



## Progress of Real Estate Sector in India

### KEYWORDS

Real Estate Sector, Foreign Direct Investment, Corporatisation, Gross Domestic Product, Government Policy

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### ABSTRACT

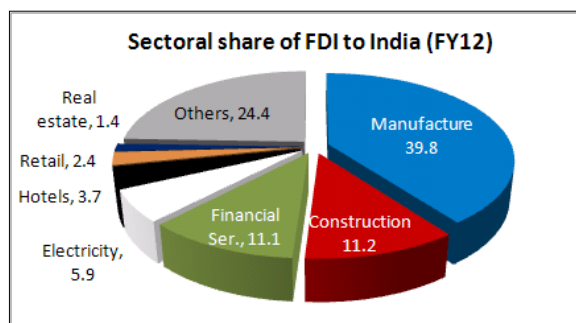
The real estate sector has been undergoing corporatization and professionalization and recognized as a key sector contributing to the economic development of the country. Global economic scenario, a slow down in the domestic economic conditions, escalation in input costs and controversies over land acquisition are the factors responsible for slow growth in this industry in the year 2011. The author opines that a relaxation in external commercial borrowing norms, new manufacturing and telecom policies would revive global investor confidence. The study concludes that Government of India's recent decision to allow 51 per cent FDI in multi-brand retail is also expected to benefit the real estate business in the country in terms of boosting development of new shopping malls.

### 1. INTRODUCTION:

Capital inflows will raise the productive capacity of the country and also leads to the development of financial markets. Prior to 1991, our major concern was to mobilize enough capital flows to finance the current account deficit. With the advent of international capital markets, now the emerging economies including India are able to attract large capital inflows (Rangarajan). India's policy towards capital flows underwent a dramatic change after the liberalization measures were introduced in 1991.

Foreign direct investment (FDI) is direct investment into production in a country by a company located in another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is done for many reasons including to take advantage of cheaper wages in the country, special investment privileges such as tax exemptions offered by the country as an incentive to gain tariff-free access to the markets of the country or the region. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds.

Starting from a baseline of less than \$1 billion in 1990, a recent UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors which attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, US and UK were among the leading sources of FDI. According to Ernst and Young, foreign direct investment in India in 2010 was \$44.8 billion, and in 2011 experienced an increase of 13% to \$50.8 billion. India has seen an eightfold increase in its FDI in March 2012. India disallowed OCB's i.e. Overseas Corporate Bodies to invest in India. On 14 September 2012, Government of India allowed FDI; in aviation upto 49%, in Broadcast sector upto 74%, in multi-brand retail upto 51% and in single-brand retail upto 100%.



### 1.1 OBJECTIVES OF THE STUDY:

- To study the factors responsible for the growth of real estate industry in India
- To study the impact of FDI reforms on reality.

### 1.2 METHODOLOGY

The information collected is secondary in nature. Secondary data is the data that have been already collected by and readily available from other sources. Such data are cheaper and more quickly obtainable than the primary data and also may be available when primary data cannot be obtained at all.

### 2. FDI IN REAL ESTATE SECTOR

#### 2.1 The importance of real estate in India:

The real estate in India is one of the major revenue generating sectors with the growth and the depreciation of this sector which influences the economy. Owning a property in India is one of the greatest assets and is one of the most profitable investments in India. There are very less chances of a loss as the real estate growth graph is escalating day by day.

Indian real estate is witnessing a boom and the scenario keeps evolving with every passing day. Indian real estate is heating up big time no doubt. It is estimated that Indian real estate is presently growing at 30 % per annum and the property industry boasts of a wide range of products that includes property prices which would suit even the people of the low-income group. Indian real estate industry is expected to grow beyond \$100 billion in the near future.

After witnessing strong growth in 2010, the sector witnessed a deceleration in growth in the year 2011 due to the global economic scenario, a slow down in the domestic economic conditions, escalation in input costs including interest costs and controversies over land acquisition. The year 2012 has begun on a sluggish note for the Indian economy, with the GDP expanding by 5.3 per cent in March 2012, the lowest in nine years. However, the tough economic conditions have led developers to adapt quickly to the changing economic situation (CII, 2012). Construction development sector attracted a cumulative FDI worth US \$21.1 billion from April 2000 to June 2012.

- A key point to note is that the Indian real estate is mostly privately owned, and is a highly unregulated, unorganized market with huge potential.
- Indian Real Estate is certainly zooming away in the wake of current scenario witnessing its being riding on high growth wave. Indian real estate is happening, and a number of non-real estate companies are entering the sector to leverage the opportunities. Indian real estate is a growing sector for both investors and people who are

looking for a home. Indian real estate is making rapid strides on the back of country's surging economy.

- After a slow start, FDI in Indian real estate is poised for rapid investments of over USD 10 billion likely in the coming near future. The attraction of Indian real estate is now in no doubt after an international investor pledged to put millions of pounds into the Indian real estate sector. From consultants to financiers to developers and construction companies, Indian real estate is witnessing a sea change in terms of operations.
- For Non-Resident Indians (NRIs) and Persons of Indian Origin (PIO), investment in Indian real estate is monetarily rewarding and emotionally gratifying, as it helps maintain bonds with their homeland.

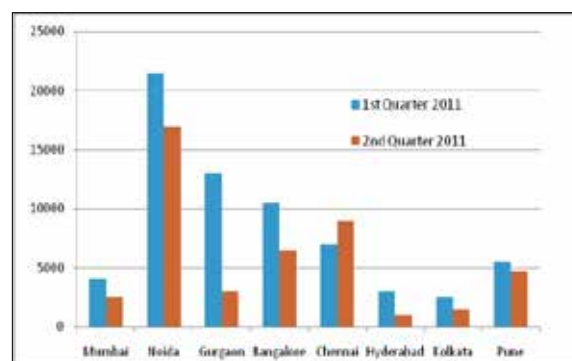
## 2.2 Factors responsible for the rapid growth of real estate in India

- The steady expansion and the development of the IT sectors in India have played a major role in the development of the real estate sector. The constant expansion of the IT sectors; MNC and corporate firms have given way for the growth of the real-estate sector particularly in the commercial sector. Apparently all these factors have also provided better employment opportunities to the people of India.
- The adoption of the Foreign Direct Investment (FDI) policy is another factor responsible for the growth of real estate sector. As mentioned earlier, the FDI policy has resulted in the arrival of foreign investors in the Indian real estate market. The initiation of the foreign investors will lead to an efficient management and use of more advanced technology.
- The easy access to the bank loans has resulted in easy property investment. There are various national and multinational banks in India which offer easy property loans; naturally this makes it easy for the property buyers even from the middle-class society.
- The growth of the Indian economy is one of the fastest all over the world. This factor directly influences the real-estate sector of India. Major cities like Delhi NCR, Mumbai, Hyderabad, Chennai, Bangalore, Pune and Kolkata are greatly affected by the growth of Indian economy.
- Real estate maturity in India focuses on three primary areas: commercial, retail and residential. Commercial Real estate refers to Office space; IT, BPO, KPO space leasing continues to boom with 12 million sqft leasing across India; with 6 million square feet in Bangalore, and 7 million square feet Mumbai.
- Growth in commercial office space requirement is led by the burgeoning outsourcing and information technology (IT) industry. One is a \$200-million project for residential and commercial development on 42 acres in Bangalore's prime Whitefield suburb. Industry experts believe that Indian real estate has huge demand potential in almost every sector — especially commercial, residential and retail.
- As an indication of global interest in Indian real estate, LaSalle Partners, a major commercial real estate firm with headquarters in Chicago, last month announced the opening of an office in New Delhi, India. In India, banks had never thought of funding a commercial or residential real estate property a decade or two ago.

## 2.3 The NRI real estate trends in India:

Apart from just the increase of the Indian investors, there are also various NRI real estate investors. India which considers property investment as a real asset has changed the definition. The realtors have portrayed the property investment as an element of lifestyle and a splurge of luxurious apartments with beautiful commercial complexes and extraordinary retail ventures. This in turn has attracted the NRI potential property buyers. There is an increase in the number of NRI property buyers in India who are planning to settle down in India as well. Ever since the real estate sector underwent a rapid upsurge, people from various countries have been relocating here. As mentioned earlier, the implying of FDI is one of the major reasons.

**Graph:1 Real Estate Trends (number of property buyer's in various cities)**



## 2.4 FDI in Real Estate

Foreign Direct Investment in India is prohibited in Real Estate Business. However for Construction Development, FDI is 100% permitted under automatic route without any approval. Construction Development includes townships, housing, built up Infrastructure and other construction development projects (which would include, but not be restricted to, housing commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities, city and regional level Infrastructure).

The aforesaid investment for construction development is subject to the following conditions:

- Minimum area to be developed under each project would be as under
  - In case of development of serviced housing plots, a minimum land area of 10 hectares
  - In case of construction-development projects, a minimum built-up area of 50,000 sq. mts
  - In case of a combination project, any one of the above two conditions would suffice
- Minimum capitalization of US\$10 million for wholly owned subsidiaries and US\$ 5 million for joint ventures with Indian partners. The funds would have to be brought in within six months of commencement of business of the Company.
- Original investment cannot be repatriated before a period of three years from completion of minimum capitalization. Original investment means the entire amount brought in as FDI. The lock-in period of three years will be applied from the date of receipt of each installment/tranche of FDI or from the date of completion of minimum capitalization, whichever is later. However, the investor may be permitted to exit earlier with prior approval of the Government through the FIPB.
- At least 50% of the project must be developed within a period of five years from the date of obtaining all statutory clearances. The investor/investee company would not be permitted to sell undeveloped plots. For the purpose of these guidelines undeveloped plots will mean where roads, water supply, street lighting, drainage, sewerage, and other conveniences, as applicable under prescribed regulations, have not been made available. It will be necessary that the investor provides this infrastructure and obtains the completion certificate from the concerned local body/service agency before he would be allowed to dispose of serviced housing plots.
- The project shall conform to the norms and standards, including land use requirements and provision of community amenities and common facilities, as laid down in the applicable building control regulations, bye-laws, rules, and other regulations of the State Government/Municipal/Local Body concerned.
- The investor/investee company shall be responsible for obtaining all necessary approvals, including those of the building/layout plans, developing internal and peripheral areas and other infrastructure facilities, payment of

development, external development and other charges and complying with all other requirements as prescribed under applicable rules/bye-laws/regulations of the State Government/ Municipal/Local Body concerned.

- The State Government/ Municipal/ Local Body concerned, which approves the building / development plans, would monitor compliance of the above conditions by the developer.

The investment conditions specified in (1) to (4) for construction development is not applicable for Hotels & Tourism, Hospitals, Special Economic Zones, Education Sector, Old Age homes and Investments by NRIs.

### 3. Impact of FDI reforms on Realty

The government's decision to allow 51 per cent foreign direct investment (FDI) in multi-brand retail has cheered both the retail and the real estate sectors. According to experts, the real estate sector will also be able to consume the fruits of this reform, in terms of boosting development of new shopping malls.

From a retail real estate point of view, it will be open up immense opportunities in the medium and long term, as the demand for quality real estate will rise. Currently, some retailers are cash-strapped and this will provide a sort of bail-out option to them.

Investment by local and new international retailers that are likely to flow into the sector will also take the form of investments into real estate at the front end and back end. In the front end, he said that retail store spaces will see investments and in the back end, better quality warehouses could be seen.

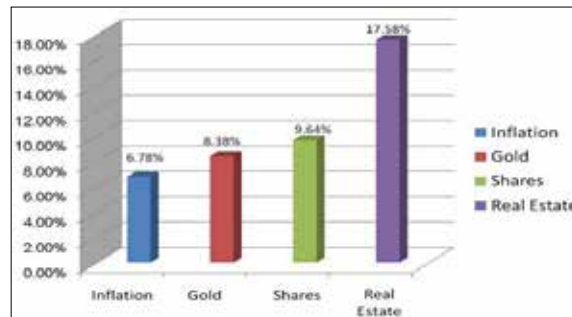
Real estate sector consultants also believe that this move would help solve the problems of vacant spaces in shopping complexes will be resolved. According to various reports by real estate consultants in India, the vacant space in malls that ranges from 15-20 per cent, will rise by at least five to seven per cent in the next three years.

The retail sector in India, has been plagued with lack of storage infrastructure. However, he said that FDI will be a powerful catalyst to the required growth in the retail industry and, in long term, will prove beneficial to all the major stakeholders. There will be investment in storage and transportation infrastructure, technology and supply chain operations.

There might be an increase in demand and increased investor confidence, coupled with increased transparency in the retail real estate sector due to FDI.

With competition increasing, everyone is of the view that it will increase the interest and confidence level of real estate developers to set up quality shopping centres. They now have reason to set behind their experiences post 2008 and can once again consider investing in this asset class with a clear vision to long-term profit.

Graph: 2 Investment in various asset classes



### 4. Conclusion

The Real Estate explosion in the Indian real estate is in large part due to the by the burgeoning outsourcing and IT and BPO industries, which are bringing large amounts of cash. The underlying reason for all these moves is that the Indian real estate is tremendously attractive, because of basic demographics and a supply shortage. Truly Indian real estate is having a dream run for last five years. Though there is a sort of saturation in the Tier 1 cities but the good news for Indian real estate is that Tier II cities started growing with the IT Sector and the industrial sector investing in such places. Thus Indian real estate is poised for a boom, taking the rest of the economy with it. The notion that Indian real estate is expensive is based more on the cost of undeveloped land, which is becoming a scarce commodity, than finished residential or office space, which is still available at reasonable prices in most places, except maybe places like Marine Drive in Mumbai or Connaught Place in Delhi. Indian Real Estate will remain bullish for the foreseeable future. The Government of India's recent decision to allow 51 per cent FDI in multi-brand retail is also expected to benefit the real estate business in the country, in terms of boosting development of new shopping malls.

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