

Growth potential & expected trends



Key demand drivers

Residential

- Increase in urbanization & working population
- High disposable incomes & aspiration levels
- Easier access to finance
- Fiscal incentives on house loans

Office Space

- India accepted as most attractive destination for IT & BPO services

Retail

- Entry of global brands
- Organised retailing only 2% of total retail industry
- India ranked as second most attractive retail destination by AT Kearney

Hotels

- Increased business travel – both domestic & foreign due to buoyant economic growth & growing FDI
- 2004 saw record tourist arrivals of 3 mn. By 2020, India is expected to be a leading tourist destination in South Asia with more than 8 mn tourist arrivals

- Recent opening up of sector to foreign investment
- Foreign developers and investors will be making their presence felt, largely through joint venture arrangements
- Improved environment for debt funding
- Increasing institutionalization of real estate investment market



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Foreign Direct
Investment (“FDI”) in
India

FDI in Real Estate

Till recently, FDI in real estate was restricted to development of industrial parks, hotels, integrated townships and SEZ's.

On March 3, 2005, Government of India replaced the integrated township policy to permit FDI upto 100% in townships, housing, built-up infrastructure & construction - development projects, under automatic route (Press Note 2 (2005 series))

FDI is now permitted in:

- townships
- housing
- commercial premises
- hotels
- resorts
- hospitals
- industrial parks
- resorts
- hospitals
- educational institutions
- recreational facilities
- SEZ's, etc

FDI in Industrial Parks and Hotels & Tourism

Industrial Parks

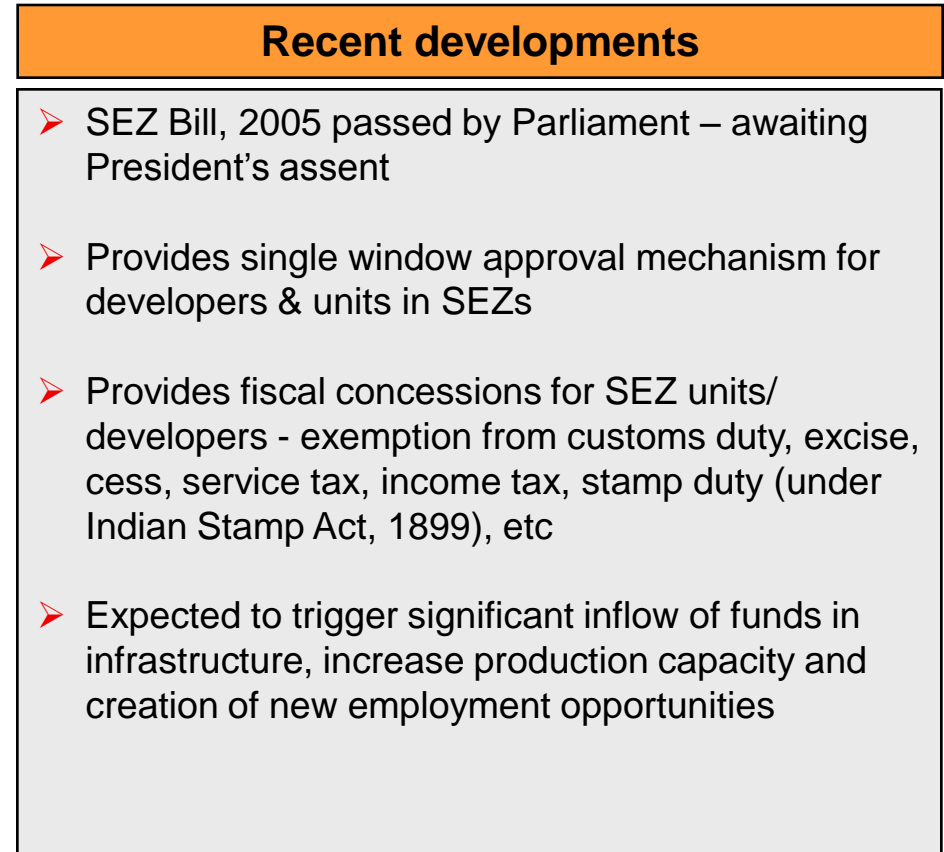
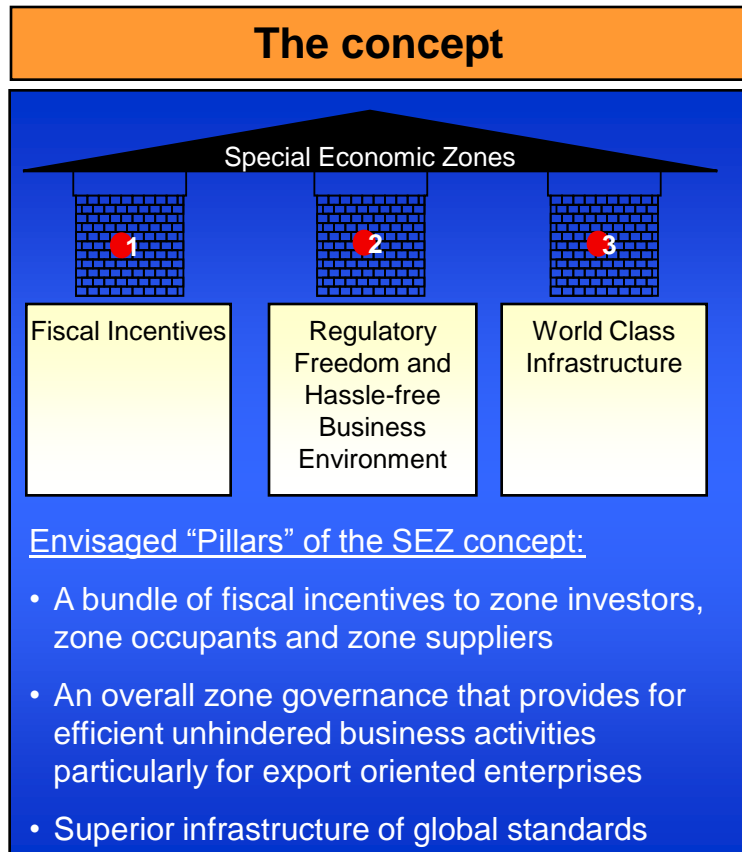
- FDI upto 100% permitted under automatic route in Industrial Parks (ie Technology Parks, Biotech Parks), approved by State Government
- Approval from Department of Industrial Policy & Promotion under Industrial Park Scheme, 2002 is only for availing 100% tax holiday

Hotels & Tourism

- 100% FDI permitted in Hotels & Tourism under automatic route
- FDI in Hotels should not be governed by Press Note 2 (2005 series) – clarification required

SEZ – the next frontier

100% FDI permitted under automatic route for setting up of SEZs



FDI in construction-development – guidelines*

FDI backed projects would be accorded national treatment at par with local developers - State Government's/ Municipal bodies will now approve projects for construction-development involving foreign investment.

Development criteria

- Minimum 10 hectares/ 25 acres area to be developed for serviced housing plots
- For construction-development projects, minimum built-up area of 50,000 sq mts prescribed
- In case of a combination project, any one of above two conditions would suffice

Investment conditions

- Minimum capitalization of US\$ 10 million for wholly owned subsidiaries & US\$ 5 million for joint ventures with Indian partners
- Funds to be brought in within 6 months of commencement of business
- Original investment cannot be repatriated before a period of 3 years from completion of minimum capitalization. Investor may be permitted to exit earlier with prior Government approval

Other conditions

- At least 50% of project must be developed within of 5 years from date of obtaining all statutory clearances
- Investor not permitted to sell undeveloped plots**
- Project to conform to norms & standards laid down by respective State authorities
- Investor responsible for obtaining all necessary approvals as prescribed under applicable rules/bye-laws/regulations of the State
- Concerned Authority to monitor compliance of prescribed conditions by developer

* As per Press Note 2 (2005 series) dated March 3, 2005

** "Undeveloped" plot means where roads, water supply, street lighting, drainage, sewerage & other conveniences have not been made available. It will be necessary that investor provides this infrastructure & obtains a completion certificate prior to sale of serviced housing plot

External Commercial Borrowings

- All corporate borrowers are eligible to raise ECBs up to a maximum of US\$ 500 million under automatic route
- ECB can be raised only for investment in real sector - industrial sector including small and medium enterprises and infrastructure sector in India, including industrial/ technology parks and for working capital requirement
- ECB not permitted for real estate activities other than development of integrated townships as defined by Press Note 3 (2002 series) (ie the 100 area criteria)

By implication, ECB not permitted for projects qualifying under Press Note 2 (2005 series)?

If permitted, would corresponding changes be incorporated in the ECB policy?

Foreign Collaboration – Typical models

PRIVATE EQUITY CAPITAL - Pure financial investment to provide base capital required to undertake larger projects and reduce exposure to debt financing

JOINT VENTURE COMPANY – Foreign investor to contribute capital and engineering capabilities. Indian developer to contribute land and local resources. Both partners have joint ownership of project specific SPV.

JOINT DEVELOPMENT AGREEMENT – Foreign investor sets up Indian presence and undertakes development activity. Indian partner contributes land and receives deferred consideration in terms of share of development or share of revenues.