

# India's Top Residential Investment Destinations in 2010

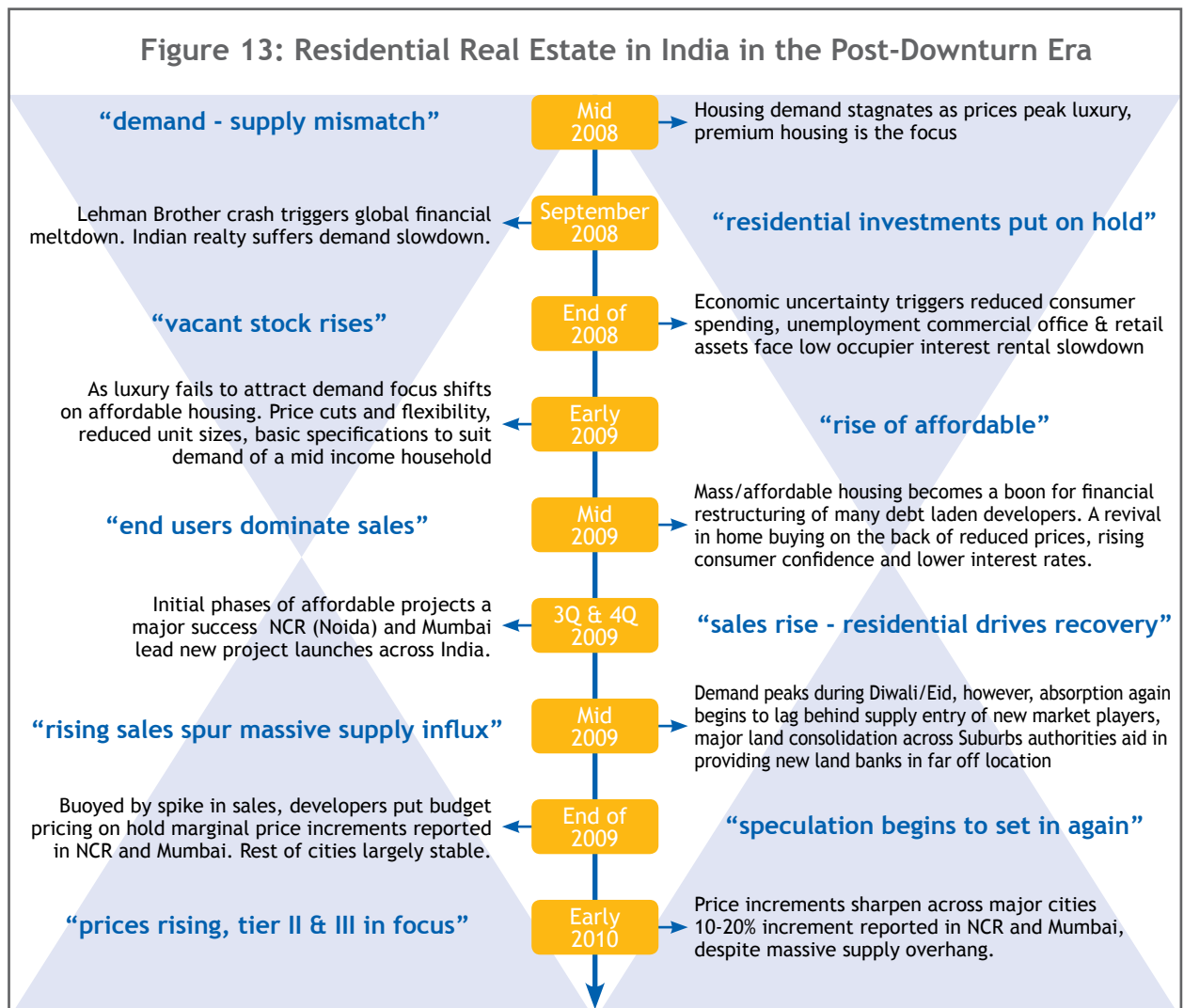
The turmoil faced by India's real estate industry over the past two years has resulted in the residential sector becoming as the preferred asset class across Indian markets for investors and end-users alike. Its large share of the Indian real estate landscape is a direct consequence of housing demand across the country which is accentuated by rapid urbanisation, population growth and economic expansion. Bolstered by the latent demand for affordable housing amongst India's mid-income populace, residential is also currently regarded as the least risky real estate asset class in India.

## Residential through the turn

As with office space and retail malls, residential property did, to a lesser degree, suffer the effects of the global downturn in 2008 and 2009. However, unlike these other asset types, the residential sector has exhibited relative stability and has been the first real estate sector to move towards recovery

across all major cities in India. Although residential recovery is heavily influenced by mortgage rates, GDP growth, a recovering job market and rising consumer confidence, prudent decisions by real estate developers on pricing and quality are also key to ensure the long term health of the residential sector.

Figure 13: Residential Real Estate in India in the Post-Downturn Era



## Top investment destinations

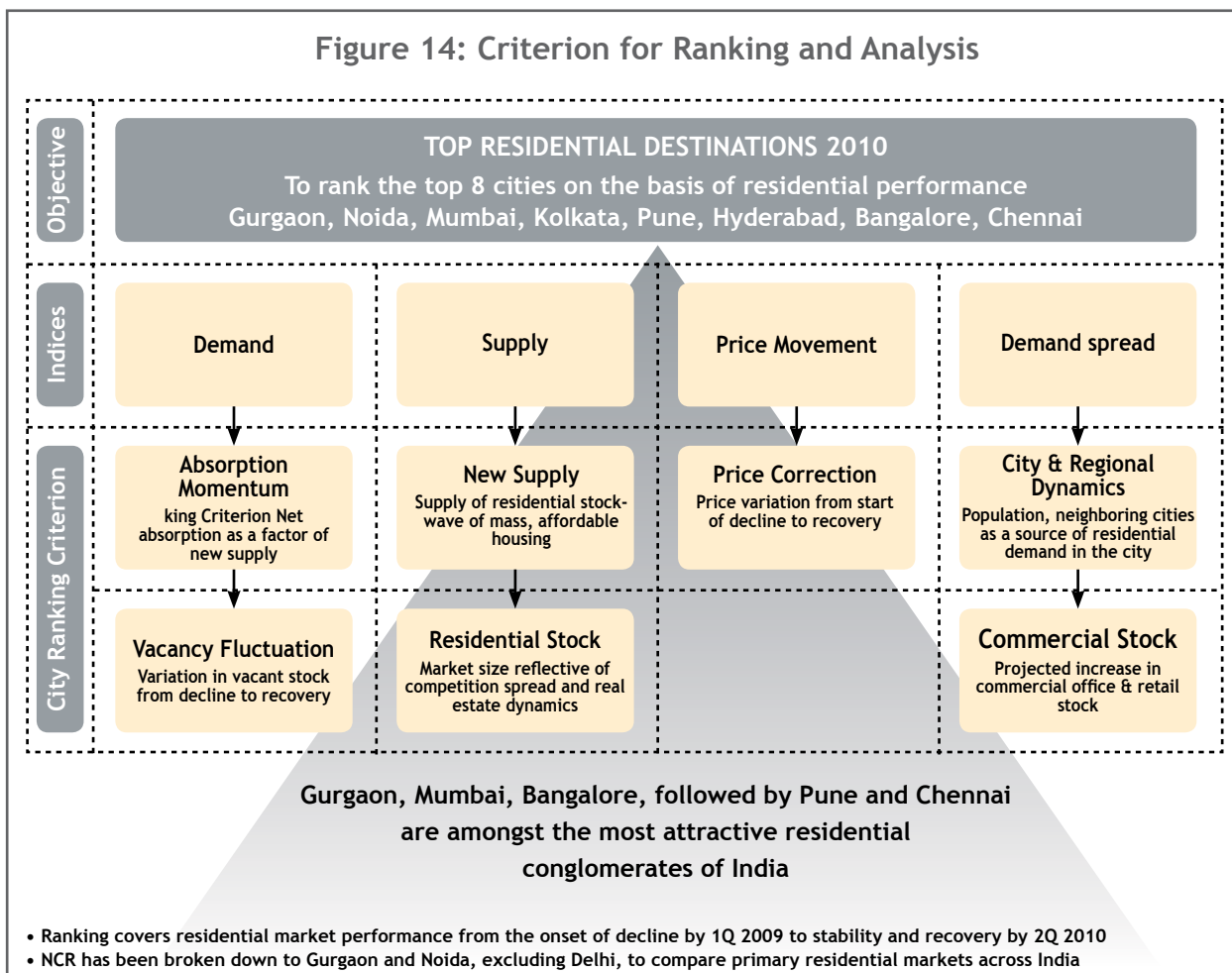
In order to identify those cities which can be considered to be India's top investment destinations for residential real estate, we analyzed the nation's 7 largest metropolitan areas as these markets represent those which are most likely to attract investment from retail and institutional investors which deploy both domestic and foreign capital. Within the National Capital Region (NCR), we focused exclusively on Gurgaon and Noida, two cities from located in disparate states that are witnessing a vast majority of the new residential supply in that metropolitan area. Delhi, with a residential market that is focused primarily on secondary sales, was excluded from our analysis. This brought our total number of markets being considered to 8: Mumbai, Gurgaon, Noida, Bangalore, Chennai, Pune, Hyderabad and Kolkata.

Our analysis scored each market on 4 broad

indicators - demand, supply, price movement and "demand spread", or the geographical spread of demand drivers for local housing (Figure 14). The time span for our analysis covered 1Q 2009 to 2Q 2010 as this window provides an accurate assessment of the market movement from the onset of decline in early 2009, to stability in mid 2009 and to the start of recovery by early 2010.

Our initial analysis revealed an interesting phenomenon. While most cities were relatively balanced with respect to supply and demand, Noida and Mumbai showed a large over supply (Figure 15). Of these two markets, we consider only Noida to truly have a supply overhang. Data for Mumbai was distorted to a great extent by the far flung suburbs of Thane and Navi Mumbai which have witnessed a flurry of new residential project launches. The island city of Mumbai remains one of the most competitive and sought after residential destinations in the country.

Figure 14: Criterion for Ranking and Analysis

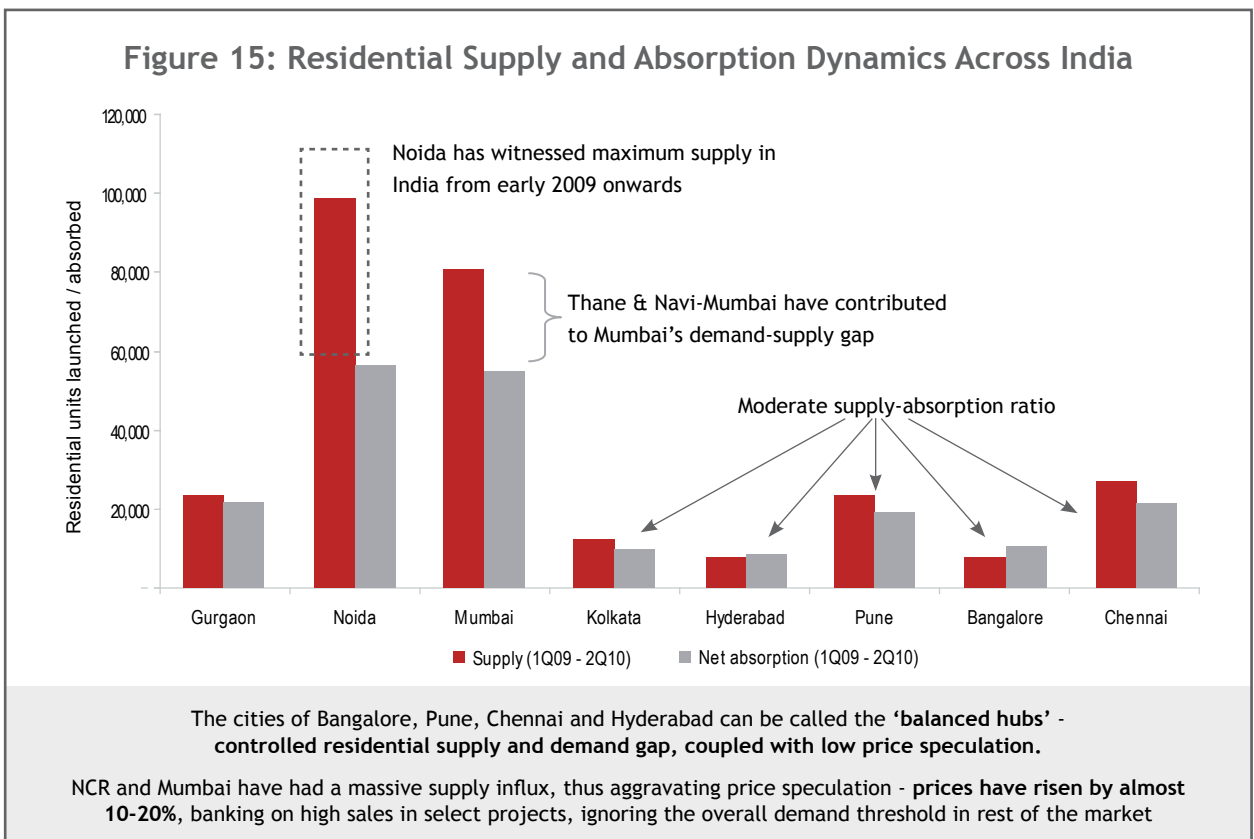
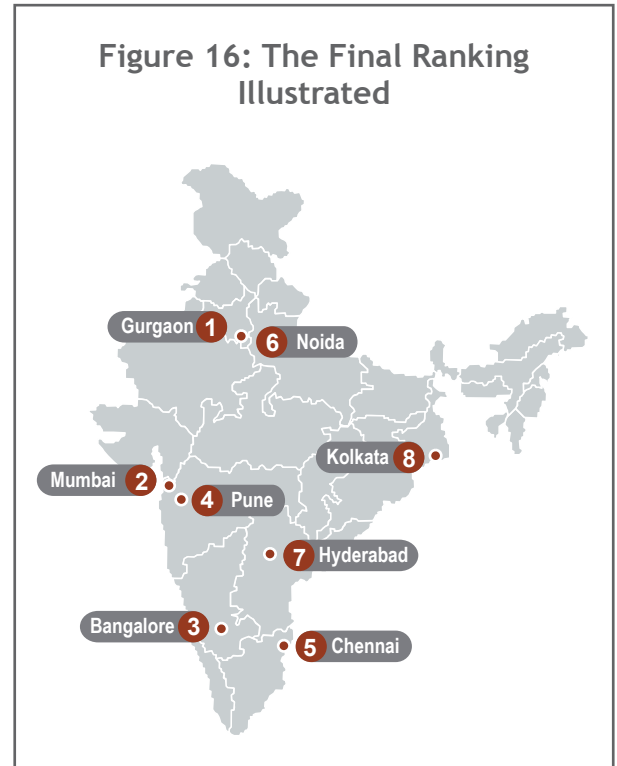




The results of our analysis are summarized below (Figure 16 & Table 1). Amongst the markets we considered, Gurgaon and Mumbai have scored higher in our final ranking primarily due to the combination of a large residential stock, high absorption figures and a marked decrease in vacancy rates.

Gurgaon leads the country in offering a combination of residential returns and large option availability, acting as a regional catchment for residential demand across NCR, Haryana, and Rajasthan, and even beyond that. Mumbai, with its banking, financial and industrial base and high investment dynamics is a lucrative residential option, albeit more for a premium residential segment, offering affordable residential only in its suburban regions.

The cities of Bangalore, Pune, Chennai and, to a limited extent, Hyderabad have experienced stable residential growth over the past year or more, witnessing high absorption rates (even in suburban micro-markets) along with a large, affordable stock of homes. Noida suffers from a supply overhang, while Hyderabad has recently faced minor setbacks due to a tenuous political climate. Kolkata is yet to witness residential dynamics like the top tier cities of the country.



**Table 1: India's Top Residential Real Estate Investment Destinations**

Rank	City	Scores High On	Falls Short On
1	Gurgaon	<ul style="list-style-type: none"> <li>• Massive agglomeration of commercial office and retail space</li> <li>• Substantial moderation of prices</li> <li>• Wide breadth of projects across price ranges and geographies</li> <li>• Quality developers and developments</li> </ul>	<ul style="list-style-type: none"> <li>• Water, power infrastructure a major cause of concern</li> <li>• Speculation on the rise leading to price increments</li> <li>• Not affordable enough to directly convert migrant employee base into investor/end user catchment</li> </ul>
2	Mumbai	<ul style="list-style-type: none"> <li>• High income demographics</li> <li>• High investment activity levels across price bands</li> <li>• Large size of commercial office and retail space - 'financial capital'</li> <li>• Relative affordability in suburban markets of Navi Mumbai and Thane</li> </ul>	<ul style="list-style-type: none"> <li>• Most of the markets within the city unaffordable. Affordability in Eastern Suburbs, Thane and Navi Mumbai</li> <li>• Infrastructure (especially connectivity) remains an impediment</li> </ul>
3	Bangalore	<ul style="list-style-type: none"> <li>• Large, expanding geographies of commercial office development</li> <li>• Most of the micro-markets highly affordable</li> <li>• City has attained a critical mass of IT occupiers which shall help attract more IT occupiers</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructure hasn't kept pace with the growth of the city</li> <li>• Residential demand is highly dependent on the IT/ITeS sector and migrant population</li> </ul>
4	Pune	<ul style="list-style-type: none"> <li>• Huge supply of office space - Addition of another 15-16 million sq ft of office space in the next 3 years</li> <li>• Unlike other major cities, affordable micro-markets are located close to the city</li> <li>• Proximity to Mumbai provides another major urban catchment for residential demand in the city</li> </ul>	<ul style="list-style-type: none"> <li>• A situation of oversupply in select micro-markets, like Wakad, Aundh Annexe and Hinjewadi</li> <li>• Most of the micro-markets struggling with physical infrastructure, especially road connectivity</li> </ul>
5	Chennai	<ul style="list-style-type: none"> <li>• Diversified migrant population working in industrial, logistics and IT &amp; ITeS sectors</li> <li>• Prices have moderated across micro-markets</li> <li>• Properties along OMR benefits from excellent connectivity and proximity to IT hubs</li> <li>• Absorption rates have started picking momentum, especially in suburban micro-markets</li> </ul>	<ul style="list-style-type: none"> <li>• Oversupply is also being witnessed in select suburban micro-markets</li> <li>• The city could face tough competition from other southern hubs like Bangalore in attracting regional residential investment</li> </ul>
6	Noida	<ul style="list-style-type: none"> <li>• Affordable micro-market - reasonable price range has led to increased sales</li> <li>• Excellent connectivity through existing road infrastructure and MRTS</li> <li>• Large scale commercial office space - addition of more than 12 million sq ft of office space in the next 3 years</li> </ul>	<ul style="list-style-type: none"> <li>• Large supply overhang. Oversupply could trigger higher vacancy leading to long term pressures on price increments.</li> <li>• Residential demand primarily linked to IT/ITES sector</li> <li>• Law &amp; order remains a concern</li> </ul>
7	Hyderabad	<ul style="list-style-type: none"> <li>• Availability of affordable housing in areas surrounding major IT hubs - Hitec City and Gachibowli in areas such as Kukatpally, Tellapur and Miyapur, besides Bachupally</li> <li>• IT/ITeS hub, new economy industries drive the city economy</li> <li>• Large migrant population base as a residential catchment</li> </ul>	<ul style="list-style-type: none"> <li>• Oversupply in Hitec City - Gachibowli; other markets having low activity</li> <li>• Political uncertainty and protests linked to the Telangana movement may hamper investment activity for the time being.</li> </ul>
8	Kolkata	<ul style="list-style-type: none"> <li>• Absorption rate has picked up in suburbs like Rajarharat</li> <li>• Affordable micro-markets compared to rest of the country</li> <li>• Power and water infrastructure is relatively better than rest of the country</li> </ul>	<ul style="list-style-type: none"> <li>• Commercial office absorption is low, indicating limited investor interest</li> <li>• Growth of realty lags behind other, relatively newer, cities - transparency, law &amp; order is an issue</li> <li>• Political situation is a cause of concern for foreign investor activity</li> </ul>