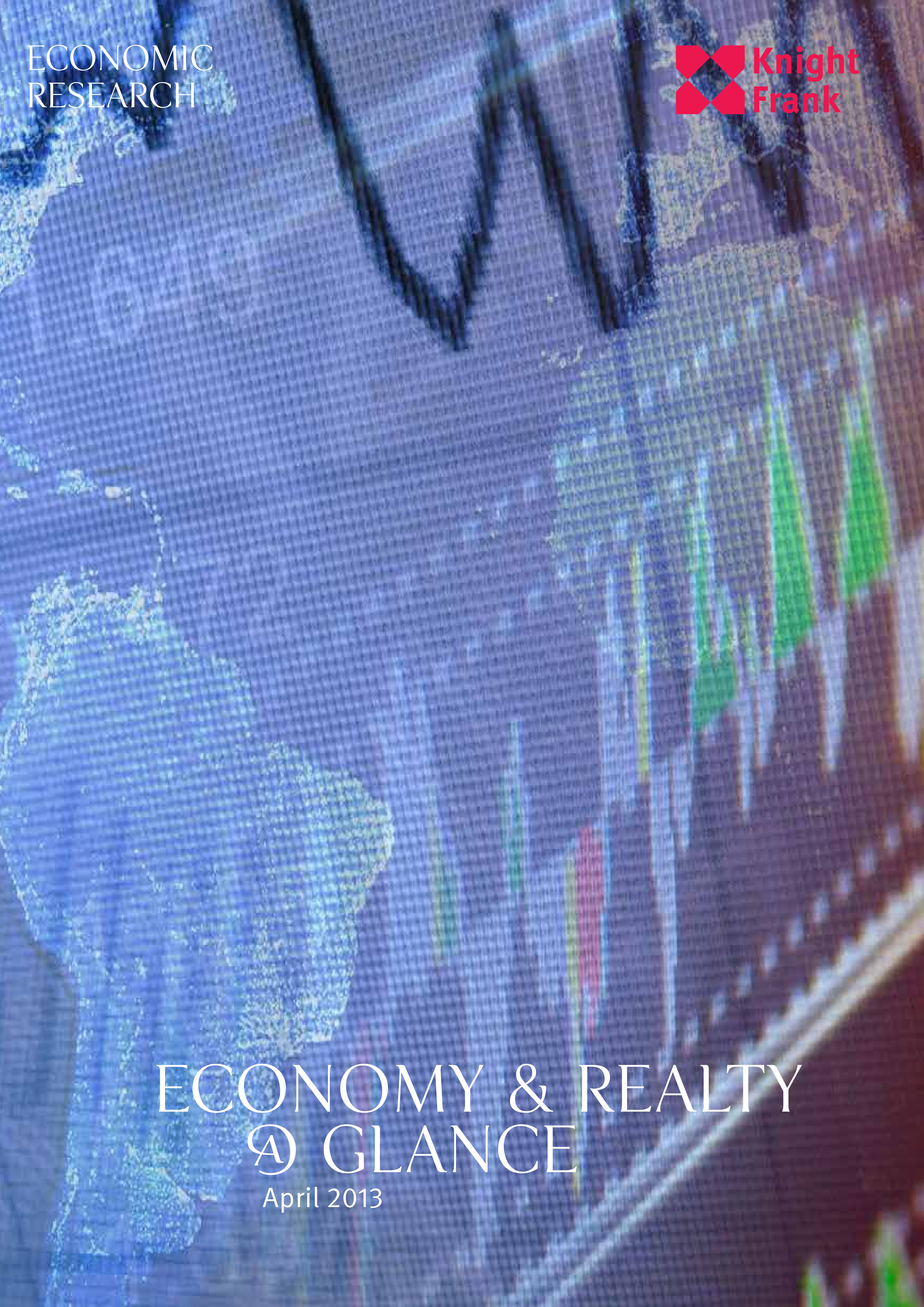


ECONOMIC RESEARCH

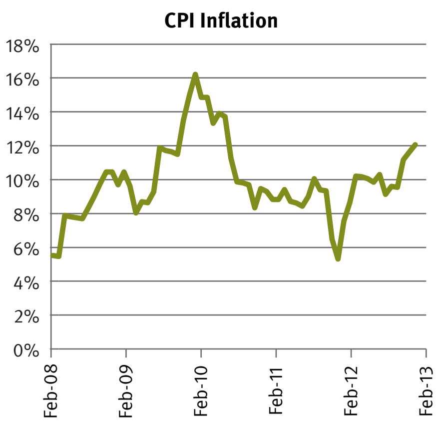
Knight Frank

ECONOMY & REALTY AT GLANCE

April 2013

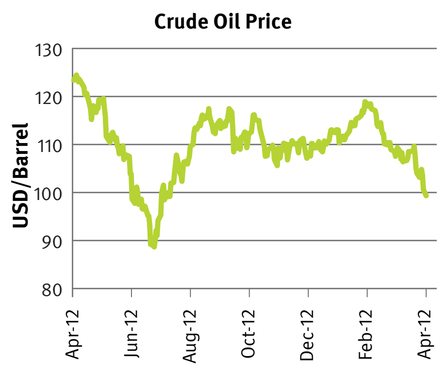
MARKET OVERVIEW

Beginning with the global financial crisis of 2008, the clouds of economic despondency have been hovering for long now on the Indian economy. While a decadal low GDP growth sums up the misery, the indicators of high current account deficit (6.7% in December 2012), fiscal deficit and high retail inflation (CPI 12.1% in February 2013) have added to the agony.



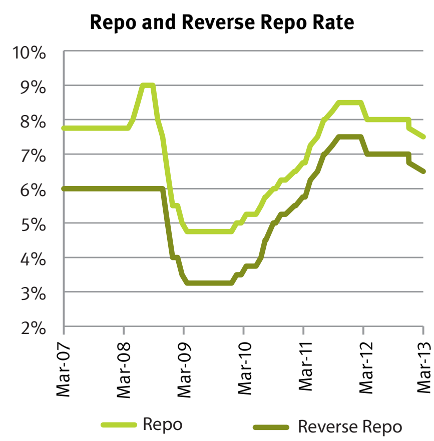
Source: GOI

With no alternatives to salvage the economic situation, since September last year, the government started to put the house in order and reboot the Indian economy. It relaxed foreign participation limits through foreign direct investment (FDI) in sectors like retail, banking, aviation, broadcasting and power. Additionally, a renewed commitment to fiscal consolidation was evident when it rationalized subsidy on fuels like diesel and LPG. The reforms process unveiled over the last six months did break the logjam on policy indecisiveness and revved up business sentiments. On one hand, the measures aimed at attracting global businesses to participate in India, on the other it intended to cement the confidence of the international investor community.



Source: US EIA

The most recent development in the receding wholesale inflation (WPI at 6% in March 2013) has relieved some pressure. Additionally, declining crude oil prices will also ease some pressure off the high current account deficit. Since the beginning of the last financial year, the crude oil price has declined by 20% and has come in the psychologically comfort level of USD 100/ barrel. This has raised hopes of lowering of key policy rates by the Reserve Bank of India, which has kept the rates sticky on account of high inflationary expectations. During FY2013, it reduced repo and reverse repo rates by just 100 bps.



Source: RBI

The reform measures and lowered inflationary expectation have assuaged some economic fears in the current situation. However, impending general election in 2014 is likely to delay decision making, which will hamper big ticket investments.

As highlighted in the outperformance of GHPI (+74%) in comparison to the PIRI (+5%) it is clear that prime property lagged behind the overall property market in terms of returns during the last five years. However, it should be taken in to consideration that prime markets are well established markets and exhibit a higher price stability in comparison to the general property market.

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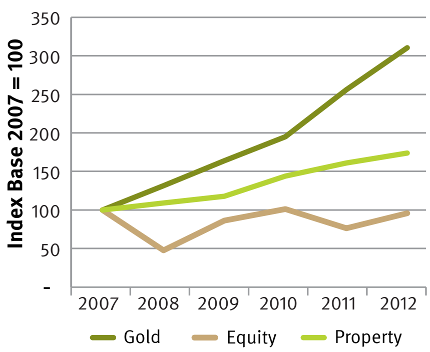
Amidst this see saw of economic position since the global financial crisis of 2008, different asset classes have fared differently. We take a look at the investment avenues namely equity, gold and property to understand how investors fared during this tumultuous economic environment.

Investment Avenues



Source: BSE, WGC, NHB, Knight Frank Research

With the global economy in doldrums and the domestic economy also not faring well, financial assets like equity languished. A decade low economic growth weakened corporate earnings and impacted asset valuations. During the last five years (2008-2012), investment in equity, as measured by Sensex, has lost money. This happened as the benchmark index, that was trading at 20,287 at the end of 2007 closed at 19,427 at the end of 2012, yielding -4% returns over a five year horizon. This measurement only takes in to account the capital appreciation and does not account for any dividends offered by equity. In comparison, gold prices yielded a handsome 210% return during this five year period. With a tumultuous global economic environment, this safe haven investment appreciated from INR 9,195/10 grams to INR 28,551/10 grams during this five year period.

Investment in property fared better than equity but lost to gold during the last five years.

For the performance of property market, we have taken the Knight Frank Global House Price Index (GHPI) which appreciated by 74% during this five year period. The index has been derived from the National Housing Bank's data for 15 cities in the country and reflects the price movement in residential property in the country. Clearly, this asset class outperformed equity by a wide margin. The annuity income in the form of rent is not considered in this investment comparison.

We also look at the prime property market to assess its performance and draw parallels with the general property market. For assessing the performance of investment in prime property, we have taken the Knight Frank Prime International Residential Index (PIRI) that tracks the most desirable and most expensive property in a given location. These markets often have a significant international bias in terms of buyer profile. The index for India, representing markets in Mumbai, has gone up by 5% during the last five years (2008-2012). This indicates that the prime property lagged behind the general property market during the last five years. But, even with this kind of movement in the index, prime property performed better than an investment in equity.

In 2012, the prime property market in the country witnessed muted price growth. Mumbai witnessed a 0.5% increase with average property price increasing from INR 57,500/sq.ft. to INR 57,800/sq.ft. during the year. This takes in to account markets like Napean Sea Road, Colaba and Cuffe Parade. The Delhi prime property market that includes residential properties in locations like Greater Kailash, Vasant Vihar, Anand Niketan, Defence Colony and Green Park also witnessed a muted increase in prices. The Delhi prime property market witnessed a 0.7% price rise in this period. The prime markets in the city witnessed average residential property price movement from INR 32,000/sq.ft. to INR 32,220/sq.ft. during 2012.

At a 1.3% price increase in 2012, the Bengaluru prime property market performed better than Mumbai and Delhi.

This happened as prime locations like Richmond Town, Langford Town and Lavelle Road witnessed an average price move from INR 15,810/sq.ft. to INR 16,010/sq.ft.

Table: Prime Property Performance in 2012 (Average price in INR/sq.ft.)

City	2011	2012	% change
Mumbai	57,500	57,800	0.5%
Bengaluru	15,810	16,010	1.3%
Delhi	32,000	32,220	0.7%

Source: Knight Frank Research

As highlighted in the outperformance of GHPI (+74%) in comparison to the PIRI (+5%) it is clear that prime property lagged behind the overall property market in terms of returns during the last five years. However, it should be taken in to consideration that prime markets are well established markets and exhibit a higher price stability in comparison to the general property market.

Notwithstanding this underperformance, prime property continues to evince strong interest from the wealthy.

Clearly there are stronger attributes than just returns when it comes to prime property investment.

The Wealth Report 2013, a global perspective on prime property and wealth, identifies these aspects of prime property investment.

Table: Relative importance of factors in choosing a Prime Property Investment (1= Most important, 6= Least important)

Factor	Global Rank
Lifestyle	1
Capital safe haven	2
Investment	3
Children's education	4
Tax	5
Business links	6

Source: The Wealth Report 2013

The attitudes survey of private bankers and wealth advisors shows that amid economic insecurity, residential property managed to retain its global appeal and High Net worth Individuals (HNWIs) have been steadily increasing their exposure to real estate. The survey has identified six attributes and provides ranking in terms of their relative importance.

As a finding, the study identifies lifestyle that comes with an open, cosmopolitan environment and both personal and property security as a factor that has real value for the investors in prime property globally. As a result, it has been ranked as the most important factor for choosing prime property destination. The second most important factor was its potential to provide a long term safe haven for capital.

In the global perspective, the safe haven appeal of prime property remains a very significant factor attracting the wealthy to invest in this real asset.

The investment attribute of prime property was ranked third, clearly highlighting that this factor is not the most significant determinant in prime property investments. With an increasing importance that buyers now place on their children's education, destinations with a number of prestigious universities and educational institutes would find favour amongst the buyers. This choice has placed children's education at the fourth rank of the desired attributes. While the HNWIs do not undermine the impact of higher taxes on their wealth, they still rank taxes lower in comparison to the other four factors. Business links according to prime investors is the least significant factor in determining the destination.

Table: A perspective on HNWI (Net assets over USD 30 mn.) population

Region	2012	2022E	Change
Global	189,835	285,665	50%
Asia	43,726	82,369	88%
India	8,481	17,032	101%
Delhi	1,945	4,278	120%
Mumbai	2,105	4,988	137%

Source: The Wealth Report 2013

The population of HNWIs, the driving force behind the prime property markets, has a significant bearing on its performance. During 2012, the number of HNWIs (Net assets over USD 30 mn.) globally rose by 5% or nearly 8,700 and their combined wealth also grew by 2% or USD 566 bn. Over the next 10 years, 95,000 people are forecasted to be added to this HNWI population. Marking a cumulative 50% rise in 10 years, this will take the total number of HNWIs to around 2,85,665 worldwide. The growth of HNWI population, the driving force behind prime property, will be significantly higher in India.

With the number of HNWIs forecasted to double in the next ten years in India, the growth rate is twice that of the global average.

The growth of HNWI population in Mumbai, the financial capital and Delhi, the national capital, will be 137% and 120% respectively. On the back of the desired attributes in a prime property within the country, such growth in HNWI population would ensure sustained buyer interest in prime property.

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The fallout of the global financial crisis is still very evident around the globe. Further global challenges emerged in 2012 in terms of the economic and political uncertainty in important property markets around the world. Notwithstanding this turbulence, the appeal of prime property is still strong and will continue to gain momentum going forward.

Research

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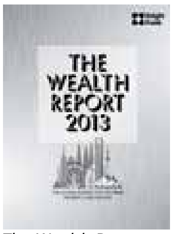

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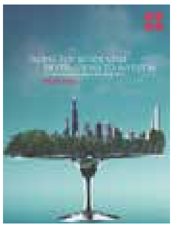
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