Publication: Times Of India Mumbai; Date:2007 Jul 21; Section:Times Property; Page Number 47

The race ahead

The IVCJ real estate fund conference in Mumbai highlighted the growing opportunities in the Indian real estate market, says Shilpa Sachdev

Everyone wants to be a part of the lucrative market. With the Indian Real Estate sector turning attractive, a lot of investors are keenly participating to maximise their returns. The India Venture Capital Journal [IVCJ] real estate fund conference on "Profit from Real Estate Funds: Investment Options and Strategies," held at J W Marriott, Mumbai on July 12,13, 2007 was an attempt towards taking a microscopic view at the sector and listing out the possible advantages and constraints with regards to the funding involved.

The event, sponsored by IL&FS, Avendus, Dickenson Associates, Nishith Desai Associates with Times Property as Print Partner and MCHI as a supporting organisation, among others, saw experts throwing light on key issues like the growth trends in the real estate sector in India, the real estate fund manager's selection criteria for projects and developers, issues and opportunities in Tier II and III Cities, risks faced by private equity investors and deriving ways to maximize the upside potential of any project, growth in REFs; challenges faced in their deployment, investment alternatives and models for structuring real estate deals and how developers can take advantage of real estate funds and value adds provided by private equity players.

Speaking at the keynote session, Archana Hingorani, Executive Director, IL&FS said that the Indian Government is adopting an open door policy and with concepts like tight corporate governance, quality norms, focus on green buildings, title insurance the message to the international investor that India is changing is loud and clear. She further elaborated on the challenges ahead for the developers questioning their execution skills to handle multi projects, monitor complex markets and ability to exit. She also maintained that the real estate market is a long-term play and not speculative, with the risks tempered, India is a good market.

Anuj Puri, Chairman and Country Head, Jones Lang Lasalle Meghraj agreed that the change in Indian industry is not incremental but transformational. The fragmented Indian market is now consolidating.

He reinforced the excess of demand over supply and also raised a few concerns mostly with the delivery of skilled labour like carpenters and plumbers. He also referred to pricing which is quite speculative and policy with regards to FSI norms in the country. Products in the real estate market had, however, improved, he said. Puri spoke of the importance of infrastructure, particularly in Tier II and Tier III cities. The basic thing worrying the international investor, he added, was the exorbitant land prices in India.

Sudhir Nair, Head - Research, Crisil gave an analysis of the Residential Real estate market in India. His realty check dealt with factors like demand drivers, affordability and regional dispersion within cities. He explained that the increase in number of employees would lead to a correlated increase in housing demand. According to his research around 2.8billion sq.ft will be needed in 10 cities by 2010. With demographics changing in a big way, the ripple effect will see a boom in sectors like hospitality and organised retail. He also unveiled the 'Crisil Attractors model', which showed that wherever there is infrastructure growth, the crowd would follow, and so will the demand for real estate.

Gaurav Deepak, Managing Director, Avendus Advisors Private Ltd, said real estate is becoming an industry and getting institutionalised. The policy framework has come into place. The policy framework in our country, trails growth, whether it is the stock market, banking or real estate market. Capital markets are a significant barometer of what institutions are doing and what people at large are expecting. The last year has seen real estate companies getting listed and a significant growth in public funds and private equity. There is opportunity to create capital wealth across real estate companies.

Fifty-one per cent of SEZs in India are floated by the real estate sector. But have we got our act together on SEZs? Mr. Rajneesh Agarwal, VP, Avendus Advisors said that in India occupancy in SEZs, speed of migration and financial stamina are the key challenges. The need of the hour is to push strong players, stronger KYC norms, encouraging foreign participation and making international debt easily available. He emphasised on a Country plan instead of a different policy for every region. Common threads of a successful SEZ will have fiscal incentives, government commitment, cheap land and connectivity to hinterland, all the factors why Chinese SEZs are successful.

Nischal Joshipura, Senior Associate, Nishith Desai Associates spoke on structuring of real estate deals. He said that structuring is an art. But regulation in this country is cutting the wings of foreign investors. Key regulations have raised structuring dilemmas like complying with press note of 2005, investment vehicle, choice of intermediary and price equity terms. He said that new laws bring in new ambiguities.

Mohan Deshmukh, President, Maharashtra Chamber of Housing Industry spoke on loosening land banks. He said that making Mumbai a world-class city will be a dream, and there is no way we can solve the housing problem, unless FSI increases. The success of Dubai is not just because of oil, but also because of proactive laws, good governance, good implementation of laws. Along with the Rs 228 crore allotted by Central Government for Mumbai Infrastructure; redeveloping of old infrastructure, scrapping of Urban Land Ceiling Act, focusing on the Tier II & Tier III cities, Salt pan land development will boost the land supply, he pointed out.

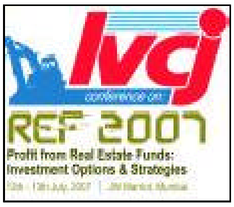
Nayan Shah, MD, May Fair Group emphasised on having a value based growth plan and selling on carpet area. He gave a menu card citing the key sectors to concentrate upon, which included redevelopment of old buildings, building townships, developing mill lands, land auction, retail, IT, service apartments, warehousing and SEZs. Despite being bullish, he also cautioned saying that the bar has raised and the margins are going low. He advised focusing on Tier II cities and in the end do what we are good at and create a quality brand.

Two very important topics were raised - Tier II and Tier III cities and Exit strategies. The success of Tier I cities depends on the development of Tier II and Tier III cities. The Tier I cities are saturating and we need to move towards the potential Tier II and III cities. Government is supporting the development in these spillover cities under JNNURM. Though opportunities are plenty in these small cities the investor is worried about how he can exit if the market goes bust. Lack of connectivity to these areas also is a major hindrance, which is putting off the foreign investor.

In conclusion, the event reinforced the faith in the Indian real estate sector by dissecting the thrust areas and moving the ball in the court of the authentic taker.

Making Mumbai a world-class city will be a dream, unless FSI increases in the city

The success of Tier I cities depends on the development of Tier II and Tier III cities




REF 2007