

Mega bucks for robust realty sector

TOWERING GROWTH: Overseas funds are swamping India's realty sector

Billions of dollars are being committed by international developers and financiers to the buoyant Indian real estate development industry, which has been witnessing a boom following the opening up of the sector, says **Rajiv Pai**

NDIA'S real estate sector is on the roll. With the government now allowing 100 per cent foreign direct investment (FDI), international investors from the Gulf, the United States, Europe, South East Asia and other countries are flocking to the country in quest of business.

Overseas funds are swamping India's realty sector, with industry watchers estimating some 150 foreign private equity funds having teamed up with real estate developers. A total of \$10 billion has been infused till now, with Merrill Lynch predicting investments amounting to \$90 billion by 2015.

Indian institutions are also launching funds to invest in real estate, which has fast emerged as the flavour of the season, with the construction boom sweeping across the country. Many Indian developers are raising funds from overseas or domestic channels.

The property market is experiencing

vigorous demand from all segments, be it residential, commercial, retail or industrial. As a consequence, real estate stocks have had a dream run on the bourses. Real estate entrepreneurs are being featured in global billionaire's lists and the market capitalisation of top realty firms are spiralling.

India's property market began attracting international funds after the government amended the then prevalent norms in March 2005 to permit 100 per cent FDI under the automatic route in townships, housing, hotels, resorts, hospitals, educational institutions, commercial and entertainment centres, and built-up infrastructure. The step was taken to usher in the requisite funding for the rapidly expanding realty sector, as also to introduce quality construction of international standards.

Subsequent norms mandated minimum capitalisation of \$10 million for wholly-owned subsidiaries and \$5 million for joint ventures. The reform also had

the Department of Industrial Policy and Promotion reducing the minimum mandatory area to allow FDI in the real estate sector from 100 acres to 25 acres.

The move proved to be on target as it enthused numerous prominent financial firms and private equity funds to launch exclusive funds for the Indian property sector. Until then, only Non-Resident Indians (NRIs) and Persons of Indian Origin (PIOs) had been allowed to invest in this sector. Foreign investors other than NRIs had been able to invest only in the development of integrated townships and settlements, either through wholly-owned subsidiaries or through joint venture companies floated with local partners.

A boon for Indian realty has been the entry of Real Estate Mutual Funds (REMFs) or Real Estate Investment Trusts (REITs). Industry experts are confident that these funds and trusts will ensure greater availability of finance to developers and spur faster growth. Entities like HDFC Real Estate Fund, ICICI-Tishman Speyer, Ascendas India IT Park Fund, Kotak Mahindra Realty Fund, IDFC, and Edelweiss Capital have received approval and have started investing.

Pranay Vakil, chairman of the India office of international property consultants, Knight Frank, notes that realtors are displaying unprecedented financial muscle. "The promotion of special economic zones (SEZs) by the government in proximity to existing cities is furthering the scope of integrated township development," he explains. "This will see the emergence of satellite cities."

Vakil believes that construction of the trans-harbour rail and road link between Mumbai and the mainland will open up development of an area three times the size of the metropolis across the harbour, which is currently largely unoccupied and barren. The re-development of Asia's largest shantytown of Dharavi, in north central Mumbai, will release 20 million sq.



CONSTRUCTION BOOM: The real estate sector has emerged as the flavour of the season

We expect FDI inflows to increase going forward as existing foreign investors find comfort with the market nuances and procedures.

ft. of commercial space and a like area of residential space over the next four to five years, he adds.

The Maharashtra government recently scrapped the Urban Land Ceiling Act, which will result in the release of thousands of acres of land in the country's financial and commercial capital, triggering off a rush of sprawling new projects.

In their Real Estate Industry Report, Neyha Srivastava and Subramaniam Yadav of the industry monitoring firm of Prabhudas Lilladher Pvt. Ltd cite the robust fundamentals that are driving the construction juggernaut. Strong economic growth, improving demographics, urbanisation, expanding service sector, and organised retail, hospitality and logistics sectors have all lent momentum to the sector, they note.

Thus, while real estate accounted for but 0.68 per cent (\$38 million) of the total FDI inflow of \$5.55 billion in 2005-06, its share swelled to 2.97 per cent (\$467 million) of the \$15.73 billion coming in 2006-07 and further increased to 11.16 per cent (\$627 million) of the FDI of \$5.62 billion that has come in fiscal 2007-08 between April and July 2007.

Abhishek Gupta, senior manager for strategic consulting and research at global property consultants, Jones Lang LaSalle Meghraj, sees no reason for this 'exponential growth' to change. "We expect FDI inflows to increase going forward as existing foreign investors find comfort with the market nuances and procedures and additionally new foreign funds enter

Indicative List of Funds focused on Indian Real Estate Sector

Fund	Corpus USD	Target Segments
Oak Investment partners	5.8 billion	Retail start ups
Blackstone Group	1 billion	Commercial & Residential
Carlyle	500 – 750 million	Commercial & Residential
GE-Ascendas Fund	500 million	IT Parks
Trikona Capital Group's Trinity Capital Fund	450 million	Real Estate & Infrastructure
Infrastructure Leasing & Financial Services Realty Fund	405 million	Equity-linked instruments of real estate companies
Och Ziff	400 million	Residential Property Development
ICICI Ventures (India Advantage Fund III)	300 million	Office, Residential & Retail Properties
Santa Fe	300 million	Infrastructure & Housing Development
Rreef/DB Real Estate, a unit of Deutsche Bank AG	300 million	Housing
JM Morgan Stanley	300 million	Tier I, II and III city developments
Lehman Brothers	300 million	Invest in Funds
Walton Street	300 million	Residential Property Development
American International Group	250-300 million	Residential Townships
Horizon International Fund (Pantaloons)	263 million	Areas of more than 50,000 sq.ft.
Charles Johnson	250 million	Real Estate Companies and individual projects
Ascendas IT Park Fund	230 million	IT Parks
Maia (NRI Malini Alles)	150 million + greenshoe	Commercial & Residential option of USD 100 mn.
Stargate Capital (UK)	186 million	
Portman Holdings (with HDFC Venture fund)	150 million	Hospitality space
Siachen fund (Equity fund)	100 million	Committed in luxury apartments
Kshitij Fund (Pantaloons)	80 million	Development of Shopping Malls
India IT Parks fund (GE Real Estate division)	63 million	IT parks
Fire Capital	50 million	Residential, multi-use, offices and retail
Solitaire Capital India	49 million	Residential townships, Commercial complexes & IT parks

SOURCE: Industry Reports

the market," he points out. "Foreign investors can only invest in greenfield projects and typically look at an internal rate of return (IRR) of 20 to 25 per cent."

Vakil maintains that these levels of dollar denominated returns have no parallel anywhere in the world, except Russia. Returns elsewhere are mostly between six and 10 per cent, he adds. "Besides,

where else in the world does one see 300 shopping malls under construction across the country?" he asks.

The Information Technology (IT) / IT Enabled Services (ITES) sectors, and the outsourcing boom in the country has heightened the need for quality commercial, residential, hospitality and health care facilities as well. The Prabhudas Lilladher



PLANNED TOWNSHIPS: International developers are promoting sprawling townships across the country

report estimates that the IT/ITES segment, which accounts for 60 to 70 per cent of the demand for office space across India, will require 95 to 100 million sq ft of office space by 2010.

Organised retail, in turn, currently accounts for but three per cent of the overall retail market, but traditional formats are breaking down in face of massive expansion plans of domestic retailers. The retail sector is anticipated to grow by 10 per cent per annum and touch \$350 billion by 2010, when organised retail too would have grown to 10 per cent of the total retail market. This implies a share of \$35 billion by organised retail and a total retail space demand of 200 million sq ft by 2010.

Besides, with the National Housing Bank placing urban housing shortage at some 22 million units over the next five years, the report notes that assuming an average size of 500 sq ft will translate into a demand of 2.25 billion sq ft.

Gupta foresees that while 85 to 90 per cent of FDI has been deployed in cities like Mumbai, Delhi and Bangalore over the last two to three years, going forward, other cities like Chennai, Hyderabad, Pune and Gurgaon will witness large FDI deployment.

The biggest investments so far have been from the Gulf region. After attracting global attention through their towering projects, many Arab real estate giants are

now moving to Indian shores. Two leading Dubai companies — Emaar Properties (which has tied up with Delhi-based MGF Developers), and Nakheel (which has joined forces with DLF) - are vying for India's realty sweepstakes.

Nakheel, the UAE's largest property developer, entered India through its joint venture with DLF for two infrastructure projects at an estimated cost of \$19.1 billion. The mega deal was for building townships at two 20,000-acre sites in Maharashtra and Haryana. The development will include industrial infrastructure, housing, retail outlets, recreational facilities and schools.

Emaar's joint venture, Emaar MGF Land Private Ltd based in Gurgaon, has committed \$12 billion investment in India for projects across top 30 cities. These span the residential, commercial, infrastructure, retail and hospitality segments in integrated master plans and special economic zones (SEZs).

Says Mohamed Ali Alabbar, chairman, Emaar Properties: "We hope through the joint venture to be a part of this historical transition of India into a great global hub. This joint venture is also in line with our expansion strategy of pursuing collaborations with partners and targeting opportunities in other international markets."

Emaar MGF managing director Shraavan Gupta notes that "in a sense, this is the beginning of an infrastructure revolu-

tion, much akin to the telecom revolution, which has changed the connectivity landscape of India in the past decade."

Other Gulf-based developers too are announcing new investments into the country, and analysts expect the total amount will soon cross the \$50 billion mark. Dubai's ETA Star Properties has launched projects worth \$3 billion in a software park in Chennai and in commercial and residential projects across the 300 acres at its disposal in Bangalore. Gulf Finance House is investing \$400 million in the 'Energy City' coming up in Navi Mumbai across Mumbai harbour.

With an eye on India's burgeoning hospitality industry, Dubai's Landmark Group — which is currently operating 11 Lifestyle stores and five Lifestyle Home Centres in the country — is investing over \$125 million in the development of 12 budget hotels across India under its value brand of CityMax. Targeting 20 hotels by 2009, the group has already begun acquiring land in Indian metros and tier-II cities. The group also has plans to develop 20 family entertainment centres under the trademark name of Fun City.

Three Middle Eastern financial institutions — Bahrain's Khaleej Finance and Investment (KFI), Kuwait Investment Company (KIC) and Kuwait Finance House (KFH) — have promoted the \$200 million Indian Private Equity Fund, targeting activities with controlled risks in this sector.

We hope to be a part of this historical transition of India into a great global hub. This is in line with our expansion strategy of pursuing collaborations.



ROOM FOR ALL: The booming market is translating into healthier competition and higher standards of development

Other major Gulf investors include Global Asia Real Estate Fund, which has raised \$75 million to invest in the realty sectors in India and China; Dubai Properties, the Palmon group — which recently invested in a project in Mumbai, and has lined up others in Bangalore and Hyderabad — and the Signature group, a Dubai-based asset management firm, which plans to raise over \$650 million through real estate funds for investments in India and the UAE.

GIC Real Estate Pte Ltd, the real estate investment agency of the state-owned GIC Group of Singapore, is looking forward to invest over \$125 million in projects in Mumbai and Chennai. Ascendas, Asia's leading business space provider, launched the first property trust of Indian assets worth \$500 million in Singapore with real estate developer Embassy. Solitaire Capital Investments Pte and Solitaire Ventures Pte from Singapore's Solitaire Group are investing \$130 million.

According to real estate industry sources, two-dozen US funds are raising \$3.5 billion for investments in Indian realty. Those raising the funds include US majors such as the Blackstone Group (\$1 billion), Goldman Sachs (\$1 billion), Citigroup Property Investors, Morgan Stanley, GE Commercial Finance Real Estate, JP Morgan, Warburg Pincus, Merrill Lynch, Lehman Brothers, Warren Buffett's Berkshire Hathaway, Colony Capital and Starwood Capital.

Citigroup Property Investors, an arm of the Citi Group, the world's largest financial

services conglomerate, is eyeing an investment of \$1 billion in Indian realty. It has already raised half the amount through an India-dedicated fund, with plans to invest in projects in Mumbai, Delhi, Bangalore, Chennai and Pune.

California Public Employees' Retirement System too has entered India with a \$100 million share in a \$400 million real estate fund promoted by Infrastructure Leasing and Financial Services Ltd (IL&FS). Walt Disney, the American entertainment major, is also investing over \$35 million.

Morgan Stanley Real Estate Fund recently picked up equity worth about \$150 million in Mumbai's Oberoi Constructions, apart from investing around \$68 million in Mantri Developers from Bangalore. JP Morgan's Principal Real Estate Investments has invested \$60 million in a premium residential project being developed by Lodha Builders in Mumbai. The project is coming up on mill land sold by the union government's National Textile Corporation.

DB Real Estate, the property finance arm of Deutsche Bank AG, is establishing a global fund for investing \$300 million in India. Hong Kong-based AEA Holdings is prospecting for the right partners to expand its business horizons. Capital Land, is also planning to invest in India.

Mauritius-based companies are not far behind. TH Holdings proposes to invest \$430 million, while IREO Investment Holdings has entered with an \$80 million

investment. Another company, financed by a fund in Cayman Islands, has raised \$500 million through an India-dedicated fund and is tipped to raise even more.

Vancouver-based Royal Indian Raj International Corporation (RIRIC) will invest \$2.9 billion in a single real estate project billed as the Royal Garden City in Bangalore. Estimated to cost over \$10 billion, the project is slated for completion in 10 years. The Indonesia-based Siputra Selim Group is bringing in \$200 million into Kolkata's housing sector. NSK Limited of Japan has committed \$10 million to set up a joint venture in Chennai.

A similar proposal for a joint venture from the Netherlands-based Diageo Highlands Holdings has received clearance from the Indian government.

Knight Frank's Vakil praises the policy to permit 100 per cent FDI into the hospitality sector without approval. "This is expected to give much required fillip to the five-star room capacity," he observes. "Hitherto, most big name hoteliers have largely resisted putting their money in constructing hotels, having preferred management contracts instead."

There is little doubt that the Indian real estate industry is far more professionally managed today with the entry of the big Indian and overseas developers as well as financiers. The booming market has room for all. And this is translating into healthier competition, higher standards of development, competitive services, and enlarged benefits to end-users. 🌈