

OPPORTUNITY OF INVESTMENT IN REAL ESTATE IN INDIA

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Abstract

The growth of this sector is well complemented by the growth of the corporate environment and the demand for office space as well as urban and semi-urban accommodation. The Indian R.E sector is one of the most globally recognized sector. It is the second largest employer after agriculture. It has transformed from being unorganized to a dynamic and organized sector over the past decade. Real Estate sector is considered as a great employment generator and could be instrumental in growth of cement, steel and other connected industries. A survey reveals for every one crore rupees in investment in housing, nearly 290 industries in the building material sector has got activated besides the core manufacturing sector like cement, steel and bricks. Investment in housing is capable of achieving a three in one solution of employment generation, economic development and human development. Thus the flow of FDI in Indian Service Sector is boosting the growth of Indian Economy. This necessitates the study of investment in Indian Real Estate Sector.

Introduction

The real estate sector in India has come a long way by becoming one of the fastest growing markets in the world. It is not only successfully attracting domestic real estate developers but also foreign investors as well. The term real estate is defined as "land including the air above it and the ground below it, and any building or structures on it". It is also referred to as realty. It covers residential housing, commercial offices, trading spaces such as theatres, hotels, retail outlets, industrial building such as factories and Government building. Real Estate investment in India is one of the most successful investment phenomenon in the few decades. The real estate investment in the country consists of the following such as constructing houses, townships, residential companies, office building, shopping malls. Money invested in R.E offers both regular returns on investment as well as possibility of capital appreciation.

Objectives of the Study

- To study the relationship between Real Estate Sector growth and Indian Economy
- To study the role of domestic as well as foreign players in Indian Real Estate Sector.

Methodology of the Study

The study is based on secondary data. The main source of data are various economic survey of India and Ministry of Commerce and Industry data, RBI bulletin, on line data base of Indian Economy, newspaper, articles etc..

Review of Literature

As per corporate catalyst (India) Pvt Ltd on “a brief report on Real Estate Sector in India Jan2015” the entry of major private players in the education sector has created vast opportunities for the Real Estate Sector. Emergence of nuclear families and growing urbanization has given rise to several townships. Growth in the number of tourists has also resulted in demand for service apartments.

An article on “Investments in Real Estate Sector in India” by multiple build on Pvt Ltd Delhi, NRI is permitted to freely invest in Indian Real Sector is set to grow drastically in next 10-15 years.

As per JVD helddon an enterprise of JVD Group,” in the advent of call centers, programming houses and other such BPO’s in India has lead to an increase of over 785000 new jobs outsourcing really changed the face of commercial real estate in India, but its greater impact has been the demographic shift characterized by rising disposal income and increased consumerism while steady growth rate of various services within the service Sector, construction sector other services and real estate services contributed 0.72, 0.68 and 0.65 percentage points respectively”.

Understanding Indian Economy

Indian Economy stands as one of the influential and attractive economy. The liberalization move in 1990’s has given a boost to the Indian Economy and put her into fast track economic growth route. In 2009, Indian GDP based on purchasing power parity (PPP) stood as USD 3.5 million making it the truth largest economy. The real Estate Sector of India has developed remarkably contributing to the economic growth and revenue of the nation. The contribution of Real Estate Sector to Indian GDP was 63% in 2013 and generated 7.6 million jobs in the same period. The potential for development and growth in the R.E is tremendous. It is expected to generate 17 million employment opportunities across the country by 2025 thereby making significance contribution to the GDP. Due to the enormous demand in the retail and other sector of the economy, more demands are created for real estate.

Percentage Share of Real Estate Sector in GDP

Year	Total service sector	R.Estate Sector
2004-2005	53	9.0
2005-2006	52.9	9.1
2006-2007	52.9	9.3
2007-2008	52.7	9.6
2008-2009	54.1	10.4
2009-2010	55.2	11.4

If the total share of service sector real estate sector’s share increases from 16.98% in 2004-05 to 20.65% in the year 2009-2010.

Annual Growth in Indian Real Estate Sector GDP

Year	Total service sector	R.Estate Sector
2005-2006	11.0	10.6
2006-2007	10.1	9.5
2007-2008	10.3	8.4
2008-2009	10.1	11.2
2009-2010	10.1	7.5

Source: Central Statistical Organization

The GDP from real estate sector witnessed the growth of 7.5% in the year 2009-10. In terms of share it accounted for 9.3 % of the GDP in the year 2009-10. Fiscal incentives for the housing sector provided in successive budget together with liberal investments and credit policies and reforms brought the housing and real estate sector to the central stage of Indian Economy.

Domestic Players in Real Estate Sector

Traditionally unorganized but it is slowly evolving into a major organized one. The major established domestic players in this sector are DLF, unitech, Hiranandhini construction, Tata housing, Godrej properties, omaxe, pursvanth, Raheja developers, Ansal properties to name a few.

DLF: It was established in the year 1946 founded by chaudry Raghvendra Singh, developed 22 urban colonies in Delhi during 1950-1964. It has ventured into group housing projects, ventured onto Grade a office space in Gurgaon in 1999, organised retail complexes in 2002 and developed DLF cyber city. It has developed next generation malls. First automated multilevel car parking was developed in Delhi. It has 68 years of track record of sustained growth, customer satisfaction and innovation. It has 294 million sq.feet of planned project with 47 msf of projects under construction.

GODREJ PROPERTIES: It is a real Estate company established in the year 1990. Since then it has built many remarkable structures with the focus on customer requirements and innovative designs. The company is currently developing projects that can estimated to cover more than 89.7 million sq.ft. The company witnessed 130% growth in her profit and 5% growth in total income compared to first quarter of 2013.

UNITECH: Established in 1972 and it is second largest real estate company. It ranks 1484 in Forbes Global 2000 listing of the top 2000 public cos in the World by Forbes magazine. They have experience in developing IT and commercial office space and World class mall. Currently 4.5 msf of retail space is under construction.

ANSAL API: Established in 1967 to build high class residential property. Currently it is going to invest 130 crores on SEZ development in Greater Noida.

SOBHA DEVELOPERS: It is an Indian multinational real estate developers headquartered in Bengaluru. It has completed 95 real estate projects and 253 contractual projects covering about 65.83 msf. Currently it has 50 ongoing projects of about 31.14 msf.

PARSVNATH DEVELOPERS: It is one of the leading real estate developer with an experience of more than 2 decades offering state of art development and construction. They have 114 ongoing projects spread over the area of 211.32 msf across all the real estate ventures.

Investment Opportunities

The Real Estate market in India predominantly continues to remain unorganized, fairly fragmented mostly characterized by small players with a local presence developers were then identified with large amounts of unaccounted money, lacked transparency and would use unscrupulous means to obtain various regulatory approvals. But things have clearly changed today. Developers have realized the merits of corporatizing themselves and enhancing transparency in terms of their financials. Earlier even the reputed builders had difficulty in accessing formal channels of credit, today almost every bank and housing finance company has relationship tie up with developers and are keen to lend to them at competitive rate. It is estimated that urban housing would require investment of USD 25 million over the next few years. Urban population is expected to grow from 290 million to 600 million by 2021 while the requirement of housing units will grow to 68 million by 2021.

L&T infra finance private equity plans to raise 3750 crores in an overseas and a domestic fund and launch a real estate fund. Leading research institute such as AT Kearney and ASSOCHAM estimate that retail realty sector to grow at around 15% year to year over the next three five years as against at 12% to 13% nominal growth of India's GDP estimated by the IMF. Going by the logic the sector should reach a height of 34 million by 2016. The sector is also an important contribution towards the socio economic well being of the economy as it employs close to 9.4% of Indian's labor force. The real estate in India is now attracting huge investment at more and private equity players in India are now opting for larger investments. Banks and housing finance companies are providing loans to the real estate developers with the potential to yield greater ROI's.

This industry is witnessing a fast transaction and it is estimated that the organized sector will record growth rate of close to 24% CAGR to increase its share to 10.2% of the total sector by 2016-2017 as per ASSOCHAM. As of 2016, the retail sector would therefore touch the size of 3.5 trillions.

Tata housing is looking to invest Rs.3000 crores in acquisition of more land in the premium home category across major cities. Over Rs.3100 crores of land deals have taken

place in the year 2014. With the RBI decision to cut SLR would enable banks to lend more to Realty sector, so as to unlock Rs.40000 crores into the system.

FDI in Real Estate Sector

FDI is encouraged in the sectors like Development of hotels, travel and tourism industry, hospitality, development of commercial real estate, construction of resorts etc. With the heavy growth rate of 30% the commercial market in India portrays an ascending curve. With rising demand for residential, commercial and industrial properties increased living standards of people and with development of IT industry and hotel industries real estate investment in India is truly on high. The country's real estate is attracting good investments from foreign investors since last two years.

Apart from being a critical driver of economic growth, FDI is the major source of non-debit financial resources for the economic development of India. Foreign companies invest in India to hope advantage of cheaper wages, special investment privileges like tax exception etc.. For a country where foreign investments are being made it also means achieving technical knowhow and generation of employment. Real Estate private equity FDI is set to double after the Indian Government ended the 3 year lock in and has introduced 100% FDI for completed asset.

India remains among top five attractive Destination for international investors during 2010-2012 period. European and American investors placed India 3rd while Asia Pacific investors rate it 4th, UK trade investment rates India among the top 3 countries. As per European survey India ranked as the fourth most attractive FDI destination. Even during FDI inflows of India soared from US \$ 25.1 billion in 2007 to US \$ 41.6 billion in 2008.

Department of Industrial Policy and Promotion, the construction development sector in India has received FDI equity inflows to the tune of US \$ 23874.1 million in the period April 2000-2014. The Indian real estate market is expected to touch US \$180 billion by 2020. The housing sector alone contributes 5-6% to the country GDP.

Mumbai is the best place of real estate investment with return of 12-19% likely in next few years followed by Bengaluru and Delhi National Capital Region. Delhi, NCR was the biggest office market in India with 110 million sq.ft out of which 88 million sq.ft were occupied.

They are believed to have raised \$ 3.5 billion and above \$ 2.5 billion have already been invested by overseas real estate funds in India till date. The investments such as Blackstone group (\$1billion) Goldman Sachs (\$ 6billion) Citigroup Property investors (\$125 million) Morgan Stanley \$70 million and GE commercial finance real estate (\$63million).

Indian urban office space market is what attracts investors. It is 60 million sq.ft as compared to New York city's 40 million sq.ft or New Jersey 175 million sq.ft Tishman Spyer was the first US developer to invest in India. In 2006, the New York city based firm entered

into a joint venture with ICICI venture funds of Mumbai that will have a war chest of \$2.5 billion.

Goldman Sachs plans to invest Rs.1200 crores (US \$ 194.1 billion) to build new campus in Bengaluru. Snap deal has entered into a strategic partnership with Tata Value Homes to sell the latter's apartments in its E-Commerce platform which first time an e-commerce company has tied up with a real estate venture.

IDFC Alternatives had sold two of its real estate investments to Blackstone Groups. The assets were sold, to set up SEZ and IT park in Noida, for a combined enterprise value of Rs.1100 crores. Realty from Ambience is going to invest Rs.1950 crore over the next four years to develop two luxury housing projects in Gurgaon and Noida.

Assotech Realty has tied up with lemon hotels to manage and operate its serviced residence. Its first project was launched in Noida. The Company will launch 8-10 projects in a phased manner over next 7 years with an investment of 800-900 crores (US\$129.37 to 145.57 million) approx.

Black stone group is all set to become the largest owner of commercial office real estate in India after 3 years acquisition drive in which it spent US \$900 million to buy prime assets. International players who have made a name for themselves in India include Hines, Tishman speyer, Emarr properties, ascendos, capital and portman holdings and Homes.

While restrictions on foreign direct investment (FDI) have been a major deterrent to the entry of foreign retailers in this sector, there has been a calibrated liberalization over the past few years. To facilitate easier FDI inflow, instead of having to seek Foreign Investment Promotion Board approval, FDI up to 100% is now allowed under the automatic route.

Allowing FDI in the real Estate will result in the following advantages:

- It will provide the much needed increased for the funds-starved sector.
- It will bring in professional players equipped with enterprise in R.E development
- The introduction of new technology and quality real estate assets will have a demonstration effect on the local developers.
- It will lower real estate Sector in the long run.
- It will generate employers and revenue and it will improve the quality of related infrastructure.

Government Initiatives

Under the Sardar Patel Urban Housing Mission 30 million houses will be built by 2022, mostly for the economically weaker section and low income groups, through public private partnership, interest in increased flow of resources to housing sector.

The Government of India has proposed to release real estate (development and regulation) bill which aims to protect consumer interest and to introduce standardization in business practices and transactions in the sector. This bill will enhance domestics and foreign investment flow into the sector.

Challenges and Solutions

While short term worries like hardening interest rate need to be addressed there is also need for some fundamental reforms like tacking the high stamp duty issue which makes even honest citizen deal in black money and problems related to land ceiling regulation Act. There are also challenges related to collecting better data and developing a better coordinated strategy to pull together all the dispersed information.

Other issues are lack of proper title, absence of title insurance, shortage of labour, rising material and manpower cost, approval and procedural difficulties. Regulatory improvements will also be important as many domestic regulations and market barriers could come in the way of fully tapping this growth accelerating sector. Introduction of dedicated Regulatory body is the need of the hour. Speeding up of approval process and increased transparency will strengthen the sector.

Conclusion

Addressing challenges and issues could further enhance the sector which is the driving force for India to realize double digit growth potential overall and at state level ,while providing more and more employment generation there by economic development and human development to help to achieve more balanced and inclusive growth. Expanding middle class, sustained high economic growth during the last few years causing a rapid rise in disposable incomes, favorable demographics, placing incomes on younger population with less dependency, and growing urbanization lead to the growth of Indian realty sector..

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