



Real Estate Investing in India

Investing for Policy Driven Growth

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EXECUTIVE SUMMARY

- By 2017, India is projected to be the second-largest economy among the BRICS nations; yet its GDP per capita is \$1,500, less than a quarter of China's and just 3% of that of the US. This untapped capacity presents considerable opportunities for growth
- India's new government seems to have a reformist zeal, with major infrastructure investment plans. This is a net positive for real estate markets which, in conjunction with reduced bank financing for the sector, should create multiple investment opportunities
- Although the poorest of the BRICS nations, strong political will and aggressive policy initiatives signal a changing urban India. The recent Government of India (GoI) Budget (issued on July 10th 2014) contains a number of initiatives for real estate
- High interest rates (10%+ mortgage rates) have helped prevent the real estate market from overheating. The Reserve Bank of India (RBI) has increased the risk weighting⁽¹⁾ of commercial real estate to 150%, which in turn, has resulted in a dearth of financing for the sector
- India's residential market remains buoyant and is supported by the fundamentals of urbanization, household formation and strong disposable income growth, particularly in Tier-I cities like New Delhi and Mumbai
- New construction of office space – a currently oversupplied sector – has significantly slowed down. Tenant demand is expected to firm up, especially in the IT and IT enabled Services (ITeS) sector that grew 12% this year and leases more than 70% of total office space in India
- Compared to figures of 20% in China, 45% in Thailand and 85% in the US, organized retail accounts for just 5% of the total retail space in India. Retail sales are growing at 10+% per year providing strategic opportunities in the sector



INDIA'S POLITICS DETERMINES THE ECONOMY AND THE REAL ESTATE SECTOR

- **Infrastructure** Projects worth \$28 billion sanctioned in FY 2013. The new government intends to focus further on infrastructure including the Delhi-Mumbai Investment Corridor and Dedicated Freight Corridors
- **Land Acquisition** The new government plans to amend the 2013 legislation that sought to improve India's archaic land acquisition laws. Although it increased transparency of land titles, companies acquiring land for industry were required to pay four times the prevailing "circle" rates (local government mandated minimum price) for rural and twice the rate for urban land
- **SEZ** Special Economic Zones contributed 29% of India's exports in 2012. The new government is reviewing the dividend distribution tax and minimum alternate tax (introduced in 2012) that saw developers moving out of SEZs
- **REITs** In its 2014 budget the government removed potential double taxation of REITs, the largest road block for REIT legislation in India. Foreign PERE firms (including Blackstone and Brookfield) that faced difficulties exiting their investments due to the recent downturn are expected to IPO

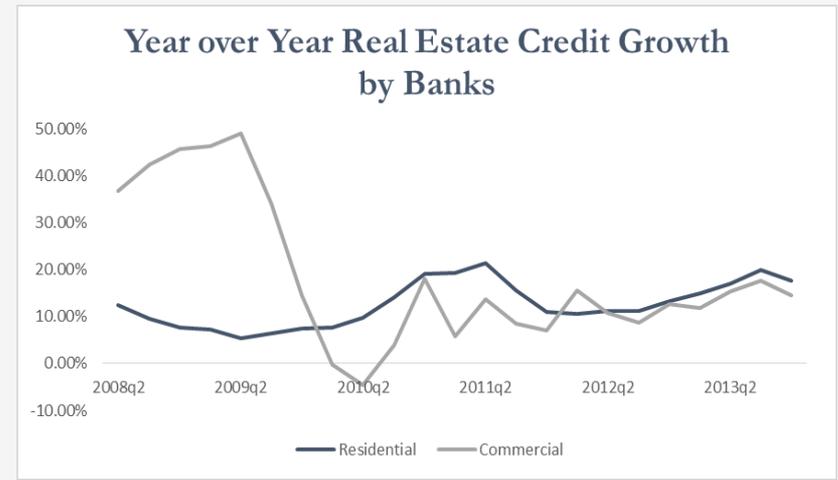
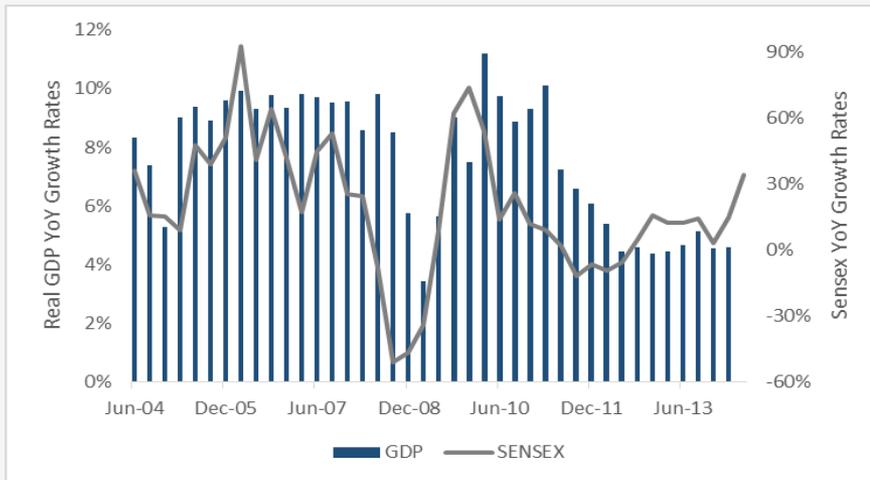
Politics plays a major role in India's economy. A pro-growth, stable and infrastructure-focused government is a "game changer" for real estate



SENTIMENT HAS TURNED, GROWTH SHOULD CATCH UP

The S&P BSE-Sensex, a leading indicator for economic growth, is up 21.5% YTD

Commercial real estate sector financing has slowed considerably while housing credit growth has recently dipped



Source: dono consulting; MoSPI, Bloomberg

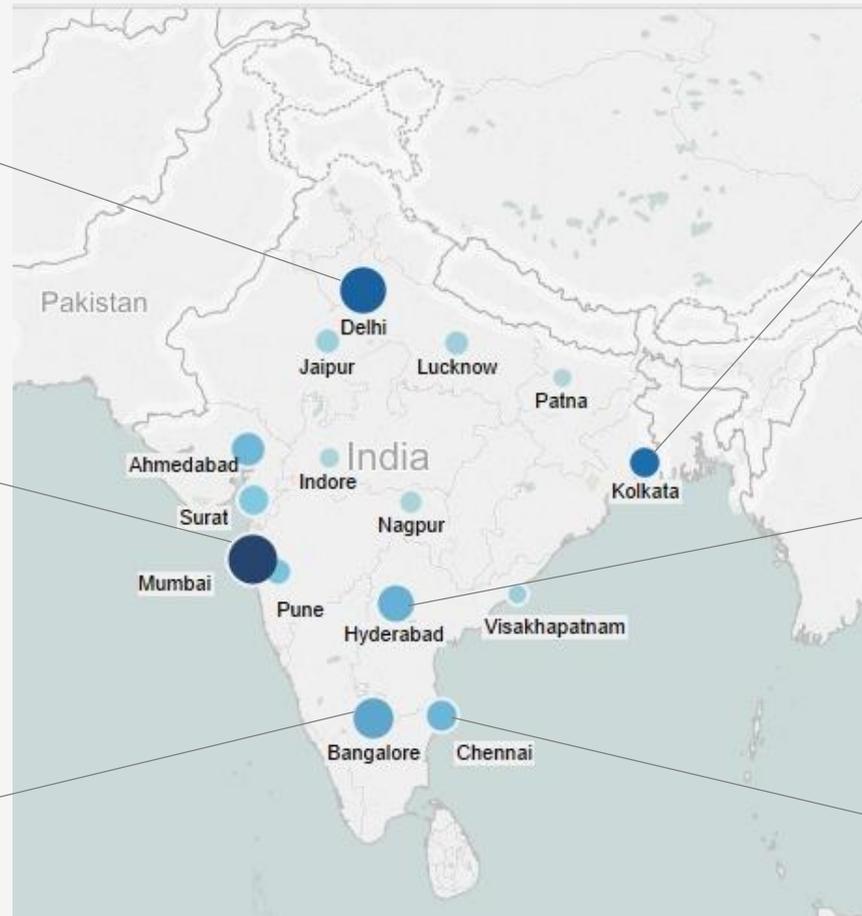
Source: dono consulting; MoSPI

A structural slowdown in real estate provides significant opportunities. Early signals of recovery are now visible, offering the prospect of medium term gains



TIER I AND TIER II CITIES ARE THE FOCUS OF REAL ESTATE DEVELOPMENT

Map of India with top 15 cities by GDP



GDP: USD 167 billion
Population: 11 million
National Capital. Fast growing satellites of Noida and Gurgaon. Largest retail market. Expanding IT industry

GDP: USD 209 billion
Population: 12.5 million
Country's financial hub. Per capita income 3x of national average. Manufacturing, pharma and textile center

GDP: USD 83 billion
Population: 8.5 million
IT and ITeS hub employing 35% of India's IT professionals. Population density increased 47% between 2001 and 2011

GDP: USD 150 billion
Population: 4.5 million
Trading center and hub of the East and NE. Urban redevelopment in the past 5 years has been fuelled by IT

GDP: USD 74 billion
Population: 6.8 million
IT and Biotech center. Growth slowed due to political problems that have now been resolved

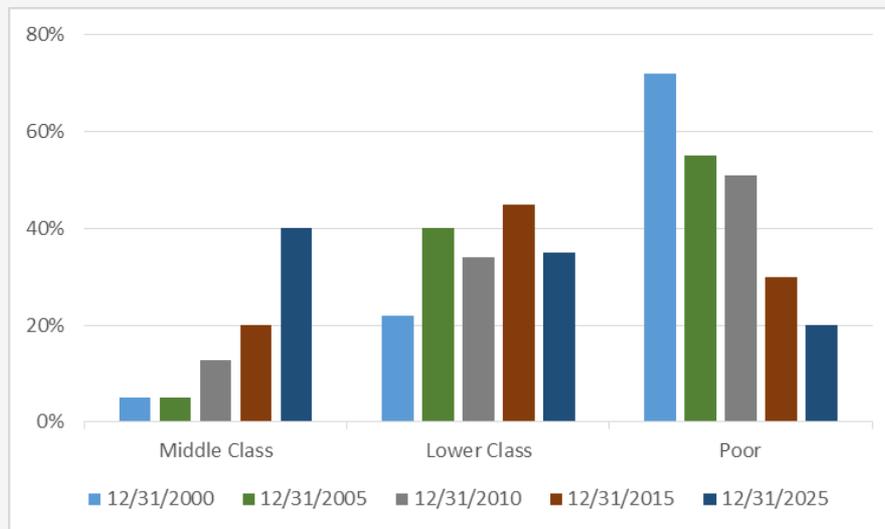
GDP: USD 66 billion
Population: 4.7 million
Port city and manufacturing hub, especially of cars and electronics. Growing medical tourism sector

Darker color signifies higher GDP (PPP USD). Circle size signifies population



FUNDAMENTAL RESIDENTIAL DEMAND IS ROBUST

Income Distribution and the Rise of India's Middle Class



Source: doqo consulting calculations, NCAER, McKinsey Forecasts

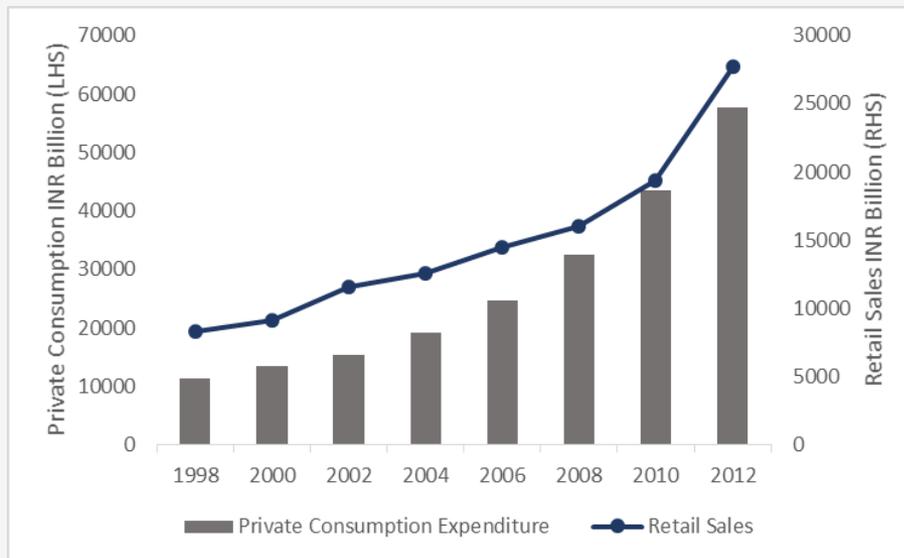
- The Indian middle class (households earning between INR 600,000 and 3 million / USD 10,000 and 50,000 per year) is expected to double between 2010 and 2015
- Despite high home ownership rates (84%), there is a shortfall of 18.4 million residential units. This does not include the trade-up intentions of the middle class who aspire to move out of low quality housing stock
- Despite an oversupply of premium grade and luxury residential projects in certain Tier I submarkets, rapid urbanization and the rise of the middle class has provided strong support for mid-range home prices

Urbanization, the burgeoning middle class and a shortfall of urban housing provide sustainable support for India's residential sector



GROWING CONSUMPTION IS DRIVING DEMAND FOR RETAIL

Private consumption expenditure drives retail sales although rate of retail sales growth has been slower than consumption growth rate



Source: dono consulting, Indiastat

(1) "Pulse of Indian retail market", March 2014, Ernst & Young and Retailers Association of India (RAI)

- India has 54 million sq ft of unorganized retail space. Mall developments have focused on Tier-I cities, and overbuilding in submarkets like Gurgaon in Delhi NCR has caused rents to decline. However, in a recent E&Y survey⁽¹⁾, 72% of retailers claimed that their primary focus now is on Tier-II cities and below
- Mango, Promod, Zara and other global brands have entered the country after 51% FDI in single brand retail was permitted in 2006
- In September 2012, the government approved up to 51% foreign direct investment in multi-brand retail and up to 100% in single brand retail. Since then, it has approved proposals worth INR 22 billion (USD 3.7 billion) from eight retailers (including H&M) to enter the country
- While Tesco already has a JV, it has applied for permission to invest a further INR 6.8 billion (USD 113 million). Walmart also has a JV and plans to invest USD 2.5 billion over the next five years

Easing of FDI regulations, shrinking savings rate, rising household income and urbanization have attracted some of the top global brands to India



FDI POLICY IN REAL ESTATE AND RELATED SECTORS⁽¹⁾

Industry	Equity Limit (%)	Notes
Construction	100%	<ul style="list-style-type: none"> Minimum project size 20,000 sq. mtr.. Reduced from 50,000 sq. mtr. in this budget. The funds need to be brought into the country within 6 months of commencement of business Minimum paid up capital: USD 5 million; reduced from USD 10 million Original investment cannot be repatriated within 3 years of investment At least 50% of the project must be completed within 5 years of obtaining all clearances
Real Estate	Not Allowed	<ul style="list-style-type: none"> FDI is prohibited in buying and selling of real estate assets unless a foreign company buys real estate to set up office
Single Brand Retail	100%	<ul style="list-style-type: none"> Government permission needed for investments beyond 49% FDI Retailers with higher than 51% FDI need to source 30% of their goods by value from India
Multi Brand Retail	51%	<ul style="list-style-type: none"> Minimum foreign investment of USD 100 million. At least 30% of goods by value to be procured from Indian medium, small and micro enterprises (MSME) Retail stores can only be set up in cities with a population higher than 1 million Individual States to decide whether to allow multi brand retail stores
Manufacturing	100%	<ul style="list-style-type: none"> Defense manufacturing limit increased to 49% (up from 26%) in the 2014 budget
Telecom	100%	<ul style="list-style-type: none"> Government permission needed for investments beyond 49% FDI
Agriculture	100%	<ul style="list-style-type: none"> Investments permitted only in related services and 'controlled farming'

India started liberalizing its economy in 1991. Changes in FDI rules were slow and hampered by protests from interest groups. The new government is expected to open further avenues for foreign investments.