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### Real estate takes the FDI route

22 Aug, 2007, 0027 hrs IST, Gouri Agtey Athale, TNN

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PUNE: Foreign direct investment (FDI) seems to be the season's flavour for real estate developers in Pune, all of them agreeing that future development will come only through FDI. They feel this is the only way they can fund creation of land banks.

According to Kumar Properties director Manish Jain, the effect of FDI has been that farmers have got richer with developers expanding their land banks. "Builders have no appetite for the kind of funds now accessible through FDI," he said.

FDI, he added, is giving them the opportunity for creating good, larger developments and land banks.

Simultaneously, developers are creating separate entities for FDI projects. Runwal Housing Group has created an entity which can form special purpose vehicles (SPVs) for FDI projects. "FDI is our strategy for growth: most of our growth over the next few years will be through FDI. We have ongoing talks with an overseas partner for Rs 200-crore FDI in our first large project, an integrated township at Hadapsar, which we will announce by October," explained Runwal Housing MD Sanjay Runwal. Other developers have talked of moving all their FDI-able projects into one company for ease of raising funds.

Promoters and Builders' Association of Pune (PBAP) president Lalit Kumar Jain said that according to one estimate, under \$1 billion has come into the city via FDI. However, not all developers have the skill sets required to execute such projects, so that among PBAP's 400 members, only 10 have been able to attract investment from abroad.

"Pune can absorb up to \$2-3 billion in FDI annually," Mr Jain said, adding, "FDI will be a big contributor to growth due to its capital infusion in real estate. Banks have stopped lending for land bank creation; so this is the only way to get money."

The focus of FDI could now divert from high-end housing to the more urgently-needed mass housing, Mr Jain said.

This is borne out by recent instances of FDI in townships, notably that of Future group's \$45 million (Rs 180 crore) in City Group's Rs 850 crore Amanora Market City, through its offshore fund Horizon Realty LLC.

Then, there is Rs 250 crore invested by the IndiaReit Offshore Fund of the Ajay Piramal group, in which the UK-based 3i is invested. The IndiaReit Offshore Fund has picked up 30% stake in a special purpose vehicle formed by Paranjape Schemes for its 140-acre township-cum-SEZ project located close to the IT Park at Hinjewadi. The project cost is Rs 3,000 crore. DS Kulkarni's township-cum-SEZ is yet another project where FDI is expected to come in via an SPV. The Rs 16,000-crore proposed project is spread over 400 acres at Fursungi, on the city's eastern edge city and a memorandum of understanding for a Rs 1,000 crore joint venture has been signed.

Among older projects where FDI has come in are those of Vascon Engineers for a hotel-office-residential block in which Credit Suisse's real estate investment arm has invested. The first one was IREO Fund's investment in Panchshil Realty's SEZ followed by Citigroup Property Investment picking up an equal stake in an SPV created by Gera Developments for a high-end housing complex. The most recent announcement of FDI was of an Israeli fund coming in with the developer duo Avinash Bhosale and Atul Chordia.

Mr Lalit K Jain pointed to the range of funds waiting to enter, from dedicated real estate funds of private equity firms, to hedge funds and insurance companies. FDI norms lay down that the project should have a minimum size of 50,000 sq mt for a commercial project and 25 acres for a residential and a minimum investment of \$5 million with a three-year lock in. All developer-builders agree that the area restriction is a major issue which they would like relaxed.

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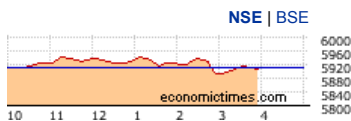
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