

Real Estate: An Empirical Study of Recent Developments

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Abstract

The Indian Real Estate Sector is one of the most recognised sectors. In the country, it is the second last employer after agriculture. The Indian Real Estate sector has grown four folds in the last decade by becoming one of the fastest growing sectors in the world. It has also gained increased attention of not only the domestic players but also the foreign investors. It has contributed substantially to the increased and ever increasing population base, rising incomes and thus increasing standards of living and rapid urbanisation. The paper aims to study the recent developments in this sector in respect to FDI inflows, government initiatives and major corporate initiatives.

Keywords: Real Estate, India, FDI, M&A

Introduction:

Indian Real Estate Sector- An Overview:

The Indian Real Estate sector has grown four folds in the last decade by becoming one of the fastest growing sectors in the world. It has also gained increased attention of not only the domestic players but also the foreign investors. It has contributed substantially to the increased and ever increasing population base, rising incomes and thus increasing standards of living and rapid urbanisation.

The sector has transformed from being an unorganised one to a dynamic and organised sector in the past decade. After recognising the need of infrastructural development in lieu of raised standard of living, Government has realised the importance and has played a pivotal role in providing financial assistance and support to the sector. In addition to this, infrastructure forms a prerequisite for sustaining the long term momentum of the economy.

The Indian Real Estate Sector is one of the most recognised sectors. In the country, it is the second last employer after agriculture and is slated to grow at 30% over the coming decade. A recent study has shown 35% increase in the NRI investment interests in the Indian Real Estate Property market.

The Indian Real Estate comprises of four sub sectors- a) Housing; b) Reality; c) Hospitality and; d) Commercial. The growth of this sector is well catalysed by increased demands of urban and semi-urban accommodations along with the growth of corporate environment and demand for office spaces. In terms of direct, indirect and induced effects, the construction sector ranks 14th amongst all sectors of the economy. Bengaluru has featured as the most preferred investment destination for NRI investors followed by Ahmedabad, Pune, Chennai, Goa, Delhi and Dehradun. Due to attractive valuations, Private Equity has also picked up momentum. Further, the Government of India has also created a conducive environment by introducing new policies to help garner the real estate sector, in particular.

Objective:

The paper aims to provide a panoramic view of the present scenario of the Indian real estate sector in respect of Government policies. In this broad framework, an attempt has been made to achieve the following objectives, specifically

- To highlight the major developments in the Indian Real Estate Sector
- To study FDI initiatives in the Indian Real Estate Sector
- To study the investment opportunities, challenges and way forward

Real Estate Market**Indian Real Estate Sector- Sub Sectors:**

The real estate sector is recognised as the infrastructure service that is driving the economic growth of the country, It is Broadly classified under five heads

Residential Space: It's a fragmented market with a few players. It had a demand of over 300,000 units in seven major cities in 2010

Commercial Space: Few players with presence across India. It had a demand of over 38.2 million square feet in seven major cities in 2011

Retail Space: Government of India has opened gates for FDI in multi brand to boost retail demand. It has an estimated demand of over 15 million square feet in major cities.



Fig. 1. Sub Sectors of Real Estate Sector

Hospitality Space: It's a competitive space with many players in the market. A study has revealed over 121,000 rooms in the country as of 2011.

SEZs: So far, 589 SEZs have been approved by the Government in the country. Majority of SEZs are in IT/ITeS sector.

Market Size:

The Indian Real Estate Sector is expected to touch US\$180 billion by 2020. Alongside, the Foreign Direct Investment is expected to rise to US\$ 20 million (approx.) from the current US\$ 4 million, in the next ten years. Mumbai is considered as a best investment avenue for commercial real estate investments with returns ranging from 12-19 per cent in the coming 5 years, followed by Bengaluru and Delhi NCR.

According to Department of Industrial Policy and Promotion, the Indian Real Estate Sector has attracted Foreign Direct Investments equity inflows in tune of US\$ 23874.1 million in the period of April 2000- September 2014. The housing sector alone contributes 5-6% to the nation's Gross Domestic Product. In the period FY 2008-2020, the market size of this sector is expected to rise at a CAGR of 11.2%. Linear extrapolation data suggests that FDI inflows will reach US\$ 1055 million for the year as compared to US\$1226 million in the previous fiscal year.¹ As per DIPP, the real estate sector witnessed FDI inflows worth US\$ 703 million in the year 2014-15 till November.² The following report shows that for the period April 2000 to November 2014, the sector has attracted US\$ 24,009 million in FDI (10% of the total FDI inflow), and stands second only to the service sector.³ The following table shows the FDI Inflows from April 2012 to November 2014.

Sectors Attracting Highest FDI Equity Inflows:

Amount in Rs. crores (US\$ in millions)

Ranks	Sector	2012-13 (April- March)	2013-14 (April- March)	2014-15 (April-Nov. 2014)	Cumulative Inflows (April '00 - Nov '14)	% age to total Inflows (In terms of US\$)
1.	Services Sector **	26,306 (4,833)	13,294 (2,225)	11,189 (1,847)	196,759 (41,307)	18 %
2.	Construction Development: Townships, Housing, Built-Up Infrastructure	7,248 (1,332)	7,508 (1,226)	4,240 (703)	112,797 (24,009)	10 %
3.	Telecommunications (Radio Paging, Cellular Mobile, Basic Telephone Services)	1,654 (304)	7,987 (1,307)	14,726 (2,472)	81,446 (16,635)	7 %
4.	Computer Software & Hardware	2,656 (486)	6,896 (1,126)	5,241 (862)	64,911 (13,679)	6 %
5.	Drugs & Pharmaceuticals	6,011 (1,123)	7,191 (1,279)	6,903 (1,154)	62,974 (12,751)	5 %

Table 1: - Source Department of Industrial Policy And Promotion

Planned/ Proposed Investments in Indian Real Estate:

In 2014, the total deals in the sector aggregated to US\$ 1559 million, which was a significant increase of 64% from US\$ 954 million in year 2013. The increase in the number of investors has resulted in increased size of investments too. Some of the planned/proposed investments in India are:-

Brookfield, a Canadian Management firm is looking for setting up a US\$ 500 million REIT and list it in India⁴.

Taurus Investment Holdings LLC, a Boston based firm, is planning to invest US\$ 200 million in southern state of Kerala in the coming three years to develop offices, shops and hotels on about 20 acres of land⁵.

Top Merger and Acquisition Deals in Real Estate Sector in 2014

S.No.	M&A Details	Description	Fund Involved	%
1.	Embassy Office Parks	JV Between Embassy Group and Black Stone	US\$330 million	60%
2.	India Bulls Real Estate	87,444 sq ft property in London Mayfair	US\$ 264 million	100%
3.	M3M India Ltd.	Land- Sahara Group	US\$ 202 Million	100%
4.	Oberoi Realty Limited	25 Acre From Tata Steel	US\$ 186 million	100%
5.	Lodha Developers	Clariant Chemicals	US\$ 186 Million	100%

Table 2:- Source: - Grant Thornton Deal Tracker

Top Merger and Acquisition Deals in Infrastructure Sector in 2014

S.No.	M&A Details	Description	Fund Involved	%
1.	New Generation Holdings INC	Valecha Engineering	US\$52 million	100%
2.	Tata Realty and Infrastructure	Agra Jaipur Expressway	US\$ 42 million	100%
3.	HAL Offshore Ltd.	Technip	US\$ 202 Million	-75%
4.	Alstom Transport India Ltd	Transportation System Unit	US\$ 29 million	NA
5.	Container Corporation Of India	Angul- Sukinda Railway Line (ASRL)	US\$ 25 Million	26%

Table 3 :- Source:- Grant Thornton Deal Tracker

Top Deals in E-Commerce in 2014

S.No.	Description	Fund Involved	%
1.	SoftBank-Housing.com ⁶	US\$ 70 million	30%
2.	Google Capital- CommonFloor ⁷	US\$ 48 million	NA
3.	New Enterprise Associates, Foundation Capital and Others- IndiaHomes ⁸	US\$ 50 Million	NA
4.	Tiger Global and Accel Partners- CommonFloor ⁹	US\$ 40 million	NA
5.	Tata Capital-- Shriram Properties Private Limited- IndiaHomes ¹⁰	US\$ 25 Million	NA

Table 4 :- Top Deals in Real Estate E Commerce

Pricing Trends:

The construction sector in India showed an unmatched growth in FY 2002-2008 due to upsurge in GDP and thus increased Per Capita Income. The construction sector grew at a rate of 8.75% YoY over FY 2002-2010 against an average of 3.41% over FY 1993-2001. Due to this =, the sector emerged as the largest employment creator in the country and the employment grew at the rate of 59%¹¹.

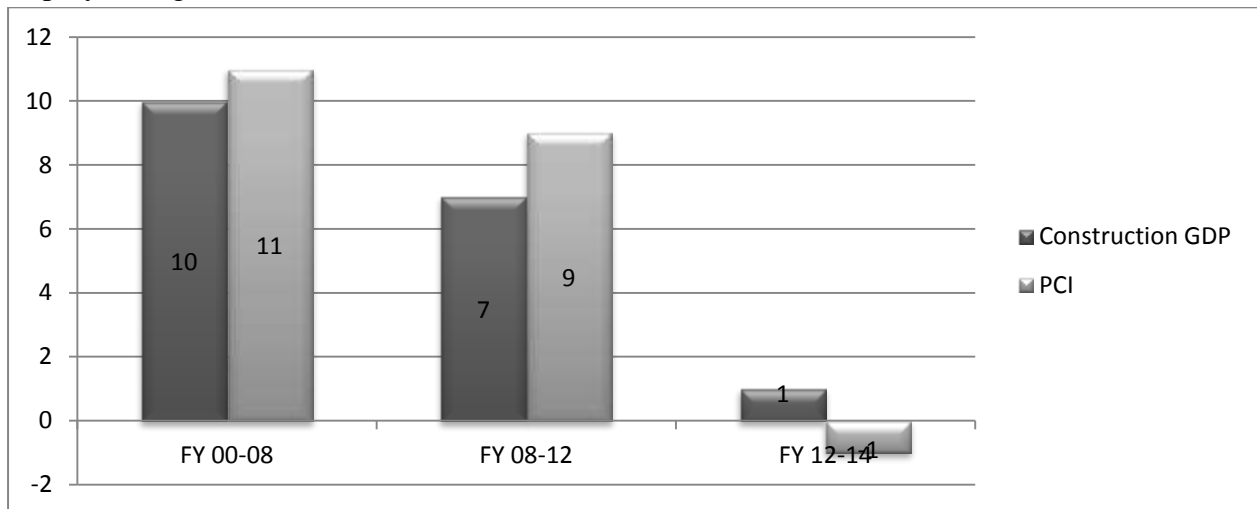


Chart 1: - Construction GDP vs PCI, YoY Changes (in %); Source CEIC

According to National Housing Board, in the quarter ending June 2014, Pune and Coimbatore registered highest growth of 3.9% and 3.9% respectively, showing the highest increase in 26 cities covered under NHB Residex. Bhubaneswar, on the other hand, registered lowest growth of 0.5%. The Percentage change in three major cities is shown as under:-

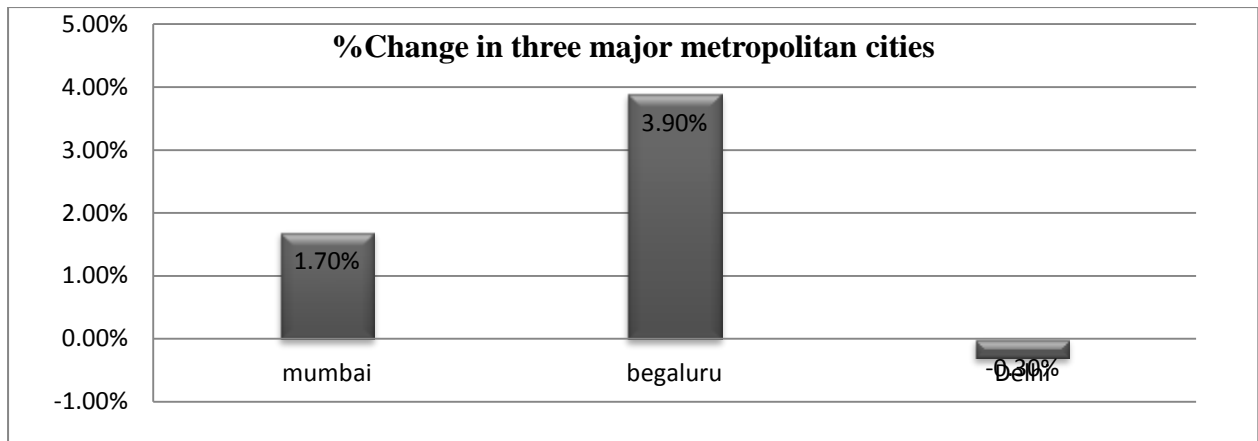


Chart 2 :- % Change in three major metropolitan cities; Source CEIC

Challenges:

In midst of raving growth of Indian Real Estate Sector, the segment is facing few roadblocks, which if worked upn can lead to a healthier market environment and efficiency.

Land prices have stagnated/ reduced:- The land prices have reduced/ stagnated in last 18 months due to dried up primary real estate markets, debted land purchase deals, increased interest burden and thus low demand

Lending has been squeezed by the banks and is decreasing on yearly basis

Studies have shown that real estate sector is mainly funded with black money, and thus no official records are available.

Conclusion and Way Forward:

With the series of announcement made by the Government of India, the sector is definite to see some positivity in the time to come. The efforts to make it more organised and dynamic is paying off in the form of REITs. Also the reforms made in the FDI policies have eased the movement of international investors in the market thus pushing the investor community to take a serious look in this booming sector.

Having analysed this, a suggestion comes to develop a “single window clearance” for this sector that eases the path of doing the business in this sector, which is a long way to go. The mutual consent on Land Acquisition Bill, by the ruling government and the opposition will also clear out the ambiguity prevailing amongst investors.

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