

# DEVELOP INDIA: A DEMAND-DRIVEN PERSPECTIVE



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India is one of the world's top real estate investment markets. To tap this growth potential, real estate executives need greater leadership skills and a broader perspective on the demands that will be placed on Indian companies, cities, and land in the coming decade.

John D. Macomber, Lecturer in Real Estate at Harvard Business School (HBS), argues that the key to successful real estate investment and development in India hinges on two components: a deep understanding of real estate fundamentals and a powerful executive team—skilled leaders who can lead the organization, even when the destination is unknown. They must be keenly aware of urbanization, resource scarcity, and policymaking related to the public-private financing of infrastructure development—and they must know how to apply these insights to their business models.

## **Q: What types of organizations will be successful in shaping modern India?**

Companies that will lead in developing the new India understand that rapid urbanization will be uneven. Some cities and areas of India and certain property types will be more successful than others. Firms that have the leadership vision to build smarter, denser, and greener will be better at sustaining growth and creating enduring value.

Knowing how all these parts fit together requires an assembled worldview—one that steps beyond the bounds of real estate and draws on design, environmental science, and public policy. We need leaders who can evaluate business scenarios and potential outcomes from a fresh global perspective.

HBS has built the [Develop India](#) course to resonate with established Indian developers who have long operating histories and deep real estate expertise, but who may want to verify their operating strategies in a globalizing economy. The course also is relevant for younger entrepreneurs and emerging managers who may have a clear view of global issues, but need advanced real estate skills to analyze demand drivers, understand property-type dynamics, and write solid financing and marketing plans.

## **Q: How can Indian firms attract competitively priced foreign real estate capital?**

Development capital is becoming more expensive in India, so builders have to get more creative at conceptualizing and financing their projects. Borrowers will need to develop more insightful pro forma statements, show greater transparency on their balance sheets, adopt deal and reporting structures that are more familiar to Western investors, and generally improve product quality and project delivery schedules.

To address these issues in our cases, we use material that has evolved from my dual appointments at the Harvard Graduate School of Design and HBS. For example, homebuilders in Mexico have done a remarkable job in understanding and engineering the supply chain—they've closely tied their product cycle to supportive public subsidies, and have effectively married their logistics strategy to supply-chain management.

## **Q: Negative effects from China's rapid urban growth are causing some consternation in India. What lessons can be learned from India's neighbor?**

In China today, there are 20 cities that have more than 5 million residents; nearly half of the country's population live in urban centers. These are staggering numbers when you consider New York City has over 8 million people. Just as in India, growth in China is being driven by a gradual loss of economic vitality in rural areas and by the possibility of higher incomes, improved health, and better quality of life in urban centers. Even so, the megacities of Shanghai, Guangzhou, and Chongqing cannot absorb all of the migration.

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There will be huge growth in India for decades, but it won't be distributed evenly across Delhi, Mumbai, and Kolkata. If we take China's example, Indian metros with more robust infrastructure elements—transportation, water, energy, and jobs—will compete well. Those without these essentials won't sustain growth, and in fact may lose people to other cities. The business challenge is to identify the forces of urbanization that have not been clearly revealed, but are the sources of opportunity.

**Q: You advocate that developers need to carefully think through issues of resource scarcity. With India growing its GDP faster than the rest of the world, can't it simply buy all the power and water it needs from others?**

That is a frightening question, indeed. In India, the key issue around scarcity relates to *demand*, not to supply. Take power. There are so many businesses working on the energy *supply* side—developing next-stage technologies for wind generation, solar, gasification, batteries, and so forth. These are expensive, and, let's face it, exciting pursuits, with high potential for investors in technology.

But those of us who work in the built environment ought to focus on ways to reduce energy *demand*. Indian developers are already bringing on line new energy-efficient buildings to reduce their tenants' occupancy costs. In our classes, we use a McKinsey global cost curve that maps a cost-benefit construct for greenhouse gas reduction. This model also applies to other key resources like fresh water, by the way.

McKinsey's analysis and our research show that we can save money and reduce demand for key resources through low-tech, trailing-edge practices—such as adding better insulation, lighting, air conditioning, and water-recapture systems in shopping malls; building more densely; and increasing floor-area ratios. This is both good business and good policy. It saves putting further pressure on resources, thereby allowing for more efficient economic growth. But these approaches are currently not well understood. Only now are the more progressive, leading-edge firms starting to deploy them.



**John D. Macomber** is a Lecturer and the Gloria A. Dauten Real Estate Fellow at Harvard Business School. He serves as an adviser to leading companies in the real estate, construction, services, and technology industries. For nearly 20 years, Macomber was a lecturer in Civil Engineering and Real Estate at MIT, where he currently teaches the "Real Estate Sustainability" course. He is the chair or cochair of several HBS Executive Education programs, including "Develop India," the "Real Estate Management Program," the "Real Estate Executive Seminar," "Real Estate Development, Design, and Construction," and the "South Asia Real Estate Seminar."

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