

India Residential Market

The residential sector continued its strong growth trajectory in 2010, which it has been treading on from the second half of 2009. Residential property rates have attained the previous peaks of 2008 across several markets. 2010 witnessed an increased number of launches in the premium segment, mostly in the Mumbai market. However, sale velocities of houses have dropped by end of the year.

Residential property rates are likely to continue their upward trail, albeit at a slower pace than 2011. Further hardening of interest rates along with high inflationary pressure would restrain the speed of growth of residential prices in the coming quarters. We believe that certain locations that have witnessed rapid increments in price, will not only witness resistance to any further price rise, but also witness some downward pressure. We will continue to see rapid sale velocities in the affordable segment for projects which are priced at or below market averages.

Residential launches nearly doubled in 2010, when compared to 2009

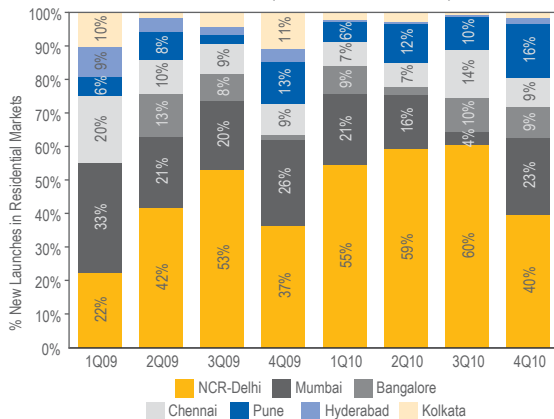
The top seven cities of India (by population) witnessed the launch of 248,257 units launched during 2010, against 128,670 units launched during 2009. Against this supply, a staggering 183,791 units were absorbed in 2010. NCR-Delhi led the supply dynamics, adding an average of 36,264 residential units to the active residential market every quarter during 2010.

The fourth quarter of 2010 witnessed an increase in residential launches, which stood at 77,423 units (includes Thane, Navi Mumbai, Vasai and Virar) in 4Q10 against 58,901 units in 3Q10. NCR-Delhi witnessed the largest number of units launched,

accounting for 40% of the residential launches recorded in 4Q10 followed by Mumbai and Pune, which witnessed a surge in terms of residential units getting launched (Figure 1).

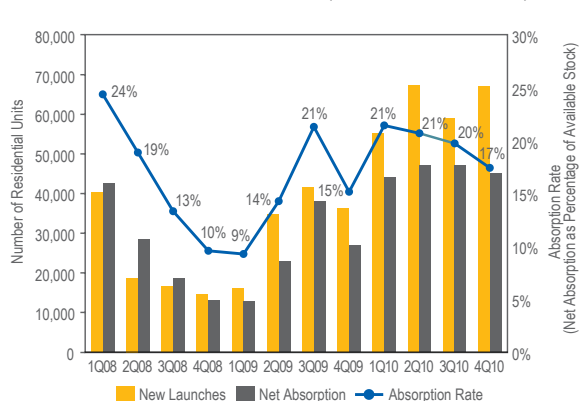
Mumbai led the number of projects getting launched, with over 85 projects getting launched across micro-markets and segments. While NCR-Delhi, Pune and Chennai witnessed the launch of about 35-45 projects each (including new phases of existing projects), Bangalore witnessed the launch of 30 projects in 4Q10. Residential activity in terms of new launches in Hyderabad and Kolkata was subdued during the quarter, with only 6-7 projects getting launched in each of these cities.

Figure 1: Market Share of Residential Launches (1Q09-4Q10)



Note: The figures for Mumbai include Thane, Navi Mumbai, Vasai and Virar.
Source: Real Estate Intelligence Service (JLL), 4Q10

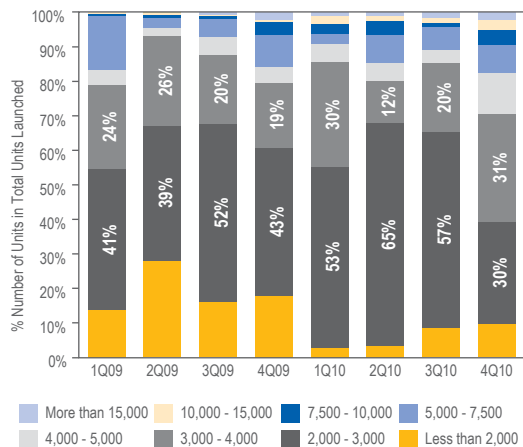
Figure 2: Supply and Absorption of Residential Units (1Q08 - 4Q10)



Note: Figures are representative of the seven metropolitan cities of India - NCR-Delhi, Mumbai (excluding Thane, Navi Mumbai, Vasai and Virar), Bangalore, Chennai, Hyderabad, Kolkata and Pune.
Source: Real Estate Intelligence Service (JLL), 4Q10



Figure 3: Capital Values of Residential Launches in 1Q09-4Q10



Note: The figures are base capital values in INR per sq ft. The percentages denote the percentage of units launched in a particular range of capital values over total units launched during a quarter.
Source: Real Estate Intelligence Service (JLL), 4Q10

In 4Q10, 30% of the residential units were launched at capital value between INR 2,000-3,000 per sq ft, while 31% were launched in the range of INR 3,000-4,000 per sq ft (Figure 3). During 1Q10-3Q10, over 50% of the q-o-q new launches were at capital values of INR 2,000-3,000 per sq ft. During 4Q10, over 50% of the launches in the range of INR 2,000-3,000 per sq ft were in the micro-markets of NCR-Delhi, primarily Noida. With launches increasing in the INR 3,000 - 4,000 per sq ft bracket

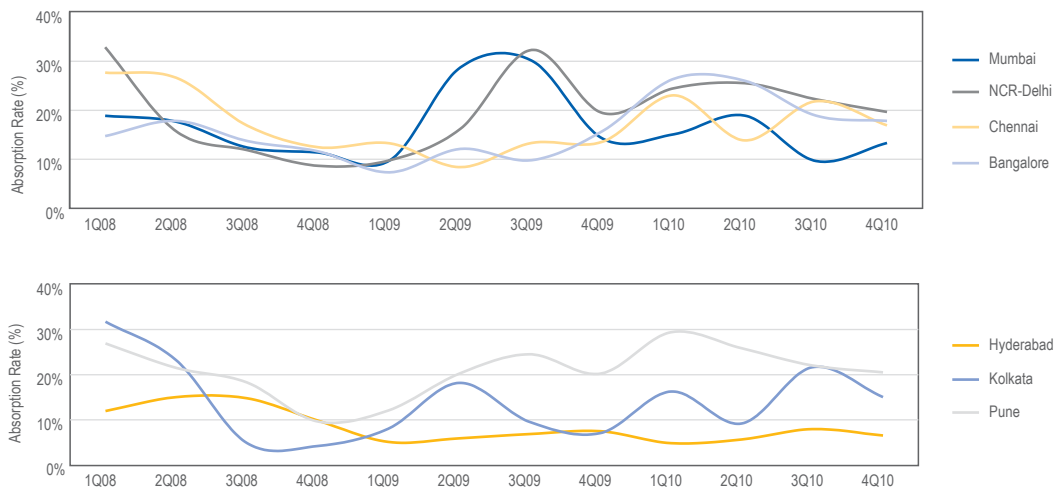
and the growing concern over affordability of residential houses, residential developers will be closely watching the take-up in these new projects to calibrate their offerings during 2011. Apart from sustained emphasis on the affordable and mid-segment housing projects by developers, the 7 major cities of India also witnessed a good number of new launches in the premium segment housing in the past six months. Select developers are actively looking towards land acquisition in the prime precincts for residential projects. However, in anticipation of a likely fall in absorption rate in the near term for the premium projects developers are trading cautiously by pricing their offerings competitively.

Absorption rate strengthened in 2010 as compared to 2009 but fell to 17% on a q-o-q basis during 4Q10

Despite recording a healthy increase in absorption rate in 2010 as compared to 2009, it fell to 17% on a q-o-q basis towards end of 4Q10, due to falling absorption rates in NCR-Delhi, Chennai, Pune and Kolkata (Figure 2 and 4).

Buyers' decision has been impacted by a factors such as appreciating value of residential properties and the expected hardening of interest rates in future despite an increased financial stability among households. However, rapid rise in property rates in Mumbai have acted as a near term dampener for residential demand in the respective cities,

Figure 4: Absorption Rate of Residential Units (1Q08-4Q10)



Note: Absorption rate at end-quarter is defined as net absorption during that quarter as a percentage of available stock (sum of vacant (unsold) stock from the previous quarter and new launches in that quarter).
Source: Real Estate Intelligence Service (JLL), 3Q10

primarily in the premium segment.

Pune and NCR-Delhi led the cities in terms of absorption rate recorded in 4Q10, followed by Chennai and Bangalore (Figure 4).

Average capital values appreciated by 1.5-6.0% across cities in 4Q10

Average capital values appreciated by 1.5-6.0% in 4Q10, thus continuing a trend of price momentum from previous quarters (Figure 5). While micro-market averages of residential capital values in Mumbai and Chennai markets appreciated by about 4-6% in 4Q10, those in Bangalore, Kolkata, Pune and NCR-Delhi appreciated by about 1.5-2.0% during the same period.

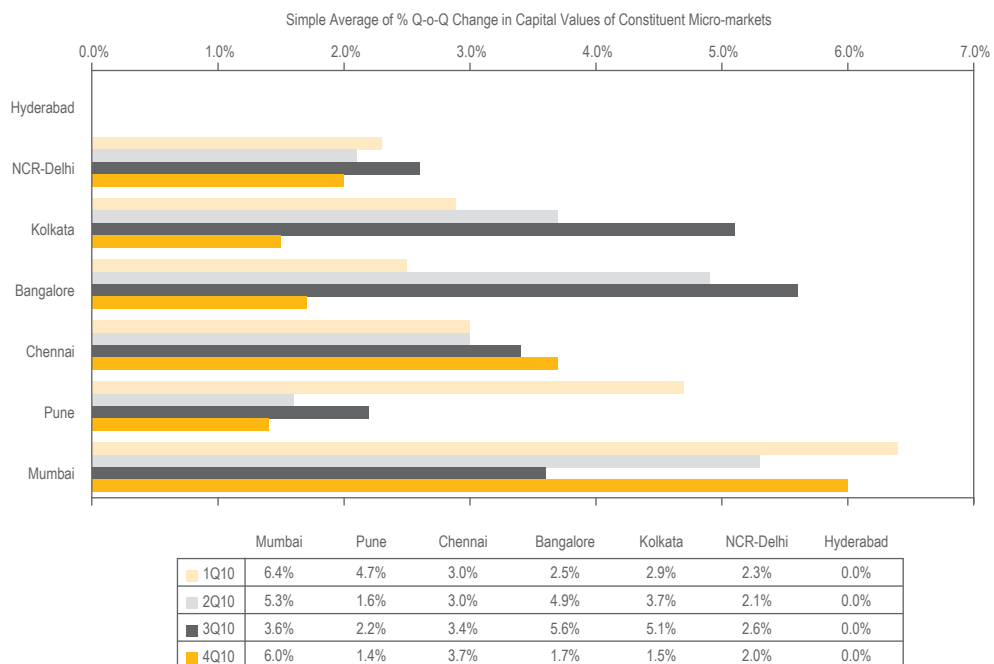
Average capital values have appreciated by 20-40% across cities since the trough in mid-2009, in response to improved absorption witnessed across residential markets between 2H09 and 2H10. Mumbai has led this surge, witnessing an average price increase of 42%. While the micro-market averages of residential capital values in Bangalore, Chennai, Kolkata and Pune markets have appreciated by about 20-26% since mid-2009, those in NCR-Delhi appreciated by 8-10% during the same period (Figure 5). Noida, particularly, has witnessed

a huge influx of residential launches, which has kept the capital values in the precinct under pressure. The Hyderabad residential market has remained stable and is yet to pick up in terms of property rates and absorption.

Falling absorption rates in select precincts of major Indian cities are pressurizing the growth of capital values, which are expected to grow slower than previous quarters during first half of 2011. During 2011, residential markets are expected to witness y-o-y price increase in the range of 5-10%, as developers continue to liquidate their stocks. The recorded increase in prices would be a result of developers increasing rates in currently active projects, as they get sold out.

The premium residential segment of Mumbai that gained traction in 2010 is likely to face a reality check in the coming quarters as a result of uninterrupted price increase in the past leading to low absorption rates. However, developers would be cautious in launching further new projects in this segment as the inventory has increased due to high launches and slow demand. Capital values in Hyderabad, owing to perceived stability in political conditions in the state, are expected to pick up during 2011.

Figure 5: Average %Q-o-Q Change in Capital Values



Source: Real Estate Intelligence Service (JLL), 4Q10