RESEARCH

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Knight Frank

Economic Outlook

The Finance Minister in the previous month had indicated various measures through the union budget to sustain the growth momentum of the country and contain inflation at sustainable levels. In order to address these issues, the Reserve Bank of India (RBI) seems to be undertaking a balancing act between growth and inflation. The RBI increased the repo and reverse repo rate by 25 basis points (bps) each earlier this month making this the 8th such increase since February 2010. Currently the repo and reverse repo rate stands at 6.75% and 5.75% respectively.

THE RBI INCREASED THE REPO AND REVERSE REPO RATE BY 25 BASIS POINTS (BPS) EACH EARLIER THIS MONTH MAKING THIS THE 8TH SUCH INCREASE SINCE FEBRUARY 2010

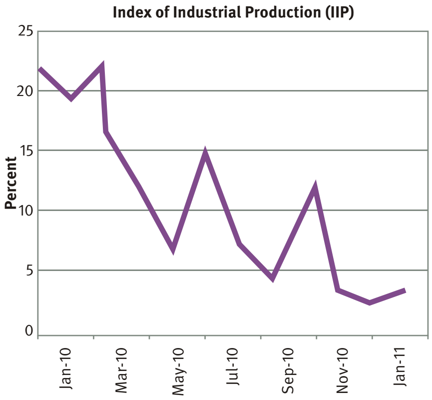
The rate of inflation finally seems to be cooling off with the monthly Whole Price Index remaining in the range of 8.2% to 8.3% in the previous two months. This is significantly lower than the double digit inflation rate recorded in the previous year. However, the consistent rise in the price of food articles and fuel over the last few months has resulted in the RBI revising its targeted rate of inflation to 8% for March 2011 from the earlier 5.5%. It seems that RBI has accepted the fact that inflation in the Indian economy will remain on the higher side in the medium term.

Targeted Wholesale Price Index (WPI) by RBI

Estimated in:	Targeted WPI for March 2011
2010	5.5%
End of January 2011	7.0%
Early March 2011	8.0%

Source: RBI

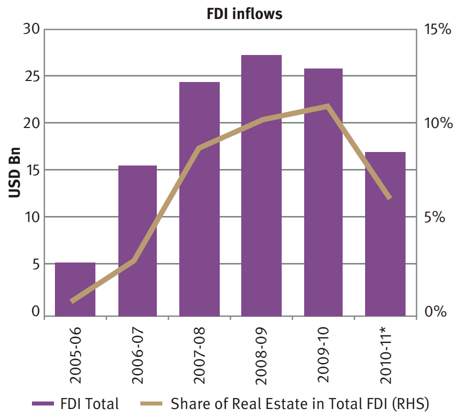
The continuous hike in policy rates by the RBI may have brought inflation under control. However, it appears to have negatively impacted the industrial growth of the country with the Index of Industrial Production (IIP) remaining below 5% for three consecutive months. Although high base effect of the previous year could be one of the primary reasons for such an abysmal performance of IIP in the last few months, the rigidness of the index to remain below 5% for three consecutive months is an area of concern. If the index continues to perform poorly in the coming months too, it could pose a serious threat to the growth story of the nation.



Source: Government of India

In the last few years, India has been one of the largest recipients of Foreign Direct Investments (FDI) among the emerging economies. However, over the last two years, the pace of FDI inflows into the country seems to have slowed down considerably.
In 2010-11, the FDI inflow witnessed a drop of more than 25% to US$ 17.1 bn in the first 10 months compared to the similar period of previous year where the inflow was more than US$ 23 bn. A similar trend is being followed by the real estate sector in terms of attracting FDI with the inflows falling by more than 60% in the first 10 months of 2010-11 to US$ 1 bn as compared to US$ 2.6 bn in corresponding period of previous year. Additionally, the share of real estate in total FDI inflow has also fallen drastically from 11% in 2009-10 to 6% in 2010-11.

The downturn of 2008 in the real estate market had resulted in many foreign investors losing large amount of investments in the country and this led to them becoming cautious towards committing further funds in the sector. In addition to this, the recent scams and scandals that have hit the real estate sector along with the slowdown in



Source: Department of Industrial Policy & Promotion

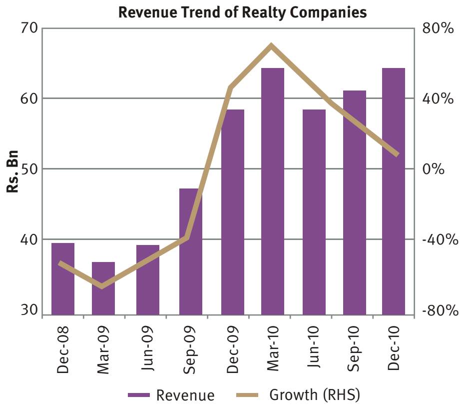
India Research
Samantak Das National Head - Research
+91 (022) 6745 0101
samantak.das@in.knightfrank.com

demand in the residential segment may have resulted in investors turning averse towards investing in the sector.

In order to analyze the performance of real estate sector we have considered the financial results of 22 listed real estate companies in India on a quarterly basis. These 22 companies can be considered as a fair representative of the overall real estate market of India since it not only covers the various sub-segments of real estate but also all the major cities of India.

The combined revenue of these companies has increased from Rs 146.6 bn in the first three quarters of 2009-10 to more than Rs 185.6 bn in the first three quarters of 2010-11 resulting in a 27% year-on-year increase. However, the concern is that the rate of growth in revenues has been reducing with every passing quarter. From a high of 48% year-on-year growth in Q1 2010-11, the revenue growth rate has dropped to 29% and 10% for Q2 2010-11 and Q3 2010-11 respectively. High prices in the luxury residential segment have resulted in slowdown in demand in markets like Mumbai, NCR, Bangalore and Pune resulting in increased pressure on developers to reduce prices. However, none of these markets have witnessed any significant reduction in prices as of date which is leading to substantial build up in unsold inventory in this segment.

HIGH PRICES IN THE LUXURY RESIDENTIAL SEGMENT HAVE RESULTED IN SLOWDOWN IN DEMAND IN MARKETS LIKE MUMBAI, NCR, BANGALORE AND PUNE RESULTING IN INCREASED PRESSURE ON DEVELOPERS TO REDUCE PRICES



Source: Knight Frank Research, NSE

National Capital Region (NCR)

Market Overview

Year 2010 started on a favourable note for the NCR's residential segment. The Indian economy was showing positive signs of growth with the government projecting a healthy GDP growth rate for FY11. Job market had stabilized and consumer confidence was increasing. The improvement witnessed in the Indian economy also had its impact on the NCR's real estate sector. Housing inquiries began converting into actual sales due to the increment of both investors and end user demand. Also, developers across NCR realized the sizeable demand present in the mid-segment housing and started launching projects in the affordable price bracket.

THE RESIDENTIAL MARKET IN THE NCR REFLECTED A BALANCE BETWEEN DEMAND AND SUPPLY IN 2010, AS BUYERS WERE BEING OFFERED HOUSING PROJECTS THAT MATCHED THEIR PRICE PREFERENCE AND ALSO PROVIDED THEM WITH BASIC ESSENTIAL AMENITIES

Overall, the residential market in the NCR reflected a balance between demand and supply in 2010, as buyers were being offered housing projects that matched their price preference and also provided them with basic essential amenities.

During 2010, developers across NCR ventured into new sectors in Noida, Greater Noida and Gurgaon to take full advantage of low cost of land in the unexplored regions within NCR and at the same time, strived to pass on the benefit to the consumers by launching projects at affordable prices. Demand for housing in the NCR received further impetus with the revival of the EMI on possession scheme and introduction of the flexi payment plan. Though the flexi payment plan is designed in similar lines of the construction linked plan, it is supposed to further ease out liquidity pressure on the buyer as compared to the earlier schemes. With the introduction of these two schemes along with reasonably priced home loans rates, the demand for housing in NCR has been on the rise. Besides, to promote the image of the project, the developers also launched media campaigns highlighting a celebrity as the brand ambassador of the project, which acted as a key marketing tool for the developers.

DEMAND FOR HOUSING IN THE NCR RECEIVED FURTHER IMPETUS WITH THE REVIVAL OF THE EMI ON POSSESSION SCHEME AND INTRODUCTION OF THE FLEXI PAYMENT PLAN

Completion of phase 2 of the Delhi metro project also acted as a key growth factor, as improved connectivity within the NCR made locations like Ghaziabad, Gurgaon and Noida more attractive for home buyers. This increase in demand led prices across micro-markets to witness substantial appreciation.

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

Table 1: Select affordable project launches in 2010 - NCR

Sr.No	Project Name	Developer	Location	Micro Market	Configuration (Sq.ft)	Completion Year	Current Price (Rs/sq.ft)
1	Green Parc	SARE group	Sector-92	Gurgaon	3 BHK - 1180 to 1608, 4 BHK - 1712 to 1900	2014	2197
2	Parkwood Westend	Park Wood Group	Sector-92	Gurgaon	2 BHK - 1200, 3 BHK - 1495 to 1685, 4 BHK - 1995	2014	2395
3	Capetown	Supertech	Sector - 74	Noida	2 BHK - 930 to 1130, 3 BHK - 1150 to 1625, 4 BHK - 1945 to 2385	2013	3400
4	Moderne	Mahagun	Sector - 78	Noida	2 BHK - 1250, 3 BHK - 1550 to 1900, 4 BHK - 2250 to 2450	2013	3350
5	Earth Towne	Earthcon Construction	Sector - 1	Greater Noida	2 BHK - 895 to 995, 3 BHK - 1195 to 1395, 4 BHK - 2295	2014	2300
6	Golf Homes	Amrapali	Sector - 4	Greater Noida	2 BHK - 825 to 1175, 3 BHK - 1095 to 1550	2013	2170-2330
7	Pratham	PURI Constructions	Sector - 84	Faridabad	2 BHK - 1100, 3 BHK - 1300 to 1400	2013	2435
8	Ansal Heights	Crown Group	Sector - 80	Faridabad	3 BHK - 2122, 4 BHK - 2122 to 3152	2013	2750
9	KDP Grand Savana Ph-2	KDP Infrastructure	Raj Nagar Extension, NH-58	Ghaziabad	2 BHK - 825 to 1250 3 BHK - 1125 to 1550	2012	1950
10	Gardenia Glamour	Gardenia Group	Vasundhara	Ghaziabad	2 BHK - 1250, 3 BHK - 1550 to 1850	2012	2800

Source: Knight Frank Research

Supply and Development

The negative impact of the global economic recession witnessed in late 2008, had brought about a slump in the NCR's residential market. Demand was low, new launches were limited and work on existing projects were either stalled or construction was delayed. With the market reviving in 2010, NCR residential sector, witnessed substantial activity in terms of re-initiating work on stalled projects and announcement of new projects. In response to growing consumer confidence as well as to meet the buyers' expectations, construction activity on projects was carried out at full swing.

On the supply side, the NCR witnessed a good number of new locations being explored by developers. New sectors 1 - 4 and 16B and 16C in Greater Noida (collectively known as Noida Extension), Sectors 75 - 78 and 137 in Noida and sectors on the proposed North Peripheral road (NPR) in Gurgaon were explored by the developers for group housing development. A number of mid segment

THE NCR WITNESSED A GOOD NUMBER OF NEW LOCATIONS BEING EXPLORED BY DEVELOPERS. THIS INCLUDES SECTORS 1-4 AND 16B AND 16C IN GREATER NOIDA SECTORS 75-78 AND 137 IN NOIDA AND SECTORS ON THE PROPOSED NORTH PERIPHERAL ROAD IN GURGAON

housing projects were launched in Q2 2010 in these newer sectors of Noida, Greater Noida and Gurgaon. Projects like Paradise by Mapsko Group, Spire South and Central by Spire World and Parkwood Westend by Parkwood Group were launched in Gurgaon in the price range of Rs 2,250 - 2,876 /sq.ft. while Noida witnessed the launch of projects like Westeria by Prateek Builders, Kasa Isles by Jaypee Group, Karmic Green by Sikka Group and Blossom County by Logix Group, which were priced in the range of Rs 2,600 - 3,390/sq.ft.

Early 2010 also witnessed a number of project launches in Greater Noida. Projects like Mywood by Mahagun Group, Eco Village by Supertech Group, Golf Homes by Amrapali and Gaur City by Gaur Developers were launched in the Noida Extension region. These projects were launched at a base price of Rs. 1,880 - 2,335/sq.ft.

Though the primary focus of the developers in 2010 was to cater to the affordable segment, new projects launched in the premium category also drew the attention of the high-end buyers.

Key high-end projects such as Victory Valley by IREO, Golf Estate by M3M Group, Palm Terrace Select by EMAAR MGF and Presidia by Pioneer Group witnessed ground breaking in 2010.

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

All these projects are located in Gurgaon. In 2010, DLF Group also launched the 3rd phase of its Capital Green project, a high-end residential group housing development on Shivaji Marg in Delhi.

Price Trend

Growing consumer confidence and a favourable economic scenario led to an increase in demand for residential properties which in turn led residential capital values to rise across NCR. Locations in Delhi were the quickest to respond to the improving market scenario, as the prices in South Delhi locations started appreciating as early as Q1 2010. Jor Bagh and Chanakyapuri, some of the most expensive micro-markets in Delhi, witnessed a price appreciation of about 40% between Q4 2009 and Q1 2011. Similarly, South Delhi locations like Greater Kailash, Friends Colony and New Friends Colony witnessed price appreciation in the range of 48- 52% during the same time.

Micro-markets like Golf Course Road, Golf Course Extension and Sohna Road in Gurgaon also witnessed substantial appreciation in prices in between Q4 2009 and Q1 2011. Prices in these locations increased in the range of 35-54%. Launch of high-end projects like Victory Valley and Golf Estate on Golf Course Extension were one of the key reasons for Gurgaon to witnesses such a substantial price appreciation. Matured micro-markets such as Indirapuram, Vaishali and Vasundhara in Ghaziabad witnessed price

GROWING CONSUMER CONFIDENCE AND A FAVOURABLE ECONOMIC SCENARIO LED TO AN INCREASE IN DEMAND FOR RESIDENTIAL PROPERTIES WHICH IN TURN LED RESIDENTIAL CAPITAL VALUES TO RISE ACROSS NCR

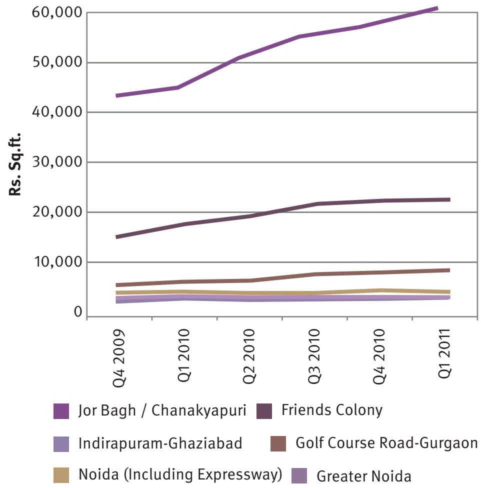
appreciation in the range of about 26 - 34% during the period Q4 2009 and Q1 2011. Crossing Republic, an upcoming micro-market in Ghaziabad, witnessed an appreciation of only 9%, while Noida and Greater Noida witnessed price appreciation in the range of 3-10%. Limited price appreciation was observed in Noida and Greater Noida on account of the fact that during 2010 many new sectors were explored by developers in these locations and projects were launched at affordable prices, which led to a marginal increase in capital values.

Outlook

Favourable market conditions, increase in demand for housing, new project launches and considerable price appreciation were the key features of the NCR's residential segment in 2010. Both investor and end user demand has been on the rise and construction activity across NCR is being carried out at a fast pace.

The Indian economy is expected to post more than 9% GDP growth in the coming year and this will have a positive impact on the real estate market too. However, the unprecedented rise in prices of newly launched projects and the increase in interest rates on homes loans are expected to negatively impact the affordability of consumers in the market. Such a scenario will lead to slowdown in demand for residential properties. Thus, while residential market is poised for a substantial growth in the forthcoming months, the increase in repo and reverse repo by the RBI could result in a further increase in home loan lending rates, thereby dampening the current pace of growth achieved by the NCR residential segment.

Chart1 : Capital Values in NCR Q4 2009 to Q1 2011



Source: Knight Frank Research

Table 2: Select premium project launches in 2010 - NCR

Sr.No	Project Name	Developer	Location	Micro Market	Configuration (Sq.ft)	Completion Year	Current Price (Rs/sq.ft)
1	Palm Terraces Select	EMAAR MGF	Sector -66	Gurgaon	4 BHK - 2410, 5 BHK - 3210	2013	6500
2	Victory Valley	IREO	Golf Course Extension	Gurgaon	2 BHK - 1435 to 1485, 3 BHK - 2385 to 2677, 4 BHK - 2960 to 4814	2014	6750-7150
3	Golf Estates	M3M Group	Golf Course Extension	Gurgaon	4 BHK - 3660 to 4770	2014	10100
4	Exquisite	Unitech	Sector - 71	Gurgaon	3 BHK - 2132 to 2450	2014	6031
5	Presidia	Pioneer Group	Sector - 61	Gurgaon	3 BHK - 2279 to 2595, 4 BHK - 2821 to 4063, 5 BHK - 4111 to 4530	2013	5800-6000
6	Capital Green Phase III	DLF	Shivaji Marg	Delhi	4 BHK - 2885 to 3015	2013	12550

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