

### India's Real Estate & Construction Industry

While Infrastructure growth is the biggest growth story in India, within that sector, the real estate/ construction industry's growth is slated to be huge. Here's a peek at some numbers, trends, what's fueling the growth and the potential it holds for players in this field:

#### Construction Industry

\* At \$ 66.8 billion FY10 total revenue, real estate [Residential and Commercial] accounts for 5% of India's GDP. In China the sector contributes to approximately 12.6% to China's GDP. This ought to underline the huge potential for growth that the real estate industry holds in India.

\* Talking of future growth, the market size will more than double in five years- from \$ 55.6 billion in 2010 to an estimated figure of \$ 126 billion by 2015- a compound annual growth rate (CAGR) of 19 per cent, up from a 10% CAGR previously

\* And is this growth largely happening in small towns and in rural India- NO. Tier 1 metropolitan cities are expected to account for about 40 per cent of the market over these five years.

\* Government support for this industry is very positive as well: 100 per cent foreign direct investment (FDI) is allowed [with government permission] for developing townships and settlements. FDI of up to 100 per cent is also allowed, through the automatic route, in the hotel and tourism sector. Growing requirements of space from sectors such as education, healthcare and tourism provide opportunities in the real estate sector. FDI of more than US\$ 9 billion was infused in real estate in the last decade.

\* Global investment in the industry: Over \$ 9 billion FDI in real estate for 2001 to 2010.

\* Real estate vied with automotive and power sectors for the leading sector for private equity [PE] investments in 2011. 347 deals were made totaling to an investment of \$ 7.7 billion, just in 2011. In 2010, over 11 per cent of total FDI in India was in the real estate sector

Education, Healthcare, Retail and Tourism sectors are fueling the need for increasing floor space. .

\* Rural housing needs is big as well- the government has allocated \$ 625 million for this segment

\* Special Economic Zones [SEZ] are another huge factor catering to demand for built up space- over 550 SEZs' approved.

#### Construction Equipment Demand

\* Demand for construction equipment is expected to increase to USD4.1 billion by 2014 from USD1.8 billion in 2009, a CAGR of 17.9 per cent

\* The allocation of total infrastructure spending in the 11<sup>th</sup> Five Year Plan of as slated by the Planning Commission is going to be \$428 billion for the period 2007-12. From a FY 08 spending of \$56.3 billion, this has grown to the estimated spending of \$124 billion in FY12.

\* With the material handling equipment industry being de-licensed, global majors in the machinery and equipment filed in construction are here or have clear plans in place to enter: Komatsu, JCB, Volvo, Caterpillar, Hitachi, John Deere, Case, Ingersoll-Rand, Poclain, Lieber and many more. With 100% FDI being allowed under the direct route, many are bound to follow.

\* Roadways and mining are the key areas of emphasis that will contribute to the equipment demand in the years to come. A case in point being the growth in spending on roads- FY08 spending of \$10.8 billion estimated to go to \$16.7 billion in FY12. And under the 12<sup>th</sup> Five Year Plan allocation is \$ 64.5 billion, up from the \$30.4 billion in the previous plan period.

So, the bottom-line? I guess it is appropriate to quote an EDC e-report on the Infrastructure sector on India:

***"The bottom line? Infrastructure is critical to India sustaining its robust growth potential. But even with the size of the population, India does not have the capacity to build solely with domestic players. This is fertile ground for Canadian participation, and huge rewards face those who rise to the challenge."***