likewise, the Congress government in Haryana, which was decimated in the 2014 state elections, came under fire for speedily mutating the land use agreement in the state so that Robert Vadra—a member of the country's most prominent political family—could sell the large tracts of real estate he allegedly owned to a builder and book profits. This too snowballed into a huge issue during the general elections, though it must be said that no charge of impropriety on Vadra's part has been proven so far.

Even the country's venerated armed forces have not remained untouched by land scams. A top-ranking officer was removed from service after a court inquiry found him guilty of transferring land adjacent to a military station near Siliguri in West Bengal to a private builder in 2008.

Special economic zones, which were meant to boost manufacturing in the country, ended up becoming just land that could be diverted for other purposes.

The extent of black money that gets generated in real estate is huge, which in these times of heightened public awareness is unsustainable. In the last few years, there has been a strong demand to bring back all the black money Indians have taken out of the country, though nobody—not even the government—has any idea how much is stashed away and how can it be brought back.

The Bharatiya Janata Party's claim in the run up to the 2014 general elections that it would bring back all the black money abroad within 100 days of coming to power has remained just a promise on paper.

What people forget is that a large part of it is in the country, in the open—invested in real estate. It is there for all to see.

Towards the end of 2014, Yadav Singh, then the chief engineer of Noida, Greater Noida and Yamuna Expressway (as chief engineer, he had the authority to approve public projects of up to Rs. 1 crore), was under investigation by the income tax department. The sleuths reportedly recovered expensive cars, Rs. 15 crore stashed away in an SUV parked outside his house, diamonds worth Rs. 100 crore, 2 kg of gold jewellery and papers that suggested he owned several properties.

Till a court of law decides on the matter, these will remain just allegations, but it could well be yet another instance of black money finding its way into real estate. In most corruption cases, the property sector features prominently.

A few days before the Singh affair came into the spotlight, Cobrapost, the investigative website, had disclosed the findings of a sting operation code-named Black Ninja.

'In an investigation lasting more than eighteen months, Cobrapost found thirty-five real estate companies with a pan-India presence across nine states willing to do bulk transactions in black money. These companies admit helping their clients convert black money into white by letting them pay in cash a substantial part of the sale price of the properties they buy, in blatant violation of Income Tax laws, Foreign Exchange Management Act, Prevention of Money Laundering Act and other laws. The black money component in these deals ranges from 10 per cent to 90 per cent. In one instance, a developer's employee was even willing to accept Rs. 100 crore in black money,' it said in a press release.

'Senior officials said that accepting payments in black was nothing new for them and that it was an accepted norm of the real estate industry. They were willing to accept hard cash in any city and even abroad, through hawala. Some were ready to sell a property before all mandatory approvals are attained, knowing fully well that this is illegal. A senior executive of a company suggests depositing the entire component of the deal in a bank account which will be closed as soon as it is credited,' it added.

It is an open secret that payment in cash is the norm in the secondary market; the Cobrapost investigation showed the practice is just as prevalent in the primary market as well. It also gave the layperson an idea of how it has become a medium to convert black money into white.

According to Liases Foras, a real estate consultancy, about 30 per cent of all property transactions in 2012 used black money. As real estate is about a tenth of the Indian economy, the extent of black money floating around in the sector is huge—many times more than what is said to be locked in vaults abroad.

Black money in the secondary real estate market has become almost impossible to track. In cities, there is a circle rate which is used as a ready reckoner by the authorities for tax purposes. If the sale price is higher than the circle rate, there is an incentive for the seller to underdeclare the payment, which means that the disclosed price is below the actual transaction value he declares— that the sale price was the same as the circle rate, allowing him to accept a large chunk of the payment in cash, thus saving on tax.

So, it makes sense to fix the circle rate as close to the market price as possible. But there is a flip side to it: a high circle rate reduces the scope for price correction when the market enters a downturn—like it did in 2014. Areas where the rates fell below the circle rate saw all transactions coming to a standstill.

To curb black money in the primary market, the government has made it mandatory for all buyers to quote their permanent account number in all transactions. But buyers have got round this rule by using multiple accounts. Fraudsters always find ways to stay a step ahead of the law.

In an interview to *Mint* in December 2014, finance minister Arun Jaitley said that the government is looking to link all real estate transactions with Aadhar, the unique identity number. Such a move could indeed bring some transparency in the real estate market.

More was on the anvil. In his 2015–16 Union budget speech, delivered on 28 February 2015, Jaitley said he plans to introduce a revamped version of the lapsed Benami Transactions (Prohibition) Bill soon in Parliament. ‘This law,’ he said, ‘will enable confiscation of *benami* property and provide for prosecution, thus blocking a major avenue for generation and holding of black money in the form of benami property, especially in real estate.’

For the uninitiated, benami means anonymous and the motive of such deals is to hide the identity of the true buyer or seller.

Mistaking the parking of black money in real estate as genuine demand from home buyers, many developers overbuilt in the last few years. As a result, by 2014, it was clear that most real estate markets were sitting on massive inventories.

According to Liases Foras data quoted in newspaper reports, Delhi and its suburbs were sitting on an inventory of eighty-three months at the end of September 2014. In simple words, it would take Delhi and its suburbs almost seven years to sell their current stock of unsold homes, going by the current pace of sales. In Mumbai and Chennai, the inventory would take fifty months to clear. In Bangalore, it was forty-one months; and in Hyderabad, thirty-eight months. There was a glut in the market.

The prevalence of black money has ensured that real estate prices stay extremely high, despite the country’s low per capita income.

According to one study, it will take an Indian, with the average per capita income, 580 years to buy a top-end property in Mumbai, compared to sixty-five years in Hong Kong, sixty-two years in Paris and forty-seven years in New York. A report that appeared in *Business Standard* in August 2015 said, citing real estate consultants, that only double-income households could afford to buy a decent-sized flat (a 2 BHK with 1000 square feet of super built-up area) in India's top eight cities—and the list did not include Mumbai.

You will find it hard to come across another sector where so many things have gone wrong.

Builders delay projects with impunity. There have been instances when builders have simply vanished with the money they collected from the buyers. A sizeable number of new contractors are just fly-by-night operators. Hundreds of thousands of hapless buyers have lost their hard-earned money to unscrupulous realtors.

Buying a house has always been the top priority of every Indian (the demand for housing really exploded after the government offered income tax benefits for the sector). Buyers often work really hard and make innumerable sacrifices just for the security of living in their own homes. But the dream has turned sour for many, thanks to errant builders.

The contract between the builder and buyer is opaque and filled with legalese. More often than not, the buyer fails to read the fine print and pays dearly for this oversight.

There is also no uniform definition of built-up area, covered area, super area, carpet area et cetera, which leads to buyers frequently being short-changed by builders.

Some time back, an elderly Sikh gentleman met me in my office. He was a retired army officer and had invested all his savings in a commercial property. But the builder gave him something totally different—something much inferior—from what he had been promised. The man was shattered, to say the least. It was clear that he would never trust a builder again. One could say he was naïve to trust the builder with his hard-earned money, but then if most builders are cheats, who do you trust?

Construction laws are openly flouted as dishonest builders collude with corrupt bureaucrats. In fact, I am convinced that bureaucrats deliberately keep the rules complex. This is rent-seeking by another name. If all the procedures are simplified, they will be left with no discretionary power. And nobody wants to give up power—and the money that comes with it.

Some states have talked of single-window clearances, but the ground reality is completely different.

Not for nothing did a 2013 survey by Ernst & Young and the Federation of Indian Chambers of Commerce and Industry say infrastructure and real estate is perceived as the most corrupt sector of the economy.

The corruption affects the entire supply chain. In a market like Gurgaon, black money adds 10 to 20 per cent to the land cost. And since land accounts for 30 to 50 per cent of the project cost, this black money escalates overall cost by 3 to 10 per cent. But this is hardly a cost that the builder absorbs: He recovers each and every paisa of this money from unsuspecting customers.

In other words, money is taken out of the pockets of the buyers and put into the pockets of corrupt bureaucrats and their middlemen—after the builder has kept his cut. If a leader says this doesn't happen, surely he doesn't know the truth or he chooses to ignore it.

Every day, newer ways in which builders dupe buyers emerge. One ploy many builders use is to build extra floors. This can have dire consequences.

Think of a buyer who has bought an apartment in a ten-floor block. His decision to purchase a house in this project is based on the assumption that he will share the common infrastructure with residents of ten floors. Midway, the builder decides to add ten more floors. The buyer's assumption goes haywire: He now has to share the infrastructure with twice the number of people. This is completely unfair to the buyer.

Of course, the builder needs to take the permission of the authorities, which seldom seems to be denied. A bigger example of the collusion between business and government than the builder–bureaucrat nexus will be hard to find.

Moreover, when the builder builds a ten-floor block, he digs the foundation to a certain depth; when the additional floors are added, does he ensure the foundation is deeper? He doesn't. The authorities not only turn a blind eye to this safety hazard but are often hand in glove with errant builders. Will this be permitted in any developed country? Certainly not.

This is what seems to have happened in the Campa Cola Compound at Worli in Mumbai.

In the early 1980s, Pure Drinks, which used to make the Campa Cola aerated beverage, gave the rights to three builders—Yusuf Patel, B.K. Gupta and PSB Construction Company—to build residential flats in the allocated land in Worli. The builders constructed more flats than the number they were permitted to and sold them to unsuspecting buyers.

Most of the buyers didn't know something was amiss. Those who raised questions were told that that sanction from the Brihanmumbai Municipal Corporation, or BMC, would come shortly with the payment of a nominal fine.

Indeed, BMC did issue stop-work notices to the builders; in return, they paid penalties and resumed work. When the flats were constructed, nobody from BMC or any other arm of the government prevented the buyers from occupying these flats.

After a protracted legal battle, the Supreme Court in June 2014 sanctioned the demolition of the extra constructions. About 100 flat-owners were affected. Where would these people go? Many of them were rendered homeless.

Or take the example of the Allahabad High Court's order to demolish two residential high-rises in Supertech Emerald Court in Noida.

The Residents' Welfare Association of Emerald Court had filed a petition in the court that the builder had raised the towers from twenty-four floors to forty floors 'without maintaining the mandatory distance of sixteen metres from the adjoining block', which had made the buildings unsafe and also blocked out air and light.

Supertech, the builder, argued that all relevant permissions from the Noida Authority were taken and said it would challenge the verdict in a higher court. The decision was upheld by the Supreme Court.

If the builder was at fault, so were the officials who cleared the files. But one has not heard of any action being taken against them.

Other malpractices too have come to light. In May 2014, a famous builder and two members of his family were all arrested by the Gurgaon Police, for cheating over 700 investors. The police, news reports suggested, claimed the fraud was to the tune of Rs. 1000 crore.

In another case, the Competition Appellate Tribunal upheld a penalty of over Rs. 600 crore imposed on DLF, undoubtedly the country's biggest builder, by the Competition Commission of India.

In May 2010, the Belaire Owners' Association had complained against DLF before the Competition Commission that the builder had 'imposed highly arbitrary, unfair and unreasonable conditions on the apartment allottees of the housing complex, The Belaire, which has serious adverse effects and ramifications on the rights of the allottees'. In August 2011, the Competition Commission of India found DLF violating fair trade norms and imposed a fine of Rs. 630 crore on it.

'This certainly was not a fight between equals. We are also not unmindful of the fact that any individual, howsoever rich he may be, after investing crores of rupees, could not have quit the scheme, in view of the fact that he had become a trapped customer. The order of the Competition Commission as well as this judgment is expected to go a long way to ameliorate all the conditions of the customers,' the Competition Appellate Tribunal said in its judgement.

'Competition law must be read in the light of the philosophy of the Constitution of India, which has concern for the consumers. If the consumer is exploited by a mighty builder, then such mighty builder cannot claim soft attitude from the state,' it added.

Another builder in the suburbs of Delhi faced the wrath of his buyers for constructing a school in the middle of a gated community! The decision was taken without consulting the buyers. Naturally, they were up in arms against him.

Not just builders, but brokers too dupe buyers without pity or remorse. In fact, there is a close relationship between builders and brokers. Thus, very few builders in and around Delhi put their money into a project upfront. As soon as he wins land in an auction, he collects his band of brokers and sells the project to them. With that money, he pays for the land. The brokers, in return, are assured of space at a discount.

Since he has given a discount to the brokers, the builder overbuilds in order to make money. The extra construction is frequently regularized. Even if it isn't, nothing stops the builder and brokers from selling it. Often, the builder doesn't even bother to get a completion certificate.

What emboldens them is the rapidity with which illegal constructions get regularized. In an article in *Mint*, Swati Ramanathan, the chairperson of Jana Urban Space Foundation and co-founder of the Janaagraha Centre for Citizenship and Democracy, presented some startling statistics.

In Mumbai, between January 2012 and March 2013 alone, the municipal authorities received more than 21,000 complaints about unauthorized constructions. In addition, 55,000 buildings in the city were estimated to be occupied without the required certification.

In Delhi, four to five million people lived in 1,639 unauthorized colonies, including 200 of them on forest land and space that belonged to the Archaeological Survey of India. 'State regularization initiatives, unfortunately, have become tainted as tools for corruption or political populism, or as a means to generate revenue for the state,' Ramanathan wrote.

In Kolkata, she added, a meagre penalty of Rs. 500 per square feet allows regularization of illegal floors! It almost seems like an open invitation for all to flout the norms without fear.

Under the law, a builder cannot sell his project unless he has secured all the clearances. These clearances can take up to two years to obtain. Given the high land prices all over the country, no builder can afford to let the investment sit idle for two years. He has no choice but to violate the law and pre-sell the project.

Other irregularities too are rampant. The law requires all builders to put the money collected from buyers in an escrow account. That money cannot be used for any other purpose. This rule is also openly flouted.

It’s no surprise that buyers have lost all faith in builders. There is, therefore, a massive trust deficit between builders, brokers and buyers.

Thanks to all these malpractices, especially the rampant black money, the country’s top business houses till a few years ago rarely entered the sector. Their exposure to real estate, at best, was sporadic. Many of them found it difficult to handle this huge flow of unaccounted cash. It is only now that things have started to change and the corporatization of real estate has started in earnest.

The stock market has, for several years now, taken a dim view of builders. As a result, their share prices have crashed from the peaks they had scaled in 2008. DLF slipped from Rs. 350 in January 2010 to around Rs. 145 five years later. Unitech tumbled from Rs. 80 to Rs. 17 during the period. This is a serious erosion in value.

A report published by *Business Standard* in September 2015 found that most real estate barons saw their net worth melt down in the last few years. Between December 2007, when real estate valuations were at their peak, and 15 August 2015, K.P. Singh of DLF’s net worth declined by 90.5 per cent. This was still better than Ramesh Chandra of Unitech (99.1 per cent), Ramesh Wadhawan of HDIL (93.2 per cent), Pradeep Jain and Sanjeev Jain of Parsvnath Developers (91.4 per cent) and Hemant Shah and Vyomesh Shah of Hubtown (91.1 per cent). In dollars, the report went to add, their net worth was down 95 per cent.

The investor sentiment is such that new builders find it impossible to raise money from the primary market. Banks are extremely cautious: They do not lend money to builders easily. As long as the market was buoyant, the banks opened their purse strings wholeheartedly for builders.

Typically, banks borrow at 10–12 per cent annual interest; as long as the builders promised them 15 per cent earnings, they turned a blind eye to all the malpractices prevalent in the sector. It was only when defaults began to happen, and the Reserve Bank of India raised an alarm over the sheer number of non-payments, they began to tighten the screws.

As the misdemeanours of the builders have begun to increase, buyers have been left with no option but to seek redressal from the courts.

With improved access to information, thanks to the Right to Information Act, and the rising anti-corruption sentiment in the country, buyers are becoming more vocal and better organized. Much of the judicial intervention has resulted from their activism.

There is evidence that one association of home buyers, which won a case against the contractor, is now training other associations on how to take errant builders to task.

In my career in real estate, I have come across numerous instances of irrational behaviour.

Many years ago, a relative called to say that somebody he knew was in great distress, and requested my assistance. I agreed to meet the man and help him.

He was in his early thirties. That he was in some sort of emotional pain was very evident by the fact that there were tears in his eyes. His story was sad but not an unusual one. The man ran a business in Chandni Chowk in Old Delhi. Along with his father and brothers, he was a wholesale seller of *lungis* and the family had been running this business for nearly four decades now. It was doing reasonably well. The family was comfortably placed in life, but not fabulously rich. One day, his brother-in-law came home with a proposition that turned his life around.

His brother-in-law had the reputation of being lazy; however, he was now doing fairly well. That's because he had entered the property business in Gurgaon, the boom town coming up in the outskirts of Delhi. He would buy flats and plots and sell them at a premium. He was turning money around quickly and making a handsome profit in the bargain.

The man was tempted. The lungi business was steady, but not spectacular. It would not have made him very rich. He realized that even if he spent a decade in his family's business, he would never make the kind of money his brother-in-law made in a single year.

He decided to join hands with his brother-in-law. The partnership got off to a tremendous start. On his brother-in-law's advice, he began to buy and sell properties. Over the next oneand-a-half years, he made huge profits—amounts he couldn't even dream of in his family's business.

The stories of his success and new wealth began to spread in Chandni Chowk. Many of his acquaintances offered to place their money at his disposal in the hope that he would be able to double it. He finally took money from about twenty-five people.

Now that he had more money at his disposal, the man's deals started to get bigger and bigger. He started getting noticed in the market. Sellers and brokers started approaching him in droves.

One day, he was approached by somebody who said that a piece of property allotted to a doctor was up for sale. It was located on Golf Course Road, Gurgaon's prime market, and was available cheap: The seller was asking for just Rs. 7 crore.

The man fell for it. He put in Rs. 2 crore himself and for the remaining Rs. 5 crore, he went back to his acquaintances and associates in Chandni Chowk.

Those people had no reason to mistrust him. After all, he was the man with the Midas touch. They gave him the money and he bought the property.

But the property was earmarked for a hospital (such real estate is usually allotted at a subsidized rate; in return, the hospitals agree to treat a fixed number of poor patients free of cost). It could not be converted into a block of apartments or a shopping mall. As a result, the authorities cancelled the allotment and confiscated the land. A large chunk of the Rs. 7 crore paid by the man was in cash, which meant there was no official record of money changing hands. There was no way he could have recovered this money from the seller.

The man was finished. He met all the authorities, including the chief minister of Haryana, but all his efforts came to naught. Meanwhile, the investors were baying for his blood. They had camped at his father's home and were refusing to leave unless their money was returned in full.

As a result, the family's lungi business too took a beating. He stopped going to Chandni Chowk altogether, perhaps out of shame as well as fear, and had attempted suicide not once but thrice.

The man was blinded by the windfall profits he had made in the last one year. So much so, he forgot to do the basic due diligence, and paid dearly for this oversight.

But this is a regular fallout of all bullish markets—valuations rise so steeply and the thought of quick profits eclipses reasonable behaviour.

During the early years of this century, there was a similar rush with regard to internet companies. Private equity funds and other high net worth investors rushed into the sector, even though the business models were half-baked.

Such was the lure of multiplying investments that all established due diligence norms were forgotten. Deals were, at times, struck in under an hour. When the dotcom boom went bust, a lot of people were left with absolutely nothing.

This herd mentality shows that not many people understand the dynamics of the market. There is, therefore, a great need to demystify the real estate sector.

At the moment, investing in real estate is fraught with great risks: buyers have little idea if the land titles are clear, various clearances have been received or not, and what is the track record of the builder.

There is no agency that rates real estate projects: what is the probability of the project being delivered on time and according to the agreed-upon specifications. The problem is that such transparency will drive a lot of people out of business. There are vested interests that want this opacity to continue.

It is no surprise that the sector suffers from a serious image problem. Throughout the pre-liberalization days, business in general, and builders in particular, were shown in popular culture as crooks who would stop at nothing to make a quick profit.

While the perception of businessmen has undergone some change, that of builders remains the same. In *Khosla ka Ghosla*, the 2006 film directed by Dibakar Banerjee, actor Boman Irani portrays the ‘typical’ builder: manipulative, unprincipled and somewhat unsophisticated.

Not just real estate—the lack of ethics in Indian business is well known. Seldom does one come across a company or a businessman who doesn’t mind paying his way through the various clearances required. Cronyism has earned Indian business a bad name.

In his 2012 book, *Breakout Nations*, Ruchir Sharma said that any country that produces too many billionaires, relative to its size, is in all likelihood off balance. ‘If the average billionaire of a country has amassed too much wealth, not just billions but tens of billions, the lack of balance can lead to stagnation,’ he wrote.

At that time, he had said that ‘many of India’s super rich still inspire national pride, not resentment, and they can travel the country with no fear for their safety’, but this ‘genial state of affairs could change quickly’.

The country may have well reached this point. The governor of the Reserve Bank of India, Raghuram Rajan, in July 2014, came down heavily on crony capitalism—the nexus between ‘corrupt businessmen’ and ‘venal’ and ‘corrupt politicians’—which, he said, is ‘killing transparency and competition’ and is ‘harmful to free enterprise, opportunity and economic growth’.

The 2014 general elections saw a larger discussion on this issue. ‘If the debate during the elections is any pointer, this is a very real concern of the public in India today,’ Rajan added.

One school of thought says that Japan and South Korea progressed rapidly because a handful of their companies were singled out for special treatment by the government, and they delivered the results. Most of them have become global conglomerates.

That may be true but the Indian experience inspires no confidence. What did some new telecom companies do when the government gave them inexpensive spectrum? At least two of them sold their stakes to foreigners at a huge premium. It was only after the Comptroller and Auditor General quantified the loss—to the tune of Rs. 1.76 lakh crore—that the people came to know the extent of the scam.

Similarly, the special economic zones became an opportunity for land grabbing. And coal blocks were undervalued and acquired by private companies.

These instances shouldn't surprise anybody because cronyism has been an integral part of Indian business. In the pre-liberalization age, many business houses got industrial licences and just sat on them in order to create a scarcity which would keep prices high.

Most worked behind the scenes to ensure that rivals were denied licences. 'An important issue in the recent election was whether we had substituted crony socialism of the past with crony capitalism where the rich and the influential are alleged to have received land, natural resources and spectrum in return for payoffs to venal politicians,' Rajan had added.

Cronyism acts as a major barrier affecting entry into regulated businesses. It is not easy to take on established players who have the decision-makers on their payrolls. If they can pressure the central government to transfer those ministers who do not cater to their interests, imagine the damage they can inflict on newcomers.

That's why most young entrepreneurs these days are happy to confine themselves to unregulated sectors like information technology.

One way to end cronyism in the allocation of natural resources is to ensure there are transparent auctions. So far, it seems to have worked well, as was seen in the second round of spectrum and coal auctions. There is no reason why it can't be replicated in other sectors. The government also needs to put in place safeguards which will ensure that there is no collusion between the bidders.

So strong is popular resentment against cronyism and private sector corruption that nobody has dared to name a businessman for a Bharat Ratna for some time now. The last such demand was made almost twelve years ago when the then telecom minister Pramod Mahajan said Dhirubhai Ambani should be given the award. When the Bharat Ratna could be given to *nachnewale* and *ganewale* (dancers and singers), why not the businessman, he had asked.

Soon after his comment, Atal Bihari Vajpayee, the then prime minister, dropped Mahajan from the cabinet and asked him to work for the party as a general secretary.

Many people often try to confuse cronyism with lobbying. Conceptually, there is nothing wrong with lobbying. Businessmen, like anybody else, have every right to lobby with the elected representatives for what they think is good for them. But the line between lobbying and cronyism is a very thin one.

Still, there are winds of change. The Union cabinet in April 2015 gave its nod to set up a real estate regulator. This will have far-reaching consequences for investors in commercial as well as residential property.

In 2014, the Securities and Exchange Board of India, or SEBI, gave its approval for real estate investment trusts, or REITs.

Immensely popular the world over, these are like mutual funds which pool resources from small investors and then put the money in real estate projects. These are then listed on the stock market. Like stocks, investors will be able to buy units from both the primary market and the secondary market.

This is a wonderful opportunity for small investors who want to park their savings in real estate but don't know how to go about it. In the absence of REITs, investors need to buy entire flats or plots of land. The ticket size for such investments is large. But there are times when people want to take an exposure to the sector but don't want to commit large chunks of money. This is the perfect investment instrument for such people. Also, this way they can leave the job of risk assessment and management to professional managers.

For real estate projects too, this is a great opportunity. Once REITs become fully functional in the country, a whole range of real estate projects will have easier access to capital.

Of course, more needs to be done.

The Title Act needs to be put in place so that an insurance against land titles is available. There is the need to digitize all land records, which will make transactions transparent and bring down litigation by a third. This will unclog the courts. If you analyse court records, you will find that there are hardly any disputes about share transfers and vehicle sales, but there is a deluge of real estate disputes. Digitization can bring it down to a large extent. Some states like Punjab have taken steps in this direction but a lot more needs to be done in this area.

Is it possible to do business the right way in real estate? Is it possible for a developer to be truthful and ethical? Is it a place for honest and straightforward people at all? The answer, in spite of all the negatives, is that it is possible. If one wants, one can be honest and still be successful in the business.

That's what my experience shows. I am convinced that real estate is no different from any other sector and the same tools of business management apply here. One can use technology, be innovative and build brands in real estate too. Deadlines can be met. Buyers can be happy. Long-term relationships can be built.

Ethics and real estate can go hand in hand.