RESEARCH

APRIL 2011
E&R @ GLANCE
ECONOMY & REALTY

Knight Frank

Economic Outlook

Globally, real estate prices across various countries have witnessed wide fluctuation in the last three years. The global recessionary condition during 2008 had resulted in many countries reporting negative GDP growth which in turn led to significant fall in residential property prices. According to Knight Frank-Citi Private Bank Wealth Report, residential property prices in cities like Dubai, New York and Paris were the most affected during the downturn which fell by 45%, 13% and 12% respectively in 2009. While prices in most of the cities of the world were facing downward pressure in 2009, certain locations like Shanghai, Singapore and Mumbai witnessed double digit growth. Although rest of the world was reeling under the pressure of economic downturn, strong domestic demand and low base effect of 2008 prices helped these markets in attaining such an astounding number.

Improved macroeconomic condition during 2010 helped in the revival of real estate market across major cities of the world. Prices in locations like Paris and New York witnessed significant recovery in 2010 after a steep fall in 2009. In 2010, the sharpest rise in price was observed in locations such as Shanghai, Mumbai and Singapore where residential prices increased by 21%, 20% and 18% respectively. Such a performance by real estate market in these locations was backed by robust growth in GDP of these countries. Dubai was the only major city in the world which saw a dip in prices during 2010 despite the GDP of UAE growing by 3.2%.

The uptrend in real estate prices for two consecutive years in India has led to a

Prime International Residential Index (PIRI)

		% Change		
Location	**Country**	**2008**	**2009**	**2010**
Shanghai	China	5	52	21
Mumbai	India	-6	11	20
Singapore	Singapore	-2	17	18
Paris	France	4	-12	15
New York	US	-3	-13	13
London	UK	-9	6	10
Kuala Lumpur	Malaysis	16	-2	7
Bangkok	Thailand	23	5	3
Moscow	Russia	13	-6	1
Dubai	UAE	11	-45	-10

Source: Knight Frank-Citi Private Bank Wealth Report

GDP Growth

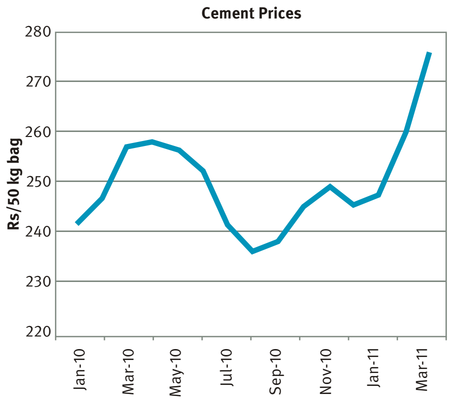
	% Change		
	2008	2009	2010
China	9.6	9.2	10.3
India	6.7	7.4	8.5
Singapore	1.5	-0.8	14.5
France	0.1	-2.5	1.5
US	0.0	-2.6	2.8
UK	-0.1	-4.9	1.3
Malaysia	4.7	-1.7	7.2
Thailand	2.5	-2.3	7.8
Russia	5.2	-7.8	4.0
UAE	5.3	-3.2	3.2

Source: International Monetary Fund (IMF)

scenario where most of the residential projects have become unaffordable for the buyer. Additionally, the rise in interest rates over the last six months has put further pressure on the buying decision of home buyers. State Bank of India (SBI) has increased its base rate 5 times in the last 10 months from 7.5% in July 2010 to 8.5% in April 2011. The recent move by the Reserve Bank of India (RBI) to hike the repo and reverse repo rates by 50 basis points will add further pressure on banks to increase lending rates going forward.

All the above mentioned factors have resulted in slowdown in demand for premium projects in cities like Mumbai, Bangalore, National Capital Region (NCR) and Pune with prices in these markets facing immense downward pressure. On the other hand, real estate developers are facing new challenges in maintaining their profitability with raw material costs rising to new highs. Prices of cement and steel have increased by 16% and 9% respectively in the last six months. Since these two commodities constitute more than 35% of the total construction cost of a project, developers are already facing pressure on margins.

2011 will be a challenging year for the real estate industry in India and many developers will have to devise innovative strategies to address the issue of dwindling demand and rising costs. The negative publicity received by the sector in the last couple of months due to the arrest of certain prominent figures of the industry has been a major setback and has raised grave concerns from the investor community about the health of the sector.



Source: Centre for Monitoring Indian Economy (CMIE)

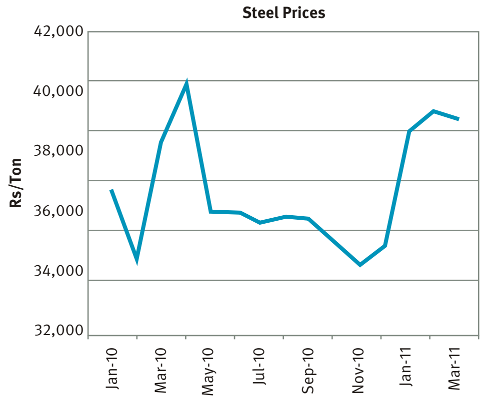
India Research

Samantak Das National Head - Research

+91 (022) 6745 0101

samantak.das@in.knightfrank.com

KnightFrank.co.in



Source: Centre for Monitoring Indian Economy (CMIE)

Although the domestic economy is currently on a strong foothold with lead indicators like exports, Purchasing Managers Index (PMI) and core sectors growing strongly in the last few months, there are serious apprehensions about the real estate market slowing down.

Pune Residential Market

Overview

The residential market of Pune has undergone a considerable change over the past three years. During the period Q3 2008 to Q3 2009, the entire real estate market in the city bore the brunt of the global economic crisis. With the real estate situation taking a beating in this period, developers in Pune started re-strategizing in order to improve their sales by offering special discounts, partially furnished homes etc. to persuade buyers to purchase houses.

However, firming up of the overall economy and revival of the manufacturing and IT/ITeS sector post Q4 2009 had a positive impact on the residential market of Pune. In the same period, the city witnessed the launch of many projects in the luxury category along with other products with regular configurations.

Capital Values

In Q1 2011 the city saw an average increase of around 15% in the residential capital values over Q1 2010. Baner recorded an increase of almost 24% over the previous year. This can be attributed to the launch of several high end projects as against the existing mid segment developments. Another location that acquired prominence last year was the Talegaon-Chakan belt witnessing a substantial appreciation of around 28% in Q1 2011 over the same quarter in the previous year. New launches by Pune and Mumbai based developers with comparatively higher quoted rates led them to increasing prices of their existing developments resulting in overall appreciation in the region.

Select prominent transactions in Pune

Project	Location	Configuration	Area	Total price of Transaction
Yuthika	Baner	3 BHK apartment	1,500 sq.ft.	INR 83,00,000
Oval Nest	Warje	3 BHK apartment	1,230 sq.ft.	INR 59,00,000
Water's Edge	Pimple Nilakh	3 1/2 BHK apartment	2,200 sq.ft.	INR 1,10,00,000
Kunal Crimson	Aundh Annexe	3 BHK apartment	1,482 sq.ft.	INR 75,00,000
Ganga Carnation	Mundhwa	3 BHK apartment	1,560 sq.ft.	INR 1,10,21,600

Source: Knight Frank Research

Price change in Q1 2011

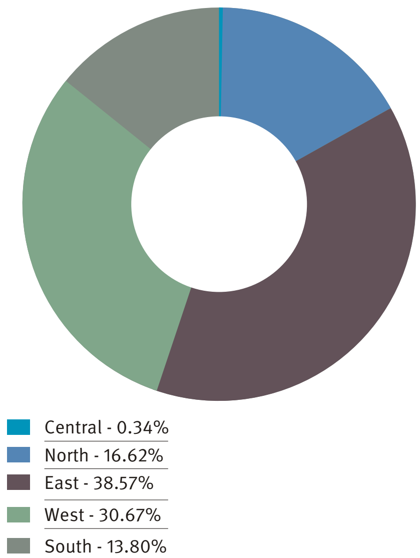
Micro-markets	Percentage Increase Q1 2011 over Q1 2010
Koregaon Park	19%
Kalyaninagar	-3%
Aundh	10%
Hadapsar - Kharadi	11%
Kothrud	20%
Vimanagar	6%
Wanowrie - Kondhwa	13%
Baner	24%
Talegaon - Chakan	28%
Pimpri - Chinchwad	17%
Wakad	27%
Hinjewadi	10%

Source: Knight Frank Research

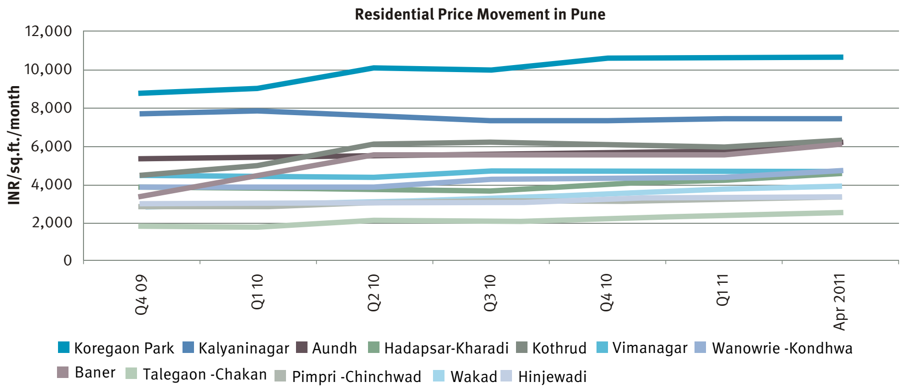
Supply Estimates

Approximately 20 mn. sq.ft. of residential space is expected to be infused in the year 2011. The eastern and western regions of Pune are expected to contribute to almost 70% of the total supply primarily comprising few large scale township projects. Upcoming areas like Talegaon, Chakan, Moshi and Chikhali in the northern region and Ambegaon, Undri, and Sinhagad Road in the southern region of Pune will contribute to the remaining share of upcoming supply.

Share of Upcoming Supply in Pune in 2011



Source: Knight Frank Research



Source: Knight Frank Research

India Research
Samantak Das National Head - Research
+91 (022) 6745 0101
samantak.das@in.knightfrank.com

APPROXIMATELY 20 MN. SQ.FT. OF RESIDENTIAL SPACE IS EXPECTED TO BE INFUSED IN THE YEAR 2011.

Outlook

The residential market in Pune has made a comeback after the downturn, with several new projects being launched in the market both in the high as well as the mid end segment. The new launches are primarily concentrated in the suburban and peripheral micro-markets. Owing to the significant number of new projects launched, investors have various options to consider. The demand for high end and mid end housing coupled with price attractiveness is expected to result in increased sales volume.

The current available supply along with anticipated launches in the coming months are likely to keep a check on the capital values in short term in both the high and mid end segments of the city. However, a marginal appreciation cannot be ruled out.

India Research
Samantak Das National Head - Research
+91 (022) 6745 0101
samantak.das@in.knightfrank.com