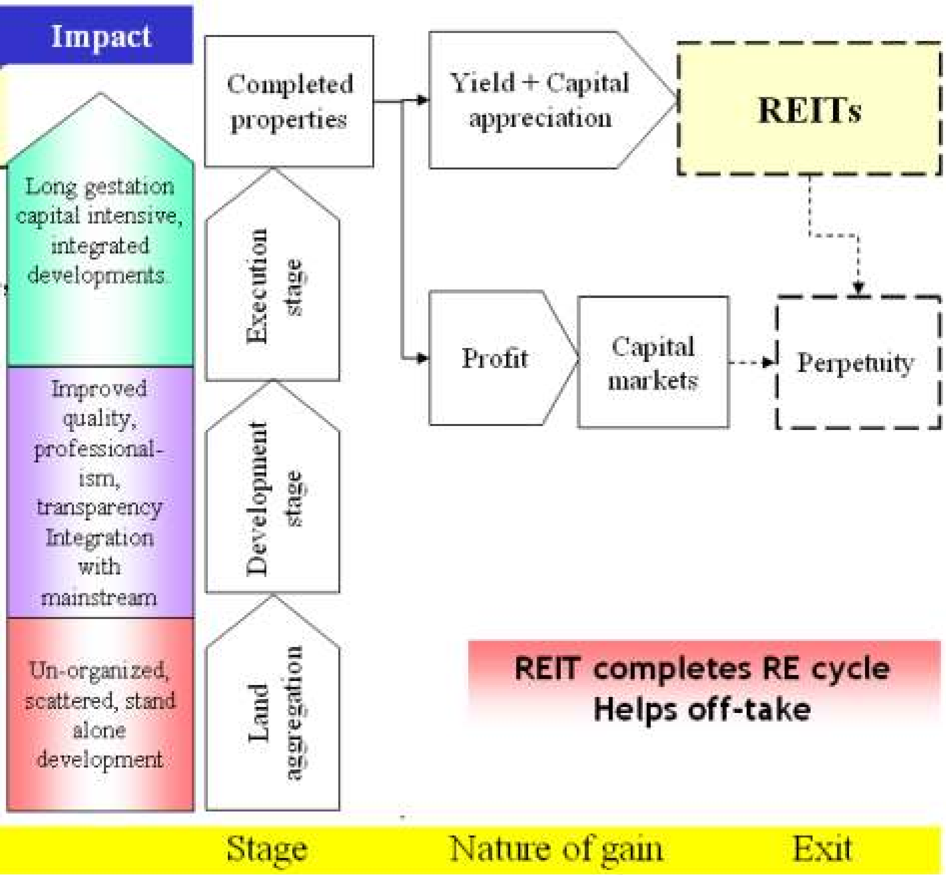
REITs IN INDIA

A Presentation by
Indiareit Fund Advisors Pvt Ltd

Indian Real Estate: Evolution

Year	Change Agent
2008	Draft REIT Proposal
2007	Capital Markets and Global Listing
	International developers tying up with Indian developers
2006	Foreign Direct Investment
2005	Streamlining of Bank Finance
2004	Venture Funding
2000	Industry Status
up to 2000	Proprietary Money



REIT's

Opportunity	Challenges

Opportunity

- High pent up demand[1]
- Positive growth parameters likely to sustain
- SEZ growth
  - Support to and success of SEZ formats
- Depth in financial market helps product acceptability
  - Robust capital market
  - Supportive, growing debt markets
- Attractive rental returns
  - High yields: 11-12%pa
- Urbanization
  - Driven by services sector, fuelling RE demand
  - Spillover effect into Tier II cities

Challenges

- Limited investment grade properties[2]
- Excess dependence on single sector (IT/ITeS)
  - 30% of all commercial property requirement
  - Sector tends to be geographically indifferent
- Limited broad based growth
  - Organized retail yet to take-off
  - Hospitality sector below 5 star Hotels virtually absent
  - SEZs are a recent development; have long gestation formats
- Growth, urbanization concentrated in 7 growth cities[3]
  - 90% of all investment grade properties in top 7 cities
- Highly un-organized market place with no clear price discovery mechanisms
  - Market place lacks depth to cater to the sector

Fuelling Speculation

[1] IBEF Report on Real estate, Last updated June 2007 [2] DB research [3] Research on Indian RE commissioned by INDIAREIT

Regulatory disconnects

- Property tax and Service Tax
  - –High tax rates
    - –Mumbai City- property tax rates equal to entire rental income
    - –Most other cities have tax rates equal to 25-40% of rental incomes
  - –Service tax on commercial property is greater then 12%

Dampening return potential

- Foreigners not allowed to own property
  - –Limits the depth and hence viability of REIT structure

- Most large land parcels with Corporate/ PSUs
  - –Challenge to extract out of balance sheet
  - –Tax and stamp duty implications
  - –Further limits the availability of investment grade properties

- Maintenance standards low on an average

Rationalization

- Prevailing Interest Rates
  - –High interest rates act as dis-incentive for developer to hold property

REITs guidelines

Guideline	Impact
•Investments into RE with 20% underdeveloped buildings –Definition of underdeveloped is narrow	▼
•Guidelines silent on tax implications	▼
•Incentive structure	▼
•90% of income to be distributed to investors –Stable income source	▲
•Prudence norms: –15% to single project –25% to single group	▲
•Only 20% borrowing permitted on gross asset value –Limits income generating capacity of REITs	◀▶
•No mortgage permitted –Limits exposure	◀▶

The way ahead

Getting the House in order

- **Streamline the regulatory framework**
- **Alternate structures**
  - –Stapled REITs
    - •Funds invest through entire lifecycle of property
    - •Increase off-take, rationalize rents
  - –Mortgage REITs
    - •Support at development stage
    - •Cover the entire lifecycle of RE industry
- **Rationalization of interest rates**

The way ahead

- **Large Development companies**
  - –Front- runners for REIT given the quantum of property held by them
- **Real Estate focused fund houses**
  - –**INDIAREIT** is a amongst the earliest and fast growing Real Estate focused fund
    - •Fund corpus growth from USD 50 – USD 500 Mn in less then 24 months
    - •Over 30% of corpus dedicated to commercial property development
      - –Over 15 mn sq ft of commercial development on the floor
  - –Prudent Geographic focus
    - •Catering to top 5 Indian Cities
    - •Mixed bag including IT/ITeS SEZ, Hospitality, Retail and commercial office space

India & China to provide the largest supply base of properties for REITs worldwide