By Rajesh Menon

WAY TO GO, GUJARAT!

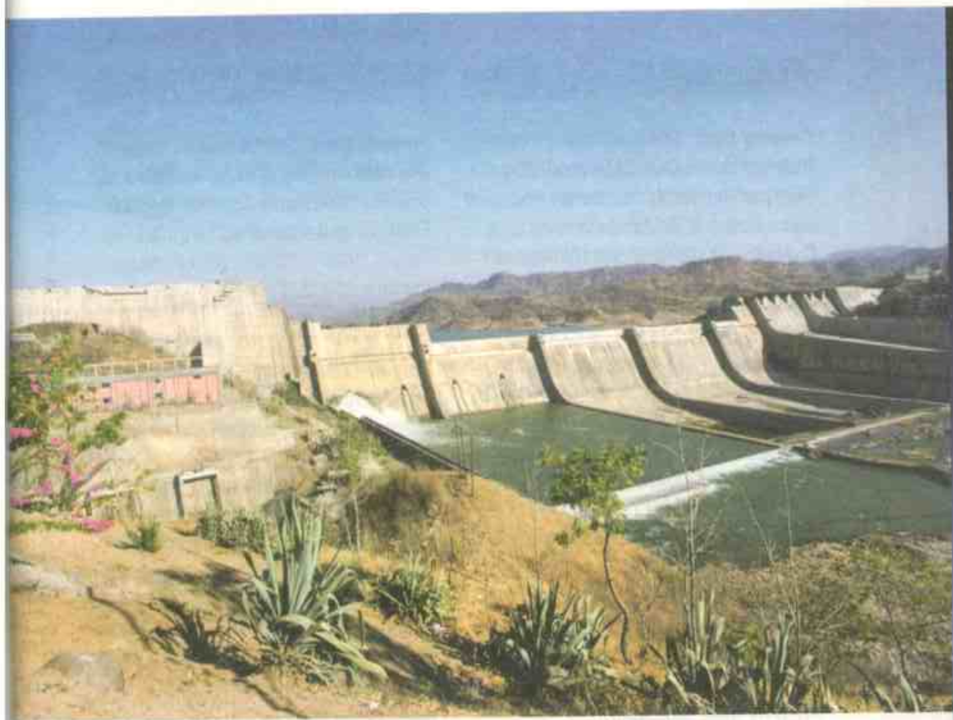
When Merill Lynch predicted in 2005 that real estate sector in India (which was then roughly worth $12-billion) is estimated to grow at 30 per cent and reach $90-billion by 2015, little did we realize about the upcoming catastrophe which awaits the sector. Come 2008, the Indian economy which had a GDP growth of 8.5 per cent of which 1.1 per cent constituted FDI in real estate, started being impacted by the tremors of the global financial crisis and the internal credit squeeze. The sector which was in buoyant mood creating the best paid jobs and entered by venture capital and private equity funds, found itself in a black hole of declining demand and increasing vacancy rates, thus creating a sudden reaction of capex reduction, project hold and job losses.

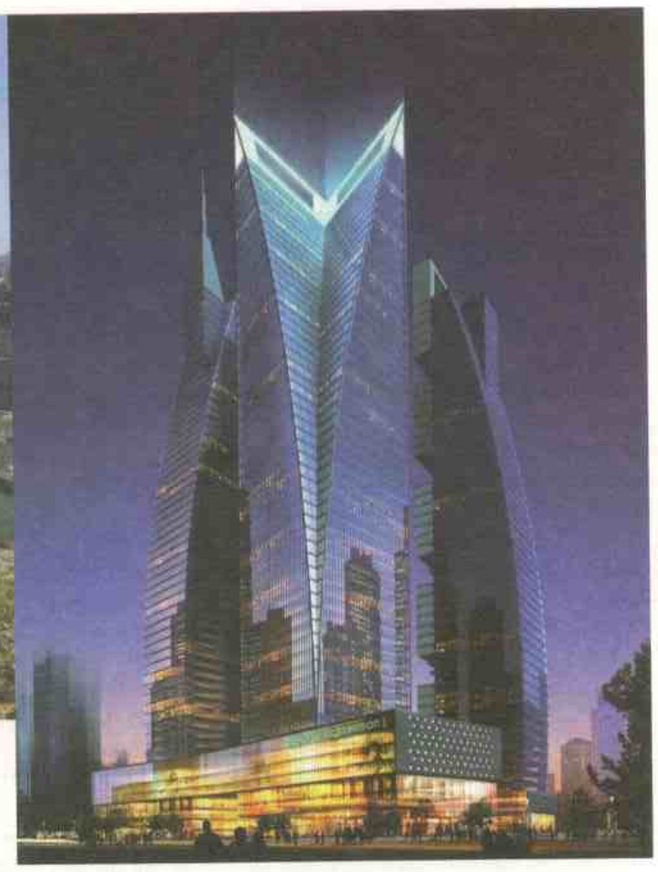
The real estate market in India was propelled primarily by the IT, hospitality and retail sector in the commercial space. On the residential side the township policies of various state governments encouraged developers to come up with new schemes particularly in cities like Delhi NCR, Mumbai, Bangalore, Hyderabad, Chennai and Kolkota. Simultaneously the projected growth of the Indian middle class from 90-million to 150-million by 2010, and the 2001 census revealing the immediate need for 26-million houses coupled with 2.5 per cent population growth in urban areas, gave developers a sense of the emerging demand. Besides, larger disposable incomes and the growing aspirational levels (with of course, the availability of low interest housing loans) contributed to the hype.

The dynamics involved in this situation had parallels in the developed markets where economic prosperity has a direct and perpetual co-relation to increased need for high-end real estate space, be it commercial or residential. By concentrating on tier I cities the developers started coming up with costly schemes which did create an initial euphoria for hyper malls and skyscrapers. However, by 2007 many in India were wallowing in ideas of creating India's Singapores and Dubais – a sentiment well reflected in the grand success of DLF IPO, little realizing the saturation point in tier I cities and the emergence of other smaller cities as avenues for growth.

Unavailability of sufficient land, the appreciation of prices to the tipping point in tier I cities has now prompted developers to look into new urban centers of growth. Infrastructure development and the increase in disposable incomes in these new growth

Nano is synonymous with Gujarat's premier status in the country





Infrastructure and services sector are key to real estate development

centers have given a stimulus. In western India this percolation is spearheaded by Gujarat, a state that has consistently proved to be first among equals in major infrastructure and SEZ development. The recently concluded Vibrant Gujarat Investor Summit saw major real estate firms setting foot in this virgin territory. The township planned by Godrej Properties in Ahmedabad, the Lavasa replication plan by HCC at a site near Ahmedabad, the DLF township plan near Baroda and L&T's Baroda IT Park in the Knowledge City are all stellar examples of this emerging trend.

Ahmedabad was given the 'megacity' status in 2005 and is witness to major urban development initiatives like bus rapid transport system, Sabarmati riverfront development project and by now famous Tata Nano project which would tell on real estate development. This city's development is focused in the western direction of the Sabarmati river. The saturation at the up market CG Road has now forced the commercial centre to be shifted to SG Road under the Ahmedabad Urban development Authority. SG Road connecting to Gandhinagar, the capital of the state, is land banked by major developers. The new township policy has fuelled land acquisition for the same and the upcoming Sahara Homes is the first entrant. With an average commercial space addition of nearly 5,00,000 sq feet per year and a minimal vacancy rate of 2-3 per cent, the confidence level of property developers here are high in comparison to their compatriots in other states.

On the other hand, Baroda's development has been silent even while being directly related to the city becoming the engineering and manufacturing base. This development prompted recent entry of blue-chips like L&T, Areva T&D, Bombadier, Thermax, Siemens which has resulted in migration of skilled man power in the region with consequent demand for social infrastructure. Newer areas like Savli and Waghodia have become thrust areas for real estate development, with new housing schemes and commercial development picking up and rentals rising proportionately.

The conclusion that we should derive is that unlike conventional solutions of cost cutting and low-cost housing development during a downturn, there is ample scope for growth for the sector by merging growth centers. Areas which have significant infrastructure project development, industrial activity and population growth need to be identified. Availability of land, quality real estate, optimum operational cost, availability of labour, connectivity and above all, a proactive government clinch the deal for real estate industry. Horizontal expansion to newer areas will deliver property developers from the no-win situation in tier I cities. At least, in these hard times.

(The writer is a Senior Manager in Mundra Port and SEZ. Opinion expressed here is his own and not reflective of any organization he is associated with)