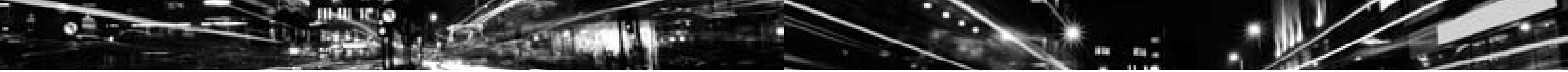


India Office Market

Office sector has entered into a phase of recovery, and corporates have begun charting their expansion plans, strategically assessing the abundant real estate options in the market. Given, this renewal in demand from the corporate sector, developers are now focusing on speedy completion of projects to capitalise on the occupier's expansion plans. We believe, the period from 2H09 to 2H11 will be the window of opportunity for occupiers, when rents in a majority of the micro-markets would be at their cyclical bottom along with a burgeoning supply of new office space as projects get completed. Several markets have already shown signs of cautious optimism, with strengthening of demand for office space as well as an increase in capital market transactions.

Over 40 million sq ft of office space to become operational in 2010

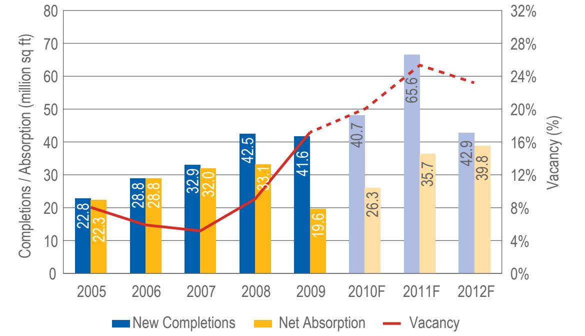
The third quarter of 2010 witnessed the completion of 29 office projects encompassing 8.2 million sq ft of office space, taking India's total operational stock to 250.3 million sq ft. Eleven IT projects, three IT SEZ projects and fifteen Non IT projects became operational with a low average occupancy of 36.6%. Pune led the completions in 3Q10, witnessing an addition of 1.7 million sq ft of IT SEZ office space across 6 projects including Cerebrum B3 and Blue Ridge Building 6. The other two IT SEZ projects that became operational were Unitech Infospace Building I on NH-8 in Gurgaon and Vrindavan Tech Village phase II on Outer Ring Road in Bangalore.

Since our analysis at the beginning of 2010, completion of over 40% of the estimated supply of 68.3 million sq ft in 2010 has been delayed from 2010 to 2011. Thus, over 40 million sq ft of office space is to become operational in 2010. This is rather a positive development as the supply backlog from 2008 and 2009 gets spread over 2010 and 2011. Developers, with a rational portfolio of projects, are focusing on execution and delivery of their ongoing projects. Against this supply, net absorption of 26.3 million sq ft is forecasted in 2010, registering a y-o-y growth of 34.2% over net absorption recorded in 2009 (Figure 6).

A total of 123.6 million sq ft of office space is expected to become operational by end-2012. Of this supply, while Mumbai and NCR-Delhi are expected to witness over 30 million sq ft each, Bangalore, Chennai, Pune and Hyderabad expect 12-15 million sq ft each. Against this supply, while NCR-Delhi and Mumbai are expected to absorb 15-20 million sq ft each during the same period, Bangalore, Chennai, Pune and Hyderabad would absorb 9-12 million sq ft each.

Since 68% of the future supply till 2012 is being developed for IT or IT SEZ occupiers, the forecasted growth trajectory of IT/ITES sector remains critical for office real estate in India. According to the

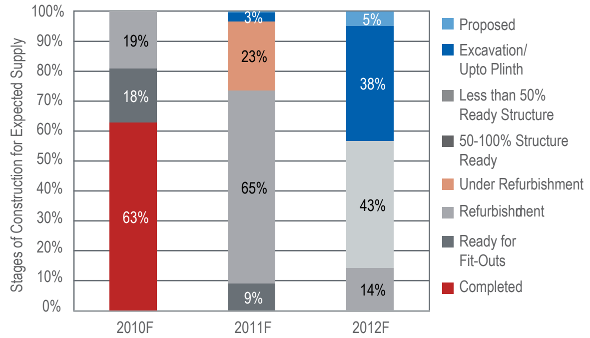
Figure 6: Absorption of Office Space Expected to Grow from 19.6 million sq ft in 2009 to 35.7 million sq ft in 2011



Note: Figures are representative of India's seven metropolitan cities – NCR-Delhi, Mumbai, Bangalore, Chennai, Hyderabad, Kolkata and Pune

Source: Real Estate Intelligence Service (JLL), 3Q10

Figure 7: Projects in Near Term at Advanced Stages of Construction



Note: Figures are representative of India's seven metropolitan cities – NCR-Delhi, Mumbai, Bangalore, Chennai, Hyderabad, Kolkata and Pune

Source: Real Estate Intelligence Service (JLL), 3Q10

Department of Information Technology, the IT/ITES export revenue is expected to reach USD 60 billion and USD 72 billion by the end of FY 2010-2011 and FY 2011-2012, respectively from USD 50 billion recorded in FY 2009-2010. This can be achieved with a cumulative average export growth rate (CAGR) of about 20% for both years. The real estate sector has already witnessed the translation of this growth into demand for office space in several IT destinations during 2010 and it is going to become even more robust in the coming years.

Over 70% of the supply expected to become operational in 2011, is under advanced stages of construction, in either 'Ready for Fit-Outs' or '50-100% Structure Ready' stages (Figure 7). However, timely completion of projects (totalling 18.4 million sq ft) slated to hit the market in 2012 is uncertain as they are in preliminary stages of construction, either under 'Excavation / Upto Plinth' or 'Proposed' stages. Projects expected to become operational in the near term have good pre-commitment levels depending on their stage of construction, location and flexibility to negotiate rentals.

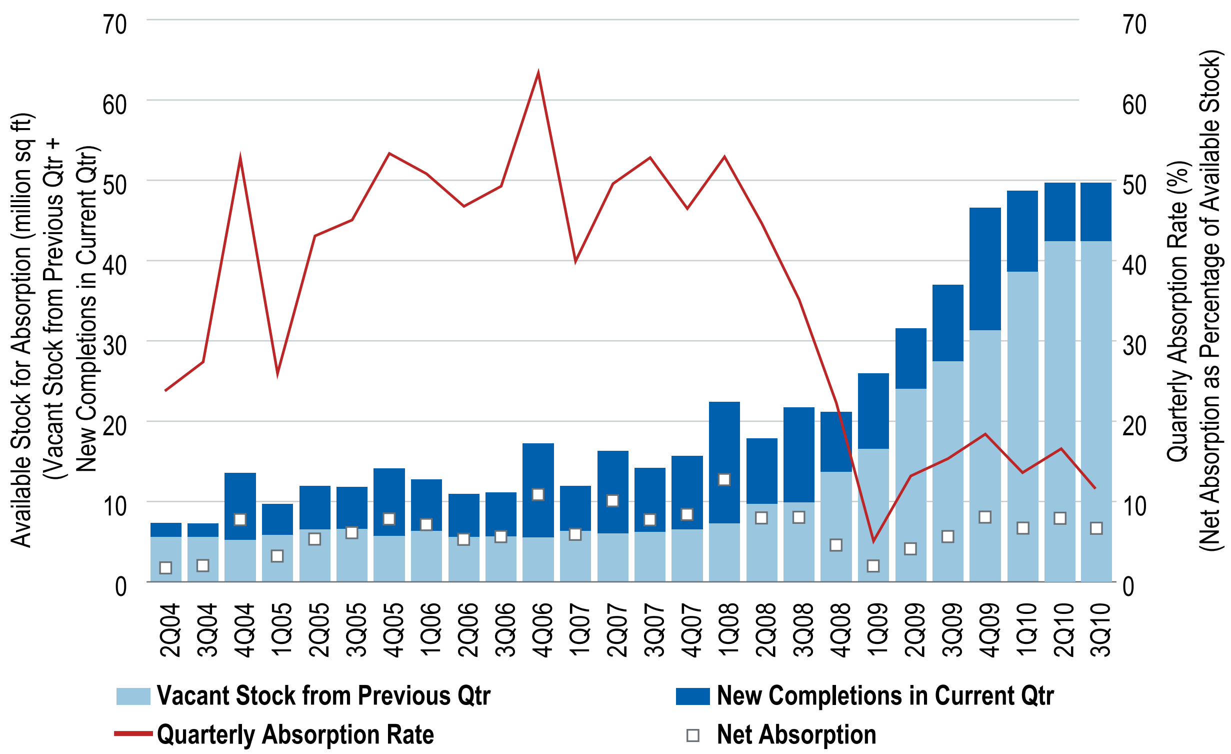
IT/ITES accounted for 48% of the office demand in 3Q10

Net absorption of 19.8 million sq ft was recorded till 3Q10 compared to 19.6 million sq ft recorded in the entire year of 2009 (Figure 8). However, several cities – NCR-Delhi, Mumbai, Bangalore and Pune recorded a higher volume of lease transactions in 3Q10. While Bangalore led leasing activity in 3Q10 with 2.6 million sq ft of transactions, Mumbai, NCR-Delhi and Pune also witnessed high level of transactions at nearly 1-1.5 million sq ft each.

A larger share of transactions happened in operational vacant stock rather than under construction projects, contrary to the trend observed during 2007 & 2008, when options in operational office space weren't available to tenants in the same measure. However, a portion of transactions are pre-committed in buildings that were under construction. They are expected to get absorbed in the near term as those buildings become operational.

The IT/ITES sector contributed to 48% of the demand for office space in 3Q10, with several

Figure 8: Absorption Rate of Office Space



Note: Figures are representative of India's seven metropolitan cities – NCR-Delhi, Mumbai, Bangalore, Chennai, Hyderabad, Kolkata and Pune

Source: Real Estate Intelligence Service (JLL), 3Q10 companies such as Accenture, ACS, TCS, Zoho, Juniper Networks and Steria taking up large spaces (larger than 150,000 sq ft) across cities (Figure 9). Nearly 40% of the IT/ITES demand came from companies headquartered abroad, the rest contributed by domestic Indian companies. IT/ITES contributed to more than 50% of the demand recorded in Bangalore, Chennai, Hyderabad, Pune and NCR-Delhi.

Demand from BFSI[4] sector increased with the industry accounting for 22% of the total demand in 3Q10. 61% of BFSI demand was from companies headquartered abroad, with notable transactions recorded by Fidelity Service, JP Morgan Chase and Citibank. Over 50% of the BFSI transactions have been recorded in the CBDs and SBDs, which are likely to be front office operations. The remaining half is likely to be the back-end operations or outsourcing units. BFSI companies constituted 40-45% of recorded demand in Mumbai and Hyderabad. Measures to relax corporate bank licensing, which were announced in Government of India's Union Budget 2010-11, are likely to increase demand from this sector in the coming quarters as well.

Telecom companies accounted for only 3% of recorded leases in 3Q10. Notable transactions were recorded from LG and Flextronics. Net absorption of office space is expected to grow at a CAGR of 26.6% annually from 19.6 million sq ft recorded in 2009 to 39.8 million sq ft forecasted in 2012 (Figure 6).

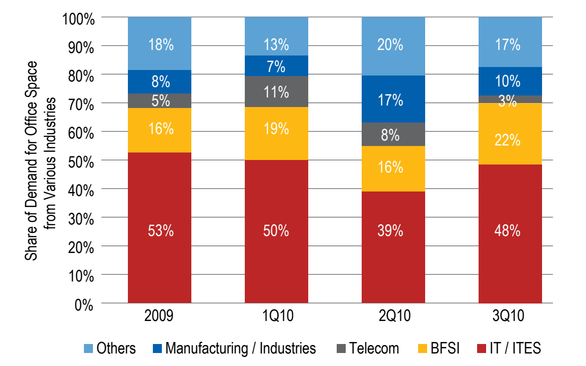
Demand for IT SEZs has witnessed traction in select markets due to the benefits on STPI properties coming to end in March 2011. However, a majority of the SEZ projects have yet to become operational and are under various stages of construction. The implications of the proposed Revised Direct Tax Code (DTC) will be significant on the IT & IT SEZ supply expected to become operational, as it impacts the earnings of landlords as well as tenants.

Vacancy is expected to fall from 25% in 2011 to 23% in 2012

Vacancy in office space in India was recorded at 17.7% at end-3Q10, increasing by 20 bps q-o-q. While vacancy in Kolkata and Chennai stood in the range of 25-30% at end-3Q10, vacancy in Mumbai, Pune, NCR-Delhi and Bangalore stood in the range of 10-20% (Figure 10). Vacancy in Hyderabad stood at 9.8% at end-3Q10. Although vacancy has risen

[4] Banking, financial services and insurance

Figure 9: Share of Demand for Office Space from Various Industries

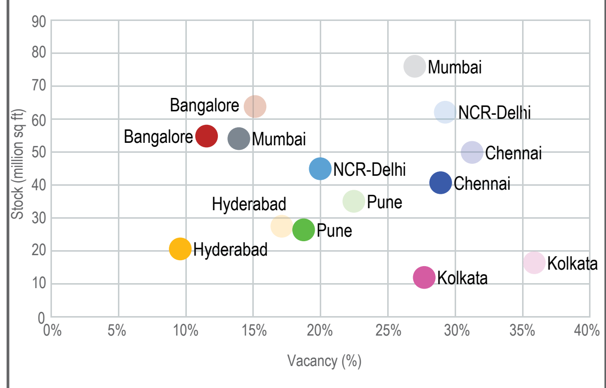


Note: Share of demand for office space has been calculated on the basis of 1123 leases recorded during 1Q09-3Q10 across the seven metropolitan cities.
Source: Real Estate Intelligence Service (JLL), 3Q10

in cities since 2008, CBDs and SBDs are relatively occupied when compared to suburban markets. After recording a new high during 2011, vacancy is expected to move southwards from 2012 onwards as a result of anticipated healthy absorption.

By end-2011, Mumbai is expected to lead in terms of operational office stock in the country, pushing the current leader, Bangalore, to the second position. Bangalore, Mumbai, NCR-Delhi and Chennai lead the market in terms of office stock, thus classified as Tier I cities, followed by Hyderabad, Kolkata and Pune, which have less than 30 million sq ft of operational stock and are classified as Tier II cities (Figure 10).

Figure 10: Stock-Vacancy in Various Cities (3Q10 vs 4Q11F)



Note: Darker circles indicate stock-vacancy position at end-3Q10 and lighter circles indicate positions per forecast at end-4Q11F
Source: Real Estate Intelligence Service (JLL), 3Q10

India Office Market - Timing the Investment Right

The Indian office market bounced back in 2010 after bearing the brunt of the global financial turmoil in 2009. Firms began to consider their expansion plans in 2010 on the back of the plethora of real estate opportunities available in the market. The rate of decline that had been witnessed in property rates began to slow and finally exhibited a stable trend by year-end across most micro-markets of Tier 1 cities. A deferment in supply of office stock took place across the country since construction activity was stalled or shelved in 2009. However, today developers are turning their attention towards the completion and delivery of office space that had been put on hold.

2011, we believe, will mark the opening of a strategic window of opportunity for both occupiers as well as investors - rents and capital values in most micro-markets will bottom out and continue to remain undervalued. It is also interesting to note that several markets have already started to display signs of resurgence as a result of improving demand for office space coupled with an upswing in capital market transactions. Furthermore, 2011 is expected to witness more wealth creation across industries pan-India which in turn is expected to generate more demand for real estate and favorably impact the Indian real estate industry. We forecast office space absorption across the top seven cities of India to nearly double - from 19.6 million sq ft in 2009 to 35.7 million sq ft in 2011.

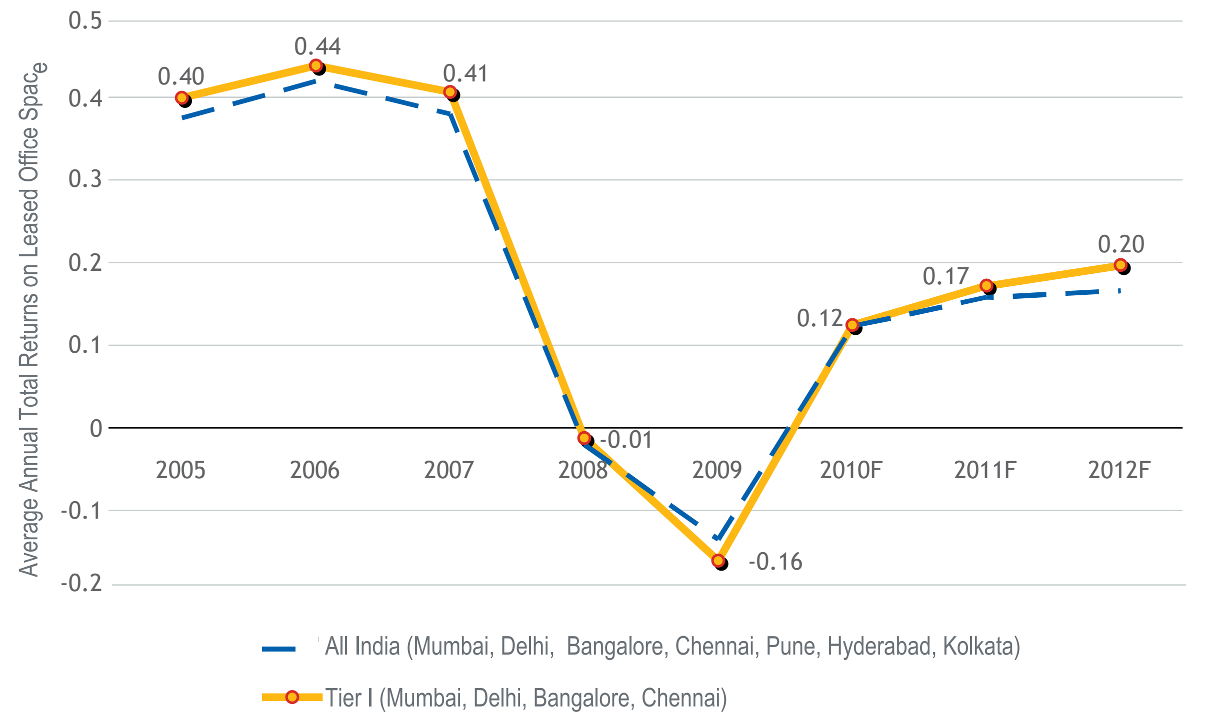
This section discusses the trends that are likely to emerge in the office market of India in 2011. With an aim to understand 'Why, Where and When' of investment in India office market, we carry out a Location Analysis of key office markets based around the fundamentals of the Total Returns Index, Average Existing Yields and Capital Value Appreciation across Tier I cities of the country. Lastly, we take an in-depth view at the strategic window of opportunity which forms the cornerstone for establishing the fact that 2011 is the right year for investors to step ahead.

Why India Office Sector?

Total Return Index of Office Markets

The total returns index provides a measure of the magnitude of compounded total returns over a

Figure 11: Total Returns on Office Real Estate Investment



Source: Real Estate Intelligence Service (JLL), 2010

particular period of time. It measures the return on investment by combining the rental income (realised yield) and capital value growth (unrealised yield).

The tier 1 cities are expected to project total returns ranging from 17-20% in 2011 and 2012 as opposed to an average of total returns for the entire country of 16-18% for the same period (Figure 11).

The initial gross yield is the percentage return on property investment based on current gross rental income. Figure 12 depicts the movement of initial gross yields between 2005 and 2012. Expected flattening of initial gross yields during 2011 and 2012 indicates a trend of lowering perceived risk on investment in office real estate as compared to the peaks recorded during end-2008 when the perceived risk on investment was very high.

The illustration below depicts that Tier 1 cities are forecasted to register an initial yield of 11.6% in 2011 and 2012. The fact that the initial gross yields trend recorded in tier I cities are observed to traverse below the all india average initial yields reiterates the low perceived risk on investment in tier I cities. Therefore, tier I cities are emerging as a lucrative investment destination for risk-averse investors in the medium term.

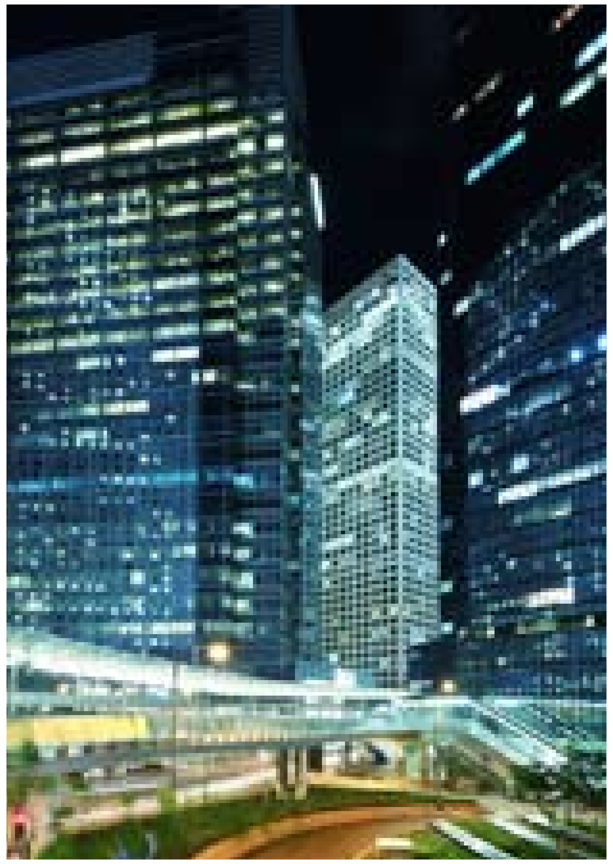
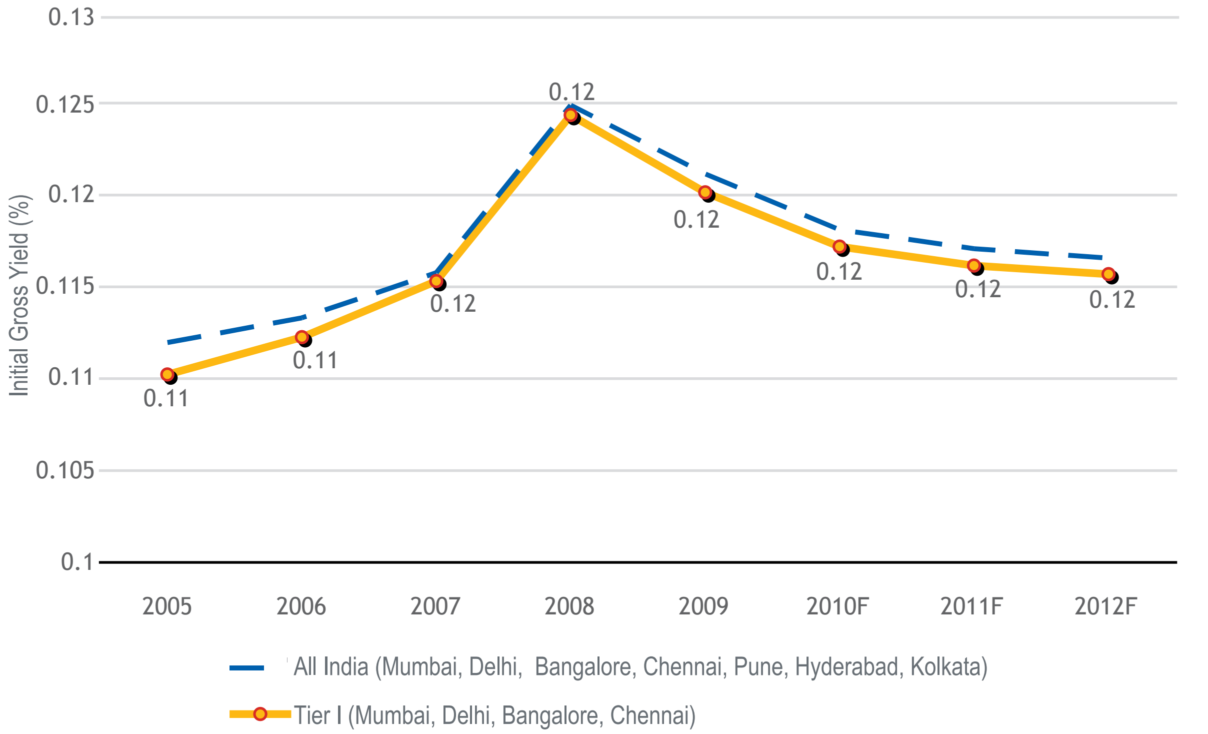


Figure 12: Average Initial Gross Yield Trend



Source: Real Estate Intelligence Service (JLL), 2010

Location Analysis

On the back of improving market sentiments, capital values are forecasted to appreciate across micro-markets in Tier 1 cities in the near term. Figure 13 demonstrates the relative positioning of select micro-markets based on the current capital values and the rate at which the same is projected to grow annually during 2011 and 2012.

Key takeaways from the above illustration include the following:

- Gurgaon falls in the mid-range of the capital value basket and is positioned for 8-10% annual leaps in valuations during 2011 and 2012. With considerable investment grade options at good locations, it is positioned as a destination for IT as well as commercial occupiers.
- As a result, we forecast tremendous potential for the prime locations of Gurgaon - NH8, MG Road and Golf Course Road which are established IT/ITES and commercial destinations.
- While CBDs of Delhi and Bangalore are slated to record an annual appreciation of 8%-10%, Chennai and Mumbai counterparts are expected to record marginally lower growth rates in the next two years.
- SBDs across most of the Tier 1 cities are projected to record an annual appreciation in the 6-8% range. SBD BKC marks itself as the BFSI capital of India, and is expected to register a growth of 8-10% annually during 2011-2012.
- Most suburban markets are expected to record a 4-6% growth in capital values.

Figure 13: Relative Positioning of India's Key Micro-Markets

Expected Annual Appreciation During 2011 and 2012	Prevalent Capital Values in INR per sq ft						
	<3,000	3,000-5,000	5,000-7,500	7,500-10,000	10,000-15,000	15,000-20,000	>20,000
4-6%	Electronic City Whitefield Suburbs Chennai	Noida Thane & Navi Mumbai	CBD Chennai			SBD Central Mumbai	
6-8%		SBD Chennai SBD Bangalore	East Suburbs Mumbai West Suburbs Mumbai		SBD North Mumbai	SBD Delhi	CBD Mumbai
8-10%				Gurgaon* CBD Bagalore			CBD Delhi SBD BKC Mumbai

Source: Real Estate Intelligence Service (JLL), 2010
Note: CBD - Central Business District; SBD - Secondary Business District

2011 - Strategic Window of Opportunity!

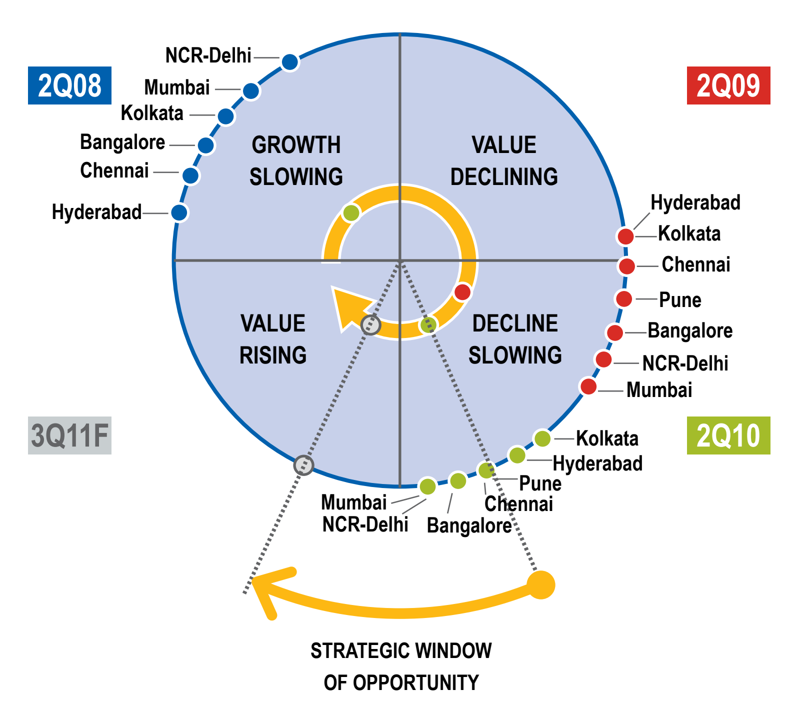
As a result of an intensification of office space absorption witnessed in 2010, rental and capital values in most markets have already begun to stabilize. According to us, 3Q10-2Q11 marks the opening of a strategic window of opportunity (Figure 14) in terms of both buying and leasing office space. This is due to the fact that rental and capital values across most micro-markets are expected to be around their cyclical low and remain undervalued during this period. Post this period, both capital and rental values are forecasted to register an upswing.

While Mumbai and NCR-Delhi are expected to lead the property clock[5], Bangalore and Chennai are expected to follow suit. These tier 1 markets are projected to be the first to witness rental growth in 2H 2011.

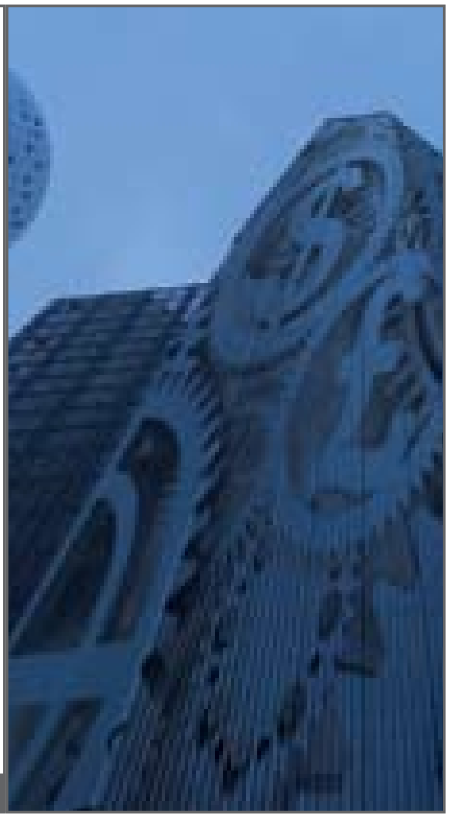
There are a number of underlying fundamentals that point towards 2011 as an apt time to invest in office real estate. Firstly, occupier confidence is on the rise. Firms are strategizing their expansion plans after assessing the plentiful real estate options available in the market at the moment. Furthermore, stalled construction activity has kicked off and developers are now concentrating on the completion of under-construction projects in order to capitalize on the positive sentiments in the industry. Apart from these factors, there is rising confidence amongst the industry drivers such as the IT/ITeS sector which contributes about 50%[6] to pan-India office space absorption. It is also interesting to note that the recruitment drive is back and more and more employment opportunities are being generated which is also expected to have a positive impact on the real estate sector.

We expect the Indian office market to reach healthy levels of valuations in the medium term. Having mentioned the above trends, we believe that 2011 would present opportunities for investors to enter the office real estate space.

Figure 14: Strategic Window of Opportunity



Source: Jones Lang LaSalle



[5] The Property Clock shows relative positions of markets in their real estate cycle with respect to rental and capital values. Markets generally move clockwise around the clock, with markets on the left side of the clock generally landlord favourable and markets on the right side of the clock generally tenant favourable. The relative positions are assessed on the basis of several real estate indicators including mismatch between expected demand and supply and recent movement of rentals. A market leading the cycle might suggest that it is expected to trip to the next quadrant earlier than other cities.

[6] Real Estate Intelligence Service, Jones Lang LaSalle