

State of the Residential Sector

The rate of appreciation in residential property rates slowed over the first six months of 2011, although not in all markets. A hardening of interest rates, along with persistent high inflation, has dampened sales rates, which have dropped since reaching a peak in 1Q10. Timing the property cycle right is another concern that is keeping buyers on the fence. A slowdown was witnessed across segments, except in the category with capital values of INR 2,000-3,000 per sq ft, where the volume of units launched in 2Q11 remained the same as in 1Q11. However, due to fewer launches in other segments, the share of this category increased from nearly 30% in 4Q10 and 1Q11 to 46.0% in 2Q11. The launch of high-end and premium projects also slowed in 2Q11 compared to 4Q10 and 1Q11 due to the impact on sales in Mumbai Island City and a delay in project approvals.

Residential property rates are likely to continue to rise in select cities, albeit at a slower pace than in 2010. We believe that certain locations that have seen rapid increases in prices will not only resist further price rises, but also see prices come under some downward pressure.

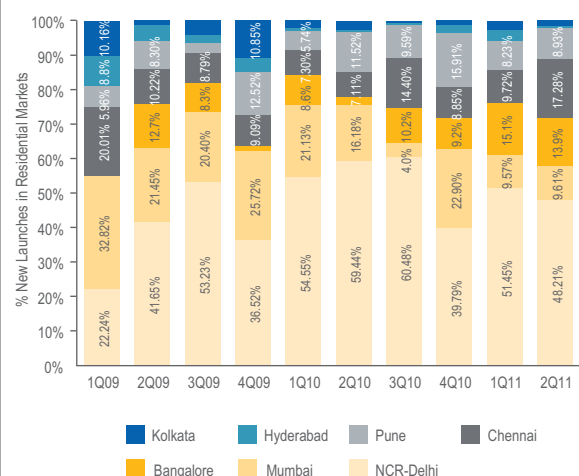
Launch of residential units records a notable decline

Across the top seven metropolitan cities of India - Mumbai (including Thane, Navi Mumbai, Vasai and Virar), NCR-Delhi, Bangalore, Chennai, Pune, Hyderabad and Kolkata - a total of 48,940 residential units were launched in 2Q11 against 68,521 units in 1Q11. NCR-Delhi saw the highest number of units launched, accounting for 48.0% of the residential launches recorded in 2Q11, followed by Chennai and Bangalore (Figure 10). Mumbai saw a particular slowdown in new launches, with only 4,701 residential units launched in nearly 50 projects in the quarter. Despite several developers launching smaller projects, they were generally cautious about launching phases in township projects, which led to a decline in overall units supplied to the market.

NCR-Delhi led supply, with 41 projects launched across all sub-markets and segments. Noida alone accounted for the launch of 26 projects, with some 60% of the units in the sub-market launched at a price of less than INR 3,000 per sq ft. However, the uncertainty over the fate of recently launched projects in Noida and Greater Noida is cause for concern in the sub-market. Chennai was the only market to see an increase in the number of residential units launched, at about 48 projects across sub-markets. Bangalore and Pune saw the launch of 16-22 projects in 2Q11. Residential

activity in terms of new launches in Hyderabad and Kolkata was subdued in the quarter. The decline in the launch of residential projects is the result of a confluence of factors, among them the response to slowing sales volumes, delays in statutory approvals and a rise in the cost of labour and construction materials.

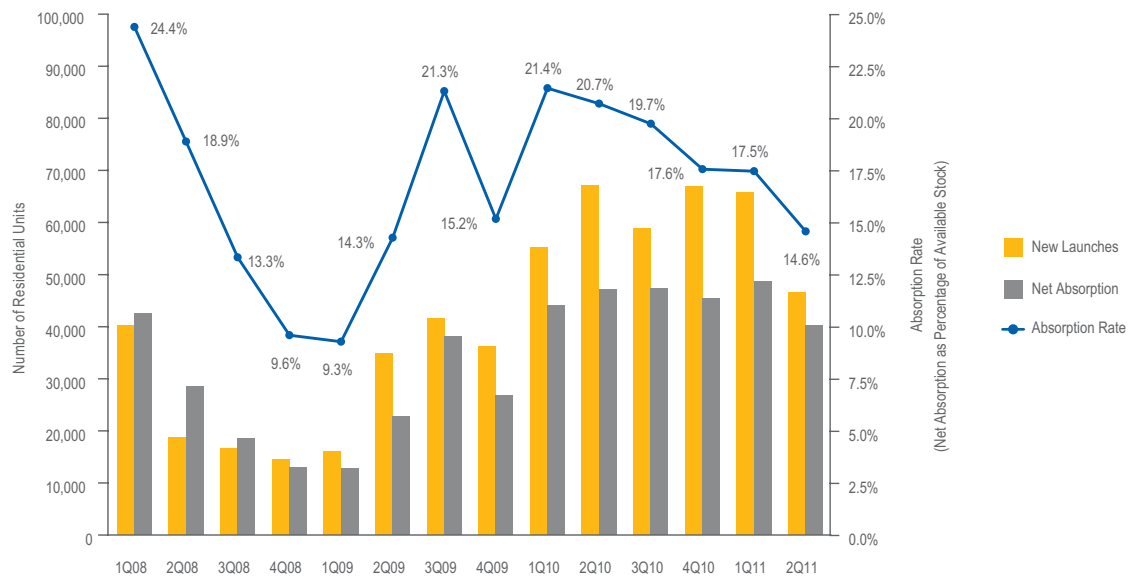
Figure 10: Market Share of Residential Launches (1Q09-2Q11)



Note: The figures for Mumbai include Thane, Navi Mumbai, Vasai and Virar. Source: Real Estate Intelligence Service (JLL), 2Q11

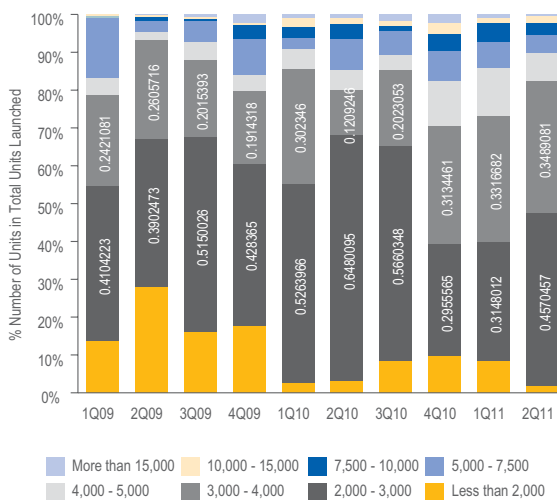


Figure 11: Capital Values of Residential Launches in 1Q08-2Q11



Note: The capital value ranges 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 in a quarter.
Source: Real Estate Intelligence Service (JLL), 2Q11

Figure 12: Quarterly Launch of Premium Residential Units (1Q09-2Q11)



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), 1Q11



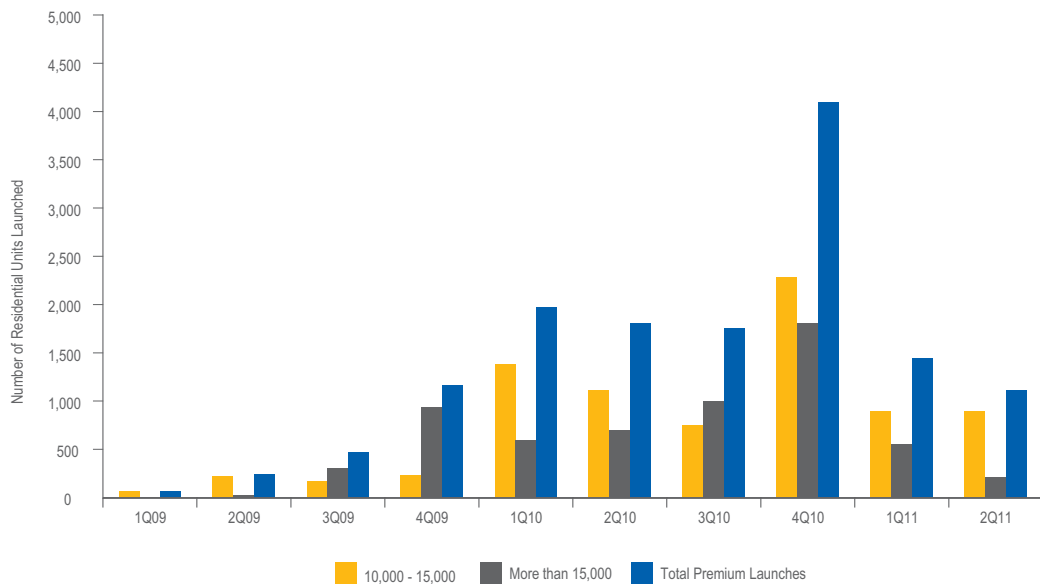
From 4Q10 to 1Q11, the number of units launched with prices in the range of INR 2,000-3,000 per sq ft fell, with developers launching more projects priced in the range of INR 3,000-4,000 per sq ft. However, this was reversed in 2Q11, as 46.0% of the residential units launched had capital values of between INR 2,000-3,000 per sq ft, while 35.0% were in the range of INR 3,000-4,000 per sq ft (Figure 12). With growing concern about the affordability of residential housing, residential developers will be closely watching the take-up in these new projects in order to calibrate their offerings over the remainder of 2011. However, the festival season during October went past with a minimal price rationalisation among major Indian cities despite slow sales activity. While the brochure prices of active residential projects remained flat, the developers of select projects were open to a payment linked negotiation on the total budget.

In 2Q11, Mumbai saw fewer launches in the premium segment¹, with 14 projects with base capital values of more than INR 10,000 per sq ft launched in the markets of South Mumbai, North Mumbai, and Western Suburbs I and II. A total of

1,114 residential units priced above INR 10,000 per sq ft were launched in 2Q11, against 4,094 units in the same category launched in 4Q10. Thus, the surge in premium residential launches seen in 4Q10 was reversed in 1Q11 and 2Q11, returning to average levels due to slowing absorption rates and a delay in approvals, especially in Mumbai (Figure 13).

In July 2011, the Urban Development Department of the Government of Maharashtra released proposals to modify certain provisions of the Development Control Regulations for Greater Mumbai dealing specifically with exemptions from FSI computation and fire protection measures. The proposal aims to add previously exempt areas to FSI areas, restrict the practice of adding plan features solely to list them as useable areas later and to enforce fire protection measures in residential buildings. Those projects that have already received Commencement Certificates (CCs) will not be affected by the changes in these regulations. The uncertainty caused by the possible changes in permissible FSI regulations in Mumbai will probably lead to a slowdown in launches in the city over the coming quarters.

Figure 13: Absorption Rate of Residential Units (1Q08-2Q11)



Note: Absorption rate at a quarter's end is defined as net absorption during that quarter as a percentage of available stock (the sum of vacant space, i.e. unsold stock from the previous quarter, and new launches in that quarter).

¹ The analysis considers projects to be categorised as "Premium" based solely on base capital values of more than INR 10,000 per sq ft, and does not consider the size and amenities of the units offered.



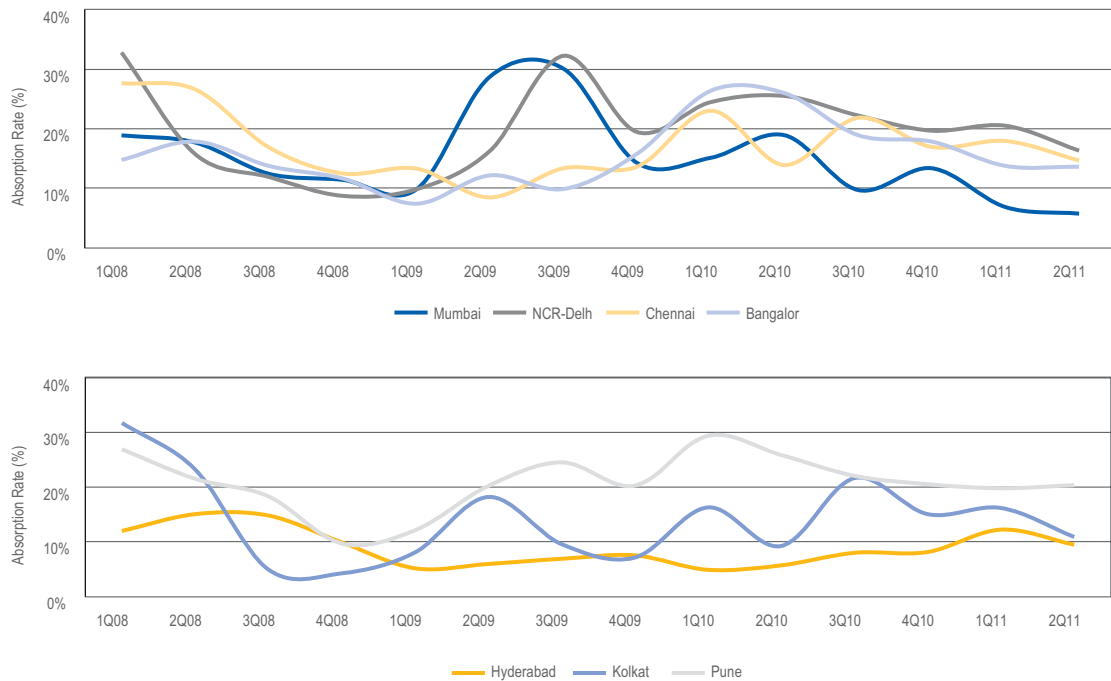
Absorption rate declines sharply amidst sustained interest rate hikes

The absorption rate² for residential units declined sharply to 14.6% in 2Q11 due to falling absorption rates in Mumbai, Chennai, NCR-Delhi and Kolkata (Figures 11 and 14). Buyers' decisions were affected by a multitude of factors, including rising inflationary pressure, the appreciating value of residential properties and the expected hardening of interest rates in the future. A rapid rise in property rates in Mumbai has dampened residential demand in the city, primarily in the premium and mid-high income segments. The absorption rate in Mumbai city³ fell to 6.0% in 2Q11, breaching the 7.0% low recorded in 1Q11.

Pune and NCR-Delhi led the cities in terms of absorption rate in 1Q11, followed by Bangalore and Chennai (Figure 14).



Figure 14: Absorption Rate of Residential Units (1Q08-2Q11)



Note: Absorption rate at a quarter's end is defined as net absorption during that quarter as a percentage of available stock (the sum of vacant space, i.e. unsold stock from the previous quarter, and new launches in that quarter).
Source: Real Estate Intelligence Service (JLL), 2Q11

¹ The analysis considers projects to be categorised as "Premium" based solely on base capital values of more than INR 10,000 per sq ft, and does not consider the size and amenities of the units offered.

² Absorption rate at a quarter's end is defined as net absorption during that quarter as a percentage of available stock (the sum of vacant or unsold stock from the previous quarter and new launches in that quarter).

³ The analysis of absorption rates in Mumbai does not include Thane and Navi Mumbai.

Average capital values appreciates but at a slower rate

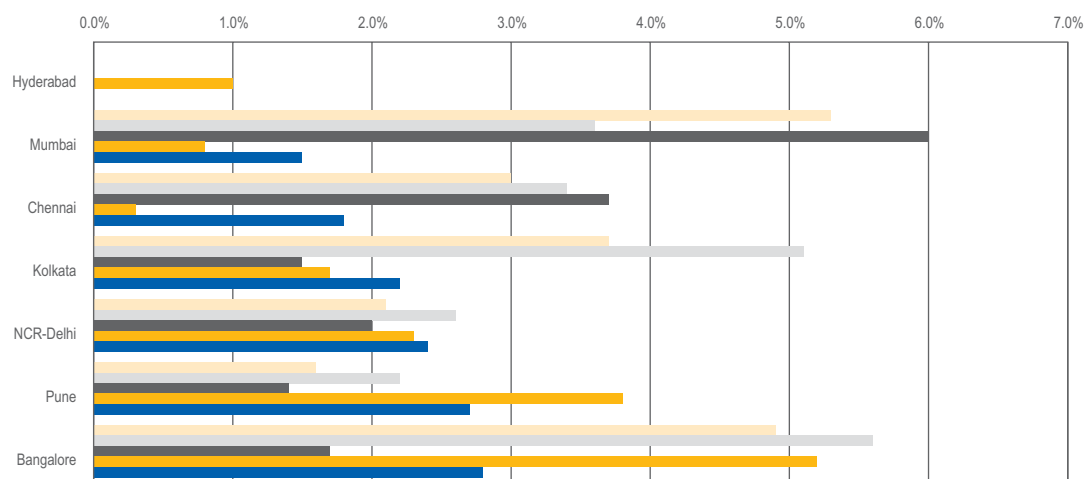
The rate of appreciation in capital values was slow in 2Q11, with most cities seeing a slower increase of 1.5-3% q-o-q, while capital values in Hyderabad remained stable (Figure 15).

Average capital values rose by 20-45% across cities since the trough seen in mid-2009 in response to the high absorption seen in 2H09 and 2010 across residential markets. Mumbai led this surge with an average increase of 45.0%. While the sub-market averages of residential capital values in Bangalore have increased by some 30% since mid-2009, values in Chennai, Kolkata and Pune appreciated by about 22-24% in the same period, and average capital values in NCR-Delhi rose by around 16% during the same period (Figure 15). This was particularly because of Noida, a residential sub-market in NCR-Delhi that saw a huge influx of residential launches that kept capital values in the area under pressure. Conversely, Gurgaon has seen a rapid rise in average property prices of some 29% since mid-2009.

Falling absorption rates are putting pressure on the growth of capital values, which are expected to rise at a slower rate than in previous quarters. In 2011, residential markets are expected to have witnessed y-o-y price increases in the range of 5-10%, as developers continue to liquidate their stock. The recorded increase in prices is a result of developers boosting rates in currently active projects as they sell out. Capital values in Hyderabad, which have remained subdued since 2009, are likely to increase over the coming quarters. The premium precincts of Mumbai face the highest downside risk due to slow demand and a considerable inventory.

As projects near completion, the return of stock held by investors can have an inverse impact on capital values over the medium term. Projects in suburban markets that are already facing oversupply with a homogeneous mix of residential products will face problems in increasing prices. Location and infrastructure in suburban markets will influence buyers' preferences.

Figure 15: Average % Q-o-Q Change in Capital Values (2Q10 - 2Q11)



| | Bangalore | Pune | NCR-Delhi | Kolkata | Chennai | Mumbai | Hyderabad |
|------|-----------|------|-----------|---------|---------|--------|-----------|
| 2Q10 | 4.9% | 1.6% | 2.1% | 3.7% | 3.0% | 5.3% | 0.0% |
| 3Q10 | 5.6% | 2.2% | 2.6% | 5.1% | 3.4% | 3.6% | 0.0% |
| 4Q10 | 1.7% | 1.4% | 2.0% | 1.5% | 3.7% | 6.0% | 0.0% |
| 1Q11 | 5.2% | 3.8% | 2.3% | 1.7% | 0.3% | 0.8% | 1.0% |
| 2Q11 | 2.8% | 2.7% | 2.4% | 2.2% | 1.8% | 1.5% | 0.0% |

Source: Real Estate Intelligence Service (JLL), 2Q11