

DIP IN FDI MAY HIT REALTY

Indications of decreasing FDI does not augur well for the overall growth climate of the real estate industry, says **A K TIWARY**

A Ficci report says that Foreign Direct Investment (FDI) in India's real estate has dipped and is at its lowest in the last four years. If the FDI continues to fall, it will hit the real estate market really hard.

The realty sector will face significant shortage of homes for the middle and average middle-income group. And, the situation will be worsening in the next decade when demand is expected to rise three-fold. The cost of raw materials will again increase dramatically, putting pressure on the profit margins of developers, believe real estate developers and builders.

Navin Raheja, the chairman and managing director of Raheja Group and chairman of Assocham, says: "In the present scenario, foreign investors value the property at cost and not the fair market value and there is substantial discounting while deciding the valuation of the transaction.

"This puts Indian developers at a disadvantage from the start itself. On the other hand, investors are not willing to share any project risk with developers. It is obvious in the current market scenario that no project generates that kind of return. Hence, developers who are not in urgent need of funds or who can get finance from nationalized banks or cheaper finance locally are staying away from private equity foreign investment funds."

"As the chairman of Assocham, I would like to put in a word of caution before entering into such transactions, which may lead to a vicious cycle of debt, ultimately leading to losing the asset. Therefore, the so-called equity interest may be structured into a high interest rate debt," Raheja says.



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