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India Real estate: Snapshot 2011 and outlook 2012

Market forces of demand and supply are the most potent determinants of price and the developments in the real estate industry during year 2011 is the latest example. The stalemate between the buyers and developers is weakening as developers attempt to salvage their position by adopting to the last resort of reducing property prices although in a quiet manner for transactions on table or where a large upfront payment is agreed.

Demand for real estate is a derived demand and thus the state of economy has a direct bearing on the sector. Since the slowdown in 2008-09 on the backdrop of global financial crisis, the Indian economy picked up really well in 2009 and 2010. However, a closer look at the quarterly GDP numbers indicates a receding growth sequentially for each of the quarters since Q1 2010 when the economy grew by 9.4%. The latest number for Q3 2011 indicates that the economy's growth rate has come down to 6.9%.

Table 1: India GDP growth trend

Period	GDP growth
Q1 2010	9.4%
Q2 2010	9.3%
Q3 2010	8.9%
Q4 2010	8.3%
Q1 2011	7.8%
Q2 2011	7.7%
Q3 2011	6.9%

Source: GOI

While the world economy was facing pressure of an imminent double dip recession and some European economies risked defaulting on their debt, inflation remained the primary concern for the Indian economy since the beginning of the year. While the central bank's efforts centered on taming inflation, the fallout was high interest rate and tight credit scenario resulting in to faltering economic growth. Rising corporate governance issues and menace of corruption ensured that decisions on major reforms were delayed. While investment slowed on account of high interest rate and hiatus on major infrastructure projects, government's ability to increase consumption, as witnessed during the 2008 downturn, was reduced because of rising fiscal deficit. The unfolding of these developments has resulted in a compromised economic growth and the real estate industry has taken the biggest hit. Thus, the year 2011 can be referred as a dull year on account of slack transaction activity, few project launches and stagnant property prices.

While residential property price appreciated between 10% - 30% in 2010 across major cities like Mumbai, NCR, Bangalore and Chennai, it has declined by up to 10% in 2011. The pace of new project launches has severely been crippled in 2011. During 2010, 3,61,098 residential units were launched across the top 7 cities of Mumbai, NCR, Pune, Kolkata, Bangalore, Chennai and Hyderabad. However, in 2011 only 1,72,856 units were launched. This is a decline of 52% from the last year. Moreover, of the total housing inventory pertaining to the under construction projects, 39% or 3,06,859 units are lying unsold. A substantial portion of this unsold inventory belongs to the NCR market.

Mumbai property market was even worse recording a sharp decline in the number of new project launches in 2011. Just about 19,470 units were launched in 2011 in comparison to the 54,968 housing units that were launched in the previous year. This decline of 65% fewer launches highlights the lack of buyer interest in the extremely expensive Mumbai property market. Moreover, 40,660 housing units or 32% of the inventory is lying unsold in the city. Although the situation remained grim throughout the year, there was a stalemate between the buyers and the builders, who remained in a denial mode with respect to lowering the prices.

Table 2: State of residential property market

City	Unsold residential Units*	Unsold inventory as a % of launched units
Bangalore	41,161	48%
Chennai	24,169	40%
Hyderabad	20,996	42%
Kolkata	16,090	46%
Mumbai	40,660	32%
NCR	142,962	40%
Pune	20,819	27%
Total	306,859	39%

Source: Eyestate

**Note: Residential projects with a size of INR 30 crores and above have been considered.*

Commercial office space demand, which is driven mainly by the service sector industries like BFSI and IT/ITES, remained muted in 2011. Rentals in the top 7 cities remained under pressure as corporates trimmed hiring plans resulting in to reduced office space requirement. Of the total office stock of 367 mn.sq.ft. in these cities, 24% or almost 89 mn.sq.ft. remains vacant. NCR, Pune, Chennai and Kolkata have a high proportion of vacant stock followed by Mumbai and Bangalore.

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India Research

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

Hyderabad office market is relatively better placed in terms of the unoccupied stock.

The landmark reform with respect to the sector was the draft real estate regulation bill. The proposed bill is the first such bill at the central level which will directly regulate the real estate sector and adjudicate any dispute between the buyer, promoter and government authority. The bill attempts to overcome the shortcomings of the existing system in the real estate market where buyer's interest is frequently ignored by the promoter as well as the government. The bill tries to identify these problem areas and fix time bound responsibility on the promoters to disclose certain necessary information regarding their projects in order to bring in greater level of transparency. It would be a great effort if this bill improves focus on development of the sector than merely regulating it.

Another reform proposed in 2011 but could not take off is the FDI in multi brand retail. There is restriction on foreign investment in retail sector. Foreign participation in the retail sector should bring in efficiency in the procurement and supply chain operations thereby reduce wastage and offer lower prices to consumers. The proposal to relax the restriction on entry of foreign players by allowing 51% FDI in multi-brand retail and 100% in single brand retail will greatly benefit the real estate industry, which has been in pressure since the beginning of the global financial crisis.

Amidst this uncertainty, what is in store for the real estate sector in 2012 remains the biggest question. In terms of the residential segment, the deadlock between the buyers and developers should break in favour of buyers. As this happens, the pent up demand from the section of buyers that are sitting on fence in anticipation of price correction would translate into improved fortunes for residential property market. Employment scenario, inflation and interest rate have a bearing on the overall sentiment of buyers. Since, houses are bought by people who are confident, these factors will have a role to play and hence cues from government action will be keenly observed.

In terms of the commercial office market the performance of the service industry has a significant bearing. The slowdown in global economy which impacts the Indian BPO sector and muted expansion plan of domestic players will exert pressure on the commercial office property market. The commercial office market shall continue to remain subdued on account of weak global and domestic economic indicators. As policy deadlock breaks and reforms gather steam leasing activity shall improve however rentals will remain under check on account of a strong supply pipeline in major commercial centers.

NCR Residential Market

Market Overview

The NCR has become the hub of real estate development in Northern India due to the ample economic activities and employment opportunities. Many national as well as international companies have set up offices in the region resulting in an increased demand for housing. Residential development in the NCR has been fast paced during the last few years due to various infrastructure developments, especially construction of expressways and the metro that has led to better connectivity throughout the region. Delhi, Gurgaon, Noida, Greater Noida, Faridabad and Ghaziabad form the core of residential development in the NCR. Ghaziabad and Faridabad are predominantly industrial towns, where as economic activity in Gurgaon, Noida and Greater Noida is driven by IT/ITeS, Automobile, Telecommunication, Medicine, Pharma and Banking and Finance sectors. Most of the supply in recent times has been in the peripheral locations of Delhi due to cheaper land rates and availability of big land parcels. Efficient transportation linkages within the region have improved the attractiveness of these locations. Newer residential pockets have been created within the already established micro-markets of Gurgaon, Noida and Faridabad. Large numbers of residential projects are coming up in the vicinity of these locations.

Delhi continues to be the most important residential zone in the NCR. Locations like Chanakyapuri, Golf Links, Jor Bagh, New Friends Colony, Shanti Niketan, Hauz Khas, Defence Colony and Greater Kailash I & II are a few most sought after residential locations attracting higher premium in terms of property prices. Most of these locations are now a resale market as there is limited fresh supply. Local developers have been developing premium apartments, mostly builder floors in these locations under redevelopment projects. However in recent times locations like Dwarka, Vasant Kunj, Janakpuri, Rohini, Pitampura, Subhash Nagar and Mayur Vihar have been gaining prominence with new project launches.

Gurgaon's residential development is taking place in particular pockets. A major chunk of residential supply lies on the Northern Periphery Road also known as the NPR a stretch on Dwarka Expressway. This area is known as New Gurgaon with residential land use as per Gurgaon Master Plan 2021. The expressway is in close proximity to commercial/industrial areas of Manesar. Most of the projects in this location are multi-storey and fall in the mid-segment category. Along with the NPR some other locations in Gurgaon which have seen major residential supply are Golf Course Extension and Sohna Road.

Due to limited availability of large land parcels in Noida, group housing developments have been restricted to newer locations in Sector 44, 50, 51, 52, 62 and residential sectors of 93, 94,137, 143 and 168 on the Noida- Greater Noida Expressway.

In Faridabad locations like Old Faridabad road and residential sectors on NH2 and Suraj Kund road have seen ample residential supply in the last few years. However newer locations like Neharpur and Sector 70-89 have also witnessed a number of project launches, ranging from affordable to high end residential.

Ghaziabad which is one of the industrial towns in the region has also witnessed huge residential supply, most of which has been in Indirapuram, Sahibabad, Vaishali, Vasundhara, Raj Nagar Extension and NH24 crossing republic. Most of the projects in these locations are affordable and mid-segment.

Supply and Developments

Current global conditions, downsizing the Indian GDP growth forecast and inflation have affected the real estate sector in the NCR as well. Residential sales were sluggish in Q3 2011 compared to Q2 2011. Home buyers have become cautious and adopted a wait and watch attitude, considering the rising home loan interest rates and speculation of job cuts in the future. Developers on the other hand are also facing a liquidity crunch due to huge debts, slowed FDI inflows and

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

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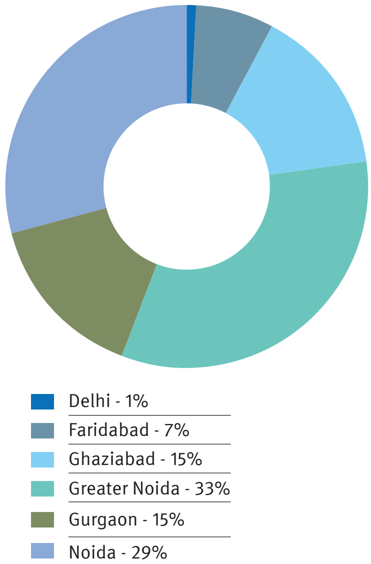
increasing cost of construction. The NCR witnessed a slowdown in the number of project launches in Q3 2011 compared to Q2 2011 across all categories.

Most of the projects launched were located in Noida and Greater Noida. Even though sales in Noida Extension were most affected in the last few quarters because of the land acquisition issues, developers are still confident of the market which is evident from the project launches in these locations. Projects like Logix Zest by Logix Group, Amrapali Hanging Garden by Amrapali Group, Aman II by Jaypee Greens were launched in Noida and Greater Noida Expressway in the price range of INR 2800-3700 per sq.ft. While Gurgaon witnessed the launch of projects like Skyz City by Ramprastha Group, Headay by Era Group, Park Generations by BPTP, Ansal Heights II by Ansal API, Sahara City by Sahara Group located on Dwarka Expressway where prices ranged from INR 3000-5900 per sq.ft.

Chart 1: Distribution of Upcoming Supply in the NCR (2012-2014)



Source: Knight Frank Research

Nearly 359,200 residential units are under construction in the NCR. About 50% of this supply will be ready for possession by the end of 2013.Unsold inventory currently stands at 40% of the launched units. Noida and Greater Noida constitute nearly 62% of the upcoming supply, most of which is in the affordable and mid segment housing. Number of projects which were slated for completion in H2 2011 have been delayed due to cash crunch faced by the developers.

Drop in sales volume in the last quarter has also impacted the capital availability of developers. Project delays have led to an inventory pile up in the NCR as well. Chart 1 shows the distribution of supply amongst micro-markets in the NCR.

NEARLY 359,200 RESIDENTIAL UNITS ARE UNDER CONSTRUCTION IN THE NCR. ABOUT 50% OF THIS SUPPLY WILL BE READY FOR POSSESSION BY THE END OF 2013. UNSOLD INVENTORY CURRENTLY STANDS AT 40% OF THE LAUNCHED UNITS.

Transaction volumes have gone down by 6% in Q3 2011 compared to Q2 2011. Nearly 79% of the absorption has been in the affordable and mid segment housing with a ticket size of less than INR 2.5 mn and 2.5 mn - 5 mn. Since most of these projects with rates of INR 2500-4500 are located in Noida and Greater Noida and new sectors of Gurgaon, these are the areas which have seen maximum absorption. Even though the overall market has shown a negative growth in sales volume, the sales in Noida have gone up by 13%.

Table 2: Select Under Construction Projects in the NCR

Project Name	Developer	Location	Number of Units	Price./sq.ft(INR)	Possession
The Luxury	IITL Nimbus Group	Noida	1200	4150	Mar-14
Ansal Crown Heights	Ansal Buildwell Ltd.	Faridabad	780	3050	Jan-14
Jaypee Greens Krescent Homes	Jaypee	Noida	1250	4365	Jun-14
Lotus Zing	The 3C Company	Noida	2200	3850	May-14
Paramount Golf Forest Villas	Paramount Group	Noida	1800	2800	May-14
Tulip-Violet	Tulip Infratech	Gurgaon	1200	4500	Oct-14
Unitech Sunbreeze	Unitech Group	Gurgaon	750	4750	Mar-14
Palm Gardens	Emaar Mgf	Gurgaon	750	4400	Nov-14
Officers City	M.R.Proview	Ghaziabad	1850	1690	Mar-13
Eastend Athena	Connoisseur Buildtech Pvt. Ltd.	Greater Noida	2200	2400	Dec-14
Earth Towne	Earth Infrastructures Ltd.	Greater Noida	2400	2150	Mar-13
Oxford Suites	Supertech Group	Greater Noida	2800	3200	May-13
Golfforest	Paramount Group	Greater Noida	1800	2210	Jul-13
Pancheel Green	Panchsheel Group	Greater Noida	2400	1830	May-13

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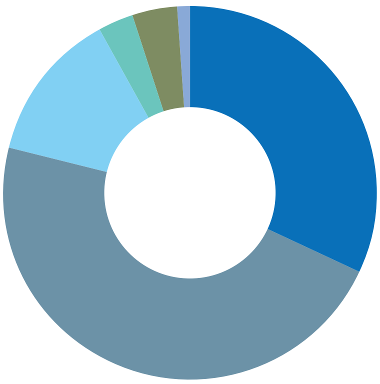
Dr. Samantak Das National Head - Research
+91 (022) 6745 0101
samantak.das@in.knightfrank.com

Gurgaon's sales volume has also remained stable and not shown any negative growth. Faridabad showed the biggest drop in sales of 38% in Q3 2011 compared to Q2 2011. One of the biggest reasons for this being lack of new project launches in Faridabad during Q3 2011 and most of the projects which are under construction are also delayed.

Chart 2: Absorption by Ticket Size



- ‹ 2.5mn - 32%
- 2.5mn - 5mn - 47%
- 5mn - 7.5mn - 13%
- 7.5mn - 10mn - 3%
- 10mn - 20mn - 4%
- › 20mn - 1%

Source: Knight Frank Research

Based on the absorption trends, unsold inventory in Greater Noida will be absorbed in six quarters where as Gurgaon and Noida will take approximately four quarters.

Prices

Unstable macro-economic conditions have affected consumer confidence and sentiments which in turn has affected demand, and has led to limited increase in quarter on quarter prices. However there have been considerable appreciation in capital values compared to last year. The NCR has fared well compared to other metro cities and has not seen a drop in prices. NCR market is unique as investors also play an important role. Even though end users are cautious and waiting for the interest rates to go down, the investors have no inhibitions in investing which keeps the price stable even after so many speculations of corrections. Locations like Jor Bagh and Golf Links have shown an increase of 15-20% compared to Q3 2010 and command highest capital values of INR 60,000-85,000/sq.ft. Greater Kailash I & II have shown an appreciation of 25% compared to Q3 2010, which can be attributed to the increase in circle rates up to 250% and limited supply in these locations. Gurgaon recorded an increase in the range of 25% compared to Q3 2010, as a number of projects are now ready to move in locations like Golf Course Road and Sohna Road which has led to an increase in prices here.

Table 2: Average Residential Capital Value Change

	% change from Q3 2010	Q3 2011 (₹/sq.ft)
Chanakyapuri	10%	58,000-68,000
Jor Bagh	20%	60,000-85,000
Golf Links	15%	65,000-90,000
Greater Kailash I & II	25%	25,000-35,000
Hauz Khas	15%	22,000-32,000
Ghaziabad	5%	1,850-4,000
Gurgaon	25%	3,250-22,500
Noida	8%	3,200-11,200
Greater Noida	5%	2,000-3,200
Faridabad	5%	1,700-5,500

Source: Knight Frank Research

Outlook

There has been a slowdown in construction activity as developers in NCR are facing liquidity crunch due to limited access to both domestic and international funds. Consumer confidence has also been affected due to higher interest rates, inflation and current economic outlook. Prices in the suburban micro markets of NCR are expected to remain stable in the next few quarters. However Delhi might see some appreciations in capital values due to limited residential supply.

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

KnightFrank.co.in