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“Sustainable Urbanization in Real Estate Sector”

PREPARED BY

MR. Deepak Mazumdar

CONSTRUCTION INDUSTRY DEVELOPMENT COUNCIL

INDIA

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1. PREAMBLE

Construction Industry Development Council (CIDC) has been jointly established by the Planning Commission, Government of India and the Indian Construction Industry. Since its inception in 1996, CIDC has initiated several activities for the benefit of construction industry. A notable few are:

- *Advice the Government on policy formulation related to construction industry.*
- *Standardization of construction contracts and procedures.*
- *Training manpower at skilled worker level and construction management level.*
- *Grading of construction entities*
- *Devise mechanisms for workers' welfare.*
- *Help evolve policies for financing.*
- *Dispute Resolution in Construction Contracts.*
- *Establishing construction equipment bank.*
- *Computation & publishing Construction Cost Indices*
- *Interaction and networking with international organizations to promote emerging technologies and best practices.*

2. EXECUTIVE SUMMARY

This report presents the overview of the Real Estate Market & the Indian Construction Industry. Macroeconomic parameters pertaining to the Indian Economy & the patterns of demographic patterns affecting the real estate sector is presented.

The entire overview of the real estate sector pertaining to the market scenario, market segments of the real estate and the growth drivers in context of the Indian scenario is also presented.

Moreover, policy and regulatory framework and road ahead in the real estate sector is also highlighted.

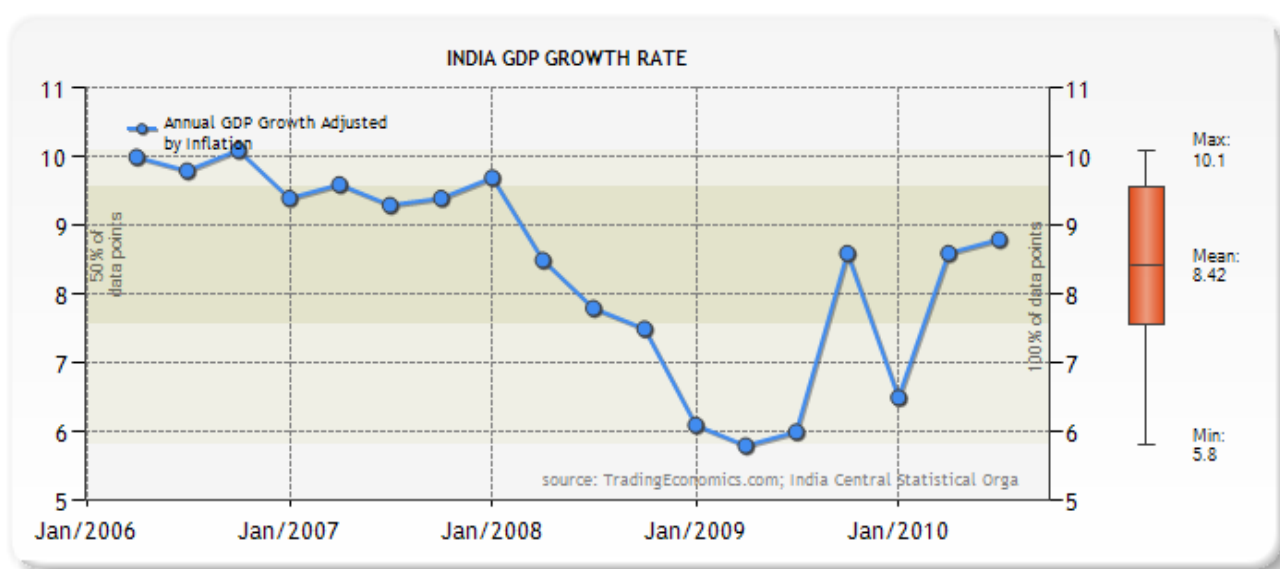
3. ECONOMIC OVERVIEW

- ✓ India is the fourth largest economy in the terms of purchasing power parity,
- ✓ GDP Growth accelerated from 8.6% in 2009 to 8.8% in 2010.
- ✓ Real Estate sector is registering an annual growth rate of 30%.
- ✓ 1.1% of GDP constitutes FDI in Real Estate sector.
- ✓ Returns in India range between 12-15% compared to 3-4% in advanced countries.
- ✓ The strong fundamentals of the Indian economy are having a favorable impact on all asset classes of Indian real estate viz. housing, commercial - office space and retail and hospitality.
- ✓ In recent years, the growth has spread out to tier-II and III cities as well.
- ✓ Improving living standards are driving the demand for better.
- ✓ Quality housing and urban infrastructure.

3.1 Economic indicators:

INDICATORS	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
GDP (at current prices, US\$ bn)	837.2	947.0	1231.0	1222.0	1317.0	1529.0#
GDP Growth (at constant prices, %)	9.5	9.7	9.2	6.7	7.4e	8.5#

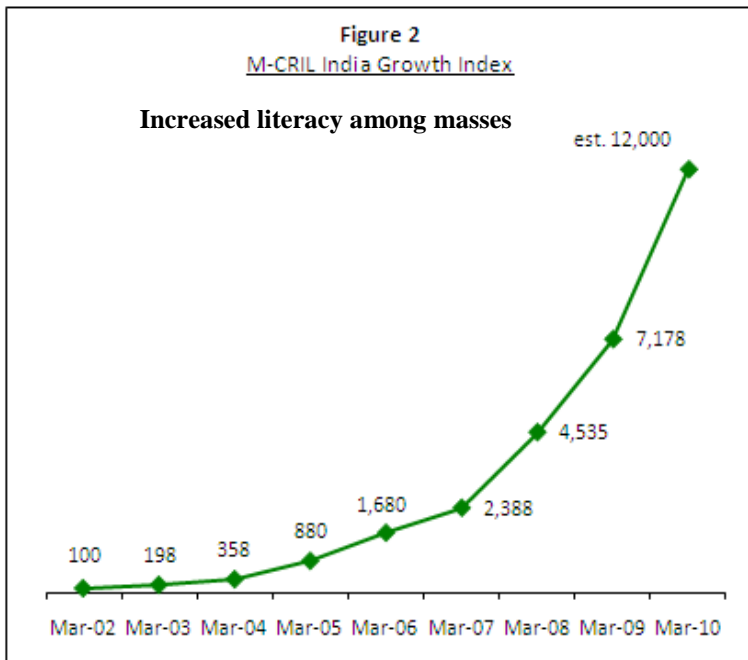
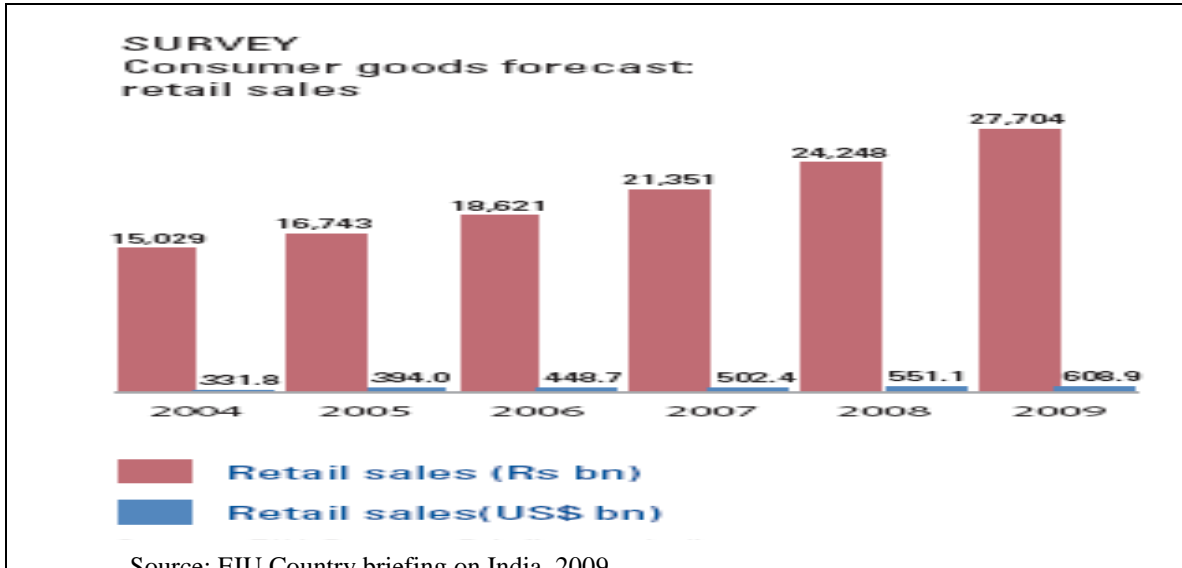
Source: Economic Survey, 2010
 # PM Economic Advisory Council's projections
 e: estimate



Source: CSO

3.2 Demographic scenario:

- 6 metropolitan cities contribute 6% of Indian population, 14 % of Indian GDP & 60 % of shopping malls.
- Urban population spends 2.5 times more than rural population.
- Greater per capita income.
- Increase in disposable income of middle class household.
- Increased literacy among masses.



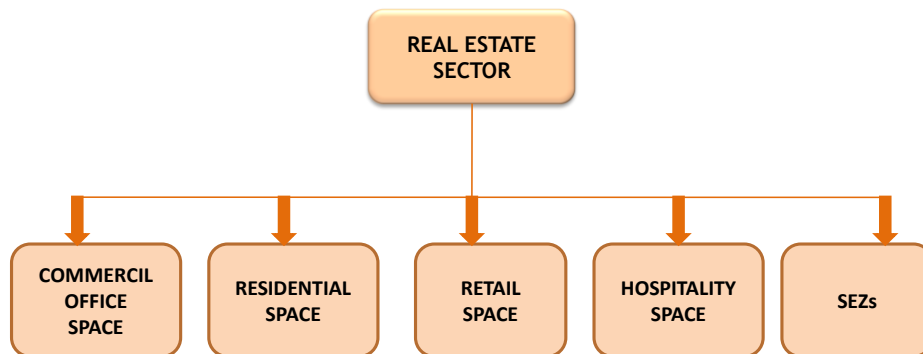
4. OVERVIEW OF THE REAL ESTATE MARKET

4.1 Market Scenario

- The real estate sector in the country is one of the greatest importance. The current contribution to the real estate to India's GDP is about 5%. It is one of the highest FDI attracting sectors in India, having recorded FDI inflows worth more than 2.8 billion between 2000-2009.
- India leads the pack of top real estate investment markets in Asia for 2010, according to a study by PricewaterhouseCoopers (PwC) and Urban Land Institute, a global non-profit education and research institute, released in December 2009.

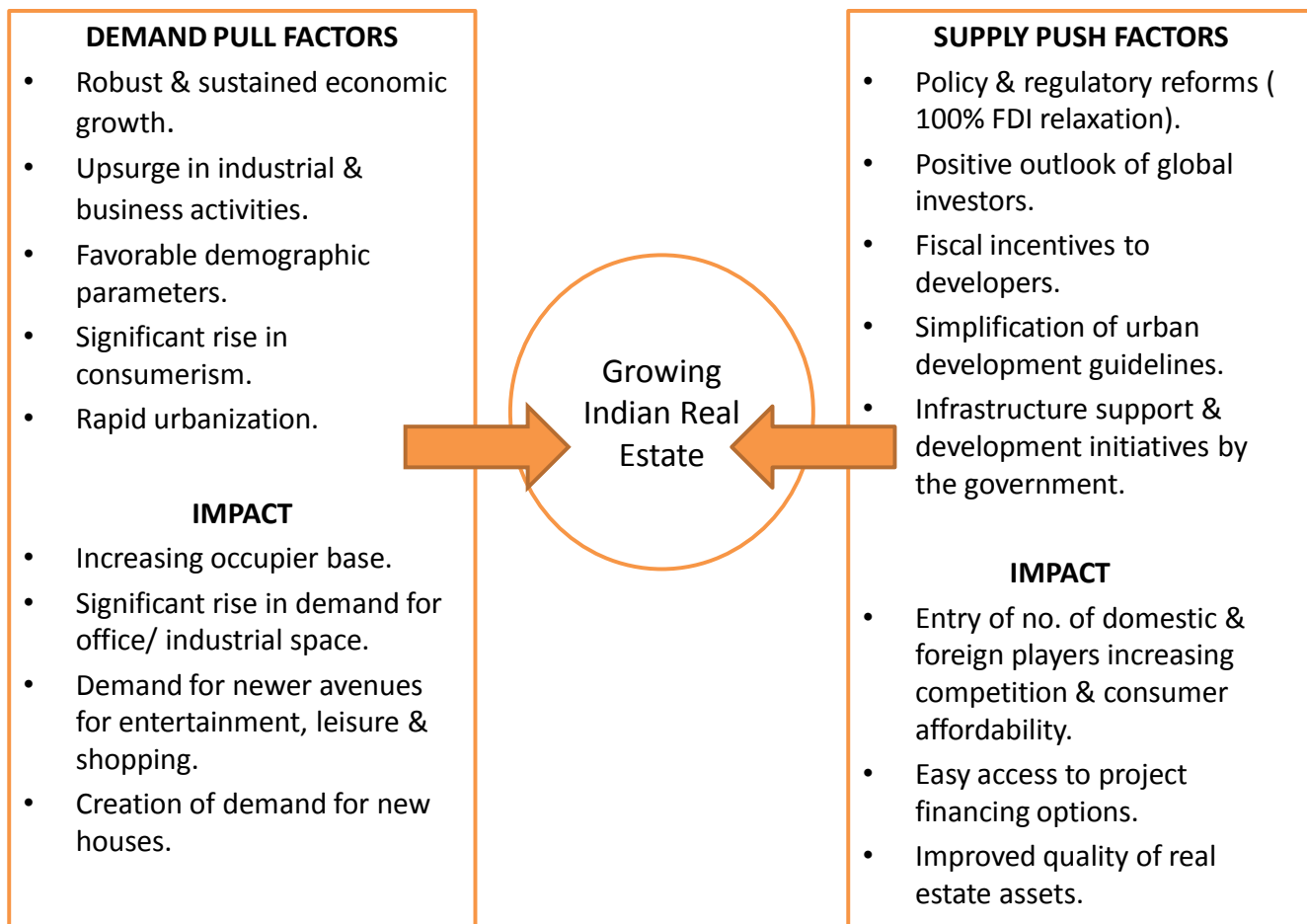
4.2 Market Segments

- In recent years the industry has evolved from highly fragmented & highly organized market into semi-organized market.
- The sector can be divided into commercial, residential, retail & hospitality assets classes.



4.3 Growth Drivers

- ✓ The robust growth in IT sector; with increase in the demand of office space, growing presence of foreign businesses in India, global strides of Indian corporate & rapidly increase consumer class.
- ✓ Introduction of REMFs (Real Estate Mutual Funds) and REITs (Real Estate Investment Trusts).
- ✓ Global economic recovery.
- ✓ The demand supply mismatch will remain over 50% beyond 2010, generating substantial business for Real Estate.



5. POLICY & REGULATORY FRAMEWORK

5.1 Government Initiatives

The government has introduced many progressive measures to unlock the potential of the sector and also to meet the increasing demand levels.

- ✓ 100 per cent FDI allowed in townships, housing, built-up infrastructure and construction development projects through the automatic route, subject to guidelines as prescribed by Department of Industrial Policy and Promotion (DIPP).
- ✓ 100 per cent FDI is allowed under the automatic route in development of Special Economic Zones (SEZ), subject to the provisions of Special Economic Zones Act 2005 and the SEZ Policy of the Department of Commerce.
- ✓ FDI is not allowed in Real Estate Business.

5.2 Union Budget 2010-11 & the Real Estate Sector

- Allocation for urban development was increased by more than 75 per cent from US\$ 660.3 million to US\$ 1.17 billion in 2010-11.
- Allocation for housing and urban poverty alleviation was raised from US\$ 183.4 million to US\$ 215.8 million in 2010-11.
- Scheme of 1 per cent interest subvention on housing loan up to US\$ 21,576 where the cost of the house does not exceed US\$ 43,153 announced in the last budget has been extended up to March 31, 2011 and US\$ 151 million has been earmarked for this scheme for 2010-11.
- US\$ 274 million has been allocated for Rajiv Awas Yojna, as compared to US\$ 32.4 million last year.
- Meanwhile, the Reserve Bank of India (RBI) has revised the norms for urban cooperative banks for giving loans to the housing and real estate (RE) segment. Now, urban banks can use up to 15 per cent of deposits to provide housing, real estate and CRE loans. Earlier, the RBI norm permitted them to use up to 15 per cent of deposits for giving advances to housing loans and other block capital loans.

5.3 FDI in Indian Real Estate

- ✓ FDI inflows recorded as US\$ 2.8 billion in 2008-2009 as per Department of Industrial Policy and Promotion (DIPP).

- ✓ Over the years, FDI in real estate has increased due to growing interest of foreign players in Indian market.
- ✓ Majority of FDIs are from West Asia & investors from US & Europe, who have shown keen interest in launch of several real estate funds.
- ✓ FDI in real estate is expected to witness an increase of US\$21 billion from the current values over the next 10 years.

GUIDELINES FOR FDI IN REAL ESTATE IN INDIA

Conditions for development

Minimum 10 hectares to be developed for serviced housing plots.

For construction-development projects, minimum built-up area of 50,000 sqmt prescribed.

In case of a combination project, any one of the above two conditions should be met.

At least 50 per cent of the project to be developed within five years from the date of statutory clearances.

Conditions for investment

Minimum capitalisation of US\$ 10 million for wholly-owned subsidiaries and US\$ 5 million for joint ventures with Indian partners.

Infusion of funds within six months of commencement of business.

Original investment cannot be repatriated before a period of three years from completion of minimum capitalisation.

Investor may be permitted to exit earlier with prior government approval.

Other conditions

Investor is not permitted to sell undeveloped plots.

Project to conform to norms and standards laid down by respective state authorities.

Investor responsible for obtaining all necessary approvals as prescribed under applicable rules/bye-laws/regulations of the state.

Designated authority to monitor compliance of above conditions by developer.

h of services sector and organised retail, increasing urbanisation, rising income levels, contracting household sizes and easy availability of home loans are key growth drivers of the industry.

- ✓ According to the Eleventh Five Year Plan (2007-2012), the housing shortage in urban areas was estimated to be 24.7 million units in 2007, of which over 88 per cent was in the economically weaker section (EWS). Further, the housing shortage in rural areas was estimated to be at 47.4 million units in 2007.
- ✓ In recent months, the residential real estate segment has witnessed a revival in demand, primarily due to improved affordability. Several players have launched new projects in the affordable housing sub-segment, which have received an encouraging response.
- ✓ Long-term view on the Indian real estate industry is positive as the fundamental demand drivers such as increasing urbanisation, favourable demographics, growth of services sector and rising incomes are still intact.
- ✓ Demand in coming years is expected to be driven primarily by the unmet need in the housing segment, stable economic reforms and large infrastructure investments from the government, besides the strong demographic profile of the Indian consumers.
- ✓ The Government of India plans to spend about US\$ 350 billion on infrastructure development under the Eleventh Plan, which is expected to drive demand in the real estate sector.
- ✓ Further, upcoming industrial clusters, improved infrastructure and growing availability of land for development in emerging tier II and tier III cities are also expected to fuel growth in the real estate sector.