

## Real Estate

- Opportunities
- Applicable Laws/Regulatory Policies.
- Tax Benefits/ Incentives
- Current Projections in the Budget.

### **I. INTRODUCTION.**

Due to LPG policy particularly liberalized Foreign Direct Investments (FDI) regime the India's explosive economic progress has captured the world's attention and its property market has indeed emerged as one of the most appealing investment destinations for both domestic and foreign investors.

Indian Real estate is on the high growth path and the boom is mainly due to mall culture, multiplexes, hypermarkets and retail sector are growing in India and retail brands from all over the world are showing their keen interest to even setup their base in India especially MNCs apart from retail outlets coupled with rising demand for commercial and residential boosting the industry. It is expanding its wings even in remote towns. Leave aside metro cities, smaller towns have attracted construction activity from big developers. Shopping malls, skyscrapers and new infrastructures are shaping new India.

### **II OPPORTUNITIES**

Indian real estate has huge potential demand in almost every sector especially commercial, residential, hospitality, healthcare, retail and industrial etc. This is growing at a dizzying pace of almost 30 percent each year. The bulk of construction activity - 80 percent is dedicated to housing, while the rest is commercial, including offices, malls, hotels and hospitals.

The Real Estate market is projected to grow to US\$60 billion by 2010 at a CAGR of 40%

Several factors are expected to contribute to the rapid growth in Real Estate

Large demand-supply gap in affordable housing, with demand being fuelled by tax incentives and a growing middle class with higher savings. Increasing demand for commercial and office space especially from the rapidly growing Retail, IT/ ITeS and Hospitality sectors etc.

Investment opportunities exist in almost every segment of the business as per the estimates of Investment commission of India particularly in the following sector.

Over 20 million new housing units will require in next 4 years.



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Office space for IT/ITeS: Five-fold increase in office space requirement over the next 3 years

Commercial space for organised retailing: 200 million sq. ft. by 2010.

Hotels & Hospitality: Over 40,000 new rooms in the next 5 years

Investment opportunity of over US\$75 billion in will require in the next four years.

Working Group on Urban Housing pertaining to the 11th Plan made assumptions on unit cost of construction of houses in million plus cities and other urban areas for estimating the investment required for overcoming the housing shortage. The total estimated investment for meeting the housing requirement upto 2012 was estimated to be of the order of Rs.3,61,318.10 crores consisting of Rs.1,47,195 crores for mitigating housing shortage at the beginning of 11th Plan and Rs.2,14,123.10 crores for new additions to be made during the 11th Plan period (this includes construction of pucca houses & upgradation of semi-pucca and kutcha housing units).

Apart, India in the next two years period is estimated to require investments worth US\$60 billion by 2010. This again has opened up opportunities for foreign investments in the realty sector. FDI liberalization in year 2005 has thrown open the lucrative parts of the Indian realty market to global investors.

Foreign Direct Investments in the real estate sector in India would also contribute towards making the sector more organized. Besides increasing professionalism in the sector, it would bring in advanced technology and help in the creation of healthy and competitive market environment for both domestic and foreign investors.

Real Estate companies have been successfully tapping the country's booming capital markets for funds.

Commercial office space requirement is led by the burgeoning outsourcing and Information Technology Industry. The leaders of the IT/ITES world have set up or are setting up their centers in India. Estimated demand from IT/ITES sector alone is expected to be 150mn sq.ft. of space across the major cities by 2010.

In residential sector there is housing shortage of 19.4 million units out of which 6.7 million are in urban India. High demand growth has led to prices doubling over 3 years in many cities.

The increase in purchasing power and exposure to organized retail formats has redefined the consumption pattern. As a result the country has experienced mushrooming of retail projects across the cities.

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Growth is expected in the all following sectors and Foreign Direct Investment is encouraged and permitted these sectors subjected to certain conditions.

- Hotel Development
- Tourism
- Hospitality
- Township development
- Developing Commercial Real Estate
- Built-up infrastructure
- Housing and construction projects
- Building Resorts
- Building Hospitals
- Building Educational institutions
- Building Recreational facilities
- Infrastructure projects: regional and local level
- Special Economic Zones (SEZ's)

### **III REGULATORY FRAMEWORK**

The matters pertaining to the housing and urban development have been assigned State Governments so state laws will govern the sector and Govt. of India is limited only to Delhi and other Union Territories. The Ministry of Urban Development & Poverty Alleviation is the apex authority of Government of India at the national level to formulate policies, sponsor and support programmes, coordinate the activities of various Central Ministries, State Governments and other nodal authorities and monitor the programmes concerning all the issues of urban development and housing in the country.

#### **FDI Policy**

100% FDI is allowed in real estate development subject to minimum scale norms of either:

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25 acres in case of serviced plots or integrated townships; or

50,000 sq. mtrs. of built-up area for construction development projects

Complete at least 50% of the integrated project within five years from the date of obtaining all clearances.

Do not sell undeveloped plots (with no infrastructural backup). Provide infrastructure and obtain the completion certificate from the concerned local body before disposal.

Do not repatriate original investment before three years from completion of minimum capitalization. Early exits require prior approval of the Foreign Investment and Promotion Board.

### **Laws governing real estate**

Investing in real estate in India requires compliance with various laws which are as follows viz. federal laws of India and there are many other state laws also govern real estate transactions and investment.

- Indian Transfer of Property Act
- Indian Registration Act, 1908
- Indian Urban Land (Ceiling And Regulation) Act, 1976
- Rent Control Acts
- The Town & Country Planning Acts

### **Policies**

- National Urban Housing and Habitat Policy, 2007
- Promote the observance of the National Building Code (NBC), 2005.

## **IV. INCENTIVES.**

### **Projections in the Current Budget.**

Housing for the Poor: 41.13 lakh houses constructed up to December 2007 under Indira Awas Yojana (IAY) against a target of 60 lakh houses; Cumulative number of houses constructed under IAY to be 51.77 lakh by end March 2008; Subsidy per unit in respect of new houses sanctioned after April 1, 2008 to be enhanced from Rs.25,000 to Rs.35,000 in plain areas and from Rs.27,500 to Rs.38,500 in hill/ difficult areas to reflect the higher cost of construction; Subsidy for upgradation of houses to be increased from Rs.12,500 per unit to Rs.15,000; Public sector banks to be advised to include IAY houses under the differential rate of interest (DRI) scheme and lend up to Rs.20,000 per unit at an interest rate of 4 per cent.

Tax incentive under the current Budget



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No specific tax incentives for real estate sector however the following incentives will boost the real estate.

Excise duty rates on bulk cement and packaged cement brought on par; bulk cement to attract excise duty of Rs.400 per Metric Tonne or 14 per cent ad valorem, whichever is higher; cement clinkers excise duty at Rs.450 per Metric Tonne.

General CENVAT rate on all goods reduced from 16 per cent to 14 per cent to give a stimulus to the manufacturing sector.

Reduction in the excise duty from 16 per cent to 14 per cent.

Reduction in customs duty from 5 per cent to nil on steel and aluminum melting scraps.

### **V CONCLUSION**

With change in the government policy on FDI along rising demands all the real estate sectors residential, commercial and retail are currently witnessing huge growth in demand.