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INDIAN REAL ESTATE INDUSTRY: ISSUES AND INITIATIVES

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ABSTRACT

The Present paper endeavoring the current situation of real estate industry in India in first part. The second part shows the key developments in FDI sector and market size in various cities. The third part provides investment in the real estate sector in the recent past and also describes the government initiatives and regulations to attract the new technologies in the real estate sector. The next part shows that challenges that are being faced by the real estate sector. Final part describes the future prospects of the industry.

KEYWORDS

Construction Sector, Foreign Capital, Foreign Direct Investment (FDI), Housing, Real Estate.

BACK DROP

The Indian real estate sector is one of the fastest growing and globally recognized sectors. It comprises four sub sectors-housing, retail, hospitality, and commercial. The real estate industry's growth is linked to developments in the retail, hospitality and entertainment (hotels, resorts, cinema theatres) industries, economic services (hospitals, schools) and information technology (IT)-enabled services (like call centers) and the like. The total realty market in the country is expected to touch US\$ 180 billion by 2020. India ranks third for the most LEED (Leadership in Energy and Environmental Design)-certified space globally, with nearly 12 million sq m. The LEED system is the most widely used rating system guiding the design, construction, operations and maintenance of green buildings. Private Equity (PE) funding has picked up in the last one year due to attractive valuations and low level of bank funding to the sector. Delhi NCR alone has already attracted PE investments of Rs 80 crores in first quarter of 2014. Moreover, with the government trying to introduce developer and buyer friendly policies.

AIM OF THE RESEARCH PAPER

The present paper aims at endeavoring the core issues and initiatives concerning the Indian Real Estate Industry.

METHODOLOGY

The data for the present study is collected from the news papers, journals and online databases and the views of writers in the same discipline. The reference books, magazines, Government publications, Press notes and Internet are also used for the purpose.

STATUS OF THE REAL ESTATE SECTOR

The real estate sector is a critical sector of our economy. It has a huge multiplier effect on the economy and therefore, is a big driver of economic growth. It is the second-largest employment-generating sector after agriculture. Growing at a rate of about 20 percent per annum, this sector has been contributing about 5-6 percent to India's GDP. Not only does it generate a high level of direct employment, but also stimulates the demand in over 250 ancillary industries such as cement, steel, paint, brick, building materials, consumer durables and the like.

The Indian real estate industry has been on a roller coaster ride since 2005. Consequent the government's policy to allow Foreign Direct Investment (FDI) in this sector, there was a boom in investment and developmental activities. The sector not only witnessed the entry of many new domestic realty players but also the arrival of many foreign real estate investment companies including private equity funds, pension funds and development companies entered that were the sector lured by high returns on their investments. The real estate sector has been riding through many highs and lows since then. The industry achieved new heights during 2007 and early 2008, characterized by a growth in demand, substantial development and increased foreign investments. However, by mid 2008, the effects of the global economic slowdown were evident here too, and the industry took a 'U' turn. FDI inflow into real estate dropped significantly and what had emerged as one of the most promising markets for foreign investments experienced an unexpected downturn.

GROWTH IN COMMERCIAL REAL ESTATE SECTOR

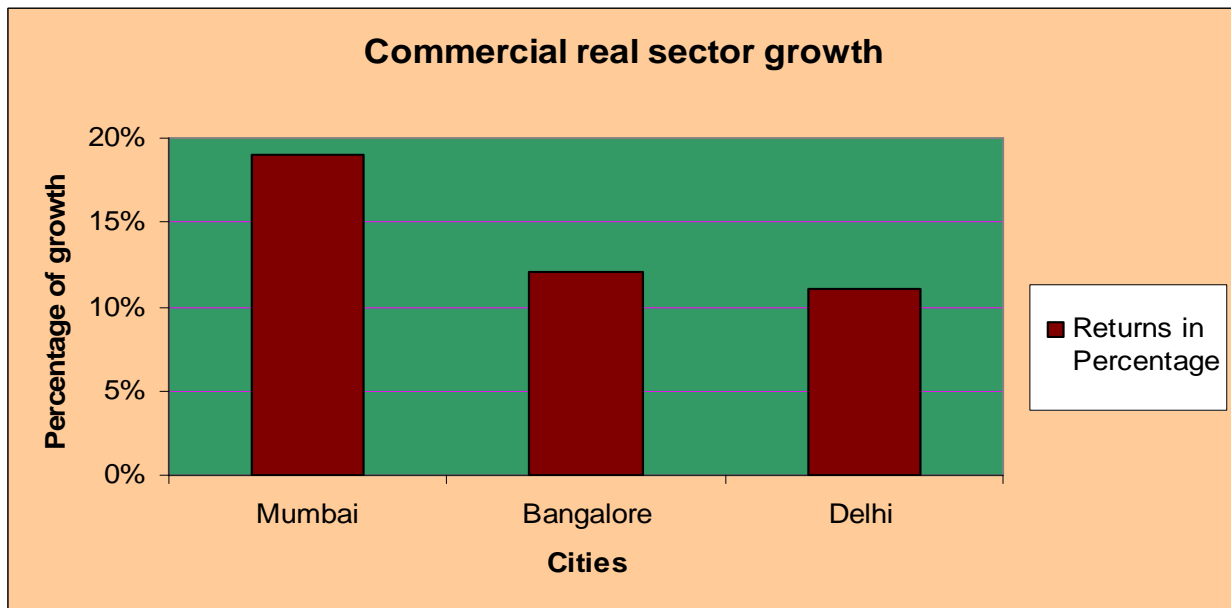
The Indian real estate sector has grown in the recent past, especially the commercial real estate segment. According to a study by Knight Frank, Mumbai is the best city in India for commercial real estate investment, with returns of 12-19 per cent likely in the next five years. Bangalore and Delhi-National Capital Region (NCR) come second and third on the list, with returns of 10-12 per cent and 8-11 per cent respectively. Delhi-NCR was the biggest office market in India with 110 million sq ft, out of which 88 million sq ft were occupied.

TABLE - 1: COMMERCIAL REAL ESTATE SECTOR GROWTH IN INDIA

Cities	Returns in percentage
Mumbai	12-19
Bangalore	10-12
Delhi	8-11

Source: Hand Book of Real Estate Released by Indian Industrial Association 2013-14

CHART - 1: COMMERCIAL REAL ESTATE SECTOR GROWTH IN INDIA



GROWTH IN RESIDENTIAL REAL ESTATE SECTOR

The residential segment of real estate has also seen tremendous growth in recent years owing to the continuous growth in population, migration towards urban areas, ample job opportunities in service sectors, growing income levels, rise in nuclear families and easy availability of finance.

TABLE - 2: RESIDENTIAL REAL ESTATE GROWTH-THE NUMBER OF NEW UNITS LAUNCHED IN DIFFERENT CITIES

Cities	Increased percentage	Units
Mumbai	22	16,838
Bangalore	93	10,698
Delhi	191	7,436

Source: Hand Book of Real Estate Released by Indian Industrial Association 2013-14

CHART - 2: RESIDENTIAL REAL ESTATE GROWTH-THE NUMBER OF NEW UNITS LAUNCHED IN NATIONAL LEVEL



In the residential segment, the number of new units launched in the first quarter of 2014 has increased by 43 per cent at 55,000 units across eight major cities. Bangalore recorded the largest number of units launched with an increase of 22 per cent at 16,838 units, followed by Mumbai and Chennai with 10,698 units and 7,436 units with a growth rate of 93 per cent and 191 per cent respectively. With the government’s proposal of allowing 100 percent foreign direct investment (FDI) in this sector, the number of foreign firms owning real estate projects in India has also increased. The construction development sector, including townships, housing, built-up infrastructure and construction-development projects garnered a total FDI worth US\$ 23,587.25 million in the period April 2000-June 2014.

INVESTMENTS IN REAL ESTATE SECTOR

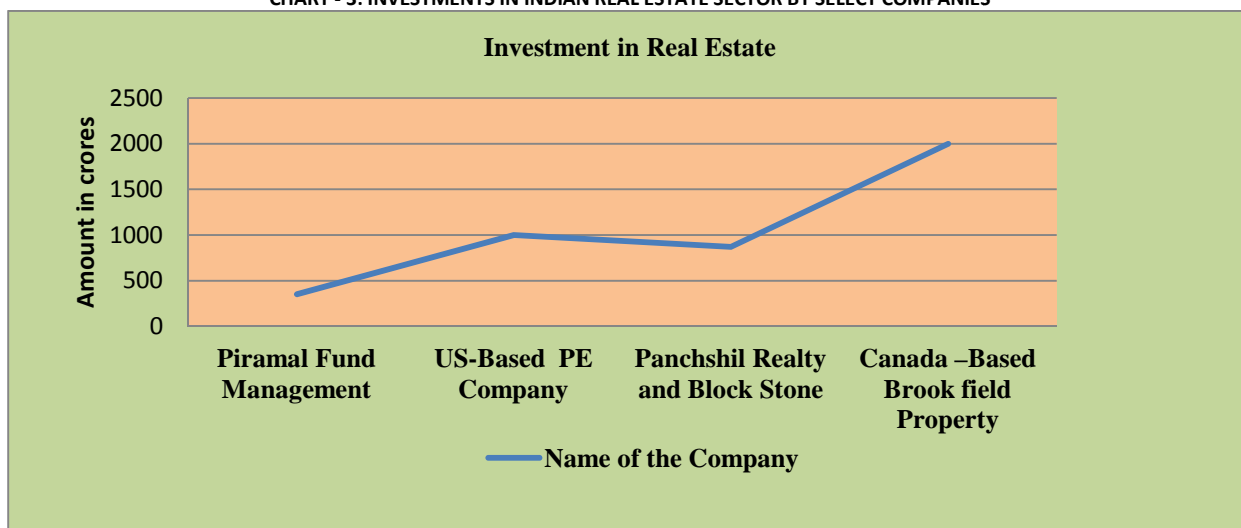
With the rise in demand for office as well as residential space, the Indian real estate sector has witnessed high growth in recent times. Some of the major investments in the real estate sector in the recent past are as follows.

TABLE - 3: INVESTMENTS IN INDIAN REAL ESTATE SECTOR BY SELECT COMPANIES

S.NO	Name of the company	Amount (in Rs.)(crore)
1	Piramal Fund Management	350
2	US-Based PE Company	1000
3	Panchshil Realty and Block Stone	870
4	Canada –Based Brook field Property	2000

Source: Hand Book of Real Estate Released by Indian Industrial Association 2013-14

CHART - 3: INVESTMENTS IN INDIAN REAL ESTATE SECTOR BY SELECT COMPANIES



Piramal Fund Management has launched the Indiareit Apartment Fund which seeks to buy residential apartments in the Tier I market, and has kept aside a corpus of Rs 350 crore for the same. US-based PE company Blackstone plans to step up its presence in the residential segment and has lined up about Rs 1,000 crore to invest in residential projects across Indian metros. Its first investment in the residential sector was in the Chennai project of Bangalore-based Ozone Group. Panchshil Realty and Blackstone have bought a majority stake in Express Towers, for around Rs 870 crore. Canada-based Brookfield Property has entered into an agreement to acquire Candor Investments, a subsidiary of Unitech Corporate Park (UCP), for about Rs 2,000 crore. Mr. Donald Trump plans to extend his company, Trump Organization's global footprint into India and invest in two realty deals. Both the deals involve ultra-premium luxury projects, which will be owned, developed and promoted by local developers. Mahindra Group has entered affordable housing through its property development arm Mahindra Life spaces (MLDL). MLDL plans to launch two housing projects in Boisar near Mumbai and Avadi in Chennai with the newly created business vertical "Happiest".

INITIATIVES BY THE GOVERNMENT

The Government of India has announced a host of measures to spur the real estate sector, which include an allocation of Rs 7,060 crore for the development of 100 smart cities, a reduction in the size of projects eligible for FDI from 50,000 sq m to 20,000 sq m, and having the minimum investment limit for FDI to US\$ 5 million. A committee on Streamlining Approval Procedure for Real Estate Projects (SAPREP) was constituted by the Ministry of Housing & Urban Poverty Alleviation (MHUPA) to streamline the process of seeking clearances for real estate projects. The governments of different states have also taken various measures to facilitate the growth of this sector. For instance, the Punjab government has proposed to exempt residents having houses with an area of up to 125 square yards from paying the levy and delink tax payment from collector rates.

FDIS IN INDIAN REAL ESTATE SECTOR

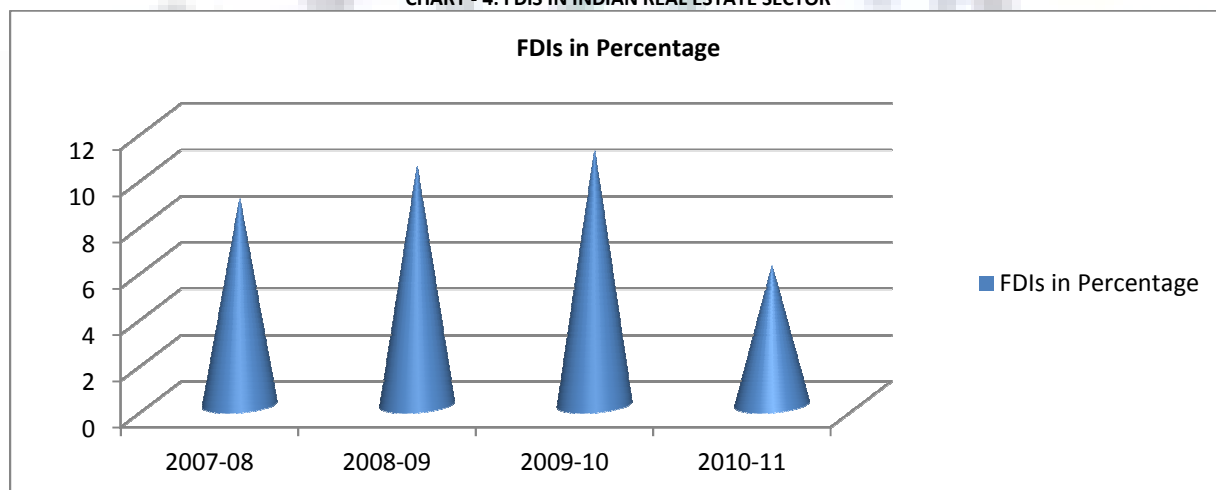
The Indian Green Building Council (IGBC) has joined hands with the US Green Building Council (USGBC) to strengthen their association for the next 10 years to focus on areas of knowledge exchange and work on the green building movement in India. The USGBC also plans to expand its support for LEED in India. In the Financial Years 2007-08, 2008-09 and 2009-10, the housing and real estate sector attracted FDIs of 8.9 percent, 10.3 percent and 11 percent respectively, of the total FDI in India. However, the financial year 2010-11 saw a mere 6 percent FDI in this sector. The year 2010 saw the Indian real estate sector spring back into action after the gloom and recessionary pressures experienced in the aftermath of the global downturn.

TABLE - 4: INDIAN REAL ESTATE SECTOR ATTRACTED FDIS

Years	FDIs in percentage
2007-08	8.9
2008-09	10.3
2009-10	11.0
2010-11	6.0

Source: Hand Book of Real Estate Released by Indian Industrial Association 2013-14

CHART - 4: FDIS IN INDIAN REAL ESTATE SECTOR



The focus on 'affordable housing' helped the sector tide over the financial crunch it had witnessed. There is no doubt that the sector holds huge potential to attract FDI in its various segments. However, progress is possible only with the joint effort of both the industry and the Government. On the one hand, the industry should work towards increased transparency, clear land titles, improved delivery and project execution while on the other hand the Government must provide fiscal incentives to developers to build low cost and affordable housing for the masses and also review the existing FDI guidelines for investment and development in Indian real estate in order to increase the flow of foreign capital into the sector.

THE CHALLENGES

The Indian real estate industry is confronting the listed challenges

- Shortage of labour
- Approvals and procedural difficulties
- Lack of clear land titles
- Absence of industry status
- Rising manpower and material costs
- Absence of title insurance
- Lack of adequate sources of finance

CONCLUSION

The Indian real estate sector continues to be a favoured sector for investments of international players as well as private investors. In the upcoming years, the residential as well as commercial segments of the real estate industry is set for major growth, aided in no small part by the government's plans and initiatives to boost this sector. Excise duty reduction on cement and steel will lower project costs and expansion of the interest subsidy on loans will boost developers' interest in this segment. Moreover, tax measures such as increasing the limit of interest deduction on home loans will provide necessary motivation to consumers to increase buying activity and revive demand in the value and affordable segment. Further, demand for space from sectors such as education and healthcare has opened up ample opportunities in the real estate sector.

India has huge potential to attract large foreign investments into real estate. With real estate reaching a point of saturation in developed countries and the demand and prices falling, global real estate players are looking at emerging economies such as India for tapping up of the opportunities in real estate sector. Indian real estate will stay attractive due to its strong economic fundamentals and demographic factors. Moreover, there is a high level of global uncertainty looming over the developed and developing nations of the world. While developed economies are still struggling to regain their growth momentum, developing countries including India and China are expected to grow at a reasonably high rate. Investments in Indian real estate will fetch higher returns for investors as compared to other global markets. In the coming years, the opportunities in the real estate sector will attract more global players to India and hence will help industry to mature, become more transparent, improve management and adopt advanced construction techniques.

PROFESSIONAL OPPORTUNITIES IN REAL ESTATE

- ❖ Advising the client in the Purchase or Sale of Land.
- ❖ Verification of Title Deed of the Property.
- ❖ Choice of Location for Business.
- ❖ Drafting of Documents.
- ❖ Advice on Registration and Stamp Duty on various documents.
- ❖ Advisory on developing Special Economic Zones.
- ❖ Investment in Real Estate by NRI.
- ❖ Investments in Real Estate in India.
- ❖ Internal Audit of Real Estate Company.
- ❖ Statutory Audit of Real Estate Company.
- ❖ Valuation of Real Estate.
- ❖ Brand Value of Real Estate Companies, Agents and Foreign Companies.
- ❖ Allocation and Investment Strategies.
- ❖ Assessment of Financial Viability of Real Estate Projects.

To conclude, the future of the Indian Real Estate Sector is very good with a tremendous growth in economy due to rapid urbanization, positive demographics and rising income levels. The Indian real estate sector has attracted significant investments over the past few years and also provides professional opportunities in the Sector that makes to India No. 1 country in the world.

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