

India Residential Market

Residential sector has proved its resilience in the recent slowdown, being the first sector to recover at the beginning of 2009. The first wave of rising absorption rate was led by residential launches at suburban locations, which were priced considerably lower than prevalent average capital values. However, developers took time to frame a strategic path for further developments and supply of new launches briefly fell by end-2009.

The sector sprung back in the first half of 2010, bolstered by increased confidence among residential developers. This second wave of absorption was driven by residential property rates remaining range bound within the affordable limits, despite recording marginal increases in select markets since mid-2009. While NCR-Delhi leads in terms of residential launches and absorption, strong price momentum has been observed in Mumbai. Interest in the premium segment has gained traction, particularly in the island city of Mumbai. However, by end of 2010, rising property rates started to put marginal short term pressure on the absorption rate, which stabilised between 20-21% during the last three quarters. We believe that the factors such as risks of diminishing affordability for the home buyer, increasing interest rates, rapidly rising inflation, and developers' ability to execute projects would influence the price and absorption dynamics of the sector during 2010-2011.

Residential activity has attained a new high in 2010

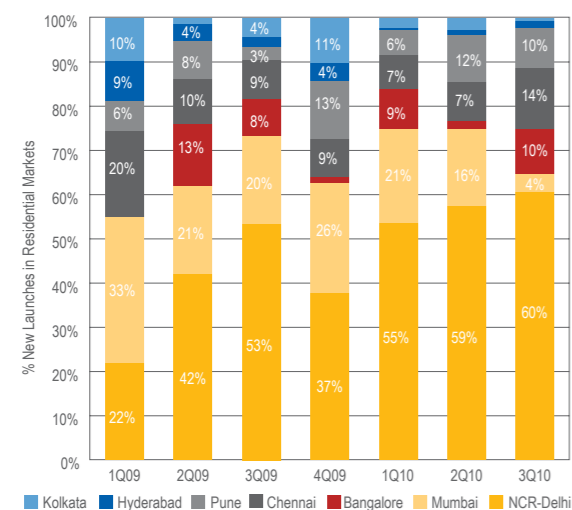
The top seven cities of India (by population) have witnessed an average launch of 58,463 units every quarter in the last four quarters. Against this supply, an average absorption of 41,288 units per quarter

has been recorded during 4Q09-3Q10. NCR-Delhi has led the supply and absorption dynamics, adding an average of 32,279 residential units to the active residential market every quarter since 4Q09.

The first three quarters of 2010 witnessed an increase in residential launches, which stood at 198,805 units as of 3Q10 against 114,016 units recorded during the same period in 2009. NCR-Delhi witnessed the largest number of units launched, accounting for 60% of the residential launches recorded in 3Q10 followed by Chennai (Figure 1). While NCR-Delhi and Chennai witnessed the launch of about 55-60 projects each (including new phases of existing projects), Pune, Mumbai and Bangalore witnessed the launch of 20 projects each in 3Q10.

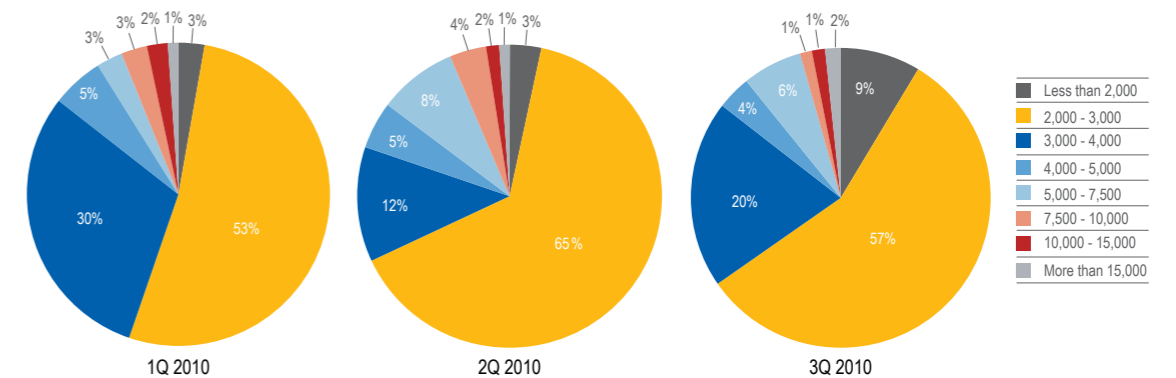
The affordable housing segment witnessed a good amount of activity in 2010, riding on a good response from buyers leading to rising confidence among the developer community. In 3Q10, 57% of the residential units were launched at capital value between INR 2,000-3,000 per sq ft, while 20% were launched in the range of INR 3,000-5,000 sq ft (Figure 2). Of the launches in the range of INR 2,000-3,000 per sq ft, over 70% were in the micro-markets of NCR-Delhi, primarily Noida. Apart from a rise in number of residential launches in the affordable housing segment, the tier I cities of India also recorded a healthy activity in the premium

Figure 1: Market Share of Residential Launches (1Q09-3Q10)



Note: The figures for Mumbai include Thane, Navi Mumbai, Vasai and Virar.
Source: Real Estate Intelligence Service (JLL), 3Q10

Figure 2: Capital Values of Residential Launches in 1Q10-3Q10



Note: The figures are base capital values in INR per sq ft.
Source: Real Estate Intelligence Service (JLL), 3Q10

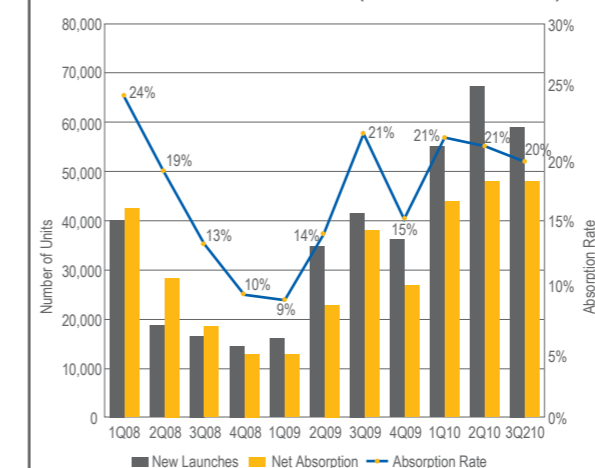
housing segment during 2010 as compared to the previous year. Select developers are actively looking towards land acquisition in the prime precincts for residential projects. However, developers have taken cognizance of the learning from the previous property cycles and are pricing their new launches accordingly as pricing continues to be a key determinant for residential investment in India.

Absorption rate crossed 20% in 2010, up from the recessionary low of 10%

Absorption rate² of residential units in 2010 crossed 20%, despite marginal increase in capital values in

select cities (Figure 3). Healthy demand in NCR-Delhi, Chennai, Kolkata and Pune provided support to overall absorption levels. Buyers' decision has been affected by a multitude of factors - increased financial stability of households, appreciating value of residential properties and the expected hardening of interest rates in future. NCR-Delhi led the cities in terms of absorption recorded in 3Q10, followed by Chennai and Bangalore. While absorption rates recorded a short term dip in Mumbai, Bangalore and Pune, they increased in Chennai and Kolkata (Figure 4).

Figure 3: Supply and Absorption of Residential Units (1Q08 - 3Q10)



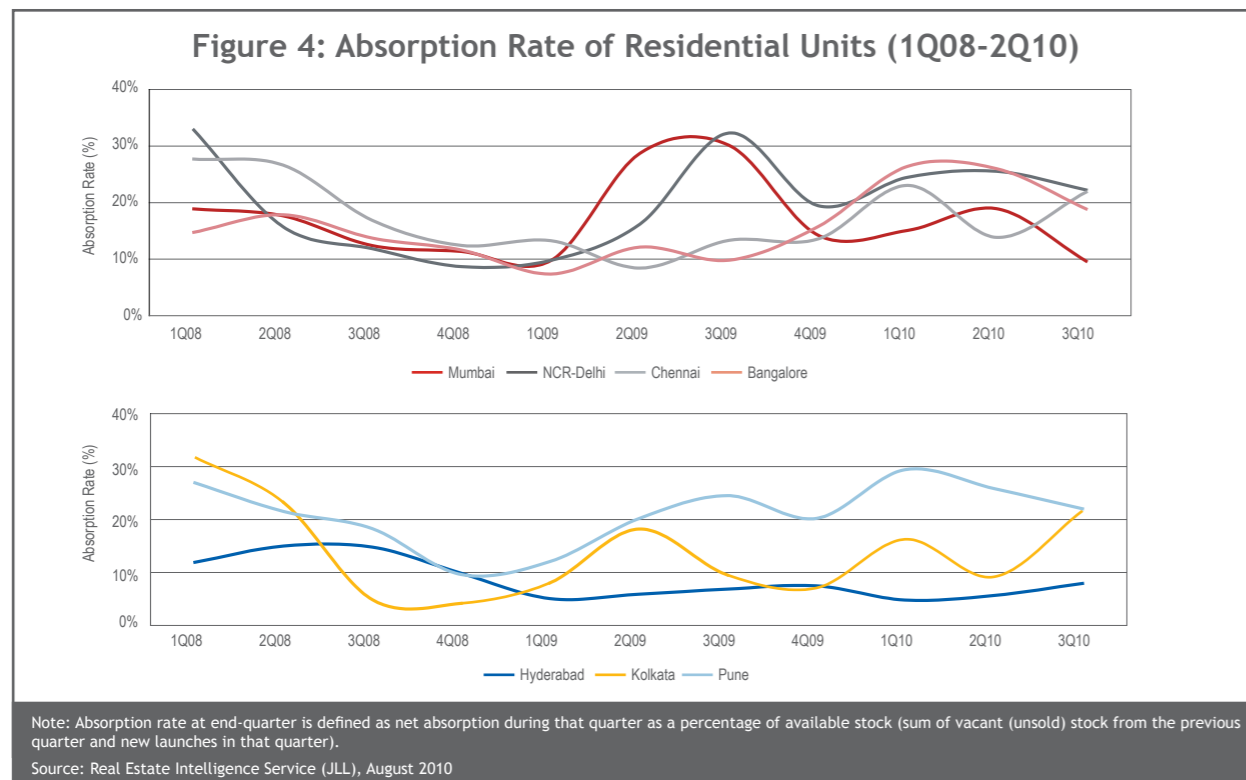
Note: Figures are representative of the seven metropolitan cities of India - NCR-Delhi, Mumbai (excluding Thane, Navi Mumbai, Vasai and Virar), Bangalore, Chennai, Hyderabad, Kolkata and Pune.
Source: Real Estate Intelligence Service (JLL), 3Q10

² 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).

Average capital values appreciated by 2-6% across cities in 3Q10

Average capital values appreciated by 2-6% in 3Q10, thus continuing a trend of price momentum from previous quarters (Figure 5). While micro-market averages of residential capital values in Bangalore and Kolkata markets appreciated by about 5-6% in 3Q10, those in Mumbai, Pune, Chennai and NCR-Delhi appreciated by about 2-3.5% during the same period.

Average capital values have appreciated by 10-30% across cities since the trough in mid-2009, in response to high absorption witnessed across residential markets. Mumbai has led this surge, witnessing an average increase of 34%. While the micro-market averages of residential capital values in Bangalore, Chennai, Kolkata and Pune markets have appreciated by about 15-20% during 3Q09-3Q10, 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.

Stabilizing absorption rates are keeping the growth of capital values in check, which are expected to grow slower in the near term as compared to the aggressive growth during the last 2-3 quarters. The increase in prices would be a result of developers launching new phases of their erstwhile projects at higher prices as well as increments in currently active projects, as they get sold out. The near future represents an opportunistic time for investing at select locations with impetus from infrastructural growth, after which capital values expected to achieve newer peaks. Premium residential products have seen their way back into Mumbai in 2010, influenced by the positive swings in the sector. More launches are on the anvil as developers continue to pursue available land parcels in the island city.

Projects in suburban micro-markets offer a homogeneous mix of residential products to the buyer community and are expected to see a gradual increase in prices in the near term. However, since

cities are expected to focus more on infrastructure along with a faster rate of urbanisation, the far flung areas would emerge as promising growth corridors of the future. Early investors are generally compensated for their greater³ risk exposure through greater returns on investment as purchase prices of residential property are typically at their lowest during project launch.



³ Early Investors are those who enter in to the residential investment when the property is in its planning and development stage. Determining the optimal time to invest in residential property (early or later) depends upon numerous factors for each individual investor such as risk appetite, acceptable risk-adjusted return and market savvy.

