



*Federation of Indian Chambers of Commerce & Industry*

**Survey Report on  
“Impact of FDI Reforms on  
Indian Real Estate Sector”**

**December, 2015**



## Report on Survey “Impact of FDI Reforms on Indian Real Estate Sector”

Real estate sector is one of the most critical sectors of Indian economy due to its huge multiplier effect on the economy. Any impact on real estate sector has a direct bearing on economic growth. 100% Foreign Direct Investment (FDI) was permitted for Indian real estate sector in 2005, which had led to a boom in investment and developmental activities in later years. **According to DIPP, total FDI inflow in construction development sector (including townships, housing, built-up infrastructure) during April 2000 to September 2015 has been around US\$ 24.16 billion which is about 9% of total FDI inflows (in terms of US\$) from April 2000 to September 2015.**

<b>FDI in Real Estate Sector (CONSTRUCTION DEVELOPMENT: TOWNSHIPS, HOUSING, BUILT-UP INFRASTRUCTURE)</b>	
<b>Year</b>	<b>Amount in US\$ billion</b>
2010-11 (April-March)	1.66
2011-12 (April-March)	3.14
2012-13 (April-March)	1.33
2013-14 (April-March)	1.23
2014-15 (April-March)	0.77
2015-16 (April-September)	0.08
<b>Cumulative inflows (April 2000-September 2015)</b>	<b>24.16</b>

FDI in construction development sector has been on a decline over the past few years as is evident from above table. FICCI has been making representations to Government of India for further liberalising FDI regime for real estate sector to attract larger foreign capital and push growth in Indian real estate. The present Central Government under the leadership of Shri Narendra Modi, Hon’ble Prime Minister of India has announced path breaking reforms for construction development sector in November 2015 with the aim to attract more foreign capital into realty sector.

The FDI reforms announced by the DIPP, Govt. of India for construction development sector is expected to provide a new direction to foreign investment regime for realty sector in the country, help industry to tide over financial crunch that it has been facing due to slowdown in real estate and may also help the industry and Government in achieving the mission of “Housing for All by 2022”.

Though the real impact of latest FDI liberalisation measures on foreign investments in Indian real estate will be reflected over a period of time FICCI has undertaken a quick survey amongst various stakeholders comprising developers, investors and consultants to assess



the mood of real estate industry and their perception on relaxed FDI norms for real estate sector.

The survey analysis results are as below:

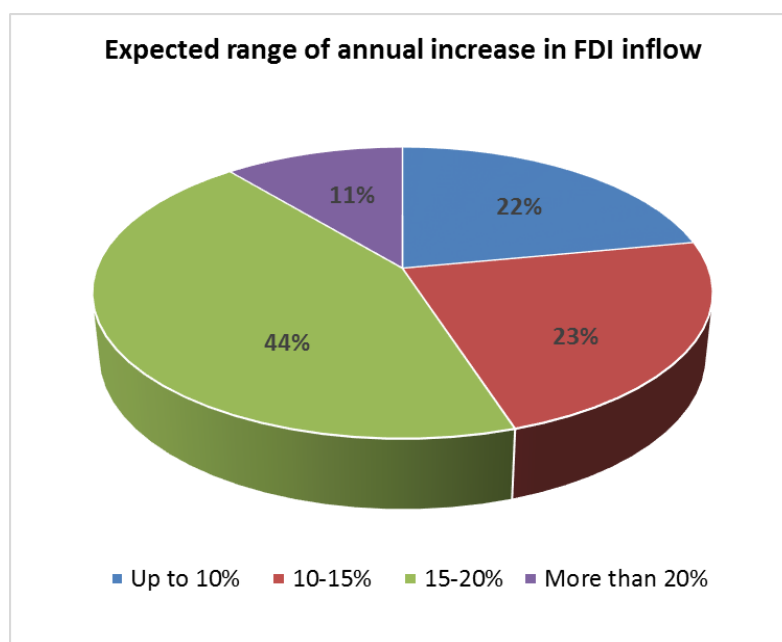
**1. Industry is happy and satisfied with current FDI reforms in construction development sector**

On the level of satisfaction a majority of respondents surveyed have rated the recent steps of the Central Govt. as positive and feel satisfied with the policy development. According to the survey, about 22% of the respondents are highly satisfied and 56% are satisfied with the changes made in FDI policy for construction development sector while 22% respondents have given a neutral rating.

**2. Increased confidence and optimism in industry towards future flow of FDI in real estate**

Industry has shown high level of confidence and optimism towards future flow of foreign capital into realty sector. Almost all (100%) respondents have felt that recent FDI reform measures will certainly increase flow of FDI into realty sector in coming months. About 55% of the respondents feel that there will be more than 15% annual increase in FDI flow into realty sector due to current steps while 23% are of the view that increase will be in the range of 10-15% and a similar percentage 22% feeling that increase in FDI flow will be less than 10% annually from hereon. (See Figure 1)

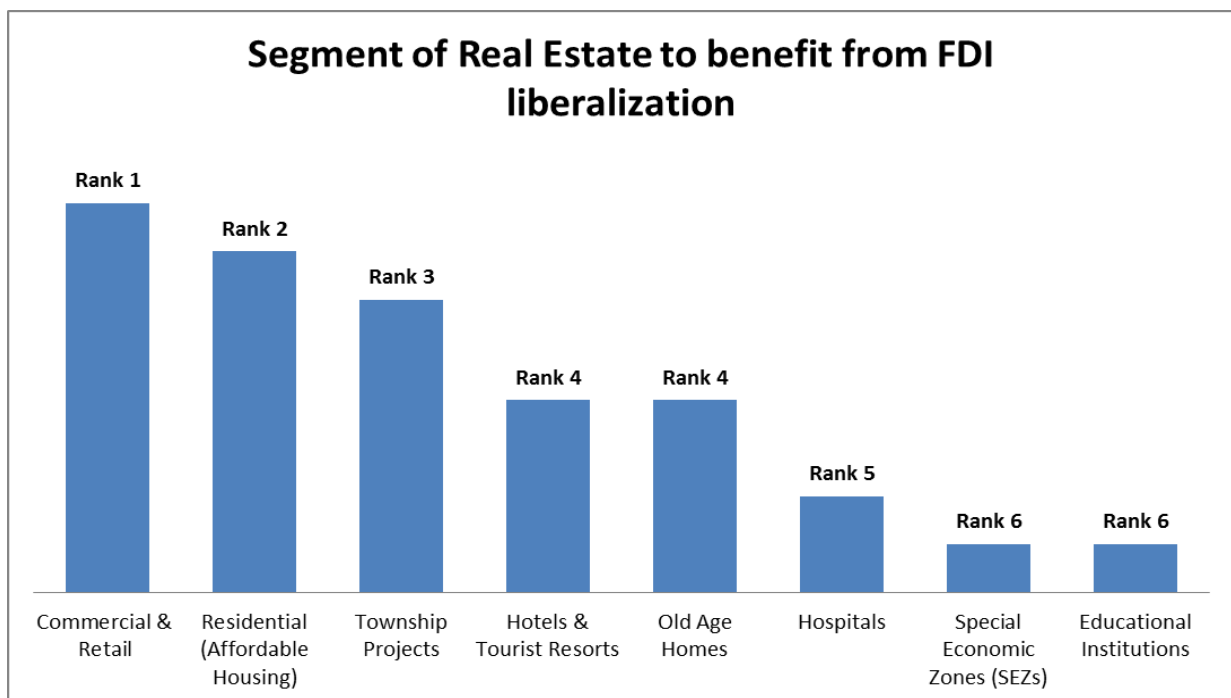
**Figure 1: Expected range of annual increase in FDI inflow**



**3. Commercial & Retail and Residential real estate to significantly gain from FDI reforms**

According to the survey analysis, majority of the respondents has opined that in coming months the commercial & retail sector (Rank 1) will receive maximum foreign capital due to current FDI liberalization followed by the residential sector including affordable housing projects (Rank 2). Other segments that stand to gain in order of priority are township projects (Rank 3), hotels & tourist resorts and old age homes tied at (Rank 4), hospitals (Rank 5) and special economic zones (SEZs) and educational institutions both tied at (Rank 6). (See Figure 2)

**Figure 2: Segment of real estate sector to benefit from FDI liberalization**



**4. A path breaking step - Permission to exit and repatriate foreign investment before the completion of project under automatic route, but with a lock-in-period of 3 years for each tranche and transfer of stake from one non-resident to another non-resident, without repatriation of investment and without any lock-in period or any government approval.**

Almost all (100%) respondents felt that Government’s decision to allow exit and repatriate foreign investment before the completion of project under automatic



route, but with a lock-in-period of 3 years for each tranche of investment and transfer of stake from one non-resident to another non-resident, without repatriation of investment and without any lock-in period or any government approval is a path breaking step. According to them it is going to cheer foreign investor community and will have a major impact on attractiveness of Indian Real Estate going forward. **FICCI in its recommendation had also suggested to DIPP that there should be no restriction on non-resident (NR) to non-resident (NR) transfer as repatriation of FDI was not taking place.**

**5. Big boost to Real Estate Investment Trusts (REITs) from 100% FDI under automatic route in completed projects for operation and management**

According to our survey, majority of the respondents (89%) feel that allowing of 100% FDI under automatic route in completed projects for operation and management of townships, malls/shopping complexes and business centres is a significant step taken by the Government and will boost the market for REITs. However, rest 11% feel that this policy change will not be a game changer for REITs in India.

**FICCI had suggested to DIPP that FDI investor making investments for operation and management of completed projects of malls/shopping complexes and business centres should be entitled to lease such projects. The recent FDI reforms announced has clarified this point.**

**6. Scope for further improvements in the FDI regime of India for real estate investments vis-à-vis other countries; States have to take an active role in attracting FDI**

A major outcome of the survey is that industry feels there is further scope for improvements in the FDI regime of the country. According to our analysis a majority of about 67% respondents feel that current FDI regime for real estate in India vis-à-vis other countries is “average” while only 33% feel that the FDI regime in India for real estate investments is “good”. This finding points to the fact the developer and investor communities still have some doubts in their minds when it comes to attracting foreign investments into Indian real estate. The reason for the “average rating” of FDI regime particularly for real estate sector by majority could be the past experience of investors with regard to laws and regulations that governed foreign investments in realty sector. The major challenges faced by investor community in India has been the long and time consuming approval procedures for real estate projects, lack of timely approvals for projects from government authorities and lack of transparency and legal title to property. Some respondents also felt that the focus of recent reforms has been more on rental income for investors. Accordingly, they feel that the investments would come more in commercial and retail segments and



less in other segments and therefore the FDI inflow may not be substantial. **It is amply clear that States will have to play a major role in attracting FDI into the country.**

**Suggestions from industry for further improving FDI regime in the country to attract flow of foreign capital:**

1. Since real estate is a state specific subject, majority of respondents highlighted that states should enhance their involvement in attracting foreign investments in real estate and reaping the benefits of relaxed FDI norms by announcing investor and developer friendly regulations.
2. States should put in place a more efficient approval process system, ensure better governance through measures such as, single window clearance, time bound clearances; quicker legal remedies for investors and faster resolution of consumer woes through regulations such as state real estate regulators etc.
3. Government of India should bring more clarity over the entry and exit norms and processes to be followed by investors post recent reform announcements.
4. Both Centre and State must work together to ensure removal of bottlenecks for faster implementation of reform measures for foreign investments in real estate.
5. Government of India could also consider a reduced lock-in-period applicable for FDI investments from 3 years currently to 1-2 years to further enhance investor interests.
6. To boost market for Real Estate Investment Trusts (REITs), the following two liberalizations would further enhance the attractiveness for REITs:
  - Exemption of the asset SPV from the incidence of Dividend Distribution Tax (DDT) and
  - Exemption from stamp duty incidence at the time of transfer.

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