



*Dewan P.N. Chopra Consultants Private Limited*

# **The Indian Real Estate Industry**

## **An Overview**



Prepared By:  
Dewan P.N Chopra Consultants Private Limited.  
H-57 Connaught Circus New Delhi-110001  
Ph: 24645891, 92,93  
E-mail: [dpnc@dpncindia.com](mailto:dpnc@dpncindia.com)



## **The Real Estate Industry**

- The real estate industry is one of the **fastest growing industries** in our economy, with a **Compound Annual Growth Rate** of approximately **30%**.(Ernst and Young)
  - A **US\$ 16 billion** industry at present, it is expected to touch **US\$ 60 billion** in the next five years. (Ernst and Young)
  - The **sustainability of growth** in the real estate industry has its roots in **strong demand fundamentals**:
    - a. Rapid expansion of the **IT/ ITES and business outsourcing** industry (including knowledge process outsourcing and clinical testing outsourcing);
    - b. Rising **demand in the residential sector**, encouraged by **rapidly increasing income levels**;
    - c. Acceptance of **shopping malls as “one stop destinations”** for consumers; and
    - d. Growing popularity of **Special Economics Zones** as preferred destinations for both manufacturing and service industries.
- Source: CMIE Industry Reports*
- There is an estimated requirement of **80 million housing units** over the next fifteen years and **200 million sq. ft. of office space** over the next five years.
  - With a view to catalyzing the investment required to plug the aforementioned supply deficits, the Government, has allowed **FDI up to 100% under the automatic route** in specified real estate development projects, including but not restricted to townships, built-up infrastructure and construction development projects. **The investment is permitted subject to compliance with the following guidelines specified in Press Note 2 (2005):**



- a. *Minimum area to be developed under each project would be as under:*
- i. *In case of development of serviced housing plots, a minimum land area of 10 hectares.*
  - ii. *In case of construction-development projects, a minimum built-up area of 50,000 sq.mts.*
  - iii. *In case of a combination project, anyone of the above two conditions would suffice.*
- b. *The investment would further be subject to the following conditions:*
- i. *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.*
  - ii. *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 FIPS.*
- c. *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 would not be permitted to sell undeveloped plots.*

*Source: Department of Industrial Policy & Promotion – Press Note 2 (2005)*

- In December 2007, SEBI, the domestic stock market regulator, issued draft regulations clearing the way for introduction of **Real Estate Investment Trusts (REITs) in India**. This move is also expected to favorably serve the booming property market, by serving as an **alternative source for meeting the capital needs of the sector**, particularly for builders who otherwise work with internal accruals and high-cost borrowings.



- **Initial Public Offerings** have become another popular theme as a means of raising requisite capital in the real estate industry. This has resulted in the **creation of a robust marketplace** where retail investors can participate in the growth story while also **offering ability for promoters and investors to project forward into yet another exit strategy.**
- As a result of the aforementioned stimuli, this industry has been receiving **increasing focus from the private equity sector**, with PE investments in this industry as a percentage of total PE investments soaring from **14%** in 2005-06 to over **32%** in 2006-07. *(KPMG)*
- It is estimated that more than **US\$ 5 billion in foreign funds** was invested in projects sponsored by rapidly growing developers in 2007.
- The significant development potential of the real estate industry, coupled with favorable FDI regulations and increasing focus from the private equity sector, has created **substantial investment opportunities** for real estate companies. **As at December 2007, total outstanding investment in 1,885 real estate development projects was US\$ 195 billion.** *(CMIE Industry Reports)*
- As this rapidly growing industry matures into a stable and sustainable economic sector, **three key trends, which are likely to shape its future**, are emerging:
  - a. Increased **focus on execution risks**;
  - b. Increased **investments in mixed-use development projects** with a view to extracting maximum synergic benefits; and
  - c. **Syndication** among real estate developers on execution of “big-ticket” development projects, i.e. shift from competition to partnership.



**DISCLAIMER:**

This document has been prepared by Dewan P.N. Chopra Consultants Private Limited from sources believed to be reliable. While the information is believed to be accurate to the best of our knowledge, we do not make any representations or warranties, express or implied, as to the accuracy or completeness of such information. Readers should conduct and rely upon their own examination, investigation and analysis and are advised to seek their own professional advice on legal, financial and taxation issues. The information and data contained herein is not a substitute for the reader's independent evaluation and analysis.