



## WHY INDIA?



India has long been known for its centuries old civilisation and cultural heritage that is as rich, diverse and unique as the Indian landscape. Be it music, dance, fine arts, cuisine, customs or festivals,

the cultural heritage of India touches all who visit.

In the last few years it is India's tremendous economic progress that has captured the world's attention. The country now has the fourth largest economy in terms of purchasing power and is the second fastest growing large economy. Today India is one of the most exiting emerging markets in the world. Goldman Sachs believes India will be the fastest growing economy over the next fifteen years, and emerge as the 3<sup>rd</sup> largest economy by the year 2020. In the latter half of the 21<sup>st</sup> Century India is set to overtake the US and China (due to demographic advantages) to become the largest economy in the world.

The economy has posted an average growth rate of over 7% per annum in the decade since 1994. Each year the Indian middle class grows by around 10 million people or 1% of the population. The Indian middle class is now greater than its counterpart in either the USA or EU. India has been able to achieve this transformation by capitalising on the enormous numbers of well-educated English speaking people.

Skilled managerial and technical manpower matches the best available in the world, providing India with a distinct cutting edge in global competition. English is the official language making it easier to do business in India than other emerging markets. In fact, India has now more English speakers than any other country in the world.

Economic reforms starting back in 1991 have enabled India to capitalise on this large pool of educated people. Since the relaxation of foreign investment rules in 2004 India has become a top destination for multi national corporations looking to outsource operations and is now the second largest beneficiary of FDI.

Within India's fast growing economy, real estate has emerged as one of the most appealing investment areas for domestic as well as foreign investors. By the end of 2006 GDP growth had reached 9.1% and property prices are increasing by an average 30% per annum. Real estate is able to sustain such fast growth because the demand for property continues to outstrip supply.

Government and industry analysts forecast a current shortfall of between 20-30 million units in urban areas. This demand is forecasted to increase by approx 1.5 million each year.

Other factors which are contributing to the booming real estate prices include a more mature mortgage market, modern attitudes to home ownership (the average age of a new homeowner is 32 years compared to 45 years a decade ago). The young working population is shifting to the more western philosophy "buy and repay" as opposed to "save and buy". Despite this, saving rates are still nearly one third of GDP. The liberalisation of FDI rules is also encouraging interest in the country and its real estate market from investors around the world. Unlike many other parts of the world the Indian real estate boom is by and large based on sound fundamentals. India consistently proves its long term potential. However, being such a large and diverse country there are naturally many different markets. Whether Bangalore, Pune, Calcutta or Chennai, Mumbai or Dehli, the Indian real estate market has the potential to meet the requirements of most investors criteria.

The current opportunities for growth and yield in the commercial and residential markets in India are impressive and diverse. As India builds on its reputation (1) as an affordable retirement location, (2) as an attractive and safe luxury tourist destination, and (3) as a centre for manufacturing and service-based excellence, so the domestic and international demand for property in India will increase.

And finally, India is a country with many social and economic issues to address over the long term, it is also a country blessed currently with strong political leadership determined to liberalise investment opportunity, improve the lives of all its citizens, develop infrastructure and speed up economic reform, therefore India is a country with a positive economy future offering massive room for development and profit in the property market.

In just four decades, India will be the most populous nation on earth. India's middle-class alone will be 983 million people strong by 2015. Already, one half of India's population is under the age of 25. This is a young and increasingly wealthy nation. India's net income has doubled in the last 10 years. The result? India is the 2<sup>nd</sup> largest mobile phone market and the 2<sup>nd</sup> largest scooter and motorbike market in the world. It is also home to an increasingly sophisticated housing market. Unclear titles, poor building standards and

ridiculous tenancy laws, have historically plagued Indian real estate and alienated foreign investors. But today, the government goes to great lengths to ensure that the title on a property is clear and is considering computerisation of all land records.

Does all this activity mean the Indian real estate market is in a bubble? We don't think so. There is a difference between a bubble and a robust market. Let's compare India with the US for example. Are Indians consuming more housing than they can afford? NO. In India, the ratio of total value of mortgages to GDP is only 2%, whereas it is 52% in the United States. That means in the United States, for every \$100 they produce, they owe \$52 as a mortgage. Indians, however owe just \$2. Has Indian home buying sent prices through the roof? Hardly. Over the last 10 years, real estate prices have barely budged with the exception of those in certain areas of a few large cities, such as Bombay, Delhi, and Bangalore. But average real estate prices in the United States have risen over 15% in the last 12 months alone. Are Indians taking out mortgages simply because the rates are low? NO. Even though the interest rates are 18% lower than they were in 2001, mortgage rates still vary between 8-12%. However, overall it seems that the growth in the housing sector has been income driven, not interest rate driven. Indian net income per individual has increased nearly 100% over the last 10 years.

Every year the number of Indian's earning above \$20,000 per annum is increasing by 20%. By 2015, a further 2.9 million Indian's will be employed in the IT industry alone. This implies demand from this sector alone for 400 million sq. ft. of commercial real estate. By 2010 India's retail sector will need almost 200 million sq. ft. of new space and the residential sector requires a phenomenal 10 billion sq. ft. of space for the 20 - 30 million people moving to jobs in the cities. Unlike most economies (including US, UK and China) India's demographics are actually improving. Over the next 25 years the economically active population will increase by a phenomenal 270 million. Household savings are currently 28.1% of GDP and UBS forecast this to increase to 34.7% by 2030. Of this around 50% will go into physical assets such as real estate. The Indian property market is of course going through a tremendous boom. The statistics speak for themselves and the boom is set to continue.

For your further reading and interest in detailed studies governing the current investment climate in India, you can also download the government released ["Investment Commission Report"](#) in PDF format by clicking this link. To save the file to your hard disk, right click the link and select "Save Target As...".