

The Days of **'Taking it Easy**

India, the fourth largest economy in the world with a population of over a billion, is enjoying economic growth. How can investors, by investing correctly in second circuit cities in India, enjoy yields of over 20% on investments in Indian real estate?



India, the world's largest democracy, hasn't been taking it easy for a while. The country, whose population is recorded at over 1.1 billion, second only to China, and which comprises the fourth largest economy in the world, is enjoying economic growth. Based on forecasts published by Morgan Stanley and Merrill Lynch, India's GNP is expected to range between 6.5-7% in forthcoming years. These rosy predictions can be further embellished by the fact that the rate of poverty in the sub-continent has seen a 10% decline since 1994.

Economists at Morgan Stanley and Merrill Lynch have noted that the reasons for India's economic boom are: the growth of the middle class, currently comprising over 200 million people, a conservative fiscal and monetary policy, single digit inflation rates and a constantly improving educational system. The fact that India is second only to the U.S. in the number of its English speakers is also one that contributes to national growth.

"There is no doubt those three major cities of India – Delhi, Mumbai and Bangalore – gained the most benefits of India's economic boom. Yet it is important to note that other cities in India have entered the Indian growth cycle following the expansion of the IT and outsourcing industries that provide services to international conglomerates. There are currently over 20 cities in India with a population exceeding one million and which are involved in the second growth cycle in India. Today, investing in cities like Ahmedabad, Calcutta, Pune, Chandigarh and others, ensure a much higher rate of return," says Gorov Dalmia, CEO of the Landmark Real Estate Fund.

"It is important to understand that, where China has become the manufacturing center of the world, India has become the world center in

providing services in outsourcing industries and to the global IT industry," adds Shai Zucker, CEO of Expert Finance. "That's why more young Indians seeking employment turn to the urban centers in order to reach the employment market," he says. "In general, the Indian population is a young one," explains Dalmia. "Where the average age of the population in the West increases as years go by, the population of India is among the youngest in the world. The median age in India is currently 25 only," explains Dalmia.

Who will build a house? II

Merrill Lynch data demonstrates that the Indian real estate industry has been experiencing a sharp growth rate of approximately 30% per annum, contributing over 5.5% to the Indian economy and to growth in the sub-continent's infrastructure industry. "Although these figures seem very impressive, it is important to remember that the demand for middle class residential apartments is huge – mainly in urban centers of 1-3 million residents," says Zucker.

"When the industrial sector in India totaled \$190 billion in 2005, most estimates claimed that the Indian industrial sector will exceed \$350 billion by 2010. The easy and efficient flow of information to and from India has turned it into a global economic resource. Thus there is a strong demand for workers in Indian cities, leading to a high demand for residential apartments in India's large and medium sized cities. Thus, investors

would be well advised to look into cities that will grow by this second wave of urbanization that will wash over India," Zucker adds.

"It is true, there is a great deal of room available for real estate entrepreneurs" agrees Dalmia. "There is still a shortage of about 20 million residential units in India. The urban centers alone suffer from a severe shortage of more than 12.7 million units. To fill the gaps in the Indian residential industry, approximately 4.5 million units must be built annually and with annual investments of more than \$20 billion. In the business sector, India's urbanization has increased the demand for commercial and entertainment centers," he adds.

"So far, foreign real estate investors focused on projects nearing completion or those that have been completed. Foreign investors will find more lucrative investment opportunities in projects that are currently being planned, especially in "second-wave" cities. There are over 20 cities that will absorb the expected growth of the Indian middle class and that is what makes the Landmark Fund unique. We invest in projects in these cities, that are in their planning stage. Thus, we can leverage

"India has become the world center in providing services in outsourcing industries and to the global IT industry" 



are Gone

"the convenient prices to our benefit," says Dalmia. "The demand for residential apartments in Indian cities, resulting from relocation of the young and educated Indian population to urban centers, is accompanied by a wave of price increases. Prices of apartments in cities like Bangalore, Delhi and Mumbai are on a constant rise. Therefore, the middle class finds appropriate residential solutions in cities like Hyderabad, Kolkata, Chandigarh and Pune, where they can find better apartments for their investment. As a rule, its important to remember that the mortgage market in India has matured and grown from \$23 billion in 2004-2005 to about \$43 billion during 2005-2006," says Zucker.

Declining Regulation II

"In the past, foreign investors had difficulty locating projects in the planning stage for various reasons. Indian law, which prohibited direct investments in real estate, did not make it easy for foreign investors. In 2006, Indian authorities permitted the introduction of real estate funds, leading to a process of liberalization within the Indian real estate market. Foreign investors studied the different restrictions and they are currently operating through Indian real estate funds with contacts with experienced contractors whose reliability is proven, who invest in the market," says Dalmia.

"In general, the declining regulatory intervention from the Indian government is rendering the investment in real estate a profitable and worthwhile proposition for foreign real estate investors. Thus, large international bodies have begun to operate in the Indian arena, mainly

found the right man. The Dalmia family controls the cement market in India, has been active in the Indian real estate industry for years and is one of the five richest families in India. Gorov Dalmia himself is personally involved in the Indian real estate market through the Landmark Fund. His

In 2006, Indian authorities permitted the introduction of real estate funds, leading to a process of liberalization within the Indian real estate market

found the right man. The Dalmia family controls the cement market in India, has been active in the Indian real estate industry for years and is one of the five richest families in India. Gorov Dalmia himself is personally involved in the Indian real estate market through the Landmark Fund. His

found the right man. The Dalmia family controls the cement market in India, has been active in the Indian real estate industry for years and is one of the five richest families in India. Gorov Dalmia himself is personally involved in the Indian real estate market through the Landmark Fund. His

found the right man. The Dalmia family controls the cement market in India, has been active in the Indian real estate industry for years and is one of the five richest families in India. Gorov Dalmia himself is personally involved in the Indian real estate market through the Landmark Fund. His

found the right man. The Dalmia family controls the cement market in India, has been active in the Indian real estate industry for years and is one of the five richest families in India. Gorov Dalmia himself is personally involved in the Indian real estate market through the Landmark Fund. His

found the right man. The Dalmia family controls the cement market in India, has been active in the Indian real estate industry for years and is one of the five richest families in India. Gorov Dalmia himself is personally involved in the Indian real estate market through the Landmark Fund. His

found the right man. The Dalmia family controls the cement market in India, has been active in the Indian real estate industry for years and is one of the five richest families in India. Gorov Dalmia himself is personally involved in the Indian real estate market through the Landmark Fund. His

The article is written by Gorov Dalmia, CEO of the Landmark Real Estate Fund and Shai Zucker, CEO of Expert Investments