Analysis of FDI Inflow in Real Estate Sector –A Study with Focus on Housing Sector of Delhi NCR Region

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Abstract

The Indian real estate sector is second largest industry and is most promising which is growing at a rate of 20 percent per annum, housing alone contributes to 5-6 percent of GDP. Indian real estate has backward and forward linkage to approximately 250 ancillary industries .Government of India aims to provide housing to all by 2022 and 100 smart cities in order to meet this goal, additional capital would be required and FDI plays an important role in contributing towards such capital. FDI in the real estate, gained momentum after the policy reforms of 2005 .Secondary data has been used and analyzed to study the trends of foreign investment inflow in real estate sector with special reference to housing sector. The paper attempts to study the flow of FDI in Real Estate sector of India specifically in Delhi NCR region in comparison to other states along with this study aims at determining the impact of FDI on employment generation and the development of other 250 allied sectors and have suggested various policy reforms to enhance the inflow of FDI in real estate sector.

KEYWORDS: FDI, Economic development, real estate sector, housing sector

INTRODUCTION

Real estate is one of the critical sectors in the economy and thus is an important driver of economic growth. Real estate sector is second largest employer after agriculture and it alone contributes about 5% - 6% of GDP. It ranks 2nd among 14 major sectors in terms of direct and indirect employment generation due to its linkage with 250 ancillary industries such as cement, bricks, consumer durables, steel, etc.(FICCI,2015 report)Government of India aims to provide housing to all by 2022 and 100 smart cities in order to meet this goal, additional capital would be required and FDI plays an important role in contributing such capital. 15 major sectors have been given impetus for FDI with policy reforms. In order to meet the need for FDI we need to develop housing finance market which is still underdeveloped. After deregulation and liberalization in 1991, the policies have been liberalized to attract FDI which has resulted in major investments in real estate (housing, commercial, industrial establishment etc.). In 2005 major policy changes were made to attract FDI leading to boom in investment not only to domestic but foreign investors too. The industry reached its high in 2007 and 2008 due to high demand and increase in foreign investment but the demand sank due to financial crises in the 3rd quarter of 2008 leading to economic down turn and reduced investment. India is witnessing more money being pumped into the housing sector through FDI despite the recent down turn. The largest number of building projects finance through FDI are in Mumbai commercial capital, though as per the RBI records the 2nd largest inflow of FDI is diverting towards Delhi NCR after Mumbai(as per DIPP report).

Real estate is 4th largest sector in terms of receiving FDI and is likely to grow to $25 billion in coming 10 years. It has become an instrument of economic integration in last two decades as foreign investment inflows are raising faster in developing countries like India as FDI is considered as one of the safest mode of external finance.

Procedure to get Foreign Direct Investment:

Automatic Route: FDI allowed under this route does not require prior approval of RBI or Government of India as per the policies issued by GOI.

Government route: foreign investment which does not come under automatic route requires permission of Foreign Investment Promotion Board (FIPB), Department of Economic Affairs or Ministry Of Finance.

Consolidated FDI policies for real estate sector:

The policies for foreign direct investment were laid down on 1st October 2010. The policies came out with the consolidated FDI policies which replaced the earlier policies these are to be laid down under FEMA regulations. Non residents can invest up to 100% in Indian companies under the automatic route. Each project should comply with the regulations such as:

1. Minimum area to be developed: In case of housing plots area should be minimum 100 hectares.

In case of construction projects minimum built-in area should be at least 20000 square meters (as per recent budget of 2014).

In case of combination project any of the above should be specified.

2. Minimum capitalization: The nonresident investors should invest a minimum of US $5 million as per the budget of 2014 and ten funds are to be brought within the six months of commencement of the project.

3. Lock-in period: Original investment cannot be withdrawn prior to 3 years of minimum capitalization. The lock-in period is for the entire investment and not for the minimum amount.

4. Exit from the project: At least 50% of the project should have been developed within 5 years in order to obtain the clearance in order to exit from the project. The lock-in period of three years should be completed from the date of investment or minimum capitalization whichever is earlier.

REVIEW OF LITERATURE

(Nasar.K.K &Dr.Manoj P.K,2013) in their paper (Role of Foreign Direct Investment in the Development of Real Estate and Allied Sector in India: A study with a focus n Kerala state) explains India has huge scope for foreign investment due to factors like population growth, urbanization, etc. The government needs to improve the policies and ease the regulations in order to attract funds from other nations through low interest rate, offering subsidies, tax reliefs etc. They also state FDI has acted as a driver of economic growth in India but at the same time FDI inflows shows decreasing rate of inflow.

(Prof. Renuka Sagar & Lalitha, 2013) (Sectoral Trends And Patterns Of FDI in India) stated that India has tremendous potential to attract FDI inflow in coming years thus attracting FDI in one of the most important strategy of government as according to the study FDI is whooping in construction and development sector where Delhi and Mumbai are most preferred destinations.

A study “Funding the vision-Housing for all by 2022” explains , since 2007, the flow of foreign funds in real estate sector has grown rapidly till 2010 and later started to decline. The major factor leading to decline of inflow are high gestation period, fluctuations in the currency, lack of REIT's, global economic slowdown. However, the flexibility in the policies is likely to bring in more foreign investment in the real estate sector. Another issue leading to decline in FDI is fluctuation of INR. INR has declined by 50% in last six years and currency stability is considered to be one of the primary pre-requisite to attract funds. Huge taxes, lengthy approval processes, unavailability of land makes it further difficult to attract foreign investment.

As per a study conducted by KPMG, "Decoding housing for all by 2022-India’s commitment to inclusive and affordable development."(2014). Factors preventing private participation in housing are slow urban development, rigid urban planning process, lengthy and complex procedures for approval, lack of adequate funding sources, high cost of development, restrictive development norms, cost overrun and delayed projects.

As per a study by Indian Brand Equity Foundation” Real Estate” (August 2015) FDI in construction & development sector is facing an upward trend from April 2000-May 2015, it accounted for US $ 24.07 billion which is 9% of the total FDI inflow. For 2014 there is huge housing shortage in urban areas and hence, tremendous growth opportunities. Relaxation of FDI norms for real estate has been done to promote and boost the real estate sector as government plans to build 100 smart cities to reduce the housing shortage of the metro cities including Delhi NCR which requires huge investment for which foreign investment would be most needed.

As per Department of Industrial policy and promotion (DIPP) report, Dec 2016, "The construction sector in India has received an inflow of foreign investment of approximately US $ 24.19 billion from the period of April 2000-March 2016. It is expected that the real estate sector is likely to get more NRI investment in short term and long term. Bengaluru is expected to be the most favored destination for investment distribution for NRI followed by Ahmadabad, Pune, Chennai, Goa and Delhi.

As per FICCI survey report “Impact of FDI Reforms on Indian Real Estate Sector” It can be seen that FDI has declined over the period of time. However, efforts are made to liberalize the policy regimes and to attract more foreign investment which will speed up the growth of the sector. As per a survey, residential sector is second largest beneficial sector after commercial and retail which is likely to benefit through foreign investment. Report further states REIT has boosted FDI inflow but further steps are required to attract foreign funds.

(Aggarwal, Singla, & Aggarwal, 2012) concluded Foreign investment is a stimulus for economic growth, where Mauritius and Singapore are the top two countries which contribute towards the FDI inflow in India. Foreign inflow plays an important role in development of infrastructure because many countries invest in infrastructure sector, service and banking sector.

After years of opening FDI into the real estate sector the FIPB, has approved the first hundred acres residential township in Guragaon and Indian infrastructure and property consultancy company, feedback venture limited has tied up with Malaysian based real estate company which cost for 800 cr.

NEED OF STUDY

It can be seen FDI is important for development of the economy as domestic capital is inadequate to meet the present increasing demand. Foreign capital is essential at least in the period when the capital market is developing as in case of India, also it brings additional benefits such as technical knowhow, expert knowledge. The study attempts to analyze the impact of foreign investment particularly in the housing sector of NCR region.

The period of the study for 2000- 2015 is important due to following reasons:

- 2005 was the year of reforms, when India opened its doors for FDI.
- 2008 saw economic slowdown and was period of financial crises due to great recession.
- Since 2012, 10 major cities of India including Delhi saw more launches in comparison to absorption.
- Foreign investment inflow increased tremendously after made in India which was launched in 2014. However the foreign investment started to decline after this.

OBJECTIVES

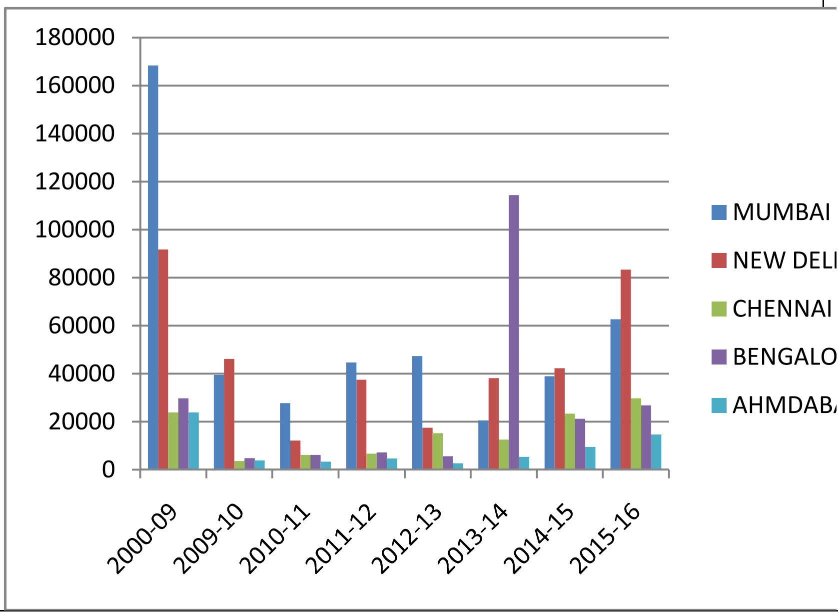
- To analyze the pattern and direction of FDI in India state wise and sector wise.
- To analyze the performance of FDI in Indian housing sector in comparison with other sectors.
- To study its major prospects and challenges of foreign inflow in real estate sector.
- To suggest the strategies for attracting FDI for the development of economy with specific emphasis on real estate and housing.

RESEARCH METHODOLOGY

This study is analytical and exploratory in nature. The facts and figures that are used for the research have been collected from authentic sources such as RBI reports, DIPP reports, official reports of various agencies, and research publications by various groups such as KPMG, EARNST &YOUNG, CUSHMAN and WAKEFIEND, various research papers, etc. The period of study is 15 years i.e. 2000 – 2015.

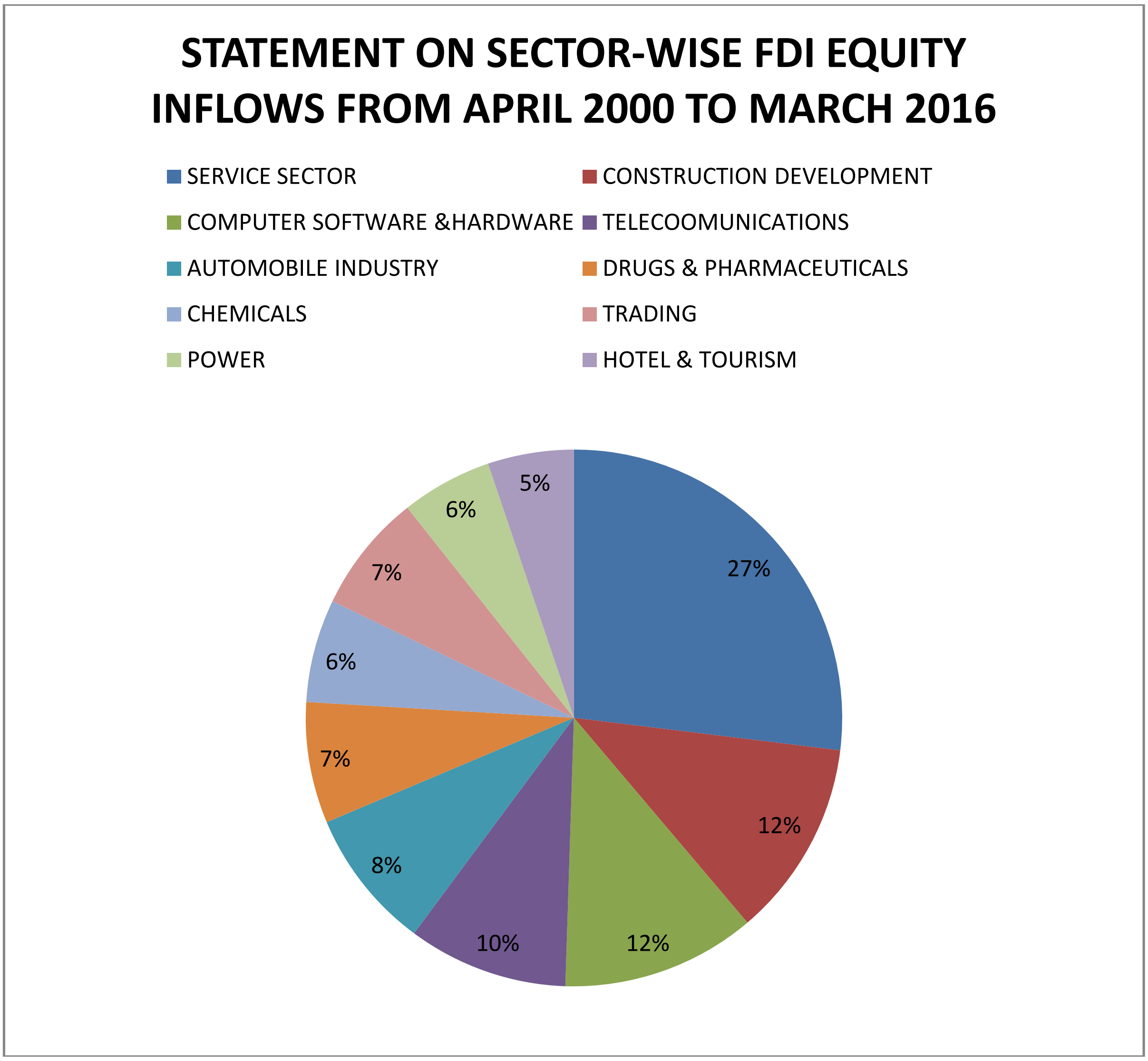
DATA INERPRETATION AND FINDINGS

1. STATE WISE FDI IN INDIA:



The above graph and the data of 15 years from 2000-2015 clearly shows that Delhi NCR region is receives second highest FDI followed by Mumbai. Showing there is immense chance of development due to increase.

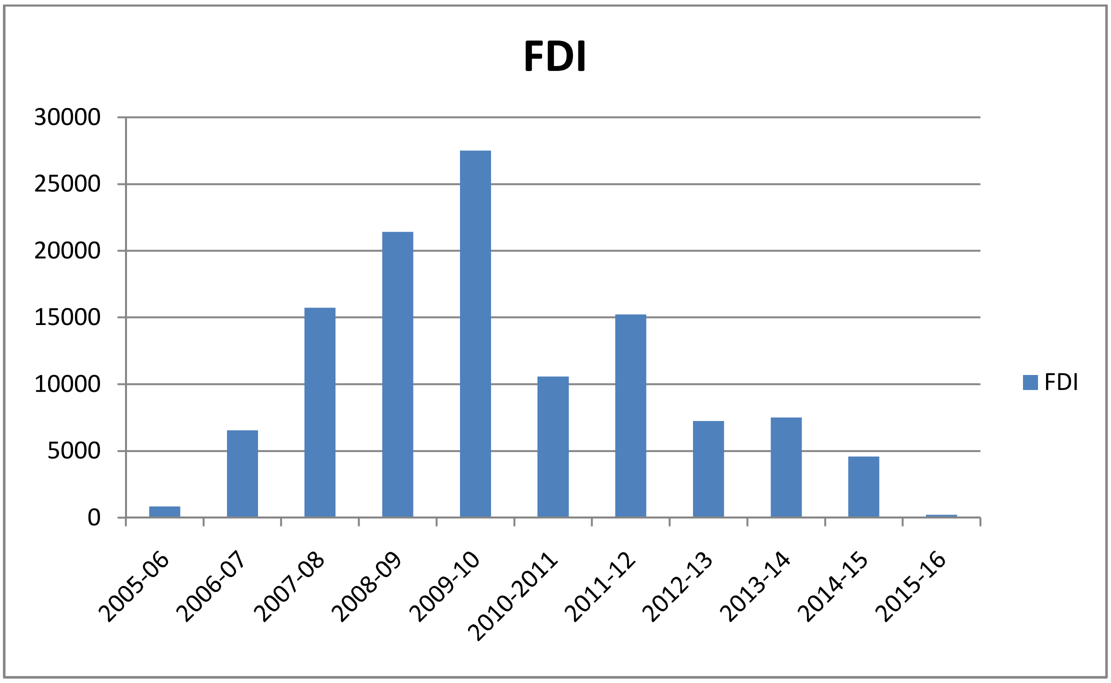
YEARS	MUMBAI	NEW DELHI	CHENNAI	BENGALORE	AHMDABAD
2000-09	168442.62	91677.15	23819.42	29789.25	23927.25
2009-10	39409	46197	3653	4852	3876
2010-11	27669	12184	6115	6133	3294
2011-12	44664	37463	6711	7235	4730
2012-13	47359	17490	15252	5553	2676
2013-14	20595	38190	12595	114422	5282
2014-15	38933	42252	23361	21255	9416
2015-16	62731	83288	29781	26791	14667



Real estate sector is the 2nd largest beneficiary from in terms of foreign investment inflow following the service sector which is holds the major chunk i.e 27% of the total FDI.FDI undoubtedly acts as a growth booster for the economy in terms of development, growth diver by increasing employment generation opportunities in real estate and all the allied activities related to it .

Major Sectors receiving FDI	Amount in cr.(April 2000-March 2016)
SERVICE SECTOR	258354.2
CONSTRUCTION DEVELOPMENT	111393.6
COMPUTER SOFTWARE &HARDWARE	112183.9
TELECOOMUNICATIONS	92728.71
AUTOMOBILE INDUSTRY	81394.21
DRUGS & PHARMACEUTICALS	70097.36
CHEMICALS	59555.37
TRADING	68836.54
POWER	52613.34

2. FDI INFLOW IN CONSTRUCTION DEVELOPMENT: TOWNSHIP, HOUSING, BUILT –UP INFRASTRUCTURE

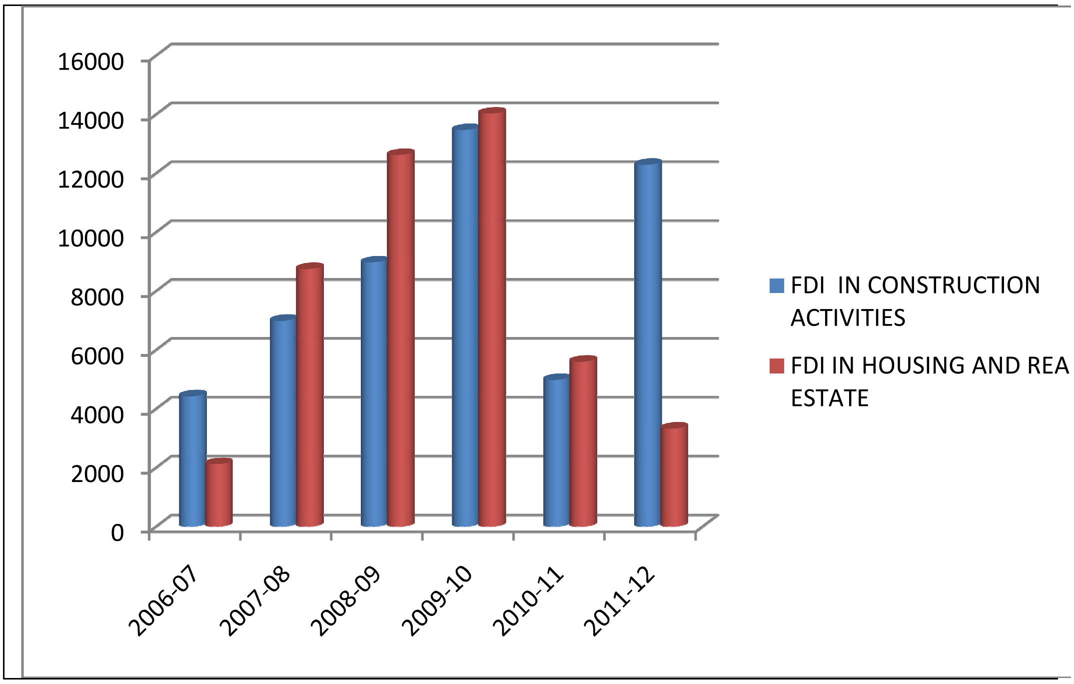


YEAR	FDI (in cr)
2005-06	838
2006-07	6545
2007-08	15738
2008-09	21413
2009-10	27496
2010-2011	10579
2011-12	15236
2012-13	7248
2013-14	7508
2014-15	4582
2015-16	216

It can be seen in the above graph that FDI in the construction sector had continued to rise till 2009 -2010, after which in saw a little decline and raised again, however since 2012 -2013 Foreign Direct investment inflow in the real estate and construction saw continuous decline. The reason for which are government policies such as long lock in period , less clarity on entry and exit norms, red tapism,lack of clarity on land titles, etc..Also since 2012 all the major cities such as Delhi NCR , Chennai , Hyderabad, and Mumbai are facing the problem of pile up inventory that is supply being more than demand.

FDI INFLOW IN COSTRUCTION AND HOUSING SECTOR:

FDI	CONSTRUCTION SECTOR	HOUSING SECTOR
2006-07	4424	2121
2007-08	6989	8749
2008-09	8972	12621
2009-10	13469	14027
2010-11	4979	5600
2011-12	12286	3326



It can be seen that FDI has continued to rise in both construction and housing sector till 2009-10 however it saw a steep decline in 2010-11 but FDI inflow has increased in construction but declined in housing sector this could be due to stringent government policies and piled up real estate stock which hinder the flow of FDI in housing sector.

3. ADVANTAGES OF FDI IN REAL ESTATE SECTOR

- Foreign funds brine in additional capital meeting the demand for capital requirement and hence completion of projects on time.
- It also brings new technology and ideas which can improve efficiency.
- It leads to better and advanced infrastructure facilities through by raising the competition among the existing developers.
- The additional capital is useful in employment generation and increase in national income through spillover effect.
- Increase in foreigninflow leads to increase in availably of funds for development and hence increase in employment opportunity.
- FDI inflow increases production, brings in new technology, new know how and hence increase in employment and growth of the economy.

DISADVANTAGES OF FDI

- Increase in liquidity due to inflow of foreign funds can lead to inflation.
- There is a scope of losing control due to increase in foreign collaborators.
- Domestic players might suffer as they may not be able to compete.
- Foreign players work for profit, with more such players and increased inflation and less availability of land for domestic players; it might become difficult for EWS to afford housing.

SUGGESTIONS

- Implementation of real estate regulation bill can go a long way to invite foreign investors to invest in our economy.
- Government of India should reduce the lock in period applicable for FDI further as it will provide liquidity and investors want to maximize the return while minimizing the risk.
- Infrastructure facilities should be improved so foreign investment can flow in township of underdeveloped cities rather than only developed ones.
- Government should bring more clarity over entry and exit norms for foreign investors.
- Land records should be digitalized to reduce time lack and red tapism.
- Reducing the minimum capital requirement and easing policies will further enhance investor's interest.
- States should place more emphasis on approval process , single window clearance, time bound clearance, faster resolution of consumer problems,etc
- Government can offer benefits to foreign investors such as tax relief, lower interest rates, liberalized policies, etc.
- There should be clarity in land titles along with that approval and procedural delays should be reduced to speed up the investment procedure
- The volume of funds should be increased to meet the demand for the real estate as there is huge urban housing shortage.

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