FICCI-ERNST & YOUNG REAL ESTATE STUDY CALLS FOR REGULATOR, INFRASTRUCTURE STATUS AND CHANGE IN FDI NORMS FOR EARLY EXIT & AFFORDABLE HOUSING

NEW DELHI, September 15, 2010. A FICCI-Ernst & Young Real Estate study entitled "Realty Decoded: Investing Across Borders" calls for the creation of a regulatory body for real estate, grant of infrastructure status to housing, liberal policies with regards to Real Estate MFs and Investment Trusts, modification in FDI norms for early exit and affordable housing and streamlining of the approval process for housing and real estate projects.

The study will be released here by Mr. Anand Sharma, Union Minister for Commerce and Industry at the International Real Estate Summit 2010 on September 16, 2010. The study reveals that of the nine countries – India, China, USA, UK, Germany, Singapore, UAE, Brazil and Russia – the most economically proactive and stable nations are the countries likely to hold the most significant potential for future investment in real estate.

Says Dr. Amit Mitra, Secretary General, FICCI, "The recovery in Indian real estate has come primarily on the back of a strong demand for residential real estate led by improved consumer confidence, economic recovery and improved job opportunities. With projections of over 8% growth expected this fiscal, investors are returning to India with greater confidence. The future of Indian real estate would significantly depend on investor friendly policies, clear & transparent regulatory framework for the sector."

"Amid diverse and evolving market dynamics, the speed of globalization and the integration of the global economy — including finance — has continued to make the world more closely connected. As the global economy continues to recover, real estate investors worldwide are poised to take advantage of investment opportunities", according to **Mr. Ajit Krishnan, Partner & National Leader-Infrastructure Practice, Ernst & Young.**

As the world's fastest-growing economy, China is undoubtedly the leader in economic development. Emerging market economies, particularly China, Brazil, Russia and India, are currently the world's fastest-growing economies. Collectively, these markets are well on their way to becoming a global economic force to be reckoned with.

The FICCI-E&Y study notes that India ranks fifth on account of a strong economic growth and a developing real estate market. With more focus on the regulatory environment, India has the potential to become a favored investment destination.

Even amid cautious market sentiment and the tightening of government policies, China remains attractive as an investment destination primarily due to its impressive economic growth record and favorable demographics. Due to their developed real estate markets and streamlined regulatory environment, developed nations such as the US, UK and the Singapore closely follow China on the index.

The efficiency of our businesses and quality of life for our human resources are largely determined by the quality of real estate. Accelerated progress both socially and economically needs an environment conducive to growth, which can be fostered by good real estate practices. If India wishes to stay ahead in the economic race, there is a strong need to improve the regulatory environment to facilitate real estate development.

The study talks about the comparison of regulatory environment across nine geographies which are India, China, USA, UK, Germany, Singapore, UAE, Brazil and Russia.

The following are the key concerns faced by the Indian real estate industry and recommendations of the FICCI-Ernst & Young study:

Creation of a regulatory body for real estate: This authority should play a significant role in organizing and lending credibility to the real estate sector by addressing sensitive issues such as the procurement of quality material, project management, architecture, achieving a disciplined workforce, marketing and estate management.

Infrastructure status to housing: Large-scale projects of a particular size, such as integrated townships, or those that serve a social cause, such as affordable housing, should be considered for infrastructure status. This is expected to facilitate access to low-cost institutional funds and simultaneously permit the sector to leverage longterm funds. The Insurance Regulatory and Development Authority's' (IRDA) regulations mandate insurance companies to invest up to 15% in the social and infrastructure sector. If the housing sector is granted infrastructure status, it could benefit from greater access to long-term finance.

Real estate mutual funds (REMFs)/real estate investment trusts (REITs):

- Permit an REMF to acquire real estate assets owned by either the sponsor or the asset management company (AMC) and allow the transfer of real estate assets between two schemes of an REMF
- Permit an REMF to own 100% of unlisted companies that own a completed asset
- Permit foreign investment from all sources in an REMF
- Clarify that the taxation of investors in an REMF is the same as that of investors in an equity-oriented fund
- Waive stamp duty and property taxes for an REMF

Suitable modifications in FDI guidelines are required especially for:

Early exit: Exit before three years with prior Foreign Investment Promotion Board (FIPB) approval should be permitted in the following instances

- Where the project is completed
- Where a dispute arises between the resident and the non-resident, and the non-resident wishes to exit the project
- Where the project could not be initiated due to lack of statutory clearances

Affordable housing: Where foreign investment is to be considered for the development of affordable housing, the government should consider modifications in the current FDI policy.

Project implementation and delivery:

- Streamlined approval process: In India, more than 52 approvals are required for housing and real estate projects, which can take up to two years to clear, as several agencies are involved in providing clearances. As housing is a state subject, each state has its own set of clearance procedures. The concept of a procedural merger encouraging a single contact point for related clearances does not exist. Developing a time-bound, streamlined clearance process should be considered.

The study notes that an overview of all the geographies showcased reveal certain common threads. The strongest markets appear to be those in which controls have curbed excessive lending, speculative buying and instability. Controlled markets such as India and China have resisted severe downturns, while lenient markets continue their struggle to maintain stability.

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