REAL ESTATE SECTOR IN INDIA

1. INDIA'S REAL ESTATE SECTOR

1.1 Overview

With around 1.1 billion people, India is the second most populous country after China and it is expected to overtake it by 2030. Its economic transformation over the past decade has pushed up real GDP growth to an average of 6 per cent per annum since 1992.

India is emerging as an important business location, particularly in the services sector. Its favourable demographics and strong economic growth make the country an attractive place for property investors, given that demand for property is determined chiefly by business development and demographic trends.

Historically, the real estate sector in India was unorganised and characterized by various factors that impeded organised dealing, such as the absence of a centralized title registry providing title guarantee, lack of uniformity in local laws and their application, non-availability of bank financing, high interest rates and transfer taxes, and the lack of transparency in transaction values.

In recent years however, the real estate sector in India has exhibited a trend towards greater organisation and transparency, accompanied by various regulatory reforms. These reforms include:

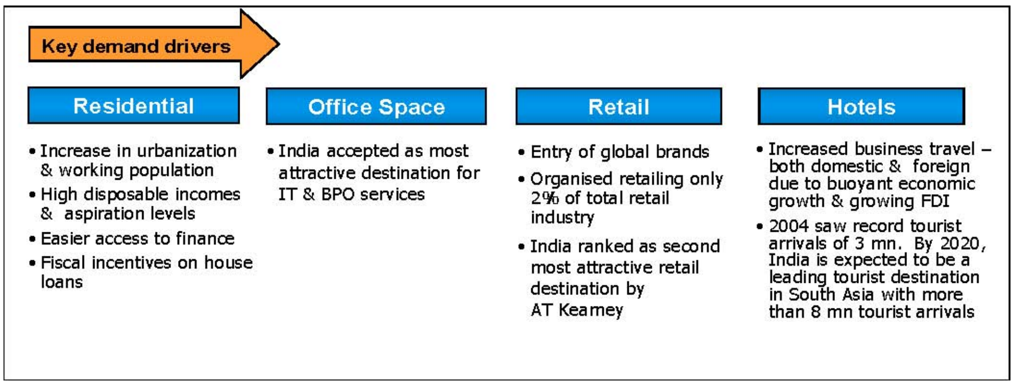
- Government of India support to the repeal of the Urban Land Ceiling Act, with nine state governments having already repealed the Act
- Modifications in the Rent Control Act to provide greater protection to homeowners wishing to rent out their properties
- Rationalization of property taxes in a number of states
- The proposed computerization of land records

The trend towards greater organisation and transparency has contributed to the development of reliable indicators of value and the organised investment in the real estate sector by domestic and international financial institutions, and has also resulted in the greater availability of financing for real estate developers. Regulatory changes permitting foreign investment are expected to further increase investment in the Indian real estate sector. The nature of demand is also changing, with heightened consumer expectations that are influenced by higher disposable incomes, increased globalization and the introduction of new real estate products and services.

1.2 Demand Drivers

These trends have benefited from the substantial recent growth in the Indian economy, which has stimulated demand for land and developed real estate across the real estate industry. Demand for residential, commercial and retail real estate is rising throughout India, accompanied by increased demand for hotel accommodation and improved infrastructure.

Additionally, the tax and other benefits applicable to Seas are expected to result in a new source of real estate demand.



1.2.1 Residential Real Estate Development

The growth in the residential real estate market in India has been largely driven by rising disposable incomes, a rapidly growing middle class, low interest rates, fiscal incentives on both interest and principal payments for housing loans, heightened customer expectations, as well as increased urbanisation and growing number of nuclear families.

According to National Council of Applied Economic Research (NCAER), income classes with annual incomes between Rs. 2 million and Rs. 5 million per year, Rs. 5 million and Rs. 10 million per year, and in excess of Rs. 10 million per year are expected to increase in size by 23 per cent, 25 per cent and 28 per cent, respectively, from fiscal 2005 to fiscal 2010. These higher income households are expected to be the target customers for the luxury and super luxury residential developments.

The residential sector is expected to continue to demonstrate robust growth over the next five years, assisted by the rising penetration of housing finance and favourable tax incentives.

1.2.2 Commercial Real Estate Development

The recent growth of the commercial real estate sector in India has been fuelled by increased revenues of companies in the services business, particularly in the IT and ITES sectors. Industry sources expect the IT and ITES sectors to continue to grow and generate additional employment, which they expect will result in increased demand for commercial space.

Within the IT and ITES sectors, the Indian off shoring operations of multinational companies are expected to increase demand for commercial space. The trend for these companies has been to set up world class business centres to house their growing work force. India continues to lead the AT Kearney Offshore Location Attractiveness Index by a significant margin.

1.2.3 Retail Real Estate Development

The organised retail segment in India is expected to grow at a rate of 25 per cent to 30 per cent over the next five fiscal years. The growth of organised retail is expected to be driven by demographic factors, increasing disposable incomes, changes in shopping habits, the entry of international retailers into the market and the growing number of retail malls.

The major organised retailers in India currently include Tata-Trent, Pantaloon, Shopper's Stop and the RPG Group. While organised retail has so far been limited to larger cities in the country, retailers have announced major expansion plans in smaller cities and towns. The growth of organised retail in India will also be affected by the reported entry into the sector of major business groups such as Reliance, Bennett & Coleman, Hindustan Lever, Hero Group and Bharti. International retailers such as Metro, Shoprite, Lifestyle and Dairy Farm International have already commenced operations in the country.

1.2.4 Hospitality Industry

The hotel industry in India has grown as a result of a growing economy, increased business travel and tourism.

Further, investments in the premium segment of the hotel industry are expected to be between Rs. 20 billion and Rs. 23 billion in the aggregate over the next five years.

According to an industry report, the majority of segments in the Indian hotel industry have shown robust recent growth in room rates as well as occupancy rates. With increased demand and limited availability of quality accommodation, the average room rates in metropolitan markets have grown by approximately 50 per cent over the last two years, the exceptions being Bangalore, where the rates have more than doubled, and Kolkata, where they have risen only marginally notwithstanding strong growth in occupancy rates. The general increase in room rates and occupancy rates is expected to contribute significantly to the demand for new hotel developments.

1.2.5 Special Economic Zones (SEZ)

SEZs are specifically delineated duty free enclaves deemed to be foreign territories for purposes of Indian custom controls, duties and tariffs. There are three main types of SEZs: integrated SEZs, which may consist of a number of industries; services SEZs, which may operate across a range of defined services; and sector specific SEZs, which focus on one particular industry line. Regulatory approvals have been received for SEZs proposed to be developed by a number of developers. SEZs, by virtue of their size, are expected to be a significant new source of real estate demand.

1.2.6 Infrastructure Development Projects

Central and state governments in India are increasingly focused on infrastructure development. A significant portion of infrastructure development is expected to be undertaken through public-private partnerships, thereby increasing the flow of private capital into infrastructure projects. Key areas of infrastructure development include transport, power, telecommunications, ports, pipelines, sanitation, water supply and irrigation.

Applying this average to the biggest urban agglomeration areas in the country, it follows that in 2030 Mumbai will have a population of roughly 35 million and Kolkata and Delhi just under 30 million in 2030. This could still be considered a conservative estimate as it puts urbanisation in India then only at China's level today. Assuming that the growth of India's industrial activity and high-end services grow at an above-average pace, the rural exodus could speed up sharply, similar to the development in China.

There are two clear outcomes following from this. Firstly, India's cities must gear up to a dramatic increase in size. Their infrastructure (schools, roads, airports, seaports etc.) and housing capacities will need to expand massively. Secondly, the accelerated rate in urbanisation throws into particularly sharp focus the possibility that established centres

(i.e. Tier I cities) are already straining the limits of their capacities, leading to above average expansion in the second-tier cities.

The most important office locations are in the **Central Business Districts** (CBD). It has only been in the last few years, as space has become more limited in the CBDs and new higher quality offices with lower prices have been built in peripheral locations that demand has shifted from downtown areas out to the new locations called **Secondary Business Districts** (SBD). Most recently, additional development areas, with a mixture of office, retail and residential, have been built. Just like other global locations, the most important locational factors are the availability of staff, ease of access by car and public transport and regional growth potential. In Indian cities it is also important to access the technical infrastructure provision (e.g. electricity, telephones and water supply) to ensure that it meets requirements.

The most transparent and liquid office markets are that of Delhi, Mumbai and Bangalore. It is worth noting, however, the enormous potential of the growing markets in the Tier II and Tier III cities, such as Pune, Hyderabad or Chennai.

Growing Satellite Business Destinations

With commercial space in the CBDs and SBDs in the metros getting saturated, the surrounding non-metro areas are getting investor attentions. In northern part of the country, the business activities of Delhi NCR are getting extended to the adjoining areas of Rajasthan adjacent to Delhi NCR like Bhiwadi, Neemrana (in Alwar district) has attracted a lot of domestic and foreign industrial investments. Similarly in Southern India, the adjoining areas of Bangalore like Hosure district of Tamil Nadu have provided space for extension of the industrial areas. However, the Mumbai and Chennai, by virtue of its geographical conditions of being surrounded by sea, face constraint in terms of expansion.

1.3.2 Delhi NCR

Due to insufficient information, smaller real estate stock and a poor level of infrastructure, however, these markets are still relatively illiquid and offer greater risks.
Delhi, India's second biggest city is the seat of government and represents the central

1.3.1 Mumbai – India's Financial Centre

traffic hub in the north of India. Delhi's office market extends beyond the

Mumbai is India's economic and financial centre. The central bank (the Reserve Bank of India), the two most active stock exchanges in the country (the National Stock Exchange and Bombay Stock Exchange), the capital markets supervisory authority (the Securities and Exchange Board of India) and numerous domestic and foreign financial services providers have their headquarter there. Thus, many IT and ITES firms catering to the financial sector have established themselves in Mumbai and its surroundings.
metropolitan area to the neighbouring towns of Gurgaon in the south and

High demand has also led to extensive new development. The majority of new space is being built in Bandra Kurla. The extensive development activity will result in increased importance for the secondary locations.

In addition, increasing numbers of factory sites in the city are being sold to private vestors.

Noida/Greater Noida in the east.

As in the other metro cities, the main sources of demand are IT and ITES companies. In addition, Delhi has established itself as a call centre hub, which draws on the workforce's excellent and almost accent-free English language skills. Demand for space has spiraled in recent years.

CBD Still Prime Location

The CBD is located in the centre of New Delhi. Most of the office buildings date from the 1980s and 1990s

B. Banks and corporate service providers (e.g. lawyers, tax consultants) with close proximities to the ministries are also situated there. The new Metro makes it easier to reach downtown Delhi. The prime address, for office use and retail, is around Connaught Place, although there is very little space for new buildings there. As a result, rents are comparatively high and new office blocks are being built on the outskirts in the south of the metropolitan area and in peripheral districts.

New Satellite Office Locations

Immediately to the south of Delhi, Gurgaon was the first non-metropolitan location in which an international IT company (IBM) opened an office. Its far bigger supply of space and low office rents make it extremely attractive, a fact increasingly recognised by media and technology companies (Microsoft, Nortel, Samsung etc.).

Offices were followed by residential developers for the staff, giving rise to a satellite town with high-grade infrastructure that is also conveniently located for the international airport. The only hurdle is that the motorway to Delhi is not yet open. Meanwhile, though, construction work can no longer keep up with demand growth and as reserves of space shrink, so office rents are beginning to climb in Gurgaon, too. But at roughly INR 40 per sq ft and month, they are still way below the CBD level.

The shortage of space in Gurgaon makes other out-of-town locations interesting as well. Noida and Greater Noida are to the east of Delhi; Noida is about 10 km from the city, and Greater Noida is being built another 20 km east of Noida. Both towns - like Gurgaon, are based on a master plan assigning individual districts specific purposes. Whereas a large number of buildings are already complete in Noida, Greater Noida is still in the making.

1.3.3 Bengaluru

In the last few years Bangalore has developed as India's IT centre and has since been coined India's "Silicon Valley". But even before that, the city was already an important location as the centre for aerospace research. Today, nearly all well-known international IT firms are represented there.

However, the infrastructure of the city has not been able to keep pace with the rapid development of the IT market. Both the road network and the electricity and water supplies are overloaded .Local public transport is provided only by buses, although an underground railways is being planned.

1.3.4 Chennai

Prime office properties in Chennai are located in three principal sub-markets– CBD, IT Corridor and SBD. SBD comprises of Guindy, T Nagar and other areas. In addition to this, Ambattur - a western industrial suburb of Chennai, is rapidly emerging as city's new IT hub.

2. POLICY INITIATIVES

2.1 Foreign Direct Investment in Real Estate

The Department of Industrial Policy and Promotion (DIPP) vide Press Note No. 2 (2005) permitted FDI up to 100% under automatic route in townships, housing, built-up infrastructure and 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 facilities, such as roads and bridges, transit systems etc), subject to the following guidelines:

The minimum area to be developed under each project would be as follows:

- 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 of the above two projects, any one of the above two conditions would suffice.

The minimum capitalization norm shall be USD 10 million for a wholly owned subsidiary and USD 5 million for joint ventures with Indian partner/s. 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. However, the investor may be permitted to exit earlier with prior approval of the government through the Foreign Investment Promotion Board (FIPB).

Development of at least 50% of the integrated project within a period of five years from the date of obtaining all statutory clearances has to be completed. The investor would not be permitted to sell underdeveloped plots (underdeveloped connotes, where roads, water supply, street lighting, drainage, sewerage and other conveniences as applicable under prescribed regulations, have not been made available). The investor must provide this infrastructure and obtain the completion certificate from the concerned local body/service agency before being allowed to dispose of the 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, by-laws, rules and other regulations of the State Govt./Municipal/Local Body concerned.

The investor 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 Body/ Local Body

2.2 Investment Trend

There is a gradual shift in the way the construction of both residential and commercial property is being financed-away from debt and towards equity. Traditionally, developers funded their construction cost by pre-selling houses to buyers. But this mode has faded out, thanks partly to competition and financial sophistication. Private debt and bank lending have since emerged as the most important source of real estate finance in India, accounting for 60 per cent of the total money being spent on new construction activities. In the past four years, bank loans to commercial real estate have increased by more than 500 per cent to USD 2.4 billion.

3. MAJOR PLAYERS

3.1 Ansal Properties & Infrastructure Limited

Name	The Ansal Group
Year of Establishment	It was established in 1965
Company Profile	The Ansal Group is a conglomerate of 35 companies, with Ansal Properties and Industries Ltd, (Ansal API); Ansal Housing and Construction Limited, (AHCL) and Ansal Buildwell Ltd. (ABL) at the core of the Group. All three are public limited companies, and engaged in the entire gamut of civil construction and real estate development activity in India and abroad. Employing 5000 people nationwide, with over 1000 of these in supervisory and managerial positions, all three companies have acquired the ISO 9001-2000 certificate.
Future Prospects	The company intends to shift its focus to value-added development, or constructed property. Ansal's thrust areas would be expansion into hospitality, and a focus on premium locations in Tier II cities of North India.

3.2 The DLF Group

	The DLF Group
Year of Establishment	Founded in 1946
Company Profile	The DLF group is a leading real estate developer based in New Delhi, India.
Future Prospects	-Increase land reserves in strategic locations -Expand core business verticals nationally -Diversify into SEZ development -Diversify into hotel development -Enhance execution capabilities

3.3 Unitech Limited

	Unitech Limited
Year of Establishment	Unitech Limited was established in 1972 by a group of engineers, initially as a consultancy firm for soil and foundation engineering. In 1986, it set its eyes on the real estate business in Gurgaon.
Company Profile	The Group's principal activities are the construction, real estate development, consultancy in related areas, hotels, electrical transmission and information technology. The activities of the Construction segment include highway projects, industrial projects and overseas projects. Real estate development includes the development of commercial as well as residential properties. The Group operates in India and exports engineered construction products to the Middle East.
Future Prospects	– Achieve high growth by establishing a pan India presence – focus on major economic centres – Focus on profitable projects that maximize returns – Undertake large mixed-use projects like integrated townships in the suburbs of main cities.

3.4 Parsvnath Developers Limited

	Parsvnath Developers Ltd.
Year of Establishment	It was founded in 1990
Company Profile	Parsvnath Developers Limited is one of the leading real estate companies in India. The Parsvnath Group has a diverse business portfolio of commercial complexes, shopping malls, integrated townships and group housing. Besides strengthening its position in core operations of real estate, Parsvnath Developers is striving to broad base its product offerings by catering to emerging markets and segments. In recognition to its commitment towards technical excellence and world-class real estate solutions, Parsvnath Group has become the first real estate company to achieve a NAREDCO-ICRA DR 2-rating.
Global Presence/ Marketing Network	Parsvnath Developers Limited has a pan-India presence and an experience of more than 17 years in offering state of the art construction
Future Prospects	– Plans to have at least 17 hotels across 13 cities operational by 2011 – Expanding footprints in newer locations across India. – Participating in re-development of land near Railway Stations. – Exploring possibilities of power generation and distribution. This will get extended to their townships and SEZ locations also. – Exploring infrastructural projects such as Highway and Airport development. Already submitted EOI for development of five Airports at Jalgaon, Karad,

	Phaltan, Dhulia & Chandrapur in Maharashtra. – Explore opportunities for taking up the real estate projects outside India.

3.5 Omaxe Limited

	Omaxe Limited
Year of Establishment	It was established in 1989.
Company Profile	Omaxe began life as a civil construction and contracting company, has Successfully executed more than 120 prestigious Industrial, Institutional, Commercial, Residential and Hospital construction projects. The company entered the Real Estate Development business in 2001
Future Prospects	– Omaxe is planning to invest a total of Rs. 20 billion in its hotel projects in 11 cities across India. – They are also planning a Rs. 20-30 billion real estate project in Punjab. – Omaxe is also planning to invest Rs. 2 billion in Dubai real estate projects. – They have exhaustive plans to upgrade living environs of smaller cities in North India in next 5 years

3.6 Sobha Developers Limited

	Sobha Developers Ltd.
Year of Establishment	Sobha Developers was incorporated in Bangalore in 1995 by Mr P N C Menon.
Company Profile	Sobha Developers pioneered in India the concept of truly international quality in construction industry. Here again, such superior standards set by him ensured consistent international quality to customers which soon became the industry benchmark for international quality. Having built innumerable residential, contractual and commercial projects, Sobha enjoys excellent brand presence in Bangalore. Today, they believe that the Sobha brand is well accepted as the industry benchmark for world class building techniques and quality standards, and also enjoys an ever widening reputation for reliability, dependability and honesty.
Future Prospects	They anticipate building a presence in varied industries including Hotels & Resorts, Hypermarkets, Home Stores, and Building Materials.

3.7 Emmar MGF

	Emaar MGF
Year of Establishment	They commenced their operations in India in February 2005.
Company Profile	Emaar MGF Land Limited is a joint venture between Emaar Properties PJSC ("Emaar") of Dubai and MGF Development Limited ("MGF") of India. Their primary business is the development of properties in the residential, commercial, retail and hospitality sectors. In addition, they have also identified healthcare, education and infrastructure as business lines for future growth. Their operations span across various aspects of real estate development, such as land identification and acquisition, project planning, designing, marketing and execution.

4. OPPORTUNITIES AND CHALLENGES

4.1 Opportunities

The opportunities in the Indian real estate sector, has been highlighted as follows:

- There is a shortage of 12 million housing units in urban areas
- There is scope for 400 township projects over the next five years spread across 30 to 35 cities, each having a population of 0.5 million
- Total project value dedicated to low and middle income housing in the next seven years is estimated at USD 40 billion
- Instruments such as residential mortgage-backed security (MBS), commercial MBS and collateralized debt obligations (CDO) are being used to make capital work more efficiently and de-risk project incomes from promoter risk while creating a robust secondary market for commercial real estate.

4.2 Impediments to Investment

Despite the huge investment potential there are certain snags related to investment in India's real estate. Topping the list of impediments is the opaque nature of the business in India. There are challenges of investing in India relate to transparency, limited market history and forecasting difficulties, as well as title complexities and imperfections. Ownership records and land titles are one of the biggest blind spots in property valuations. Further there is no title insurance in the country. Title insurance, as the name suggests, guarantees against massive losses in case of faulty title. While domestic funds are able to negotiate these issues, foreign funds too are learning to handle them.

Major Impediments

- Limited market history of property
- Procedural complexities
- Title complexities
- No title insurance available
- Lack of urban planning

Stamp duties and archaic laws such as Urban Land Ceiling Act (ULCA) and Rent Control Act need to be rationalized or scrapped. The ULCA provide for the imposition of ceiling on vacant land in urban agglomerations, for the acquisition of such land in excess of the ceiling limit, to regulate the construction of buildings on such land and for matters connected therewith, with a view to preventing the concentration of urban land in the hands of a few persons and speculation and profiteering therein and with a view to bringing about an equitable distribution of land in urban agglomerations to subserve the common good.