



RESEARCH

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Economic Outlook

The growth of an economy is primarily driven by three major segments namely private consumption expenditure, government consumption expenditure and exports. Recession in the global economy during 2008 and 2009 led to slowdown in India's private consumption expenditure and exports. Realizing the threat to domestic growth story, the government of India had stepped in and increased government spending during 2008-09 which eventually helped in maintaining the GDP growth rate at 6.7% in that year.

Exports took a major hit in 2008 with slowdown in global trade due to the economic meltdown in the leading countries of the world. However, the economic recovery witnessed by developed countries since early 2010 have helped the global trade market to flourish once again with exports from India reaching new highs in 2010-11. The latest forecast by International Monetary Fund (IMF) in April 2011 suggests that the world GDP growth will remain in the range of 4.4-4.5% for the next two years with countries like India and China continuing to lead in terms of GDP growth going forward.

Real GDP Growth (%)

Country	2010	2011	2012
USA	2.8	2.8	2.9
UK	1.3	1.7	2.3
Euro Area	1.7	1.6	1.8
China	10.3	9.6	9.5
World	5	4.4	4.5

Source: World Economic Outlook, April 2011, IMF

India has been a major beneficiary of the recovery in global trade market with exports growing by more than 37% in 2010-11. Special

Economic Zones (SEZs) have been a major contributor to this growth with exports from SEZs reaching INR 3,158 bn in 2010-11 as against INR 2,207 bn in the previous year thus recording a growth of 43% in the current fiscal.

India's export to all its major trading partners has gone up significantly in 2010-11 with exports to China growing at a whopping 77%. Export to other trading partners such as USA and Europe have also grown in double digits during 2010-11 showing the strong pace of recovery in foreign trade with these countries. USA, Europe and China together account for 40% of India's total export and the economic recovery in these countries has helped India in improving its export in 2010-11.

INDIA'S EXPORT TO ALL ITS MAJOR TRADING PARTNERS HAS GONE UP SIGNIFICANTLY IN 2010-11 WITH EXPORTS TO CHINA GROWING AT A WHOPPING 77%



Source: Centre for Monitoring Indian Economy

During 2010-11, manufactured goods were leading in terms of exports followed by minerals and IT/ITeS. Strong global demand for automobiles, textiles and engineering goods helped India post 33% growth in export of manufactured goods. Export of IT/ITeS services has also witnessed a considerable improvement in 2010-11 as demand from developed countries remained robust. Such strong export numbers have led the Ministry for Commerce and Industry to revise its export target to more than US\$500 bn in the next 3 years.



Source: Centre for Monitoring Indian Economy, NASSCOM

STRONG GLOBAL DEMAND FOR AUTOMOBILES, TEXTILES AND ENGINEERING GOODS HELPED INDIA POST 33% GROWTH IN EXPORT OF MANUFACTURED GOODS

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Along with exports, growth in private consumption expenditure also witnessed improvement after 2009-10 and grew at a rate of more than 7% in the last two years. Although the recent hikes in policy rates by Reserve Bank of India (RBI) has raised serious concerns about the economic growth slowing down, robust export and heavy spending by government on infrastructure will help India in sustaining GDP growth above 8% in the coming years.

Strong economic growth will positively impact the demand for office and industrial space in India in the coming quarters. States like Maharashtra, Gujarat and Tamil Nadu are already witnessing increased demand for land from the manufacturing sector. Similarly, demand for office space in cities like Bengaluru, Pune, National Capital Region (NCR) and Mumbai is also expected to remain robust backed by high growth in the IT/ITeS sector.

Chennai Retail Market

Overview

Chennai is one of the foremost cities of the country where the concept of organised retailing was inceptioned. A pioneer in promoting the mall culture in the country with the opening of Spencer Plaza in the early 90's, Chennai, however, has not seen the emergence of many new malls in the past decade. The city has been a conservative market on the subject of retail; people in the city are more value-oriented as compared to the other metropolitan cities. This consumer behaviour is reflected in the retail growth of the city with the highstreet format dominating over the others.

AS OF TODAY THERE ARE JUST 4 MALLS OPERATIONAL IN THE CITY, WHICH TRANSLATES TO ALMOST 2 MN.SQ.FT. OF RETAIL SPACE

As of today there are just 4 malls operational in the city, which translates to almost 2 mn.sq.ft. of retail space. However, this scenario is expected to change in the next few years primarily due to the influx of the IT/ITES sector, with a majority of the proposed malls being located in proximity to the IT corridor, known as Old Mahabalipuram Road (OMR) or Rajiv Gandhi Salai.

With the advent of the IT/ITES sector, the often-perceived conservative mindset of the city is witnessing a remarkable change. The propensity towards consumption has increased, primarily driven by the increase in the average disposable income of the consumer. This has led to the growth of high-end retail units and the overall growth of the organised retail sector. The current incidence of the highstreet format which drives retail in the city is expected to change to a mall-oriented culture in the forthcoming years.

Table 1. Retail market classification

Micro-market	Location
Central Business District	Cathedral Road, RK Salai, Mount Road, T Nagar, Nungambakkam
Suburban Business District	Nandanam, Poonamallee High Road, Egmore, Kilpauk, Anna Nagar, Adayar, Guindy
Peripheral Micro Markets	Old Mahabalipuram Road (OMR), GST Road

The development pattern in a city also plays an important role in understanding its growth. Chennai has been growing laterally over the years with traditional retail markets like Parry's being gradually replaced by highstreet locations of Nungambakkam and T-Nagar. This reflects the demographic relocation patterns being witnessed in the city. The second and third generation residents of Chennai have shifted bases towards locations like Anna Nagar, Besant Nagar and Adayar, leading to a corresponding shift in retail.

Traditional residential pockets like Mylapore and Gopalapuram have also been witness to a similar demographic shift. Although existing retail developments are

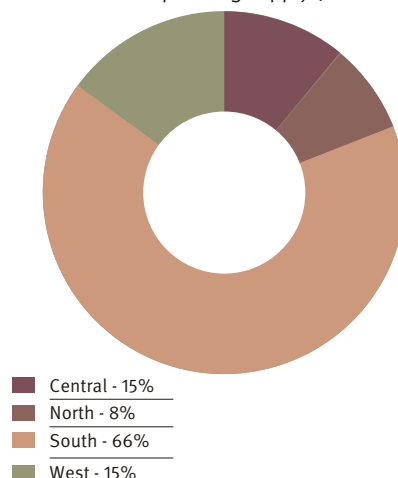
predominantly concentrated around the CBD and off-CBD locations, future growth is being witnessed towards the suburban and peripheral locations. The locations with a high potential of development continue to be in the south, predominantly towards locations like the OMR, Velachery and GST Road.

Supply and development

The retail development in Chennai which had stagnated over the past couple of years is expected to witness steady growth in the future. Over the last year only two malls came up in the city, viz. the 0.8 mn.sq.ft. Express Avenue, located at Mount Road and the 0.4 mn.sq.ft. Citi Centre mall at R. K. Salai. This scenario is soon to change with around 22 malls planned to enter the market in the next 2-3 years in various parts of the city. Currently, most of the malls are either under-construction or in planning stages in the city. Approximately 9.4 mn.sq.ft. of new retail space would be added to the Chennai real estate between 2011 and 2013.

APPROXIMATELY 9.4 MN.SQ.FT. OF NEW RETAIL SPACE WOULD BE ADDED TO THE CHENNAI REAL ESTATE BETWEEN 2011 AND 2013.

Distribution of upcoming supply (2011-2013)



Source: Knight Frank Research

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**Table 2. Select malls projects under construction:**

Project Name	Developer	Location	Area (sq.ft.)	Estimated Completion
Ramee Mall	Ramee Group	Mount Road	200,000	Q3 2011
Coromandel Mall	Suryavardhan Estates	OMR	250,000	Q3 2011
Chandra Mall	Chandra Builders	Virugambakkam	150,000	Q3 2011
PS Grand Mall	PS Group	Velachery	300,000	Q4 2011
Spectrum Mall	Ganga Foundations	Perambur	150,000	Q4 2011
Junction Mall	Marg Limited	OMR	600,000	Q4 2012

Source: Knight Frank Research

Out of the upcoming malls, about 13 malls are scheduled to come up in the southern part of the city, contributing to a significant 66% of the total upcoming retail space supply. The presence of the IT/ITES sector as well the concentration of new residential development has made south Chennai a lucrative destination for organised retail.

Some of the major developments entering the city's retail space include Riverside Mall at OMR, Shriram Mall at GST Road, Galada Mall at Vepery and Prestige Forum at Vadapalani. Another mall project, the Spectrum Mall, is estimated to be north Chennai's first mall-multiplex project, when completed. Given its infrastructure bottlenecks, north Chennai had for long been shunned by leading developers from the city. This mall, expected to be ready by Q4 2011, promises to give the residents of Perambur a new shopping experience.

Rental Values

The economic slowdown in the country in 2008-09 impacted the rentals prevailing in the retail sector as well. The negative impact of the downturn was more evident on malls than on highstreets with most retailers in malls pressing for renegotiating their contracts. In 2010, after a prolonged lull in the market there were increased enquiries and conversions witnessed in the highstreets, thereby leading to strengthening of retail rentals in select micro-markets such as Cathedral Road, RK Salai, Adayar and Purasawalkam. In case of malls, since there were only a few ones operational in the city, decline in the rental values during the recession has been relatively lower as compared to the malls in other cities.

At present, the average rentals in prime retail markets like Nungambakkam and Anna Salai

are around Rs.125/sq.ft. per month and Rs.110/sq.ft. per month respectively. Newer markets like Anna Nagar and RK Salai have average rentals at around Rs.90/sq.ft. per month and Rs.95/sq.ft. per month respectively. Non availability of retail space in prime highstreets of the city have led retailers to explore the main streets of RK Salai, Nelson Manickam Road and extensions beyond Anna Nagar and 2nd Avenue. Meanwhile, average malls rentals in Mount Road and RK Salai, for vanilla tenants, are approximately Rs.115/sq.ft. per month and Rs.140/sq.ft. per month respectively.

Table 3. Highstreet rental values in April 2011

Micro-markets	High Street Rentals (Rs./sq.ft./month)	
	Minimum	Maximum
Nungambakkam High Road	110	140
Anna Salai	95	125
RK Salai	85	105
T Nagar	90	110
Basant Nagar	70	90
Anna Nagar	70	110
Adayar	75	95
Purasawalkam	65	85

Source: Knight Frank Research

Outlook

Over the past year it has been observed that the organised retail market has moved from being developer dominated to retailer dominated. The perceived slump in the retail sector led to retailers re-negotiating existing contracts. However, rentals are expected to remain stable in the short term and viable rental levels coupled with increased optimism displayed by retailers would be a strong catalyst to augment demand across Chennai.

With the boundaries of Chennai constantly expanding, the upcoming mall supply is expected to cater to the growing residential catchment in locations where there is currently a limited variety of retail development. The growth in populace in the next few years is expected to drive the anticipated demand for the upcoming malls in the city.

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