



SEPTEMBER 2010 E&R @ GLANCE

ECONOMY & REALTY

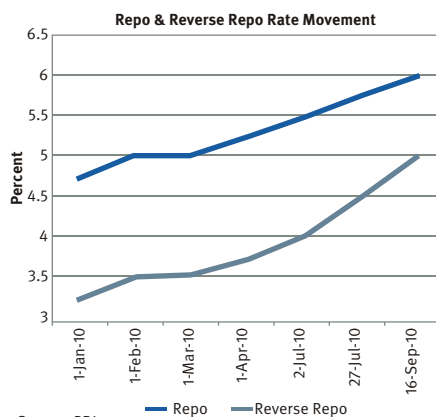
Knight Frank

Economic Outlook

India seems to be on a steady path of growth with all major macro indicators showing positive trends. The Index of Industrial Production (IIP), which represents the industrial activity in the country, grew by 13.8% during the month of July 2010. The indirect tax collection, another macro indicator, also witnessed a healthy growth of 46% during the first five months of 2010-11 compared to the corresponding period of previous year. The latest fiscal deficit numbers for the period April-August 2010 have fallen by around 17% as compared to the previous year showing healthy signs of Government finance. Other macro indicators such as export, credit growth, FDI inflows, etc too are showing encouraging trends since the last six months. All these factors have resulted in robust first quarter 2010-11 GDP growth of 8.8% and the RBI's GDP growth forecast of 8.4% for the year 2010-11 seems easily achievable considering the above factors. Recently, even the Asian Development Bank (ADB) revised its GDP growth forecast for India for the year 2010-11 from 8.2% to 8.5% which is in line with RBI's estimate. This is despite the fact that most of the developed countries in the world are still struggling to recover from the 2008 crisis.

Concerned with high inflation and volatility in overnight call money rates, the Reserve Bank of India (RBI) through its latest monetary policy review, once again raised the policy rates. The latest hike of 25 basis points in repo rate and 50 basis points in reverse repo rate makes it the fifth such hike since the beginning of this year. Although the latest hike gives an indication that monetary tightening measures of RBI may have reached

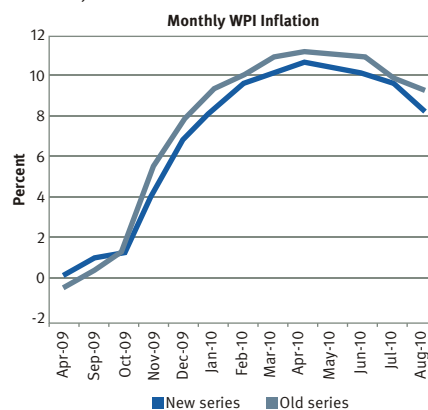
its peak, we believe further hike in policy rates is imminent in the near future. This is from the fact that the headline inflation numbers are still on the higher side despite all the measures taken till date. Food inflation, which is a major worry for the policy makers is still not showing signs of cooling down and has remained considerably higher than RBI's targeted rate. Food inflation for the week ended 18th September 2010 stood at 16.4%.



Source: RBI

FOOD INFLATION, WHICH IS A MAJOR WORRY FOR THE POLICY MAKERS IS STILL NOT SHOWING SIGNS OF COOLING DOWN AND HAS REMAINED CONSIDERABLY HIGHER THAN RBI'S TARGETED RATE

The recent move by the Government of shifting the base year for wholesale price inflation (WPI) from 1993-94 to 2004-05 along with changing the basket of constituent items is an important step towards making the index more representative to the current needs. The new basket, which lowers the weightage of the more volatile food items and correspondingly hikes that of core manufactured products, is not only presenting a better picture of the current economic scenario but also helping in reducing the volatility of the index to a certain extent. The new series will have 676 items as compared to 435 items in the previous series. Additionally, the new series will include consumer items widely used by the middle class like ice-cream, mineral water, flowers, microwave oven, washing machine, gold, etc instead of items such as mopeds, Jeeps, Pan Masala, etc.



Source: Government of India

Although the trend in both of these series is found to be similar, the new series is slightly on the lower side because of the change in weights of various articles. According to the latest available data for the month of August 2010, WPI for the new series stands at 8.5% compared to 9.5% in the old series.

India Research

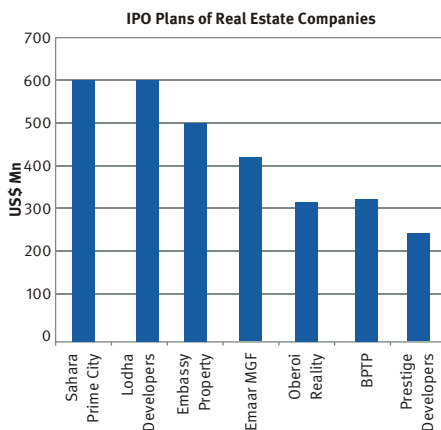
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With the overall macro-economic scenario of India showing signs of recovery, its positive impact on the real estate sector has been significant. Most of the developers are now in the expansion mode and are looking at growing aggressively in those markets where there is still a huge gap between demand and supply. In order to fund such growth plans, many real estate companies have chalked out massive Initial Public Offering (IPO) plans estimated to be more than US\$3 billion. Companies like Sahara Prime City, Lodha Developers and Embassy Property have plans of going public and getting listed on stock exchanges in order to raise funds.



Source: Knight Frank Research, SEBI

Despite all the excitement about raising funds through IPOs, not many companies have gone ahead with their plans after considering the market sentiment that still prevails against real estate companies in India. The performance of some of the real estate companies that were listed recently offers a discouraging picture to those planning for an IPO. Although the IPO issues of these companies were fully subscribed, the returns generated by these stocks post listing have been below investor expectation. This is despite the fact that the broader market represented by Sensex has posted a return of more than 23% since February 2010.

Lately, many Private Equity (PE) funds have started showing renewed interest in real estate projects. With IPO markets looking less attractive in the current scenario, many of the developers have roped in PE investors to fund their growth plans. Funds such as Kotak, HDFC Venture, Red Fort Capital, ILFS, etc have become very active in terms of

Company	Listing Date	Listing day closing price	Current price	Returns
D B Realty	24-Feb-10	455.4	402	-12%
Nitesh Estates	13-May-10	50.95	44.5	-13%
Jaypee Infratech	21-May-10	91.3	92	1%

Note: Current prices as on 30th September 2010

Source: BSE

investing in real estate projects and are expected to bridge the funding gap that has been created by the lack of other sources of fund. Some of the recent prominent deals include the Rs.5 billion investment by HDFC Venture Funds in Lodha World One and Rs.250 million investment by Kotak Real Estate Funds in Emaar MGF.

Mumbai Residential Market Summary, 2Q 2010

Market Overview

The residential price increase that had gripped the Mumbai micro-markets during 4Q 2009 as well as 1Q 2010 finally came to an end during 2Q 2010. Mumbai had seen steep price hikes during the previous two quarters, as developers tried to tap into all the pent-up demand that was lying dormant during the worldwide recession. In certain Mumbai micro-markets, prices increased by as much as 30% during 1Q 2010. While improved demand condition was the prime factor behind this price increase, the increased prices themselves consequently led to subdued demand from home buyers. The property registrations data for Mumbai indicated that after hitting a peak in property sales in December 2009, the subsequent monthly sales continued to decline till June 2010. While about 9000 registrations were recorded in December 2009, only 6000 (approx.) registrations were recorded in February 2010. Preliminary field data suggests that there were only 4,500 registrations recorded in May 2010. The volatile nature of Mumbai's residential market could be another reason behind the dip in sales during this quarter. Hence, during the second quarter of 2010, residential property prices in Mumbai started to stagnate, with very few micro-markets seeing an appreciation or a decline.

Supply and Demand

Similar to 1Q 2010, 2Q 2010 saw a fairly low number of inquiries and transactions in the Mumbai micro-markets. While there were some large transactions, the overall volume of transactions decreased further during this quarter. However, there were a few noteworthy projects that were launched in 2Q 2010.

The most talked about project that was launched during the second quarter of 2010 was by Lodha Group and is called World One. This residential tower is being promoted as being "the world's tallest residential tower" and is coming up at Lower Parel. This building will measure 1,450 feet (442 meters) and will be built on a plot area of 17.5 acres belonging to a defunct mill. The project is going to cost the Lodha Group Rs. 20 billion and is scheduled to be ready by 2014. Since this is a first of its kind project in India, all the hype surrounding the project itself is helping to promote it.

Another important project that was launched this quarter is Insignia by the Wadhwa Group. This project will be located at Bandra Kurla Complex (BKC) and the configuration of apartments will be between 2 BHK to 4 BHK. The price of this project is being quoted at Rs. 17,000/sq.ft. Another key residential project, Rustomjee Oriana by Rustomjee Builders was also launched during 2Q 2010. The building will be located at Kala Nagar in Bandra East, adjacent to Bandra Kurla Complex. The apartments will range from 3 BHK to 4 BHK and the price will range from Rs. 23,600- 26,000/sq.ft. In terms of sales transactions that took place during 2Q 2010, a flat in the prime Mumbai micro-market of Malabar Hill was sold for a total of Rs.300 million. The apartment admeasured roughly 4,000 sq.ft. which gave the apartment a capital value of Rs. 75,000/sq.ft.



Major Premium Projects Launched During Q2 2010- Mumbai

Project Name	Developer	Location	Configuration
World One	Lodha Group	Lower Parel	3-4 BHK, Villas Duplexes
Insignia	Wadhwa Group	Bandra Kurla Complex (BKC), Bandra (East)	2-4 BHK
Rustomjee Oriana	Rustomjee Developers	Kala Nagar, Bandra (East)	3-4 BHK

Prices

Prices in the Mumbai micro-markets finally showed some signs of stagnating after the sharp increase during the previous two quarters. Majority of the micro-markets did not witness any price appreciation or decrease from March 2010 till June 2010. On a significant note, not even the micro-markets in the Central Suburbs as well as Navi Mumbai had any price change. This is of particular interest because the Central Suburbs and Navi Mumbai are considered to be the fastest growing zones in Mumbai, yet none of these micro-markets witnessed any price appreciation. This perhaps can be taken as an indication that residential property prices in Mumbai have finally begun to halt their rapid appreciation.

PRICES IN THE MUMBAI MICRO-MARKETS FINALLY SHOWED SOME SIGNS OF STAGNATING AFTER THE SHARP INCREASE DURING THE PREVIOUS TWO QUARTERS

There was price appreciation witnessed in only a few micro-markets in Mumbai, the maximum of which was seen in Goregaon in the Western Suburbs of Mumbai, where prices increased by 6%. Goregaon East saw prices rise from Rs. 8,250/sq.ft. to Rs. 8,750/sq.ft. while residential property prices rose from Rs. 8,500/sq.ft. to Rs. 9,000/sq.ft. in Goregaon West. Besides this, two prime South Mumbai locations also saw a slight increase of 4-5% in prices. The first was seen in Walkeshwar, where prices increased from Rs. 52,500/sq.ft. to Rs. 55,000/sq.ft. during the last quarter,

while Malabar Hill witnessed prices rising from Rs. 62,750/sq.ft. to Rs. 65,000/sq.ft. On the other hand, considerable price decline was seen in Malad in the Western Suburbs, where prices dropped from Rs. 8,250/sq.ft. to Rs. 7,500/sq.ft. during 2Q 2010, denoting a fall in prices by 9%.

On the rental market front, a location like Peddar Road in South Mumbai has rental values in the range of Rs. 0.17 to 0.4 million for a 3 bedroom apartment, while Lower Parel, in Central Mumbai, has rentals of around Rs. 0.15 to 0.27 million. In the suburbs, Bandra (West) commands rental values for 3 bedroom apartments in the range of Rs.0.25 to 0.60 million. However, there has been no price appreciation in the rental market as these rates are the same as they were in 1Q 2010.

Location	Price (Q1 2010) in Rs./sq.ft.	Price (Q2 2010) in Rs./sq.ft.
Goregaon (E)	8,250	8,750
Goregaon (W)	8,500	9,000
Walkeshwar	52,500	55,000
Malabar Hills	62,750	65,000
Malad	8,250	7,500

Outlook

Property prices in Mumbai have begun to maintain constancy and in some cases, have even shown slight depreciation. The current stagnation in prices can be primarily attributed to the flagging demand on the consumers' front, which is a resultant of developers charging unusually high prices for properties. Increased property prices have a downbeat impact on the market and this is evident by the decline in the number of transactions. Consumers have made it clear that they will not pay over the odds for apartments and consequently developers have been coerced to stop rapidly escalating property prices in Mumbai.

After witnessing a sharp rise in property prices in 1Q 2010, we feel that the prices may at best hold on for some time. On account of the high prices, the premium properties in South Mumbai will have a restrained demand.

The increased prices in Mumbai have a cascading impact on the real estate market in extended suburbs of the city like Thane, Dombivali and Kalyan as well. With the dip in sales, realtors will be more open to price negotiations as well as offering incentives and schemes for residential properties. As of now, most of the realtors have discontinued all their incentives since the economy is on a sounder foot. However, with the diminishing volumes, realtors will be forced to offer these schemes once again in order to motivate the buyers into purchasing residential properties. More importantly, based on various indications, a price correction could bring back buoyancy into the market.

AS OF NOW, MOST OF THE REALTORS HAVE DISCONTINUED ALL THEIR INCENTIVES SINCE THE ECONOMY IS ON A SOUNDER FOOT. HOWEVER, WITH THE DIMINISHING VOLUMES, REALTORS WILL BE FORCED TO OFFER THESE SCHEMES ONCE AGAIN IN ORDER TO MOTIVATE THE BUYERS INTO PURCHASING RESIDENTIAL PROPERTIES.