JUNE 2012
RESIDENTIAL TRACTION @ GLANCE

Knight Frank

Mumbai

Market Overview

Mumbai is the financial powerhouse that fuels the Indian economic growth engine and is understandably the most active residential market in the country in terms of transaction density. The global economic crisis of 2008 affected the market adversely as prices dipped in some micro-markets at the premium end of the market and rebounded, scaling to their 2007 highs in the subsequent two years. These unaffordable prices have consequently caused absorption numbers to fall consistently over the past 10 quarters as seen in the property sales registrations data from the stamp and registration department of Maharashtra. Increasing interest rates, liquidity pressures and regulatory bottlenecks have hurt market sentiment and virtually put the brakes on the price juggernaut.

Supply and Absorption

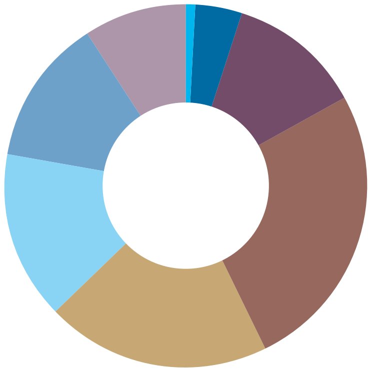
The Mumbai real estate market has stagnated during FY 2012 as buyers have largely kept away from the market expecting an imminent drop in prices in the near future. Knight Frank Research has analysed residential market comprising projects with a sales potential of above INR 300 mn in Mumbai Metropolitan Region. Absorption numbers in FY 2012 are estimated to have dropped by more than 60% from its 2007 heydays and 35% from FY 2011 to an estimated 45,000 units. This steep drop in absorption levels should have resulted in a similar correction in prices. However, a regulator imposed supply crunch through delay in approvals ensured that market equilibrium was maintained. Thus, an even greater fall in units launched effectively offset the impact on prices. Approximately 55,000 units were launched in FY 2012, down almost 40% from the 92,000 units launched during FY 2011. Supply has also been constrained during FY 2012 as developers have been actively delaying project launches and looking to liquidate current inventory before launching any fresh product, to ease pressure on prices going forward.

ABSORPTION NUMBERS IN FY 2012 ARE ESTIMATED TO HAVE DROPPED BY MORE THAN 60% FROM ITS 2007 HEYDAYS AND 35% FROM FY 2011 TO AN ESTIMATED 45,000 UNITS.

Further, rising interest and other input costs such as land and labour in addition to the ever increasing raw material costs like cement and steel have constrained developers from cutting prices as they are already hard pressed to maintain their current operating margins of 30-35%. The cost of land is by far the biggest factor that has stopped a developer from reducing prices as the product prices have to be linked to the continuously increasing land prices. Joint development agreements and different forms of redevelopment agreements are the order of the day, as developers look to bypass the mammoth upfront cost that a land acquisition entails.

AN ESTIMATED 73% OF THE TOTAL RESIDENTIAL UNITS UNDER CONSTRUCTION IS CONCENTRATED ON THE NORTHERN FRINGES OF THE MUMBAI MARKET.

Micro-market split of launched units as on March 2012



- South Mumbai - 1%
- Central Mumbai - 4%
- Central Suburbs - 12%
- Western Suburbs- 26%
- Navi Mumbai - 20%
- Thane- 15%
- Peripheral Western Suburbs - 13%
- Peripheral Central Suburbs - 9%

Source: eyestate

The core of the residential market has been steadily shifting northward of the Mumbai Metropolitan Region over the years as people are prepared to move further away from the CBDs to find an apartment that fits their budget. This has prompted a flurry of construction activity in the peripheral suburbs to accommodate this demographic shift as an estimated 73% of the total residential units under construction is concentrated on the northern fringes of the Mumbai market.

Developers are looking to tap into the largest chunk of buyers looking for apartments priced up to INR 7.5 mn. Thus, an estimated 55% of units under construction presently belong to this price bracket.

The Mumbai market currently has an unsold inventory of 80,000 units which forms 37% of the total residential supply under construction.

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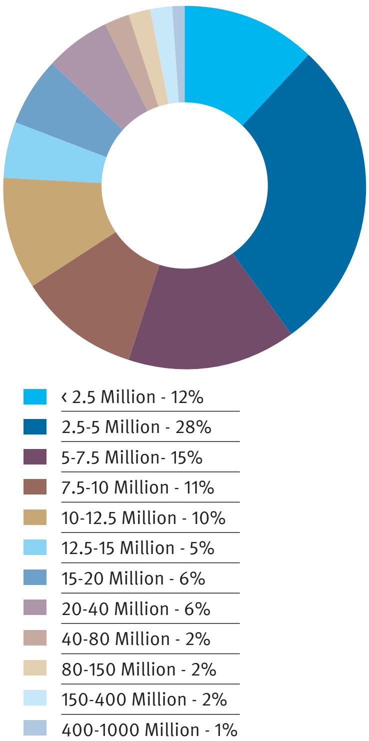
Ticket Size Split of launched units as on March 2012



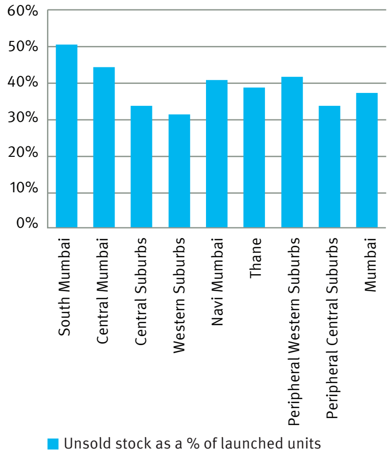
Source: eyestate

DEVELOPERS ARE LOOKING TO TAP INTO THE LARGEST CHUNK OF BUYERS LOOKING FOR APARTMENTS PRICED UP TO INR 7.5 MN. THUS, AN ESTIMATED 55% OF UNITS UNDER CONSTRUCTION PRESENTLY BELONG TO THIS PRICE BRACKET.

South and Central Mumbai which only offer products at the premium end of the residential price band are experiencing highest vacancy levels.

The Navi Mumbai, peripheral western suburbs and Thane micro-markets have seen comparatively higher number of projects launched in the previous two quarters causing vacancy levels to spike there as well. Approximately 45% of the planned launches in FY 2013 will be in these micro-markets which is likely to put further pressure on vacancy levels and prices prevailing there.

Unsold stock as a % of launched units as on March 2012



Source: eyestate

THE MUMBAI MARKET CURRENTLY HAS AN UNSOLD INVENTORY OF 80,000 UNITS WHICH FORMS 37% OF THE TOTAL RESIDENTIAL SUPPLY UNDER CONSTRUCTION.

Also, the investors' segment that makes up approximately 20% of the market demand has been observed to be actively offloading its real estate holdings, thereby adding significant shadow supply into these micro-markets.

Table 1.0: Location wise price comparison

Location	Price (Q4 FY12) in INR./sq.ft	Price (Q4 FY11) in INR./sq.ft
Cuffe Parade	32500-65000	34000-72000
Malabar Hill	60000-75000	60000-67000
Nepean Sea Road	55000-80000	55000-75000
Mahalaxmi	22000-40000	20000-42000
Worli	25000-60000	25000-55000
Lower Parel	22000-30000	22000-35000
Prabhadevi	20000-45000	20000-45000
Dadar	20000-31000	18000-30000
Bandra West	25000-42000	21000-41000
Andheri	11500-19000	11000-17000
Goregoan	10500-13000	9500-11500
Kandivali	9000-11500	8500-11000
Borivali	7500-9500	8500-9500
Mira Road	4800-5500	4000-4800
Virar	3500-4500	3000-4500
Naigaon East	2700-3400	2600-3300
Vasai	3300-4300	2900-3500
Chembur	9500-15000	9000-15000
Bhandup	9000-10000	7500-9000
Mulund	8000-10000	7500-9500
Thane	6500-9500	5500-8700
Dombivali	3000-4500	3000-4000
Kalyan	3000-4200	2900-4200
Ambernath	2500-3800	2500-3800
Vashi	7000-10000	7000-9500
Airoli	6500-7200	6500-7200
Kopar Khairane	6000-7500	6000-7500
Kharghar	4500-7500	4500-7100
Panvel	3300-6500	3000-6500

Source: Knight Frank Research

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If one analyses the vacancy levels across ticket sizes in the Mumbai market, it is observed that vacancy levels are as high as 48% for units launched in the INR 20 mn and above price bracket vis-a-vis 37% for the overall Mumbai market.

Prices

Prices have been moving in a narrow range in the past four quarters as a virtual stoppage of new launches over the past year constrained supply and cushioned prices from dropping in spite of absorption levels steadily trending downward. As prices in premium micro-markets tend to be much more volatile compared to the peripheral suburban micro-markets, prices in some South and Central Mumbai locations like Parel, Lower Parel and Mahalaxmi, have declined close to 10% over the previous three quarters while prices in Navi Mumbai, Thane and the peripheral suburbs of Central & Western Mumbai have either been stable or have trended marginally upward.

Developers in a bid to liquidate their higher priced inventory have been more open to negotiation in the premium segment, reducing prices upto a maximum of 25% in favour of a sizeable up-front payment. We have also observed the number of cancellations increasing over the past few quarters. This is symptomatic of a wary investors' segment which is fast losing faith in the current scenario where developers are hard pressed to even service their debt obligations.

Outlook

The stagnant real estate prices today suggest a stalemate between buyers and sellers, but market indicators strongly hint at an imminent inflection point. Project approvals that were practically stalled in 2011, have started coming through again as the Development Control Regulations were amended early this year. However, demand is likely to remain subdued due to the prevailing uncertainty in the economy. The increase in inventories coupled with the ongoing slack in absorption would put downward pressure on prices.

PROJECT APPROVALS THAT WERE PRACTICALLY STALLED IN 2011, HAVE STARTED COMING THROUGH AGAIN AS THE DEVELOPMENT CONTROL REGULATIONS WERE AMENDED EARLY THIS YEAR. HOWEVER, DEMAND IS LIKELY TO REMAIN SUBDUED DUE TO THE PREVAILING UNCERTAINTY IN THE ECONOMY

Further, the rise in interest costs for the realty sector by 37% Y-O-Y in FY 2012 and decline in net profits by 28% for the same period may compel developers to lighten their inventory load and deleverage their balance sheets. Hence, we believe that a price correction is warranted in the medium term.

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