

India Residential Market

While the rate of appreciation in residential property rates has slowed down across most markets in 1Q11, the property prices in select premium precincts have remained stable. Hardening of interest rates along with high inflationary pressure during 1Q11 has been a dampener for sale velocities that have plummeted since end-2010. Despite rising income levels, the issue of affordability continues to keep the buyers at fence, as they face the challenge of timing the property cycle right amidst a dynamic real estate landscape. The launch of high-end projects has also slowed down in 1Q11, when compared to 4Q10, particularly due to the impact on sales in Mumbai.

We believe that certain locations that have witnessed rapid increments in price until end-2010, will not only witness resistance to any further price rise, but also some downward pressure in the near term.

New launches stabilise across major Indian cities in 1Q11

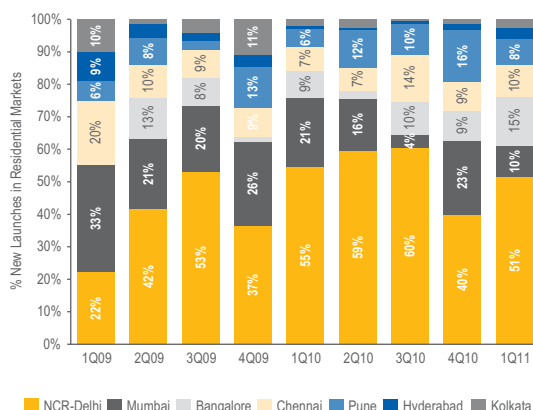
The first quarter of 2011 witnessed the launch of 68,521 residential units in India (top seven cities) against 77,423 units in 4Q10. NCR-Delhi witnessed the highest number of units launched, accounting for over 50% of the residential launches recorded in 1Q11 followed by Mumbai and Bangalore (Figure 1).

NCR-Delhi led the number of projects getting launched, with over 59 projects getting launched across micro-markets and segments. While Mumbai and Bangalore witnessed the launch of 49 and 42

projects (including new phases of existing projects) respectively, Chennai and Pune witnessed the launch of 33 and 25 projects, respectively, in 1Q11. Residential activity in terms of new launches in Hyderabad and Kolkata was subdued during the quarter, with only 8 and 5 projects, respectively, getting launched in each of these two cities.

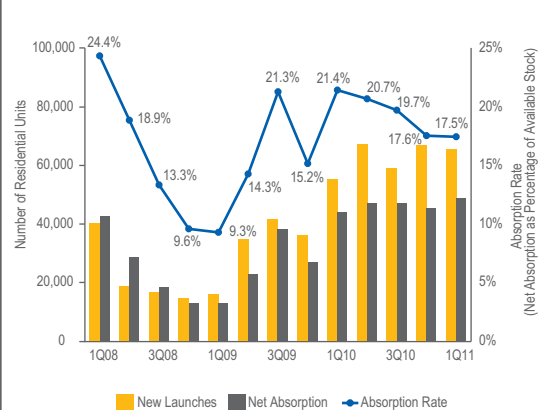
In 1Q11, 31% of the residential units were launched at capital value between INR 2,000-3,000 per sq ft, while 33% were launched in the range of INR 3,000-4,000 per sq ft (Figure 3). During 1Q10-3Q10, over 50% of the new launches every quarter were at capital values of INR 2,000-3,000 per sq ft. Of the

Figure 1: Market Share of Residential Launches (1Q09-1Q11)



Note: The figures for Mumbai include Thane, Navi Mumbai, Vasai and Virar. Source: Real Estate Intelligence Service (JLL), 1Q11

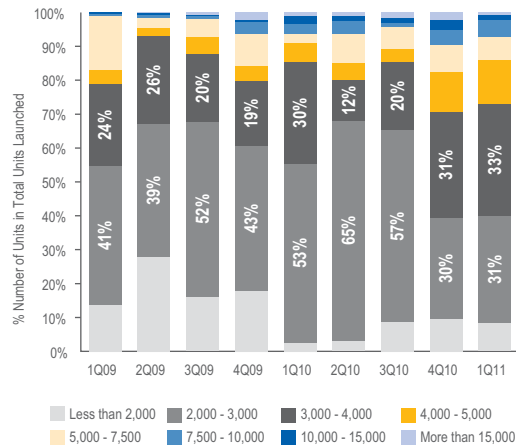
Figure 2: Supply and Absorption of Residential Units (1Q08 - 1Q11)



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), 1Q11

launches in the range of INR 2,000-3,000 per sq ft during 4Q10, over 50% were in the micro-markets of NCR-Delhi, primarily Noida. In the last six months, the number of units launched in the INR 2,000-3,000 bracket has reduced, with developers launching more projects in the range of INR 3,000-4,000. With growing concern

Figure 3: Capital Values of Residential Launches in 1Q09-1Q11

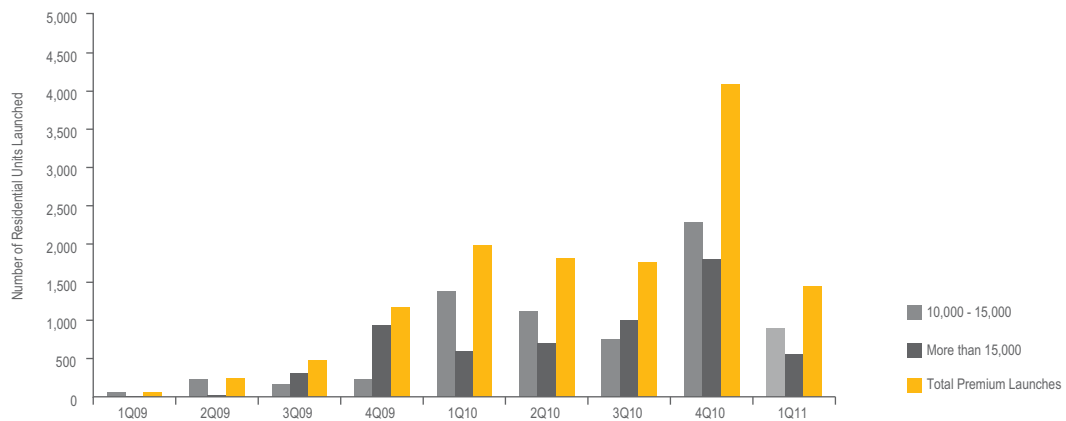


Note: The capital value ranges mentioned in the chart are in INR per sq ft. The percentages denote the percentage of units launched in a particular range of capital values over total units launched during a quarter across top seven cities of India.
Source: Real Estate Intelligence Service (JLL), 1Q11

over affordability of residential houses, residential developers will be closely watching the take-up in these new projects to calibrate their offerings during 2011.

On the back of declining rate of affordability of premium projects in 1Q11, the major cities witnessed slowdown in this segment. While Mumbai witnessed only 17 new launches in the premium segment¹, other cities such as Delhi, Chennai and Pune witnessed the launch of very few premium projects. Across the top seven cities of India, a total of 1,450 residential units were launched in 1Q11, priced above INR 10,000 per sq ft, against 4,094 units launched during 4Q10 in the same category. Thus, the surge in premium residential launches witnessed during 4Q10 was reversed in 1Q11 to remain below the average number of new launches in the first three quarters of 2010. Further, with a likely low expectation of future growth in capital values in the premium segment, the developers are exercising caution in launching new high-end projects.

Figure 4: Quarterly Launch of Premium Residential Units (1Q09 - 1Q11)



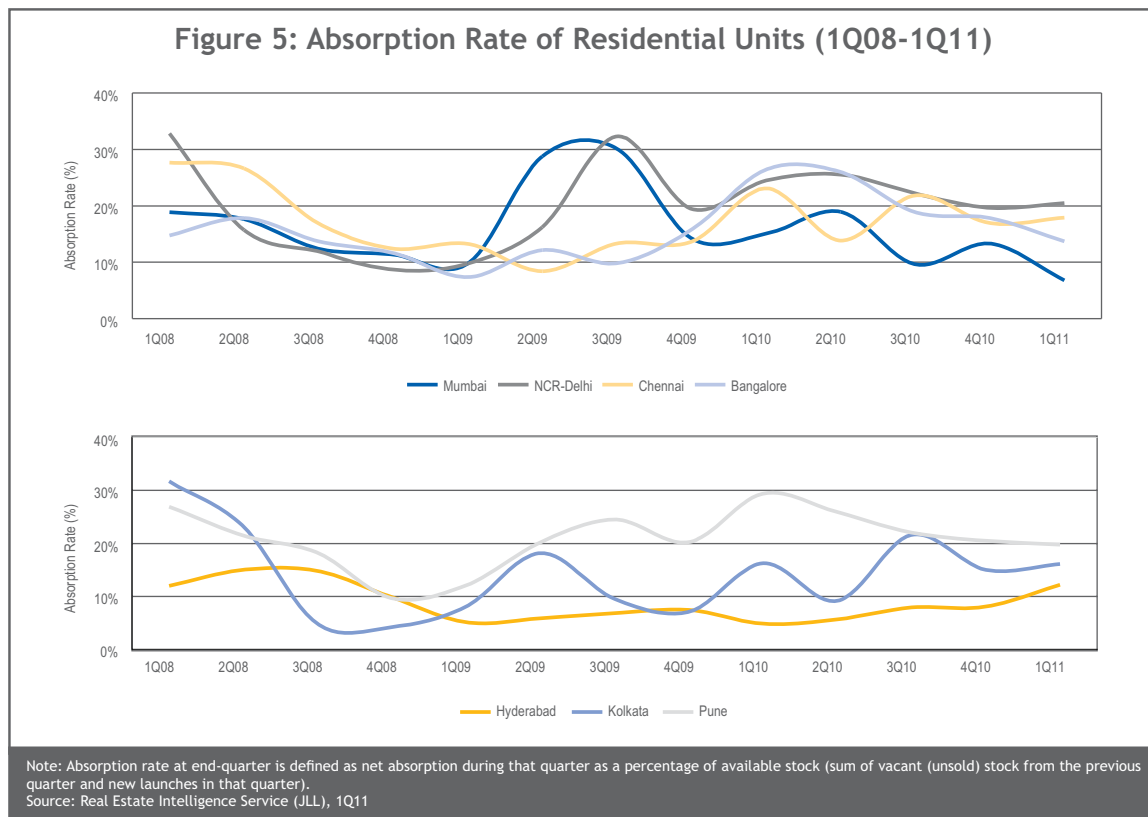
Note: The capital value ranges mentioned in the chart are in INR per sq ft. The analysis considers projects to be categorised as 'Premium' solely on the basis of base capital values being more than INR 10,000 per sq ft, and does not consider the size and amenities of the units being offered. It includes launches across the top seven cities of India.
Source: Real Estate Intelligence Service (JLL), 1Q11



Absorption rate remained stable at 17.5% in 1Q11

After compressing from 21.4% in 1Q10 to 17.6% in 4Q10, absorption rate² of residential units remained nearly stable at 17.5% in 1Q11, due to falling absorption rates in Mumbai, Bangalore, and Pune (Figure 2 & 5). 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. Rapid rise in property rates in Mumbai have acted as a dampener for residential demand in the city, primarily in the premium and mid-high income segment. Absorption rate in Mumbai city³ fell to 7% in 1Q11, breaching the 10% low recorded in 1Q09 (Figure 5).

Pune and NCR-Delhi led the cities in terms of absorption rate recorded in 1Q11, followed by Chennai and Kolkata (Figure 5).



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).

³ The analysis on absorption rates doesn't include Thane and Navi Mumbai for Mumbai.





Average capital values appreciated by 1-5% across cities in 1Q11

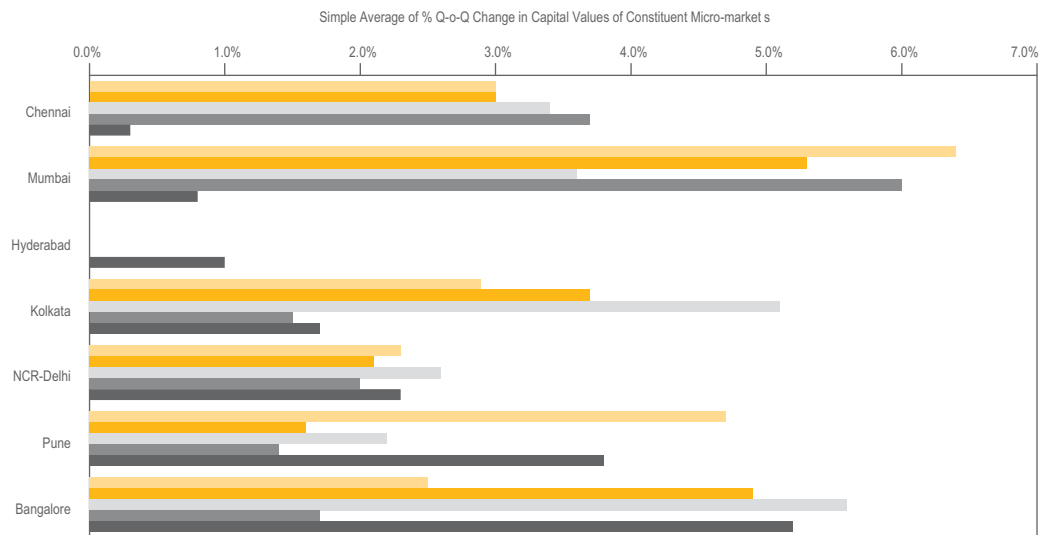
The rate of movement of capital values has been twin directional in 1Q11, with most of the cities witnessing a slower increase, while capital values in Bangalore and Pune appreciated by 4-5% q-o-q, higher than previous quarters (Figure 6). However, micro-market averages of residential capital values in Mumbai and Chennai remained largely stable, while those in NCR-Delhi and Kolkata appreciated by about 2-2.5% during the same period. After remaining stable for six quarters, Hyderabad showed marginal signs of recovery with a 1% increase average capital values during 1Q11.

Average capital values have appreciated by 20-45% 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 43%. 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 6). This was particularly because of Noida, a residential micro market in NCR-Delhi which witnessed a huge influx of residential launches and kept the capital values in the precinct under pressure. Conversely, certain emerging locations of Gurgaon such as New Gurgaon (Sector 84 - Sector 110 off NH-8) witnessed a rapid rise of over 35% y-o-y in property prices during 1Q11 as compared to that recorded during 1Q10

Falling absorption rates are pressurising the growth of capital values, which are expected to grow slower than previous quarters. 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. Capital values in Hyderabad, owing to sustained political uncertainties in the state, have remained in the range bound to that recorded during 4Q10 and this trend is likely to continue in the near term.

Figure 6: Average %Q-o-Q Change in Capital Values (1Q10 - 1Q11)



	Bangalore	Pune	NCR-Delhi	Kolkata	Hyderabad	Mumbai	Chennai
1Q10	2.5%	4.7%	2.3%	2.9%	0.0%	6.4%	3.0%
2Q10	4.9%	1.6%	2.1%	3.7%	0.0%	5.3%	3.0%
3Q10	5.6%	2.2%	2.6%	5.1%	0.0%	3.6%	3.4%
4Q10	1.7%	1.4%	2.0%	1.5%	0.0%	6.0%	3.7%
1Q11	5.2%	3.8%	2.3%	1.7%	1.0%	0.8%	0.3%

Source: Real Estate Intelligence Service (JLL), 1Q11





Premium precincts of Mumbai face the maximum downside risk due to slow demand and considerable built up of inventory.

As projects near completion, the supply of stock held by investors can have an inverse impact on capital values in the medium term. Projects in suburban markets which are already oversupplied with a homogeneous mix of residential products would face difficulties in increasing prices. Location and infrastructure in suburban markets would be decisive in influencing buyers' preference.

Sustainability is gaining a new focus in the residential sector

Sustainability, which is already prominent in the commercial sector in India, will gain focus in the residential space as well in the coming years. Since the largest contributor to the demand for electricity in India is the residential sector, it is imperative that both government and builders focus on building a sustainable housing sector, banking on low energy needs. Indian Green Building Council (IGBC) recently rolled out Green Homes, which is its first rating programme, exclusively for the residential sector. Also, the IGBC Green Townships Rating System, a pilot version of which has been launched, should be beneficial at a larger scale of certifying residential townships. Interestingly, the sector has witnessed sustainable construction across segments, be it value housing or premium residential towers. We expect the trend to continue in future, as buyers become aware of the benefits of green buildings and in turn developers look forward to market their products with a green certification.

