

# 'LOCATION DOES NOT DEFINE LUXURY'

Five real estate experts define and deconstruct luxury property development, particularly in Mumbai



Photographs: Vilas Khut

**A**s India prepares to elect a new government, the real estate sector—sensitive to interest rates and pricing—is expectantly looking on, hoping for a revival of its sagging fortunes. This

holds even truer for the niche luxury real estate segment, where developers are competing hard to sell sky villas and “exclusivity”. The difficulty in convincing consumers to buy into this category is self-explanatory in the current economic

environment: Luxury is, after all, “something adding to pleasure or comfort but not absolutely necessary”.

In an effort to deconstruct this conundrum, *Forbes India* invited five experts to a roundtable to interpret the concept of luxury, the latest trends, how it is being sold and its future in a still-uncertain cycle of growth.

In a nearly two-hour-long discussion, Pranay Vakil, who founded independent property consultancy Knight Frank India, played moderator to Ramesh Jogani (managing partner, Indian Property Advisors), Joe Verghese (managing director, consultancy firm Colliers International, India), Rubi Arya (director at Milestone, a real estate private equity fund), Anubhav Gupta (executive vice-president, Godrej Properties) and Babul Varma (managing director, Omkar Realtors). Here are some excerpts from the conversation:

**Pranay Vakil:** Let's start this discussion by defining luxury housing and how many can afford

it. Is it bought out of wealth or income? And, more fundamentally, what is luxury? Is it the location, the price-point, the neighbourhood, the other buyers or the hype created by the developers?

**Ramesh Jogani:** For me, luxury is owner's pride, neighbour's envy. Only a very small segment can buy luxury homes that are, basically, large houses with amenities such as club houses, swimming pools and crèches, which we had not heard of before.

I have been a developer for the last 30 years. Earlier, luxury meant a penthouse at the top of a building. But now, there are entire buildings comprising such houses, each of 5,000-10,000 sq ft floor space. True luxury is something that one vies for—it has a snob value attached to it.

**Joe Verghese:** I look at it in terms of exclusivity. The buyer should feel that he is getting something exclusive. I recently asked a developer what he defined as luxury and he said, “Just show a lot of space—it should look as if space is wasted.” For a person looking at luxury, the price point really does not matter to a great extent.

**Vakil:** You have not emphasised on location... is it irrelevant?

**Verghese:** For aspirational



## THE WHO'S WHO

From left: Ramesh Jogani, managing partner Indian Property Advisors, Joe Verghese, managing director, Colliers International India, Knight Frank founder Pranay Vakil, Babul Varma, managing director, Omkar Realtors, Anubhav Gupta, executive vice-president, Godrej Properties and Milestone Director Rubi Arya





From left: Anubhav Gupta, Babulal Varma, Joe Verghese, Rubi Arya and Pranay Vakil



luxury, location is not important, but for actual luxury, it has to be.

**Jogani:** Hiranandani was the first to change that (in Powai). Nobody would go there and then he created luxury.

**Vakil:** Rubi, a question for you. A lot of very important people are moving away from the luxury areas of south Mumbai to [Raheja's] Viveria (in the Saat Rasta area of south-central Mumbai). Is that luxury?

**Rubi Arya:** Residential address remains the key but luxury is a lifestyle statement. But it does not matter where you stay as long as you can define your social and financial standing by way of amenities—surveillance, wireless internet, clubhouses and gyms. Today's individual is globally aware; people have

the wealth and are aspiring to move into luxury homes.

**Vakil:** What has changed in the last 10 years?

**Arya:** For instance, there are developers who are creating Spanish and Mexican ambience. This is because people want to recreate that lifestyle back home. Our economy has done well even though there has been a global and local crisis. There is a lot of influx of money that has also fuelled the real estate growth. Luxury housing in India is expected to grow by 30 percent between 2013 and 2016, but it is the super luxury segment which is growing even faster.

**Anubhav Gupta:** I had a prominent architect who came to us and asked us, "Do you think I like doing Spanish architecture?" I told him he must like it because he makes these columns and Neo-Gothic Greek structures. He said

the way to make a building aspirational is to put more glass but then it starts to look like a commercial building. However, he found a way to create the building in plaster and yet cater to the aspiration of the new buyer who is interested in luxury.

**Vakil:** Babulal, you are creating the luxury we are talking about. What were the triggers?

**Babulal Varma:** Ten years ago, luxury was defined by a swimming pool and gym. This has changed. Location is important but not as much as luxury. You can create luxury anywhere. For our Malad (a northern Mumbai suburb) project, we have included all the amenities but have tried to make it affordable. Besides a gym, swimming pool and banquet hall, we created different spaces for kids, young couples and seniors. That is luxury. In some projects, we are creating

spaces for pets. I am making an 18,000 sq ft house but my buyer still wanted an additional 10,000 sq ft. Only then was he satisfied.

**Vakil:** Ramesh, there are two kinds of buyers—the investor and the actual user. There could be a third purpose—to invest now and use later. How would the investor think differently from the actual buyer?

**Jogani:** Someone who is buying a luxury house has fulfilled all his needs and is now catering to his whims and fancies. It is an instinctive buy. But he comes with a lot of baggage—his lawyers and architects, for instance. And when he is buying a house, he is almost doing a title search on every house (that is, a thorough examination of records to determine any problems relating to legal ownership of property or taxes due). It is a huge problem for a developer who is catering to this

clientele. It takes a long time to close such a deal.

**Vakil:** To supplement this, I will tell you a story about selling a 13,000 sq ft apartment in London which was overlooking the Lord's cricket ground. We were trying to sell it for some time but it was just two bedrooms.

Ultimately, we sold it to a Russian playboy who would come to the city with his girlfriends every now and then. He was a little fond of cricket and that was how it appealed to him. In a way, he was an investor but he also wanted to enjoy it for two months in a year.

**Verghese:** I don't buy units like that. (Laughs)

**Vakil:** Joe, to what extent would branding make an apartment luxurious? And would it be less luxurious without a brand?

**Verghese:** So I will take off from what Ramesh

said about the whims and fancies of the HNIs (high networth individuals) and what matters to them. Many of these buyers want to know what others will think.

No matter what the price is, exclusivity is a very important thing. And a branded residence gives that element of exclusivity. Branded residences (in Singapore, Hong Kong, London and Dubai) have generated a lot of interest among NRIs.

**Vakil:** What is the kind of premium that a developer would expect to get by having, say, the Armani tag? (Selling branded residences is an emerging trend in luxury housing wherein developers tie-up with celebrities, international luxury hospitality and lifestyle brands.)

**Verghese:** Most developers are not walking away with a huge margin. There is an amount that they have

to pay to the brand per unit, which is sizeable and is a guaranteed outlay irrespective of the market. There is a level of risk that they take.

**Jogani:** Developers tie up with a brand because it is easy for them to do

**"No matter what the price is, exclusivity is a very important thing. And a branded residence gives that element of exclusivity"**

that. The idea is that you will sell faster than your competition. It's not about getting a premium. The biggest bane of real estate is interest and if you sell faster, you will recover money faster. Your last 10 percent will get a premium but that is true irrespective of when the building gets completed.

Meanwhile, Mr (Babulal) Varma has not got his buildings branded but has branded consultants.

**Vakil:** I would say he has been able to sell as fast as other branded projects.

**Varma:** Around or above Rs 15-20 crore, the buyers will know each and everything about the project. They don't go with [just] the brand. On the

other hand, if the ticket size is Rs 1 crore, then the mindset is different. They will be happy about the branding. The really rich guys are not looking for brands anyway. We have taken a call at one Worli (in south Mumbai) project to not go with branding.

**Gupta:** There is a distinction between branding and theme-ing. A lot of the luxury projects are theme projects. What I





want to understand is the incentive for the investor to get into a luxury project.

**Jogani:** The whole real estate business is related to capital appreciation and has never been linked to rental yields.

**Gupta:** For example, for an uber luxe project in Worli—what kind of appreciation would it have?

**Jogani:** [Real estate in] Mumbai has grown at 20 percent year-on-year price appreciation over the last 40 years. When I'm buying from a developer who is selling luxury homes, I get a huge discount to the market price. As an investor, I need to look at the return on my equity. If I'm buying for Rs 20 crore, I'm not putting Rs 20 crore upfront. I'm doing it over five years. If I manage to exit on the third year and I have paid Rs 8 crore, I could make Rs 12 to 14 crore.

If you look at the last six to seven years, retail investors who have been buying homes have made money despite the Lehman crisis. But they have lost money too, the only difference being that they bought apartments where they did not lose money. I have been an investor in properties as well. My returns have been 100 percent over three years. That is because I'm not putting up the whole

amount; instead, I am making staggered payments so my ROI is far higher.

**Vakil:** How important is the cash element for the luxury segment?

**Jogani:** For me, cash is an outdated phenomenon. With private equity coming in, cash is getting more and more obsolete. If you sell via a cheque, the buyer can get a higher loan. If you don't take cash, you can show higher revenues and, since everyone wants to get listed, that is a good thing.

**Varma:** I would say 15 to 20 percent of luxury buyers want to deal in cash. In my smaller ticket-size project in Malad, the number of people wanting to deal in cash is zero.

**Vakil:** There are 80,000 people who are ultra HNIs, according to the government, and whose wealth is above \$1 million. Let's assume this figure is much lower than the actual number.

In central Mumbai, there are 10,000 apartments coming up with the minimum price of Rs 3 crore. Having said this, why do you think these developers are creating this kind of a product knowing that there are not enough buyers?

**Arya:** Let's first understand why this situation was

created. Everyone realised that luxury is a fast-growing and high margin segment and there is a brand image associated with it. But the downturn happened and interest rates went up. Now, are there enough buyers for the supply that exists? Probably yes. Developers know that at a discount, he can sell the property. And investors can discount their price and move out. So it is not that there aren't buyers—there will be movement once the economic situation becomes clearer.

**Verghese:** There are two types of buyers. There is

mill land in Mumbai's Lower Parel). First, there were a lot of mills in this area, so a lot of land got released. Second, the development control regulations meant that for every 1,000 sq ft you built, you got 1,000 sq ft of free area. In an effort to exploit that additional area, the property evolved into a luxury home.

**Verghese:** I am not sure if all this supply will get absorbed if sentiment improves but there are certainly a lot of buyers who are not signing their cheques. The price difference won't make too much of a difference for them but the one thing that

**“...many buyers aren't signing their cheques...The price difference won't make too much of a difference for them...they hate signing a bad deal”**

a segment that struggles to make the Rs 5-6 crore a house will cost. Then there is a segment where price is not a limit. There are buyers who have been looking for houses in Mumbai and for the last 12 months they have not signed the cheque. In the meantime, they have bought houses elsewhere—in Dubai, New York and London. If sentiment improves and prices go up, people will start putting down the money.

**Jogani:** Luxury came as a default mechanism in this area (referring to the

they hate is signing a bad deal. I believe in Mumbai the velocity of transactions is far below the demand.

**Vakil:** Any final words from you, Ramesh?

**Jogani:** Luxury is an evolution of real estate. We started with open wiring and plumbing to what it is now. I remember taking an international investor on a helicopter ride across Mumbai and he said, “Forget the buildings you are showing me, look at the construction and the opportunity available to develop.” **®**