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FRAMEWORK AND VALUE DRIVERS FOR REAL ESTATE DEVELOPMENT IN INDIA

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ABSTRACT

The Indian real estate sector industry has assumed greater prominence with the liberalization of the economy in 90s. The resultant increases in business opportunities and labor migration in 90s led to the rising demand for retail and housing space. The real estate sector in India is presently worth USD15 billion and it is growing at a incredible rate of 30% per year. This sector is the second largest employer in India, after the agricultural sector. The Real Estate Industry has a large share in country's GDP therefore this sector is attracting large investments, especially (Foreign Direct Investment) FDI. Today, real estate in India addresses the demand for from a variety of property segments such as offices, residential units, shopping malls, and hospitality industry, manufacturing sector and logistics parks. From many years, the real estate sector is active in the establishment of SEZs (Special Economic Zones) and townships; and now it is spreading to the smaller cities and influencing their growth. Infrastructure developments are closely parallel to the real estate developments. This paper presents the Indian real estate sector in various property segments, the challenges and opportunities faced by the sector and its prospects.

Keywords: Commercial, Real Estate, Residential, Urban Planning

I. INTRODUCTION

With around 1.1 billion people, India is the second most populous country after China. India has witnessed strong economic growth in the last decade primarily on account of economic reforms that ushered in an era of liberalization and provided for increased participation from the private sector. Its economic transformation over the past decade has pushed up the GDP growth to an average of 6 percent per annum. India is emerging as an important business location, particularly in the services sector. Its favorable demographics and strong economic growth make the country an attractive place for property investors and HNIs (High Net-worth Individuals). Not many years back, the real estate sector in India was characterized by unorganized dealings such as absence of centralized land title registry, non-availability of bank financing, high interest rates and lack of transparency in transaction values; but in recent times, the real estate sector in India has showed a trend towards greater organization, transparency, and various regulatory reforms such as; repealing the Urban Ceiling act, modifying the rent control act, rationalization of property taxes in number of states, and computerization of land records.[1]The term 'real estate' is defined as land, including the air above it and the ground below it, and any buildings or structures on it. It is also referred to as realty. It covers residential housing, commercial offices, trading spaces such as theatres, hotels and restaurants, retail outlets, industrial buildings such as factories and government buildings. Real estate involves the purchase, sale, and development of land, residential and non-

residential buildings. The main players in the real estate market are the landlords, developers, builders, real estate agents, tenants, buyers etc. The activities of the real estate sector encompass the housing and construction sectors also. The Indian real estate can be grouped into three broad categories based on its use: *residential, commercial and industrial.* Examples of real estate include undeveloped land, houses, apartments, bungalows, office buildings, retail store buildings and factories. At present, due to burgeoning population and proper urban planning measures, the real estate and construction sectors are playing an important role in the overall development of India's core infrastructure like roads. Real Estate in India is one of the most important revenue generating sectors value therefore Investment in property is believed to be the smartest move as chances of loss is less. The growth and appreciation in this sector directly influences the economy of the country as many other ancillary industries and also dependent on this sector. The real estate industry's growth is linked to developments in the retail, hospitality and entertainment (hotels, resorts, cinema theatres) industries, economic services (hospitals, schools) and information technology (IT)-enabled services (like call centers) and vice versa. The Indian real estate sector has traditionally been dominated by a number of small regional players with relatively low levels of expertise and/or financial resources but now there are large players in the sector influencing growth in larger area. The paper aims to examine the present scenario of real estate in India. In this broader framework, an attempt has been made to achieve the following specific objectives:

1. To study the fundamental factors affecting the real estate value.
2. To present the future opportunities and constraints of real estate investment in India

II. REAL ESTATE MARKET IN INDIA

Indian Real Estate has seen an exceptional growth in the last few years. This was further powered byexpansion of industrial sector in five-year plans that have created a surge in demand for offices buildings and dwellings and liberalization of policies of government have decreased the need of permissions and licenses[2]. Opening the doors to foreign investors in 2002 further increased the growth of this sector. With increasing sophistication of the real estate market in India, the need for real estate valuation systems becomes extremely acute, particularly in this large and vivid country. The need for Real Estate valuation becomes even more important in India.It has embarked on the overall policy of liberalization with foreign direct investment and entry of several stakeholders in the market. In tandem, the mortgage housing finance market for home ownership has also been maturing in India with increasing income levels and thus there is an urgent need for a standardized system of valuation practice. Purchasing real estate requires a significant investment and each parcel of land has unique characteristics, so real estate industry has evolved into several distinct fields. Real estate can be divided into four categories: These are *Residential, Commercial, Retail and Hospitality.* The following factors influence the price and cost of the real estate:

1. The physical characteristics of the property like location, soil condition, and amenities
2. The property rights holding the property like tenure rights
3. Geographical area i.e., regional context
4. The development rate

III. POLICY INITIATIVES BY GOVERNMENT

(A) Foreign Direct Investment in Real Estate: The Department of Industrial policy and promotion (DIPP)

permitted FDI 100% under townships, housing built-up infrastructure and construction development projects subject to the following guidelines:[3]

The minimum area to be developed under each project is as follows:

1. In case of development of serviced housing plots, a minimum land area of 10 hectares
2. In case of construction development projects, a minimum built-up area of 50,000 sqmts
3. In case of a combination of the above two projects, any one of the two conditions would be sufficient.

The minimum capitalization norm shall be USD 10 million for a wholly owned subsidiary and USD 5 million for joint ventures with Indian partners. The funds would have to be brought in within six months of commencement of business of the company.

One of the condition states that the original investment cannot be repatriated before a period of three years from completion of minimum capitalization. However, the investor may be permitted to exit earlier wit prior approval of the government through the Foreign Investment Promotion Board (FIPB)

Projects with FDI, the development of at least 50% of the integrated project within a period of five years from the date of obtaining all statutory clearances has to be completed. Also, the investor would not be permitted to sell underdeveloped plots (underdeveloped connotes, where roads, water supply, street lighting, drainage, sewerage and other conveniences as applicable under prescribed regulations, have not been made available). The investor must provide this infrastructure and obtain the completion certificate from the concerned local body/service agency before being allowed to dispose of the serviced housing plots.

The project shall conform to the norms and standards including land use requirements and provision of community amenities and common facilities as laid down in the applicable building control regulations, by-laws, rules and other regulations of the State Government/Municipal/Local Body concerned.

The investor shall be responsible for obtaining all necessary approvals necessary approvals, including those of the building/ layout plans, developing internal and peripheral areas and other infrastructure facilities, payment of development, external development and other charges and complying with all other requirements as prescribed under applicable rules/bye-laws/regulations of the State Government/Municipal Body/ Local Body.

(B) Investment trend: There is a gradual shift in the way the construction of both residential and commercial property is being financed-away from debt and towards equity. Traditionally, developers funded their construction cost by pre-selling houses to buyers. But this mode is outdated now. Private debt and bank lending have since emerged as the most important source of real estate finance in India, accounting for 60 per cent of the total money being spent on new construction activities. In the past four years, bank loans to commercial real estate have increased by more than 500 per cent to USD 2.4 billion.

(C) Other initiatives[4]:

(1) Reserve Bank of India has come out with different concessional schemes. For increasing the growth graph of real estate sector, RBI has given banks the authority to plan out new schemes that will benefit this sector.

(2)The ULCRA i.e. Urban Land Ceiling and Regulation Act has been repealed by various states thereby bringing in hike in the real estate sector.

(3)Increased share of FDI: In single-brand retail outlets this share has been raised to 51% and in cash-and-carry, the share is 100%. In reality projects, 100% FDI is allowed but through automatic route.

(4)Funds allocated by the government for Urban Development were increased to US$ 1.17 billion from US$ 660.3 million.

(5) The minimum area that can be developed in terms of integrated townships has been reduced to 25 acres from 100 acres. This has greatly helped the developers in making more profits and thus augmenting the real estate growth.

(6)Share for the Rajiv AwasYojna has been increased from US$ 32.4 million to US$ 274 million.

IV. DEMAND DRIVERS

These trends have benefited from the substantial recent growth in the Indian economy, which has stimulated demand for land and developed real estate across the real estate industry. Demand for residential, commercial and retail real estate is rising throughout India, accompanied by increased demand for hotel accommodation and improved infrastructure.

4.1 Residential Real Estate Development

The growth in the residential real estate market in India has been largely driven by rising disposable incomes, a rapidly growing middle class, low interest rates, and fiscal incentives on both interest and principal payments for housing loans, increased customer expectations.

According to National Council of Applied Economic Research (NCAER), income classes with annual incomes between Rs. 2 million and Rs. 5 million per year, Rs. 5 million and Rs. 10 million per year, and in excess of Rs. 10 million per year increased in size by 23 per cent, 25 per cent and 28 per cent, respectively, from fiscal 2005 to fiscal 2010. These higher income households were the largest target customers for the luxury and super luxury residential developments.

The residential sector is expected to continue to demonstrate robust growth over the next five years, assisted by the rising penetration of housing finance and favorable tax incentives.

Demand for houses increased considerably whilst supply of houses could not keep pace with demand thereby leading to a steep rise in residential capital values especially in urban areas. Broadly, residential real estate industry can be divided into four growth phases, is discussed below:[5]

Phase I (2001-2005) was an initial growth phase with stabilizing residential real estate prices following the global recovery post the “dot com” bust and 9/11 terrorist attacks in New York. At the same time, there was steady growth in Indian economic activity, noteworthy recovery in IT/ITES industry, growing urbanization and a rising trend towards nuclear families.

Phase II (2006-2008) was a high growth phase where high demand for residential real estate led to doubling of housing prices. Demand rapidly increased due to India’s growing population, accentuated urbanization, rising disposable incomes, rapidly growing middle class and youth population, low interest rates, fiscal incentives on interest and principal payments for housing loans and heightened customer expectations.

Phase III (2009-2010) witnessed substantial slowdown and part recovery in demand because of the global economic downturn, which led to a decline in affordability and tight liquidity. The retreat of various real estate investors, accompanied by slowdown in the capital markets, has resulted in oversupply and falling prices.

Phase IV (2011-2014) is expected to remain a consolidation phase after slowdown. Demand is expected to remain strong with capital values witnessing modest rise. This period is expected to witness substantial supply of housing especially in urban areas.

In spite of the stupendous growth witnessed in the past 10 years, substantial housing shortage is still prevalent

in India. According to CRISIL Research, housing shortage in India is estimated at 78.7 million units at the end of Phase II. The overall housing shortage in India is likely to decline to 75.5 million units by the end of Phase IV.

4.2 Commercial Real Estate Development

The commercial office space in India has evolved significantly in the past 10 years due to change in business environment. The growth of commercial real estate has been driven largely by service sectors, especially IT-ITeS. Previously commercial properties were concentrated towards CBD (Central Business District) areas in large cities. However, with the emergence of IT-ITeS, which had huge office space requirement, commercial development started moving towards city suburbs. It resulted in multifold development of city outskirts and suburbs like Gurgaon near New Delhi, Bandra and Malad in Mumbai, and the Electronic city in Bengaluru. In addition, over the last 10 years, locations such as Bengaluru, Gurgaon, Hyderabad, Chennai, Kolkata and Pune have established themselves as emerging destinations for commercial development, which are competing with traditional business destinations such as Mumbai and Delhi. Tax sops on the profits of IT-ITeS companies also led to stupendous development of IT Parks and SEZs. Demand for office space is directly linked to addition in number of employees, which in turn is dependent on economic growth. When economy slows down, companies hold their expansion plans leading to lower demand for office space. The demand for commercial real estate was on an upswing between 2005 and early 2008, driven by exceptionally high employee additions in the IT/ITeS sector. The strong demand from domestic IT/ITeS companies and captives of large global players was a result of increased business, primarily from the US and European markets. A healthy domestic economy coupled with aggressive corporate expansion plans led to strong demand from sectors such as Banking, Financial Services and Insurance (BFSI) and media and entertainment. Furthermore, limited supply of quality office space led to a sharp increase in lease rentals for commercial office space in most micro-markets, with an average increase of 108 per cent between 2005 and early 2008, according to CRISIL Research. CRISIL Research has estimated supply of office space at around 172 million square feet in 10 major cities (Mumbai, NCR, Bengaluru, Kolkata, Chennai, Hyderabad, Pune, Ahmedabad, Chandigarh and Kochi) during 2009-11. Expected demand during the same period is 70 million square feet Supply in the top 10 cities account for approximately 70-75 per cent of total office space supply in the country.

4.3 Retail Real Estate Development

The organized retail segment in India is expected to grow at a rate of 25 per cent to 30 per cent over the next five fiscal years. The growth of organized retail is expected to be driven by demographic factors, increasing disposable incomes, changes in shopping habits, the entry of international retailers into the market and the growing number of retail malls.

The major organized retailers in India currently include Tata-Trent, Pantaloon, Shopper's Stop and the RPG Group. While organized retail has so far been limited to larger cities in the country, retailers have announced major expansion plans in smaller cities and towns. The growth of organized retail in India will also be affected by the reported entry into the sector of major business groups such as Reliance, Bennett & Coleman, Hindustan Lever, Hero Group and Bharti. International retailers such as Metro, Shoprite, Lifestyle and Dairy Farm International have already commenced operations in the country.

The retail industry in India has witnessed a slowdown in the past year after increasing at a CAGR of 28 per cent in the 2005-08. The industry is expected to increase at a CAGR of 14 per cent in the short term and 19 per cent over the next 5 years. Organized retail penetration has grown to about 5.6 per cent in 2009-10, which is further expected to increase to about 7.3 per cent by 2012-13. In the past few years, India's organized retail industry has posted high growth rates given improvement in key driving factors namely, lavish lifestyles, high disposable incomes and a propensity to spend. India's retail market was mainly unorganized until early 2000.

4.4 Hospitality Industry

India's hospitality industry has enjoyed robust growth over the past few years buoyed by a benign economic and political environment. Increase in domestic, business and leisure travel has benefited hotels in India. Rising incomes, higher weekend trips and increased access to travel-related information over the Internet have propelled growth in hospitality. Premium segment hotels are more prominent in major business destinations in India and are dominant in popular tourist destinations like Goa, which attracts a lot of foreign clientele. Further, investments in the premium segment of the hotel industry are expected to be between Rs. 20 billion and Rs. 23 billion in the aggregate over the next five years.

According to an industry report, the majority of segments in the Indian hotel industry have shown robust recent growth in room rates as well as occupancy rates. With increased demand and limited availability of quality accommodation, the average room rates in metropolitan markets have grown by approximately 50 per cent over the last two years, the exceptions being Bangalore, where the rates have more than doubled, and Kolkata, where they have risen only marginally notwithstanding strong growth in occupancy rates. The general increase in room rates and occupancy rates is expected to contribute significantly to the demand for new hotel developments.

4.5 Special Economic Zones

SEZs are specifically delineated duty free enclaves deemed to be foreign territories for purposes of Indian custom controls, duties and tariffs. There are three main types of SEZs: integrated SEZs, which may consist of a number of industries; services SEZs, which may operate across a range of defined services; and sector specific SEZs, which focus on one particular industry line. Regulatory approvals have been received for SEZs proposed to be developed by a number of developers. SEZs, by virtue of their size, are expected to be a significant new source of real estate demand.

4.6 Infrastructure Development Projects

Central and state governments in India are increasingly focused on infrastructure development. A significant portion of infrastructure development is expected to be undertaken through public-private partnerships, thereby increasing the flow of private capital into infrastructure projects. Key areas of infrastructure development include transport, power, telecommunications, ports, pipelines, sanitation, water supply and irrigation.

Applying this average to the biggest urban agglomeration areas in the country, it follows that in 2030 Mumbai will have a population of roughly 35 million and Kolkata and Delhi just under 30 million in 2030. This could still be considered a conservative estimate as it puts urbanization in India then only at China's level today. Assuming that the growth of India's industrial activity and high-end services grow at an above-average pace,

the rural exodus could speed up sharply, similar to the development in China.

There are two clear outcomes following from this. Firstly, India's cities must gear up to a dramatic increase in size. Their infrastructure (schools, roads, airports, seaports etc.) and housing capacities will need to expand massively. Secondly, the accelerated rate in urbanization throws into particularly sharp focus the possibility that established centres(i.e. Tier I cities) are already straining the limits of their capacities, leading to above average expansion in the second-tier cities. The most important office locations are in the Central Business Districts (CBD). It has only been in the last few years, as space has become more limited in the CBDs and new higher quality offices with lower prices have been built in peripheral locations that demand has shifted from downtown areas out to the new locations called Secondary Business Districts (SBD). Most recently, additional development areas, with a mixture of office, retail and residential, have been built. Just like other global locations, the most important locational factors are the availability of staff, ease of access by car and public transport and regional growth potential. In Indian cities it is also important to access the technical infrastructure provision (e.g. electricity, telephones and water supply) to ensure that it meets requirements. The most transparent and liquid office markets are that of Delhi, Mumbai and Bangalore. It is worth noting, however, the enormous potential of the growing markets in the Tier II and Tier III cities, such as Pune, Hyderabad or Chennai.

V. PRESENT SECANRIO-REAL ESTATE INDUSTRY

The real estate sector is a critical sector of our economy. It has a huge multiplier effect on the economy and therefore, is a big driver of economic growth. It is the second-largest employment-generating sector after agriculture. Growing at a rate of about 20% per annum and this sector has been contributing about 5-6% to India's GDP. Not only does it generate a high level of direct employment, but it also stimulates the demand in over 250 ancillary industries such as cement, steel, paint, brick, building materials, consumer durables and so on. [6]The Indian real estate industry has been on a roller coaster ride since 2005. Consequent to the government's policy to allow Foreign Direct Investment (FDI) in this sector, there was a boom in investment and developmental activities. The sector not only witnessed the entry of many new domestic realty players but also the arrival of many foreign real estate investment companies including private equity funds, pension funds and development companies entered the sector lured by the high returns on investments. The real estate sector has been riding through many highs and lows since then. The industry achieved new heights during 2007 and early 2008, characterized by a growth in demand, substantial development and increased foreign investments. However, by mid-2008, the effects of the global economic slowdown were evident here too, and the industry took a 'U' turn. FDI inflow into real estate dropped significantly and what had emerged as one of the most promising markets for foreign investments experienced a downturn.

In the Financial Years 2007-08, 2008-09 and 2009-10, the housing and real estate sector attracted FDIs of 8.9%, 10.3% and 11% respectively, of the total FDI in India. However, the financial year 2010-11 saw a mere 6% FDI in this sector. The year 2010 saw the Indian real estate sector spring back into action after the gloom and recessionary pressures experienced in the aftermath of the global downturn. The focus on 'affordable housing' helped the sector tide over the financial crunch it had witnessed. There is no doubt that the sector holds huge potential to attract FDI in its various segments. However, progress is possible only with the joint efforts of both

the industry and the Government. On the one hand, the industry should work towards increased transparency, clear land titles, improved delivery and project execution while on the other hand the Government must provide fiscal incentives to developers to build low cost and affordable housing for the masses and also review the existing FDI guidelines for investment and development in Indian real estate in order to increase the flow of foreign capital into the sector.

5.1 Research and Development in Real Estate

The Government must provide incentives to the public and private sectors to take up R&D activities for new building materials and technologies so that the industry can deliver low cost, affordable, and sustainable and environment friendly housing and building structures.

The main reason for opening up the real estate sector to 100% FDI was to bridge the huge shortage of housing in the country and to attract new technologies in the housing sector. The original FDI guidelines issued vide the above press note attracted large amounts of foreign funds to the Indian real estate sector however, subsequent amendments to the FDI policy relating to real estate; have created unwanted apprehensions and confusion in the minds of global investors thereby affecting FDI inflows adversely. Further, lack of consistency in rules relating to development of SEZs, increased monitoring of the sector by regulatory agencies, tightening of rules for lending to the real estate sector and increase of key rates by the RBI several times during the last one year, have arrested the growth of the sector. There is a need to streamline government policies and introduce reforms to boost the real estate sector

VI. REFORM ISSUES

The Indian real estate market is still largely unorganized and dominated by a large number of small players, with very few large players having national presence. The Indian real estate market, as compared to markets is characterized by smaller size, lower availability of good quality space and higher prices. Supply of urban land is largely controlled by state-owned development bodies and Housing Boards leaving very limited developed space free, which is controlled by a few major players in each city. Restrictive legislations and lack of transparency in transactions are other main impediments to the growth of this sector. Limited investment from organized sector has also hindered the growth of this sector. There is a thriving parallel economy in real estate, involving large amounts of undeclared transactions, mainly due to high stamp duty rates. The current legislative framework also leads to substantial losses to the Government. Some of these issues are: [7]

6.1 Legislative Issues

Much of the over 100 laws governing various aspects of real estate dates back to the 19th century. Despite surplus laws, the situation appears to be far from satisfactory and major amendments to existing laws are required to make them relevant to modern day requirements. The Central laws governing real estate include:

Indian Contract Act, 1872-This legislation specifies when a party can be said to have the capacity to contract. A contract pertaining to realty can be entered into, among others, by an individual (who is not a minor or of unsound mind), partners of a firm, a corporate body, a trust, a sole corporation, the manager of an undivided family, and a foreigner. All the requirements of a valid contract, i.e. consideration, intention to contract and validity under the law of the land must be satisfied.

Transfer of Property Act, 1882-This lays down the general principles of realty, like part-performance and has provisions for dealing with property through sale, exchange, mortgage, lease, lien and gift. A person acquiring immovable property or any share/interest in it is presumed to have notice of the title of any other person who was in actual possession of such property.

Registration Act, 1908-The purpose of this Act is the conservation of evidence, assurances, title, and publication of documents and prevention of fraud. It details the formalities for registering an instrument. Instruments which it is mandatory to register include:

(a) Instruments of gift of immovable property; (b) other non-testamentary instruments which purport or operate to create, declare, assign, limit or extinguish, whether in present or in future, any right, title or interest, whether vested or contingent, to or in immovable property; (c) non-testamentary instruments which acknowledge the receipt or payment of any consideration on account of instruments. (d) leases of immovable property from year to year, or for any term exceeding one year, or reserving a yearly rent.

Transfer of Property act- Sales, mortgages (other than by way of deposit of title deeds) and exchanges of immovable property are required to be registered by virtue of the Transfer of Property Act. Evidently, therefore, all the above documents have to be in writing. Section 17 of the Act provides for optional registration. An unregistered document will not affect the property comprised in it, nor be received as evidence of any transaction affecting such property (except as evidence of a contract in a suit for specific performance or as evidence of part-performance under the Transfer of Property Act or as collateral), unless it has been registered. Thus the doctrine of part performance dealt with under Section 53 A of the Transfer of Property Act and the provision of Section 49 of the Registration Act (which provide that an unregistered document cannot be admissible as evidence in a court of law except as secondary evidence under the Indian Evidence Act) together protect the buyer in possession of an unregistered sale deed and cannot be dispossessed. The net effect has been that a large number of property transactions have been accomplished without proper registration. Further other instruments such as Agreement to Sell, General Power of Attorney and Will have been indiscriminately used to effect change of ownership.

Special Relief Act, 1963- This Act is only to enforce individual civil rights. A person dispossessed of immovable property without his consent (other than in due course of law) can recover possession by a suit filed within six months from the date of dispossession. Unless the contrary is proved, in a suit for specific performance of a contract, the Court shall presume that a contract to transfer immovable property is one in which monetary compensation for its non-performance would not afford adequate relief. The Court could also grant a permanent/ mandatory injunction preventing the breach of such contract and award damages.

Urban Land (Ceiling And Regulation) Act (ULCRA), 1976-This legislation fixed a ceiling on the vacant urban land that a 'person' in urban agglomerations can acquire and hold. A person is defined to include an individual, a family, a firm, a company, or an association or body of individuals, whether incorporated or not. This ceiling limit ranges from 500-2,000 square metres (sq. m). Excess vacant land is either to be surrendered to the Competent Authority appointed under the Act for a small compensation, or to be developed by its holder only for specified purposes. The Act provides for appropriate documents to show that the provisions of this Act are not attracted or should be produced to the Registering officer before registering instruments compulsorily registrable under the Registration Act.

Land Acquisition Act, 1894- This Act authorizes governments to acquire land for public purposes such as planned development, provisions for town or rural planning, provision for residential purpose to the poor or landless and for carrying out any education, housing or health scheme of the Government. In its present form, the Act hinders speedy acquisition of land at reasonable prices, resulting in cost overruns.

The Indian Evidence Act, 1872- Under the Act, whenever the status of any person as the owner of a piece of immovable property of which he is shown to be in possession is questioned, the burden of proving that he is not the owner lies on the person who asserts that he is not the owner. State laws governing real estate

While each state has its own set of laws, which govern planned development, rules for construction and floor-area-ratio (FAR) or floor space index (FSI) and formation of societies and condominiums, two laws that exist in every state, are the stamp duty and rent laws. Stamp Duty is being covered in a later section.

Rent Control Act- Rent legislation in India has been in existence for a very long time. Rent control by the government initially came as a temporary measure to protect the exploitation of tenants by landlords after the Second World War. However these rent control acts became almost a permanent feature. Rent legislation provides payment of fair rent to landlords and protection of tenants against eviction. Besides, it effectively allows the tenant to alienate rented property. Tenants occupying properties since 1947 continue to pay rents fixed then, regardless of inflation and the realty boom. Some of the adverse impacts of the Rent Control Act are:

• Negative effect on investment in housing for rental purposes.
• Withdrawal of existing housing stock from the rental market.
• Accelerated deterioration of the physical condition of the housing stock.
• Stagnation of municipal property tax revenue, as it is based on the rent.
• Resultant deterioration in the provision of civic services.
• Increase in litigation between landlords and tenants.

VII. OPPORTUNITIES AND CHALLENGES

The opportunities in the Indian real estate sector, has been highlighted as follows: [8]

•There is a shortage of 12 million housing units in urban areas

•There is scope for 400 township projects over the next five years spread across 30 to 35 cities, each having a population of 0.5 million

•Total project value dedicated to low and middle income housing in the next seven years is estimated at USD 40 billion

•Instruments such as residential mortgage-backed security (MBS), commercial MBS and collateralized debt obligations (CDO) are being used to make capital work more efficiently and de-risk project incomes from promoter risk while creating a robust secondary market for commercial real estate. **Impediments to Investment**

Despite the huge investment potential there are certain snags related to investment in India's real estate. Topping the list of impediments is the opaque nature of the business in India. There are challenges of investing in India relate to transparency, limited market history and forecasting difficulties, as well as title complexities and imperfections. Ownership records and land titles are one of the biggest blind spots in property valuations. Further there is no title insurance in the country. Title insurance, as the name suggests, guarantees against massive losses in case of faulty title. While domestic funds are able to negotiate these issues, foreign funds too

are learning to handle them.

- Limited market history of property
- Procedural complexities
- Title complexities
- No title insurance available
- Lack of urban planning

Stamp duties and archaic laws such as Urban Land Ceiling Act (ULCA) and Rent Control Act need to be rationalized or scrapped. The ULCA provide for the imposition of ceiling on vacant land in urban agglomerations, for the acquisition of such land in excess of the ceiling limit, to regulate the construction of buildings on such land and for matters connected therewith, with a view to preventing the concentration of urban land in the hands of a few persons and speculation and profiteering therein and with a view to bringing about an equitable distribution of land in urban agglomerations to sub serve the common good.

The challenges in the Indian real estate sector can be broadly classified under five categories which are lack of suitable developable land, delays in obtaining approvals, issues in land title and insurance, inadequate funding challenges and shortage of manpower. [9]

7.1 Lack of Suitable Developable Land

Suitable developable land with basic infrastructure has become scarce in Indian cities. This has resulted in significant surge in land prices in the urban areas. To address the issue of unavailability of urban land and promote growth of housing stock, several State Governments have introduced land pooling policy. Land pooling, which has been successful globally, is increasingly being adopted by policy makers in the states of Gujarat, Maharashtra, Delhi, Chhattisgarh,Tamil Nadu, Punjab and Kerala.

7.2 Strict and Prolonged Regulatory Process Leading to Delays

The process of obtaining construction permit has become difficult over the last several years and is among the major reasons contributing to the delays in real estate development. According to the report of the Committee on Streamlining Approval Procedures for Real Estate Projects (SAPREP) set up by the Ministry of Housing and Urban Poverty Alleviation, a developer has to follow at least 34 regulatory processes for obtaining construction permits and it takes an average of 227 days. According to industry associations, the delay in obtaining approvals and adhering to regulatory processes can raise the project cost by 40 per cent of the sales value.

To address the issues in granting construction permit, the Government is evaluating the single-window clearance mechanism. This has also been recommended by SAPREP committee, which has given several recommendations to streamline the approval mechanism. Several cities in India such as Ahmedabad, Chennai, Cochin, Madurai, Ghaziabad,

Pune,Trivandrum, Delhi and Kozhikhode have already implemented the automated system for approving building plans.

7.3 Land Related Issues

Lack of clear land titles and title insurance in India often makes it difficult for developers to acquire suitable land parcels. Absence of clear land titles sometimes results in long-drawn and expensive litigation for

developers. Further, there is no single land policy in India and each state has its own policy, which adds to the complexities. The property taxes, stamp duty, registration charges, FAR/FSI vary across states in India.

The Indian Government has taken the initiative of digitizing land record to address the issue of land titles. The full digitizationis expected to be completed by 2018. Further, the government has enacted a new land acquisition policy in 2013 termed as Land Acquisition Resettlement and Rehabilitation Act 2013 (LARR) in its bid to improve transparency and fairness in land transactions.

7.4 Inadequate Funding Channels

Arranging the initial funding can be a grave challenge affecting the housing supply to a large extent. The Reserve Bank of India (RBI) has set threshold for the total maximum exposure to real estate, including individual housing loans and lending to developers for construction finance, for banks at 15 percent, which is quite low and is curtailing the growth of the sector. Absence of long term funding from banks is forcing developers to look at alternative sources of funds, most of which do not offer affordable interest rates and hence, the supply is being stifled. In the case of individual buyers, the persistently high inflation rates have made them suffer in multiple ways affecting their buying ability. Besides having lesser disposable incomes and savings, they are faced with increasing housing prices, further compounded by the high interest rates on mortgages.

To improve the funding situation in India, the government is planning to relax the FDI norms in the real estate sector in addition to allowing FDI in farmlands. The reforms are expected to be cleared shortly and significantly ease funding crunch in India. The government has also allowed external commercial borrowing for development of affordable housing stock in the country. Further, the government is in the process of allowing Real Estate Investment Trusts (REITs) in India. Development of a healthy REIT market could help open up new funding avenues in the real estate sector.

Shortage of manpower and technology despite being the second largest employer in the country, the construction sector as a whole faces manpower shortage. Further, the sector is heavily dependent on manual labor, faces longer time lines for construction completions, which results in supply getting deferred. Hence, technologically faster and alternative methods of construction need to be adopted on a large scale, giving rise to training and skill development of manpower.

VII. CONCLUSION

India has huge potential to attract large foreign investments into real estate sector. Real estate is now reaching a point of saturation in developed countries and the demand and prices of real estate commodities are falling. In such scenario, global real estate players are looking at emerging and developing economies such as India for tapping opportunities in real estate sector. Indian real estate will stay attractive due to its strong economy and demographic factors. In recent times, there is a high level of global uncertainty looming over the developed and developing nations of the world. While developed economies are still struggling to regain their growth momentum, developing countries including India and China are expected to grow at a reasonably high rate. This is certain that investments in Indian real estate will fetch higher returns for investors as compared to other global markets and therefore it is evident that in the coming years, the opportunities in the real estate sector will attract more global players to India and hence will help the industry to mature, become more transparent, improve management and adopt advanced sustainable construction techniques.

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