Real Estate

MARKET & OPPORTUNITIES

FASTEST GROWING FREE MARKET DEMOCRACY

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Real Estate

MARKET & OPPORTUNITIES

CONTENTS

A report by Ernst & Young for IBEF

Overview

The Indian economy has transformed substantively over the last two decades, growing consistently at an average of 8 per cent and is poised to take its place among the leading economies in the years to come. Strong performance of the economy can be particularly attributed to healthy growth in manufacturing and services sectors.

The economic performance of India has provided strong impetus to the real estate sector, which has been witnessing heightened activity in the recent years. Substantial end-user and investor interest, large scale investment in infrastructure and rapid urbanisation have contributed to the growth trajectory of Indian real estate. The real estate growth story is clearly visible in urban centres such as Delhi, Mumbai and Bengaluru which have acquired global character and recognition.

INDIAN REAL ESTATE: RIDING THE GROWTH WAVE

The strong fundamentals of the Indian economy are having a favourable 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.

High growth in services as well as manufacturing sector has resulted in high demand for commercial and industrial real estate.

Further the economic growth has trickled down to the large Indian middle class increasing affordability and affluence. Improving living standards are driving the demand for better quality housing and urban infrastructure. In fact, housing in India is today moving from being viewed as a purely basic need to an aspirational purchase.

Though high interest rates coupled with soaring property prices have temporarily impacted affordability of home buyers the demand-supply mismatch and low home loans to GDP ratio in India (a meager 5 per cent as against more than 50 per cent in US, UK and Germany) are expected to fuel demand for housing in the medium long run.

The growth of the sector has been complemented by favourable policy changes like liberalisation of Foreign Direct Investment (FDI) guidelines and significant increase in investment on physical infrastructure.

Booming Indian Real Estate			
Demand Pull Factors	**Resultant Impact**	**Supply Push Factors**	**Resultant Impact**
• Robust and sustained macro economic growth • Upsurge in Industrial & business activities, esp. new economic sectors • Favorable demographiec parameters • Significant rise in consumerism • Rapid urbanisation • Gamut of financing options at affordable interest rates	• Increasing occupier base • Significant rise in demand for office/industrial space • Demand for newer avenues for entertainment, leisure & Shopping • Creation of demand for new housing	• Policy & Regulatory reforms (100 per cent FDI Relaxation) • Positive outlook of global investors • Fiscal incentives to developers • Simplification of urban development guidelines • Infrastructure support & development by government	• Entry of number of domestic & foreign players increasing competition & consumer affordability • Easy access to mean of project financing • Increases developers risk appetite & allows large scale development • Improved quality of real estate assets • Development of new urban areas & effective utilisation of prime land parcels in large cities

Economic Survey 2006-07 : Key Highlights			
Factors Driving Growth	**Growing Tourism**	**Credit to Real Estate**	**Real Estate Housing Index**
• Favourable demographics expected to benefit India till 2045 • High growth with demographic 'dividend' will increase savings, improving investment • Mature and progressive domestic market • Growth in services such as IT/ITes, tourism and hospitality etc.	• Foreign tourist arrivals in India grew at a CAGR of 17.6 per cent between 2003-04 and 2005-06 • Foreign exchange earnings from tourism during the same period has growth at a CAGR of 22.1 per cent • India accounts for more than half of the international tourist arrival in the region	• RBI raised risk weight on exposures to CRE from 125 per cent to 150 per cent • Credit to housing loans expanded by US$ 12.4 billion (38.0 per cent) in 2005-06 • Loans to other real estate during 2005-06 increased to US$ 3.12 billion at a growth rate 94.7 per cent • Share of real estate in financial institutions lending to sensitive sectors increased from 88.9 per cent to 90.8 per cent 2005-06	• National Housing Board (NHB) set up a Technical Advisory Group (TAG) to evaluate the feasibility of a real estate price index • Work on property price indices in 5 cities and methodology to be adopted for compilation and regular dissemination of the index is underway

The recent times have also witnessed an evolution of the sector - towards greater institutionalisation and corporatisation. With the entry of global players, inflow of foreign capital, evolution of capital markets, geographical diversification and introduction of reforms, the sector has undergone some significant structural changes. Even critical concern areas like transparency in the sector is also improving significantly. The trend is expected to continue in the coming years.

MARKET SIZE AND GROWTH

Estimate provided by ASSOCHAM, a leading industry body, suggest that the size of the Indian real estate sector is around US$ 16 billion, growing at the rate of 30 per cent per annum. According to a recent estimate by UBS the total size of the Indian real estate market in terms of total economic value of development activity, is US$ 40-45 billion representing 5 - 6 per cent of GDP.

KEY TRENDS

This section discusses some of the notable trends observed in Indian real estate in the year 2006-07.

Rush to raise capital

Last two years have been eventful years for the Indian real estate sector on the capital markets, with the IPO market witnessing the shifting focus towards the realty sector. In a bid to raise their capital base and fund ambitious project pipeline, real estate companies approached both the domestic and international stock markets. Close to 20 real estate and construction companies opted for stock exchange listing since August 2006 to August 2007. Cumulatively, these companies were able to raise around US$ 4356.3 million from the public for various projects.

Several prominent real estate players such as DLF, Parsavnath, Purvankara, Sobha, Kolte Patil and Omaxe came up with their public issues during the last 18 months.

Another trend that seems to find favour with Indian realty developers is listing on the offshore exchanges like AIM, Singapore listed REIT, Singapore Stock Exchange and Dubai International Financial Exchange. India's largest real estate developer DLF's group company DLF Assets has filed for REIT IPO in Singapore stock exchange.

Prominent AIM Listings from India (Realty companies)	
Name of the Entity	Funds Raised
Hiranandani's Hirco	US$ 761 million
Ishaan Real Estate	US$ 341 million
Trinity Capital	US$ 500 million
Unitech	US$ 716 million
Dev Property Development Plc	US$ 412 million
Naya Bharat Property Company	US$ 119 million
West Pioneer	US$ 80 million
Eredene Capital Plc	US$ 114 million

STRATEGIC ALLIANCES

Strategic alliance for synergetic benefits and capacity augmentation, a trend that started in the year 2005-06 continued throughout the year 2006-07. The year saw several regional, national and international players partnering for the objective of fulfilling the funding requirement, mitigating risk in projects with high gestation periods, obtaining technical expertise, brand equity etc. Several tie-ups to enhance execution capability were also forged in the form of Joint Ventures with the large national and international contracting companies. Some prominent such tie-ups included Emmar-MGF 50:50 joint venture with a leading Australian contractor Leighton Holdings Ltd. and DLF's joint venture with Laing 0' Rourke of UK.

GLOBAL REALTORS IN INDIA

Indian real estate sector continued to remain on the radar of several global realtors. International developers originating primarily from Middle East, South East Asia, and Europe have been hunting for business opportunities in India and several strategic tie-ups were announced in the year 2006-07. Prominent Middle East based developers such as Nakeel Group (Dubai); Signature Group (Dubai) announced their plans or projects in India. Technology and Media Free Zone Authority (TECOM) of Dubai has also entered into a MoU with the State Government of Kerala to develop the "Smart City" project near Kochi city in Southern India.

Foreign Developers in Indian Real Estate Market		
Investor	**Country**	**Project Location(s)**
Kontur Bintang / Westport	Malaysia	Gurgaon
Keppel Land	Singapore	Bengaluru
Singapore Housing Board	Singapore	Hyderabad , Chennai
Salim Group	Indonesia	Kolkata
Lee Kim Tah Holdings	Singapore	Chennai, Mumbai
IJM Berhad	Malaysia	Hyderabad, Mohali
Universal Success Enterprise	Indonesia	Kolkata
Emaar Group	Dubai	Hyderabad

DIVERSIFICATION OF INDIAN CONGLOMERATES

Several Indian corporates have evinced interest to garner a share of Indian real estate pie in the recent past. Like in the year 2005-06, last year also witnessed diversification of Indian conglomerates to include real estate sector into their respective portfolios. The table below captures the foray of some leading Indian conglomerates into Indian real estate.

Indian Corporates Foray into Real Estate	
Firm	**Current Activity**
THDC Ltd. (Tata Group Company)	The Company has entered retail and commercial real estate development with projects such as the Imperial mall (Bengaluru) and Eruchshaw Building and the Technopolis Knowledge park in Mumbai. Further the THDC is now involved in the development of residential townships largely in the Tier II and III cities including Pune, Cochin and Goa
Godrej Properties	Godrej Properties has emerged as one of the leading commercial developers in Pune, Mumbai and Kolkata. The group also undertakes residential construction and has developed over 5 large residential complexes. The company has also entered the retail space with its flagship Kolkata Mall in association with KPG group. The company has proposed two IT parks in Kolkata.
TCG Urban Infrastructure Holdings Limited (The Chatterjee Group Company)	The Group has thus far developed more than a million square feet, largely comprising commercial property, across five cities, Bengaluru, Delhi, Calcutta, Chennai, Pune. The Company reportedly has plans to develop 4-5 million square feet across asset classes over the next 2-3 years. The group proposes to invest in a proposed 330-acre IT hub at Jagdishpur near Kolkata.
Adani Group	The group has recently closed US$ 365.9 million deal in Mumbai's Bandra-Kurla Complex, where it plans to build a hotel, service apartments, a shopping complex and residential complexes. The company has also acquired 2.5 million square yards of land at Dantali (Gujarat) for setting up an integrated township. The company also plans to set up several townships in Gujarat.
Sahara India Group	Sahara City Homes, one of the group companies of Sahara Group is developing a chain of well-planned self-sufficient high quality townships across 217 cities across India. Each township has been planned on 100 to 300 acres of land parcels. Further, the group has also entered into retail segment with large retail malls in cities such as Gurgaon, Lucknow etc. The Group has also developed one of India's finest townships called "Aamby Valley" spread over sprawling 10,000 acres near Mumbai.
Reliance Industries Limited	Reliance Industries has recently inked a Memorandum of Understanding with Government of Haryana to develop a US$ 24.4 billion SEZ between Gurgaon and Jhajjar. The proposed SEZ is proposed to have its own airport, rail line, power plants and a metro line to Manesar.

MOVING UP THE VALUE CHAIN

As the Indian real estate continues to chart its high growth trajectory and continues to grow and evolve the trend of increasing backward and forward integration by real estate developers continues to remain an important trend in the sector. Several domestic players initiated action to increase their presence across the real estate value chain. Several leading construction and infrastructure giants are emerging as integrated real estate developers. Infrastructure and construction giants such as L&T, IVRCL, IDEB Inc, Lanco, Maytas, Madhucon, GMR, Nagarjuna Constructions amongst others gearing up to play a definitive role in the Indian realty space

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Opportunity Spectrum

The phenomenal growth witnessed in Indian real estate has widened the opportunity spectrum of the sector even beyond the established asset classes viz. commercial, retail, residential, industrial and hospitality. This section maps the opportunity in both the asset classes and the emerging asset classes.

COMMERCIAL REAL ESTATE

The boom in the Commercial Real Estate (CRE) segment is being fuelled by a robust demand from MNCs and corporate India alike, particularly from IT/ITeS, BFSI, Telecom and Pharma companies.

In the year 2006 supply of commercial grade A office space, remained concentrated in the top seven cities. According to E&Y estimates total supply of commercial office space (grade A, non captive) in the National Capital Region (NCR), Mumbai, Hyderabad, Bengaluru, Pune and Chennai together was recorded in the range of 40-45 million sq. ft. The absorption was primarily driven by the IT/ITES industry accounting for almost 70-75 per cent of the total absorption. The supply format was primarily in the form of IT Parks, integrated campuses and a few SEZ development.

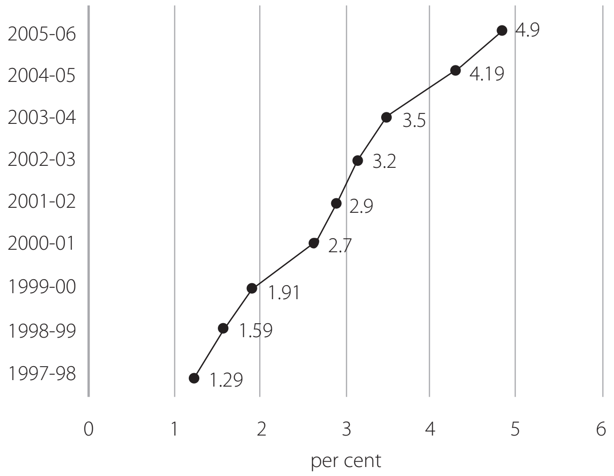
Commercial Office Space Absorption Total ~ 45 million sq. ft (2006)	
Banglore	26%
NCR	23%
Mumbai	14%
Chennai	11%
Pune	10%
Kolkata	8%
Hyderabad	8%

KEY GROWTH DRIVERS

Growth in IT/ITES Sector

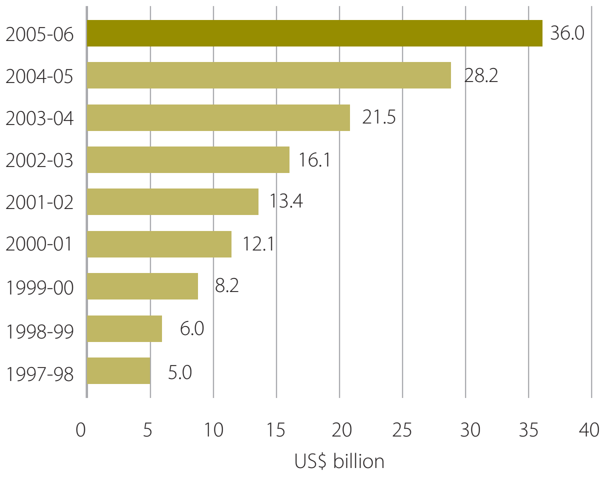
The primary growth driver of commercial real estate is the IT/ITES sector, which, is growing at 25-30 per cent annually. Further according to NASSCOM estimates, India's IT/ITES industry is expected to grow to US$ 148 billion by 2012. As per E&Y estimates this translates into in excess of 250 million sq. ft of commercial office space requirement by 2012 -13.

Growth of IT/ITes Industry (Share in India's GDP)



Source: NASSCOM, E&Y Research

Growth of IT/ITes Industry



Source: NASSCOM, E&Y Research

Growth in knowledge and technology intensive sectors

Several other sectors such as financial services, biotechnology, telecom, pharma, insurance, and consulting businesses are witnessing strong growth and have added to the rising demand.

Significant growth in FDI

Progressive liberalisation and easing of FDI norms in various sectors have paved the way for growth in FDI. This has further led to burgeoning demand for office space from multinational companies and other foreign investors.

OUTLOOK

Over next five years, the commercial real estate market is expected to grow at a CAGR of 20-22 per cent and would continue to derive its growth from the thriving offshoring industry. Over the medium term, the further opening up of the economy is expected to lead to a broader occupier base. The supply of commercial office space will remain concentrated in the suburban areas and in the form of IT Parks and integrated campuses. Large supply of commercial space is also expected from SEZs over the next few years.

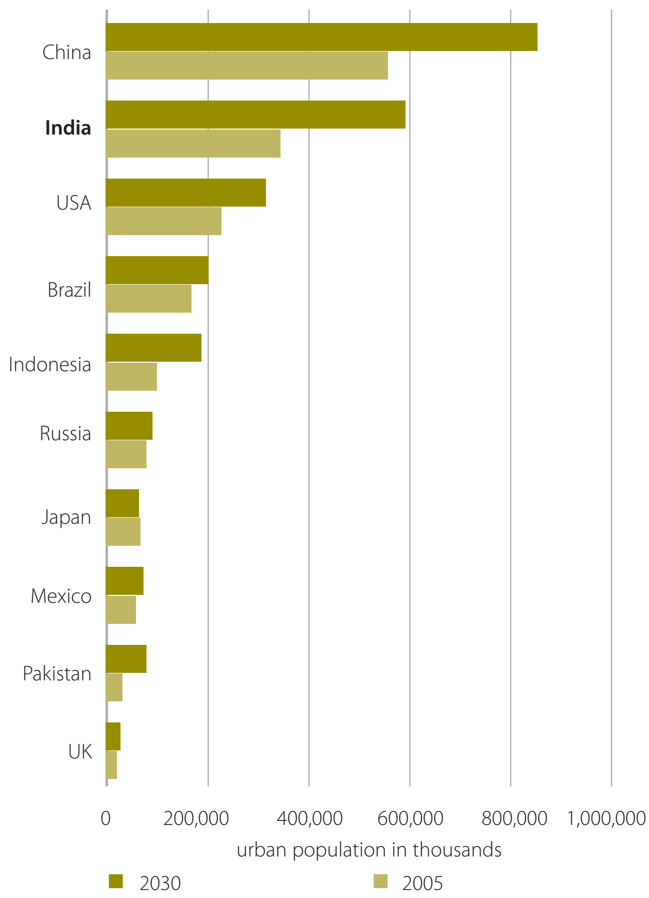
RESIDENTIAL REAL ESTATE

Driven by increasing urbanisation, rising incomes and decreasing household sizes, the residential segment in India has been on an upswing over the past few years. In terms of value, the residential property market constitutes almost 75 per cent of the real estate market in India. The Working Committee of the 11th Plan (2007-12) has concluded that the total shortage of dwelling units at the beginning of Eleventh Plan Period i.e. 2007 was 24.7 million. E&Y estimates that more than 70 per cent of the shortage of dwelling units is for middle and low income brackets. Several policy interventions and initiatives are expected to correct this demand-supply gap.

KEY GROWTH DRIVERS

Rising urbanisation

Urban Population of Top Ten Countries of the World



Source: United Nations, Department of Economic & Social Affairs, Population Division(2006). World Urbanisation prospects: The 2005 Revision New York United Nations.

According to the United Nations Population Fund (UNFPA), India is getting urbanised at a faster rate than the rest of the world and by 2030 more than 40.7 per cent of the country's population would be living in urban areas. Presently, more than 28.7 per cent of India's area is urban as against the global average of 48.7 per cent. However, the growth rate of urban areas was 2.3 per cent in 2005, as against the world average of 2 per cent. The urban population of India was estimated to stand at 316 million in 2005 and is the second largest in the world after China. It is estimated to reach 590 million by the year 2030 retaining its second position.

India's cities have been the driving force in shaping India's socio-economic profile. Urban areas which constitute only 28.7 per cent of the population, have been a major contributor to the GDP with a major share of industry and almost the entire services sector concentrated in the urban agglomerations.

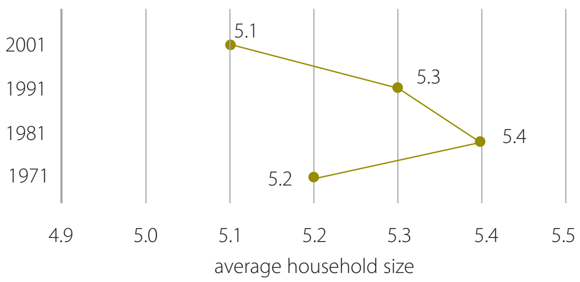
During the last sixty years, post independence the population of India has grown two and a half times, whereas urban India has grown by nearly five times. According to Census of India 2001 estimates, 30 per cent of the total population of India would be living in urban areas by 2011. The number of cities with one million plus population is further expected to double from 35 in 2001 to 70 by 2025.

India's 'Mega-Cities' of Mumbai and Delhi would be the world's 2nd and 3rd largest cities by 2015. With a rapid influx of migrants in these cities there is a corresponding increase in the demand for space. Rapid urbanisation is fostering real estate growth in India.

Increasing number of households

The growing popularity of nuclear families in India has decreased the average household (HH) size in the country, leading to an increase in the number of households in the country. The average HH size in India has declined from 5.4 persons per HH in 1981 to 5.1 persons per HH in 2001. In

Decreasing Household Size



Source: Deutsche E&Y Research

2001, there were roughly 192 million HH in India, about 40 million more than those in 1991.

Growing number of first-time home buyers

India has a much younger population compared to most other economies. Currently the population in the working age group (16-65 years) is about 700 million representing about 64 per cent of the total population.

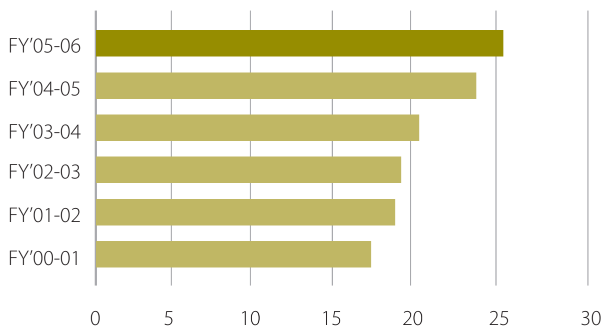
India is expected to emerge as the highest contributor to the global work force by 2010. Given that a majority of the population would still be young the per capita income generation capability of India would continue to remain robust. With the average age of home buyers declining fast the young working population would further push demand for housing units higher.

First-time home buyer numbers have multiplied over the years and the median age of home buyers has reduced from 38 years in the early 1990s to about 28 years today.

Increasing income levels

The per capita disposable income has grown manifold in the past one decade. The current annual per capita disposable income stands at around US$ 693 and is further expected to grow by 8-13 per cent in the next five years. Robust economic growth, particularly in the services sector

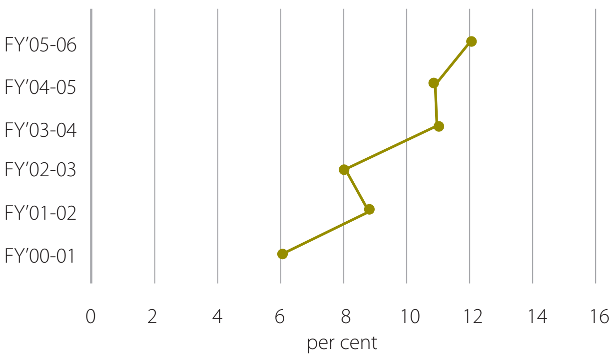
Rising Disposable Income (Per Capita Net Disposable Income)



Source: MOSPI

has led to an increase in income levels in the country. Several studies have indicated that salaries in India have been increasing by an average of 10-15 per cent on a year-on-year basis. This has increased the affordability of homes in spite of higher property prices and has further created more discerning buyers.

Rising Disposable Income (Growth Rate)



Source: MOSPI

Increasing affordability of homes

Besides rising incomes other factors that have increased home affordability are: easier access to mortgage finance, longer loan tenures, higher loan-to-value ratios and tax incentives. Though home loan rates have increased by almost 200 basis points in the past two years they are still 45 per cent cheaper than what they were in March 2001. Tax savings on interest payments (US$ 3488) and principal repayments (US$ 2325) per annum on mortgage loans have also made home purchases more attractive.

Affordability of housing

As per estimates from the National Council of Applied Economic Research (NCAER) the proportion of HH in the top five income brackets (>US$ 11,651 per annum) has increased from 0.6 per cent in 1996 to 2.4 per cent in 2006 and is likely to increase further to 4.5 per cent by 2010. Also, the number of HH in the top four income brackets (>US$ 23000 per annum) is expected to grow at a CAGR of over 20 per cent till 2010. Thus, housing is expected to become increasingly affordable especially in the mid-market and premium segments.

Penetration of mortgage finance

Over the past five years loan disbursals by housing finance companies have grown by 30-40 per cent annually. However, despite such growth, mortgage loans are presently only 4-5 per cent of GDP, primarily due to the low penetration of mortgage financing. Banks and housing finance companies have planned to increase penetration aggressively.

Most of the growth is expected to take place in the midmarket and premium/luxury sub-segments. With the Government promoting low-cost housing, developers may also start investing in the budget sub-segment. Overall as housing supply catches up with demand in the next few years the residential prices are expected to stabilise.

OUTLOOK

Government of India habitat policy envisages that by the year 2012 the housing shortage should be removed and everybody should have a house of his own. Fructification of such a policy will translate into large scale development in this segment. Due to availability of land and proximity to upcoming knowledge industries, peripheral regions of major metropolitan cities (Bengaluru-Whitefield, Delhi – Greater NOIDA and Gurgaon, Kolkata- Rajarhaat, Chennai-along OMR) are expected to attract maximum development. Though national developers are expanding their geographical base, regional developers are expected to dominate supply in short term, especially in mid-segment category. Several satellite cities on the lines of Navi Mumbai for Mumbai, NOIDA and Gurgaon for Delhi are expected to emerge to offer housing to burgeoning population and demand for affordable housing.

Estimated Housing Shortage in Million Units (2007)

Source: Report of the 11th Five Year Plan (2007 - 12) Working Group on Urban Housing with focus on Slums, (GOI, Ministry of Housing and Urban Poverty Alleviation)

Emergence of SEZs has also given the Indian residential segment a considerable push, with the Indian SEZ Act allowing for 65 per cent non-processing development that includes housing and other support infrastructure.

RETAIL REAL ESTATE

The Indian retail industry is witnessing a structural change with individual small format stores making way for large format shopping malls and hyper-markets. On the policy front, the partial relaxation in FDI regulation (51 per cent FDI in single brand retailing) has provided a boost to the retail segment.

Presently the top seven cities of India account for a dominant share in mall space. The total organised retail space absorbed for the year 2006-07 in the top seven cities was around 19 million sq. ft. The following chart depicts the absorption scenario of organised retail space for the year 2006-07. National Capital Region (NCR), one of India's most affluent urban centres, dominates the absorption scenario followed by Mumbai and Kolkata. Bengaluru is also emerging as a major retail hub owing to its cosmopolitan character.

Absorption of Organised Retail Space Total absorption ~ 19 million sq. ft. (2006-07)	
NCR	43%
Mumbai	21%
Kolkata	12%
Pune	9%
Hyderabad	6%
Banglore	5%
Chennai	4%

KEY GROWTH DRIVERS

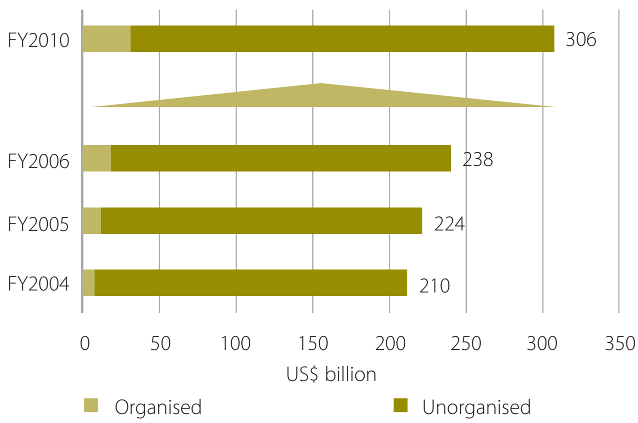
Rising Consumerism

With growth in India's economy over the past two decades, the spending power of Indians has also increased manifold. Real average household disposable income has roughly doubled since 1985. The combination of rapidly rising household incomes and a growing middle-income population has led to a striking increase in overall consumer spending which in turn has been driving the exponential growth of the Indian retail industry

Growth in Organised Retailing

Retailing in India is witnessing a huge makeover. In recent years, retail has emerged one of the fastest growing industries in the Indian economy. The industry is currently estimated to be about US$ 240 billion in size and is growing at over 6-7 per cent annually. Organised retailing accounts for a small but fast-growing share of the total industry; its share has more than doubled from 2 per cent in FY2003 to 4.4 per cent (US$ 10.5 billion) in FY2006. Several factors such as increasing disposable incomes, rising consumption due to increasing use of credit cards and easy finance options and shopping convenience have further driven the growth of organised retail.

Growth of Retail Industry



Source: Edelweiss, E&Y Research

Entry of international retailers into India

India is attracting large international retailers to its doorstep. As per the latest AT Kearney Global Retail Index 2007, India has been ranked the most attractive country for international retail expansion. Large international retailers are attracted by the huge potential of the Indian retail industry and steady opening up of the sector for FDI. Many international retailers are already present in the country primarily through the franchisee route and are actively considering expansion. Besides several other large retailers are planning to enter the country. These include Woolworths and Wal-Mart, who have already tied-up with Indian partners and Carrefour and Tesco who are finalising their plans. In addition to larger retailers entering the market and new retail formats being introduced, growth in demand is also expected to gain momentum.

Entry of Indian corporates into Retail industry

Several Indian corporates including Reliance, Bharti, Tata amongst others have diversified into the retail segment. Prozone, a 100 per cent subsidiary of Provogue (India) Limited a joint venture agreement with the Omaxe Group, plans to develop India's largest shopping malls across the country focused on tier two cities. In a bid to offer products directly to customers at a competitive rate, large corporates are looking to control the entire retail supply chain by forging tie-ups and opening company owned outlets having footprints across the country.

Concept of specialised malls gaining popularity

The concept of specialised malls is gaining popularity with several auto malls, jewellery malls, furniture malls and electronics malls coming up. Many developers are further setting up mixed-use projects offering hotels, amusement facilities and commercial space.

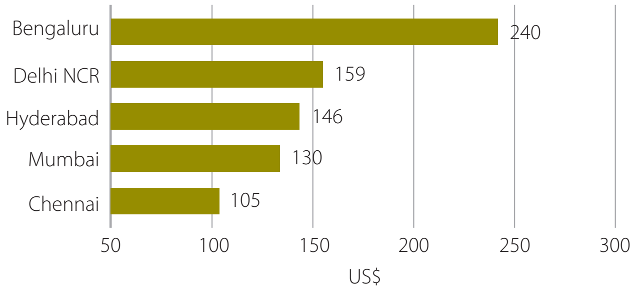
OUTLOOK

Market estimates put the growth of organised retail in the range of 25-30 per cent annually. However, several policy initiatives (51 per cent FDI in single brand retailing) and ongoing policy debate to allow 100 per cent FDI in organised retailing (in both single and multiple brands) holds out lot of promise of the Indian retail. The organised retail can attain a higher annual growth rate and is expected to contribute 10 per cent of total sales by 2010. Several national and international corporates have either made a foray into the retail segment or firmed up plans to enter the retail segment. This will bring the much-needed corporatisation into organised retail with enhanced operational efficiancy. This will also result in greater geographical reach and diversification into tier-II and III cities.

HOSPITALITY REAL ESTATE

With growth in inbound tourism and increase in business travel led by growth in the services sector, India's hospitality sector is experiencing a significant demand. As per FHRAI estimates in the year 2006 there were close to 100,000 hotel rooms in India in various categories with Five Star and Five Star Deluxe contributing close to 30,000 rooms. Estimates indicate that India would need an additional 50,000 rooms in the next 2 to 3 years to cater to the projected tourist arrivals into the country

RevPAR for Premium Hotel Segment (2006)



Occupancy rates are at an all-time high with luxury hotels in Mumbai, New Delhi and Bengaluru quoting room rates higher than the Average Room Rate (ARR) in the US. The chart below shows the Revenue Per Available Room (RevPAR) across five prominent cities in India.

KEY GROWTH DRIVERS

Increase in International tourist arrivals

India has emerged as a major international tourist destination. International tourist arrivals in India increased by over 13 per cent in 2006 to reach 4.4 million and foreign exchange earnings from tourism increased by over 17 per cent to US$ 7.22 billion. The Indian Government has realised that tourism is not only a significant revenue earner but also a core employment generator. It has launched various global campaigns such as Incredible India!, Colors of India, Atithi Devo Bhavah, and Wellness Campaign to promote inbound tourism. With India attracting increasing foreign interest in terms of trade and investment, international business travel to India is also on a steady rise.

Growth in domestic tourism

Domestic tourist visits in India were over 430 million in the year 2006. Increased affordability and increasing trend of leisure travel are driving the domestic tourism in the country. Moreover, India's strong economic development and the growth in its services industry has led to increased corporate spending on business travel. Domestic business travelers account for about 40 per cent of total room revenues in India.

Low cost airlines and improvement of airports

Another catalyst for the hospitality industry's growth in recent years is the entry of several low cost airlines in the country. It has led to a considerable improvement in the connectivity between most of the major cities at an affordable price. Further the increased focus of the Government on improving airport infrastructure has pushed demand for the hospitality real estate.

Medical tourism

The hospitality industry is witnessing an emergence of unconventional forms of tourism such as medical tourism. Underpinned by India's low-cost advantage and the emergence of new high-quality healthcare service providers, medical tourism has already gained momentum in India over the past few years. Wellness spas, hospotels etc. are some of the emerging trends. In 2005, the medical tourism market in India was US$ 333 million with 150,000 foreign patients visiting India annually. The medical tourism market is expected to grow to over US$ 2000 million by 2012, providing boost to the hospitality industry.

International events

The hospitality sector is expected to gain further momentum with India hosting international events such as the Commonwealth Games. The country's increased recognition as a preferred destination for global business conventions is expected to place India on top of global business traveler's itineraries. These developments are sustaining the growth of hospitality linked real estate in the country.

MICE (Meeting Incentive Conference Exhibition)

Inbound MICE segment is estimated to be growing at 15 to 20 per cent annually, with India ranking 27th in the Global Meetings market. Emergence of India as an important MICE destination can be attributed to improving domestic and international air travel and many new world-class convention centres, hotels and meeting facilities.

OUTLOOK

According to the Ministry of Tourism, Government of India, it has been forecasted that that there will be a total of 2.9 million and 6.6 million hotel rooms in India by 2010 and 2020 respectively. As per CRIS-INFAC, demand for hotel rooms in the country will continue to grow at a CAGR of 10 per cent over the next 5 years.

The rapid growth in number of visitors has most cities facing a severe shortage of quality hotel rooms. Currently, the room shortage is estimated at around 27,000 rooms. These include luxury hotels as well as mid-tier budget hotels and service apartments.

Tremendous potential for budget hotels

With the growth in domestic tourism, budget hotels are being developed to cater to the needs of middle-income domestic tourists and foreign budget travelers. These hotels provide the basic facilities at attractive prices. The growth in business travel to Tier-II cities has also increased the demand for such hotels in these cities. Domestic hotel chains plan to set up budget hotels in the country. For instance, Indian Hotels Company has launched budget hotels under the 'Ginger' brand. In view of the potential for this segment in India, even international players are launching their budget hotel brands in the country. Accor has tied up with Emaar-MGF to bring its 'Formule 1' brand of budget hotels to India.

Service apartments, gaining popularity

This concept is gaining ground in India driven by an increasing inflow of expatriates and travelers staying for longer durations. Service apartments which are expected to become an integral part of the hospitality industry provide all the luxuries and comforts of a hotel at cheaper rates and are becoming the preferred choice for those looking for a 'home away from home. Some examples of service apartments in India are Taj Wellington Mews (IHCL), Homestead Serviced Apartments (Brigade Group), Marriott Executive Apartments, Star City and Seasons.

Some Notable Real-Estate Investments in Hospitality			
Foreign Investor	**Indian Partner**	**Type of Alliance**	**Project Details**
Istithmar Hotels	-	100 per cent subsidiary	US$ 120 million for setting up 8 hotels in Tier I and II Cities
Hilton Group	DLF Group	24:76 Joint Venture	Develop and own 75 Hotels and service apartments by 2013
EMAAR	Accor Hotels, France	Joint Venture	Development of 100 budget hotels at a cost of US$ 300 million
Accor Hotels, France	GMR Infrastructure	Tie – up	Setup a business hotel near new international airport at Hyderabad
Accor Hotels, France	Interglobe	Joint Venture	25 IBIS budget hotels at an estimated investment of US$ 200 million
Choice Hotels	Royal India Raj Corporation	-	Investing about US$ 170 million for developing 11 Hotels across India
Westbridge Ventures	Royal Orchid Hotels	10 per cent Stake	Plans to build 6 hotels in the 5-star category, 14 hotels in the 4-star and 20 budget hotels.
Bessemer/New Vernon	Sarovar Hotels	US$ 9 million	Plan to build 50 budget hotels across many cities of the country
Warburg Pincus	Lemon Tree	27 per cent Stake bought at US$ 62 million	25 Lemon Tree Hotels to be built across the country and a budget hotel brand Red Fox Hotels to be launched in Mumbai, Jaipur and Hyderabad

SPECIAL ECONOMIC ZONES (SEZ)

Following the success of China in boosting manufacturing exports, India has adopted the SEZ model albeit with private participation to provide world class infrastructure to boost its industrial export performance.

With the fiscal benefits extended to IT Parks expected to end in 2009 several upcoming and proposed SEZs are expected to provide the next generation impetus to the IT commercial office space development in the country. Offering significant fiscal benefits, SEZs are being preferred by the IT/ITES and other services sectors.

IT/ITES sector accounts for more than 50 per cent of the approved or notified SEZs. 2006-07.Till date under the new SEZ policy, formal approvals have been granted to 366 SEZ proposals out of which 142 have already been notified as SEZs as on 30th August, 2007. In addition, around 176 proposals have been granted in-principle approvals.

In terms of industry focus, Information Technology (IT) and Information Technology Enabled Services (ITeS)/ Electronics/Hardware sector witnessed the maximum number of approvals followed by Bio-technology, Engineering etc. With respect to type of SEZs, almost 90 per cent of the SEZs approved, were sector specific followed by multi-product (5 per cent), multi-services (2 per cent) and FTWZ (1 per cent). Geographically, the maximum number of approvals were bagged by the State of Maharashtra (75) followed by Andhra Pradesh (61), Tamil Nadu (53) and Karnataka (36).

Industry-wise Classification of Formally Approved SEZs	
Electronics Hardware, IT/ITes/Electronics	69%
Biotechnology	5%
Engineering	5%
Pharmaceuticals	4%
Textile	4%
Gems & Jewellery	2%
Others	11%

In a recent move the Government has withdrawn the freeze on new approvals however at the same time the rules have been tightened by capping the land size to a maximum of 5,000 hectares in case of a multi-product SEZ.

Appraisal of Unexplored Opportunities

Missing Formats and Asset Classes

As India vaults from an also-ran to a leader in the global economy, the Indian real estate industry is poised to emerge as one of the most preferred investment destinations for global realty and investment firms. There are few anticipated, albeit unexplored potential opportunities, which are likely to ensure sustained growth of the Indian realty sector in the medium to long term. These engines for growth would act as a catalyst for the real estate development across country. Some of these opportunities which are expected to further drive the demand for the real estate development in the future are listed below:

LOGISTICS & WAREHOUSING

Rationale for Investment	Key Challenges	Opportunities
• Logistics framework is not developed as per international norms • Extensive but ill - maintained transport network, ICDs, CFSs and warehouses • Mediocre physical infrastructure impeding country's trade growth and leading to waste of resources (Logistics costs 13 per cent of GDP) • Government initiatives to boost trade is showing results and hence need logistics solutions	• Relatively small manufacturing base - but growing • Mindset and culture of outsourcing logistics activities to capable third party operators is just emerging • In fact, there is no general awareness of standard lostistics practices and due to the protected environment for Indian Industries, until recently there was no incentive for companies to improve their operational performance	• Booming trade - domestic and international • As more MNCs establish their operations in India, the need for good quality warehousing distribution and sourcing centres is on the rise • VAT, if uniformly implemented is expected to change warehousing and distribution fundamentals and is expected to consolidate warehousing needs • Agriculture Logistics - proper cold chain management and opportunity • Logistics for large infrastructure and Engineering Projects

- Logistics & Warehousing Infrastructure
- Healthcare Infrastructure
- Low-cost Budget Housing

LOGISTICS & WAREHOUSING INFRASTRUCTURE

The Indian logistics industry is at an inflection point and is all set to achieve a market size of US$ 125 billion by the year 2010. Warehousing is one of the main segments of the logistics sector growing the fastest at a rate of around 40 per cent. One of the important industries contributing to this high growth in warehousing is the retail sector.

REAL ESTATE OPPORTUNITIES

- Port/ Airport warehouses: Open and covered warehouses
- Inland Container Depots/ Container Freight Stations- They offer services for handling and temporary storage/warehousing of import/export laden and empty containers, carried under customs control
- Customs Bonded Warehouses – They facilitate deferment of customs duties for imported goods till such time they are cleared into the domestic area or are exported
- Private/common warehousing facilities of 3PL and 4PL companies
- Specialised warehouses and cold storages
- Free trade and warehousing zones/logistics parks

HEALTHCARE INFRASTRUCTURE

Growing at a compound annual growth rate of 16 per cent the Indian healthcare sector is expected to grow to about US$ 50.2 billion and US$ 78.6 billion by the year 2011 and year 2016 respectively.

The healthcare infrastructure market in the country is expected to grow at 14.5 per cent over the next few years. The total investment required to reach the optimum target of 1.85 beds per thousand populations would be US$ 77.9 billion out of which US$ 69.7 billion is expected to come from the private sector.

HEALTHCARE INFRASTRUCTURE

Rationale for Investment	Key Challenges	Opportunities
• Healthcare delivery market expected to grow at a CAGR of 11.6 per cent over the next five years • An estimated 1 million beds would be added by 2012 taking the total beds available in the country to over 2 million • 90 per cent of the total beds in future would be added by the private sector while only 10 per cent would be contributed by the Government • Of the total future investment US$ 69.7 billion is expected to come from the private sector	• Rapidly changing market • Rising cost • Low accessibility and unavailability of facilities and services • The sector would increasingly witness foreign equity participation. Joint Ventures, alliances and tie-ups among healthcare institutions resulting in transfer of technology skillls and practices	• Healthcare BPO • Medical infrastructure • Medical Value Travel • Medical Devices • Pathology Services • Telemedicine

REAL ESTATE OPPORTUNITIES

- Health Cities: Large scale integrated development
- Hospotels: combining the services of a hospital and a hotel

LOW-COST BUDGET HOUSING

As per the Working Committee of the 11th Plan (2007-12) the total shortage of dwelling units at the beginning of Eleventh Plan Period i.e. 2007 was 24.7 million. As per the estimates by National Housing Bank (NHB), going forward, the gap of housing unit shortage would further widen to about 45 million units during the Eleventh Plan (2007 – 2012) period E&Y estimates that more than 70 per cent of the shortage of dwelling units is for middle and low income brackets.

LOW COST HOUSING

Rationale for Investment
• Rural population of almost 72 per cent • Huge market potential • A housing shortage of 23 million units and the need to invest over US$ 97.5 billion over 10 years. • Shift from rented to owned house • Easy Access to financing • Nuclear Families • Government initiatives such as extention of benefits under section 80 (I) to mass housing projects, scrapping of the Urban Land ceiling act, implementation of the Securitisation Act

REAL ESTATE OPPORTUNITIES

- Slum-rehabilitation
- Mass housing

FDI Experience in Indian Real Estate

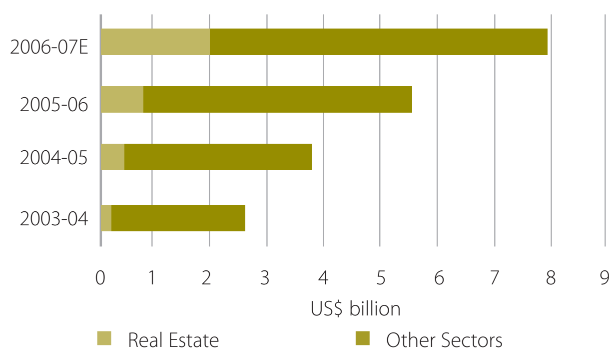
KEY HIGHLIGHTS

The India growth story has become an established theme that has captured the imagination of the world. India is on every international investor's wish-list and among the sectors that have the potential to become drivers of the new Indian economy in a global scenario, real estate ranks amongst the top.

The Government's increased focus on attracting investments and changing market fundamentals indicating good long-term growth prospects has put the Indian real estate sector on the radar of many cross-border real estate investors/developers.

A number of global investors/developers are now keen on real estate investment opportunities in India. Consequently, the share of real estate in FDI has been rising. It has already risen from a low 4.5 per cent in 2003 to 25 per cent in FY06 and an estimated 26 per cent in FY07. With higher growth in FDI and even further increase in real estate's share of FDI it is expected that the sector would witness inflows to the tune of US$ 8-10 billion by FY2010.

Real Estate Share in FDI



Source: ASSOCHAM, E&Y Research

EMERGING BUSINESS MODELS

Real estate itself is a regulated activity and is subject to a number of FDI restrictions. These restrictions essentially result in a market where foreign investors with no Indian joint venture partner must invest a significant amount and undertake substantial development schemes with a limited ability to repatriate the funds in the short term. There is therefore a limited ability for a foreign company to make a tentative entry into the market as a sole investor. This position has resulted in a number of business models being used to facilitate investment.

Four main market entry strategies have been adopted by foreign real estate players in India:

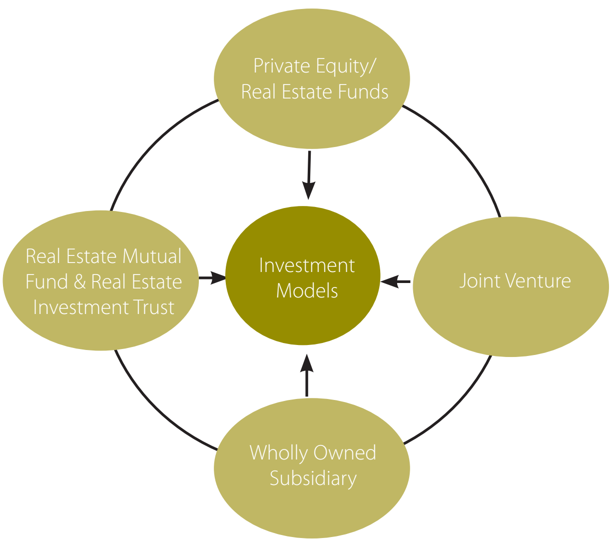
- ***Large scale direct entry***: With an independent approach for undertaking property development schemes
- ***Establishment of an umbrella property development joint venture*** with a local player in order to carry out numerous future projects
- ***Multiple joint venture approach*** where a number of ventures are entered into with local partners each negotiated on a scheme by scheme basis and often with the local player placing land into the venture as equity
- ***Investment into the Indian property market through the creation of a capital fund*** which in turn facilitates local developers

Irrespective of the method of entering the market there are a large number of potential market opportunities. Large and well publicised property development activity has taken place in the principal areas of Delhi, Mumbai, Chennai and Bengaluru. In terms of specific sectors of investment, housing remains the single largest new construction activity whilst commercial office schemes, particularly for the IT sector have generated significant opportunities. Organised retail although remains a relatively small sector by the standards of most major economies, is growing rapidly and many industry observers have further identified the hospitality sector as an area set for future expansion.

INVESTMENT MODELS

Real estate, being a capital intensive sector, offers cross-border investors with several investment opportunities. Post the sector opening up for FDI inflows have been typically through multinational developers or financial institutions/ venture capitalists. Pure play financial investors are placing their money through strategic investments in projects/ companies. The investment through financial investors comes primarily in the form of opportunity funds, private equity and venture capital. Some of the prominent investment models are as follows:

Investment Models



Source: E&Y Analysis

Private Equity/Real Estate Funds (REFs)

This is evidently the most preferred entry route for overseas investors. Currently most of the private equity investments are directed towards unlisted real estate companies where the REFs purchase an equity stake and thereby partner in the growth plans of the unlisted firm. Primary reasons of preference for this entry route are the lower transaction cost and a potentially easier exit route, i.e. via a public listing. For example, Trinity Capital has acquired a 5.72 per cent stake

Source of FDI Inflows in Real Estate	
UAE	58%
Indonesia	26%
Singapore	10%
Malaysia	2%
Others	4%

Source: Industry Sources, E&Y Research

in a Mumbai-based real estate company, D B Realty at an estimated cost of US$ 51 million

Joint Venture

While a few JVs are long term alliances for series of projects some of them are project specific. The preference towards JVs by global developers is primarily to mitigate the risk associated with entry in newer and emerging markets. The foreign developer primarily contributes capital, engineering capabilities, brand, new construction techniques etc whilst the Indian partner brings in land, local knowledge on market, consumer and regulations and resources in the venture.

Joint development is another example of joint venture wherein the foreign investors set up an Indian presence and undertake development activity jointly. The Indian partners contribute land and receive deferred consideration in terms of share of the development or share of revenues. Though this was the primary route adopted for FDI, even now this arrangement is prevalent largely for integrated townships or Industrial Parks. For example, MetroCorp Housing Corporation has entered into a Joint Venture with Jurong International Group, Singapore to develop an integrated township project worth US$ 116 million at Coimbatore.

Wholly owned Subsidiary

A relatively less preferred arrangement few overseas developers are developing projects on a standalone basis. Ascendas Pte, Asia's leading total business space solution providers, has a significant presence in India with a wholly owned subsidiary, Ascendas India Private Limited.

Public Private Partnership (PPP)

With the Indian Government undertaking several proactive initiatives in physical, urban infrastructure development and encouraging private participation, the PPP mode is opening several opportunities for foreign developers. Further various public sector enterprises are unlocking land value in prime assets held by them. With their openness and interest in collaborating with foreign developers this is an added opportunity for an overseas developer. In a recent development, DLF has entered into an agreement with Kolkata Metropolitan Development Authority to develop an integrated township in Hooghly District, West Bengal at an estimated investment of US$ 7.7 billion.

As per industry sources and the recent announcements, the total committed FDI inflow in the Indian real estate market stands at over US$ 16.3 billion. Major investors include developers/ investors from West Asia (especially Dubai), Indonesia, Singapore and Malaysia. The investments from other countries are further witnessing a sharp growth.

At present real estate developers from West Asia especially Dubai have really shown confidence in the Indian real estate market, with financial commitments almost touching US$ 9.5 billion, accounting for almost 58 per cent of the total FDI inflow in the sector.

Some of the leading investors include Nakheel Group, EMAAR, ETA Star and Dubai World. Salim Group of Indonesia has further committed to invest over US$ 4 billion in West Bengal for various projects such as SEZs, Health and Knowledge cities.

Singapore developers are betting big on the Indian real estate market with investments of over US$ 1.7 billion, that are currently underway. Major players from Singapore include GIC, Ascendas and Jurong International.

Some of the foreign property developers are now launching their own real estate funds, which would allow the investors to gain from the expertise of these developers. This would further help developers indirectly to transfer their constructed assets into the fund enabling them to capture their profits earlier. Singapore based Ascendas has launched a US$ 325 million fund for investing in integrated real estate projects in India. Several other foreign developers are further looking at scaling up their real estate funds for India.

Some Notable Real-Estate Focused International Funds in India, US$ millions		
International Funds	**Amount**	**Focus**
BlackstoneGroup	1,000	Part real estate
Xander	1,000	Retail
Morgan Stanley	1,000	Retail and residential segment
Sun-Apollo	630	-
Ascendas India IT Parks Fund	520	IT Park properties
Trikona Capital	450	Residential and Hospitality Segment
Och Ziff	400	Residential Property Development
Ascendas Advantage India Development Fund	325	Commercial office space
RREEF/DB Real Estate, an unit of Deutsche Bank AG	300	Housing
Walton Street	300	Residential Property Development
Hines	300	-
Starwood Capital	250	Residential and Hospitality
Charles Johnson	250	Real Estate c & individual projects
Oak Investment partners	200	Retail start ups
StarGate Capital	186	-
Maia (NRI Malini Alles)	150	Commercial & residential
Portman Holdings(with HDFC Venture fund)	-	Hospitality space
Evolvence Capital	100	IT/ ITES Offices
GIC	100	IT Parks and Hospitality Segment
CapitaLand	75	Retail
IREO	50	IT Park and Residences
Merrill Lynch	48	Residential and Commercial
New Vernon	8	Commercial office space

Source: Industry Sources, E&Y Research

Some Notable Real-Estate Focused PE Funds in India, US$ million	
PE Fund	**Corpus**
Urban Infrastructure Venture Capital Fund	1,350
Future Group (Pantaloon)	1,200
ICICI Ventures	550
FIRE Capital	500
IL&FS Realty Fund	502
The Chatterjee Group	450
CALPERS	400
Unitech - CIG Realty Fund	400
IDFC	345
Carlye-Santa Fey	300
American International Group (AIG)	275
HDFC*	225
Anand Rathi Fund	350
JM Financials (In joint venture with Old Lane)	150
Reliance Group	112
Kotak Mahindra	100
Siachen Capital	100

Source: Industry Sources, E&Y Research
*** HDFC is currently raising international fund to the tune of US$ 750 million for real estate**

Government and Policy Initiatives

As within other sectors in the Indian economy, one of the key drivers has been the changes in policy of the Indian Government to a more liberal model. There has been a drastic curtailment in restrictive policies such as the Urban Land Ceiling and Regulation Act, accompanied by major reforms in the Integrated Township Policy. These changes have allowed the real estate development industry to take a significant step forward, whilst international investors have brought both capital and expertise.

With the liberalisation of FDI rules and the emergence of real estate funds, the options available to both domestic and international investors will continue to grow. Continuing the reforms agenda for the sector, the Securities and Exchange Board of India (SEBI), vide its press release dated June 26, 2006 has approved the guidelines for Real Estate Mutual Funds (REMFs) wanting to set up shop in India and may possibly introduce Real Estate Investment Trusts (REIT) thereby continuing to widen the source of capital for the sector.

The sector has further benefited by a range of Government incentives including residential tax breaks and the Special Economic Zones.

RATIONALISATION OF PROCESSES

The Government has moved towards modernising and rationalising other areas of regulation impacting real estate, which are perceived to being barriers to further investment and growth.

To date this has included simplification of urban development design guidelines and a trend towards reducing and rationalising stamp duties across the states.

Steps are being taken to address the record keeping of land ownership and transaction records, thus improving transparency and possibly reducing transaction costs.

SNAPSHOT OF KEY REGULATIONS IN THE REAL ESTATE SECTOR

In India, residential housing is a state subject and federal government can only provide policy guidelines on the same. Some of the key legislations that have significant impact on the real estate market are described as under:

UNION BUDGET 2007: IMPACT ON REAL ESTATE		
Policy Impact	**Direct Tax Impact**	**Indirect Tax Impact**
• NHB to introduce reverse mortgage • Senior citizens to receive monthly income against their property • They do no have to repay the loan • Regulations for mortgage guarantee companies • Guaranteeing mortgages on the behalf of the banks and finance companies	• No extension of tax holiday for small sized housing units • Increase in tax deduction from 20 to 40 per cent for Public company finance for construction/purchase of houses • No 'pass through' status for venture capital investments • 100 per cent tax holiday for 5 years for hotels & convention centres in NCR if they start functioning before March 31,2010 • Corporate tax increases from 33.66 per cent to 33.99 per cent due to Secondary & Higher Education Cess • Fringe Benefit Tax (FBT) imposed on ESOPs • Tax holiday conditions made stringent to prevent existing business to migrate to SEZ	• Excise duty decrease on cement costing less than US$ 4.6 and increased duty for cement costing more than US$ 4.6 per bag • Service tax proposed to be levied on services relating to renting of immovable property • Service tax is proposed to be levied on services relating to execution of a works contract as an additional service category • Levy of 'Secondary and Higher Education Cess' at the rate of 1 per cent on customs, excise and service tax

FDI Regulations

GUIDELINES FOR FDI IN REAL ESTATE IN INDIA		
Conditions for Development	**Conditions for Investment**	**Miscellaneous Conditions**
• Minimum 10 hectares to be developed for serviced housing plots • For construction-development projects, minimum built-up area of 50,000 sqaure meters prescribed • In case of a combination project, any one of the above two conditions should suffice • At least 50 per cent of project to be developed within 5 years from date of statutory clearances	• Minimum capitalisation of US$ 10 million for wholly owned subsidiaries & US$ 5 million for joint ventures with Indian partners • Infusion of funds within 6 months of commencement of business • Original investment cannot be repatriated before a period of 3 years from completion of minimum capitalisation • Investor may be permitted to exit earlier with prior Government approval	• Investor 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/by-laws/regulations of the State • Concerned Authority to monitor compliance of above conditions by developer

Government now allows 100 per cent FDI for townships, housing, built-up infrastructure and construction development projects (including commercial premises, hotels, resorts, hospitals, educational institutions, and recreational facilities), subject to certain guidelines.

Urban Land (Ceiling and Regulation) Act 1976/Rent Control Act

ULCA was enacted primarily with the objective of preventing land hoarding by developers and to increase supply. The Act imposes a ceiling on ownership and hoarding of land in cities and towns

Rent Control Act

Various states and Union Territories have formulated their own rent control legislation with respect to regulating chargeable rents, recovery and possession of property, and tenancy rights. These laws act as disincentives towards investment in housing for rental purposes.

REGULATORY AND POLICY INTERVENTIONS

Special Economic Zone: Growth Engine of India

One of the principal interventions in regional development and the attraction of investment has been the formation of Special Economic Zones (SEZs). The term SEZ is widely used in international regional policy and many countries have developed variations on the model

The SEZ Act of Government of India, 2005 has presented a lucrative development alternative for all the realty players. SEZs are specifically delineated, duty-free enclaves outside the customs territory of India. SEZs are approved by the Ministry of Commerce and can be set up by private developers or by central/state government or jointly by any two or more of these.

Minimum Area Required for Various Types of SEZs in India		
Type	**Minimum Area Requirement**	**Minimum Processing Area Requirement**
Multi product	1,000 Hectares	50 per cent
Multi Services	100 Hectares	25 per cent
Sector specific	100 Hectares	50 per cent
IT, Gems & Jewellery, Bio-tech and Non-conventional energy	10 Hectares with minimum built up area of: - IT : 100,000 sq mtrs - Gems & Jewellery: 50,000 sq mtrs - Bio-Tech & Non conventional energy: 40,000 sq mtrs	50 per cent
Free trade warehousing zone	40 Hectares (minimum built up area of 1 lakh sq mtrs)	50 per cent

Businesses operating in SEZs enjoy a corporate tax holiday on export earnings, indirect tax exemptions and liberal exchange controls. Developers also receive several fiscal benefits. The income-tax incentives for a SEZ developer include a 10-year tax holiday; exemption from dividend distribution tax; tax-exempt interest on long-term financing; tax-exempt long-term capital gains arising on the transfer of shares in the developer's company and no minimum alternative tax.

OTHER REGULATORY AND POLICY INTERVENTION

Real Estate Regulator

The preparation of the draft 'Real Estate Management (Regulation and Control) Bill' is likely to fructify into a definitive industry regulator and will solve the long pending demand of bringing the real estate sector, property dealers and developers under the scanner of a real estate Regulator. The Draft of the bill is expected to be put up for approval in the Parliament, in the coming winter session.

National Housing and Urban Habitat Policy

National Housing and Urban Habitat Policy 2006 expected to be introduced by the end of 2007-08, will address the issue of affordable housing for all sections of the society. Currently, the draft policy lays emphasis on social harmony and on increasing institutional finance for housing for the poor and its accessibility at affordable rates. Some salient features of the policy include:

- A new centrally sponsored scheme to provide an interest subsidy of 5 per cent per annum for a period of five years to commercial lenders for lending to Economically Weaker Section and Low Income Group segment of the urban areas
- The National Housing Board (NHB) and Housing & Urban development Corporation Ltd. (HUDCO) would be nodal agencies for disbursement of subsidies

Integrated Township Policy

Several state governments have taken initiatives for creating guidelines for development of integrated townships. Such a policy addresses the need to decongest the city centers and create urban models for sustainable growth. State Governments of Rajasthan, Gujarat and Maharashtra have released Integrated Township Policy/ Housing Policies and many other states are in process of developing new policies for 'Integrated Townships'.

GOVERNMENT SPONSORED SOCIAL INFRASTRUCTURE

Relatively limited social infrastructure currently in place is a significant barrier for further economic development. Recently, however, it is an issue that has received more attention from the Government and the business community. This is an area that offers significant potential for private investors both domestic and international depending upon the revenue model adopted.

INCREASED GOVERNMENT FOCUS ON URBAN INFRASTRUCTURE DEVELOPMENT

The increasing thrust of the Indian Government on urban infrastructure development has led to emergence of newer locations and has significantly induced the real estate development activity. Government initiatives such as JNNURM scheme, Mega Cities Fund and the City Challenge Fund of the Government of India intend to undertake implementation of the urban reforms agenda and improve infrastructure provision in select urban centres. With better urban infrastructure, extending the urban sprawl, supported by connectivity through ring road, metros/ mass transport systems people are now more open towards shifting to new suburban areas.

	Key Facts	Spending	Major Policy Initiatives
PORTS	12 major and 180 minor and intermediate ports, which carried 510 million tonnes of freight in FY'2005	Current Spending: US$ 1.2 billion (0.2 per cent of GDP) per annum Estimated Spending (2009): US$ 2.7 billion (0.3 per cent of GDP)	National Marine Development Program (NMDP), 65 per cent of NMDP's investment to come from private sector;
AIRPORT	126 major airports, including 11 international airports. Domestic and international passenger traffic is at 40 million & 19.4 million, respectively.	Current Spending: US$ 0.4 billion (0.1 per cent of GDP) per annum Estimated Spending (2009): US$ 1.9 billion (0.2 per cent of GDP)	Mumbai and Delhi airports will be medernised by private players under long- term lease Greenfield airports in 5 major cities will be developed using PPP
RAILWAY	Rail network spans 63,000 kms, carrying 14 million passengers and 1.5 million tonnes of freight daily	Current Spending: US$ 3.5 billion (0.4 per cent of GDP) per annum. Estimated Spending (2009): US$ 6.1 billion (0.6 per cent of GDP)	Projects to be largely funded by the public sector (central and state govt.) Japanese govt. agreed to fund US$ 4 billion (30 per cent) of the cost of Rail Freight Corridor project.

Further, increasing corporatisation of public authorities such as housing boards, etc. poses strong competition to the private developers and provides a wide range of options to the urban consumers.

This improved urban governance has enhanced the fiscal performance of the ULBs and consequently their credit ratings. This has enabled the ULBs to access the capital market for undertaking new development programmes and expansion of services. The ULBs have become proactive in provisioning of services, providing an enabling environment for different models of implementation such as Public Private Partnerships etc.

BUILDING INFRASTRUCTURE FOR THE FUTURE

To spur the economic growth of India, the Planning Commission of India has estimated that the investment in infrastructure would need to be increased from 4.6 per cent of GDP at current levels to between 7-8 per cent, during the 11th five year plan (2007-12). This would require an outlay of approx. US$ 320 billion during the plan period. Broad outlays of investments in some of the key sectors are:

- Highways: US$ 50.8 Billion
- Civil Aviation: US$ 9.25 Billion
- Ports: US$ 11.5 Billion
- Railways: US$ 69.4 Billion

Key Players

Currently, the real estate sector is quite fragmented with most players having presence limited to select cities or regional geographies and relatively few players having national presence. Ernst & Young expects a radical change in the next 2-3 years with most of the larger regional players anticipated to expand aggressively across the country. While at least 10 major developers are estimated to have a national level presence, some of the well known city focused developers are expected to venture out into other locations based in that region. Larger regional developers increasing their footprints across the country include Rahejas (Mumbai), DLF (NCR), Ansals (NCR), Unitech (NCR), Sobha(Bengaluru) who have already started penetrating other regions and have announced several projects. Some of the key players are profiled below.

Name	Service Profile	Presence
Akruti Nirman	Residential, Commercial, Retail and Hospitality Specialises in implementing the Slum Rehabilitation Scheme (SRS) in Mumbai Access to prime land in Mumbai at a very low cost with higher FSI permission	A majority of its projects are in Mumbai due to the SRS Scheme. Other cities include Baroda and Pune
Ansal Properties & Infrastructure Limited	Residential and Commercial Developing integrated townships alongwith malls and hotels IT parks and SEZs	Pan-India footprint with major presence in 16 North-Indian cities across 4 northern states
DLF	Integrated presence across all the asset class including Residential, Commercial and Retail. Further, has plans to venture into Hotels, Infrastructure and SEZs Accredited to be largest real estate developer in India DLF City is a township spread over 3,000 acres in Gurgaon, Haryana, Asia's largest private township 574 million sq. ft. of BUA under planned projects.	Pan-India footprint Operating in 29 cities, across 16 states Majority of the projects in Gurgaon, Kolkata, Hyderabad and Chandigarh are also major cities of activity
K Raheja Corp.	Commercial, IT office, SEZ, Hospitality, Retail and Residential Developing 15 self-contained townships and 10 hotels	Major presence in Mumbai Other locations are Bengaluru, Ahmedabad, Goa, Pune and Hyderabad
Parsvnath Developers	Residential, Retail, IT Parks and Commercial Plans to develop 12 SEZs across the country	Pan-India footprint with a focus on National Capital Region Active in over 46 cities across 17 states Plan to increase to 20 states and 250 cities by 2010.
Sobha Developers	Residential, Commercial, development of plots and contractual projects	Mostly concentrated in and around Bengaluru with some presence in Cochin, Chennai and Pune
Unitech	Residential, Commercial, SEZ development, Retail and Hospitality Integrated townships at a number of cities such as Hyderabad, Agra, Varanasi and Lucknow	Pan-India footprint with major presence in National Capital Region, Kolkata, Chennai and Hyderabad

Exchange Rate of US$ 1 = INR 41 has been used throughout this report.

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