INDUSTRY OVERVIEW

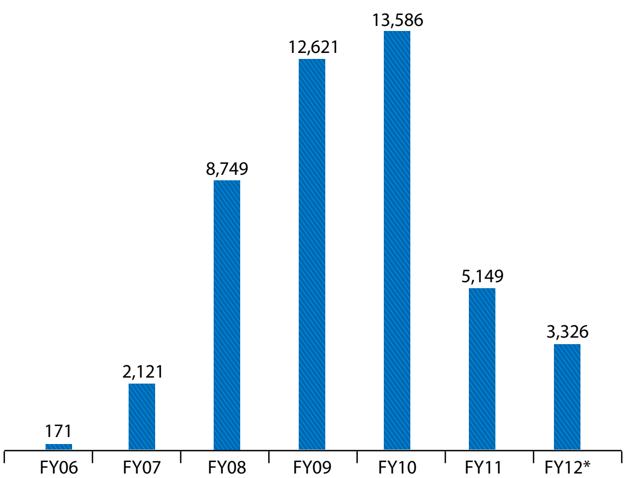
The real estate sector in India is at a crucial juncture of its evolution. While a significantly large portion of the industry is still dominated by unorganized and marginal players; there has been a consistent rise in share of organized players with number of listed companies growing over the recent years. Arrival of foreign direct investment, spreading national or regional footprints of organized players from their traditional city or region of dominance, development breaching the confinement of metropolitan cities to get reach tier I and tier II cities, rise of commercial and retail segments together with already residential segment, and fast emergence of holiday or second home as a category have contributed to a faster transformation of real estate sector in India over the past decade.

Setting aside the small portion that hospitality segment constitutes, the real estate sector in India can be classified across Residential Segment, Commercial Segment and Retail Segment. On the one hand real estate sector has ridden the wave of India's economic transformation in the 21st century to grow to its current stature. Yet at the other hand, it has made a three pronged contribution in strengthening India's economic progress. Firstly by raising its direct contribution to a significant 4-5% of country's GDP, then by helping the financial sector grow its revenues and earnings from home loan products, and finally by adding to the overall wealth creation at the level of its citizens. Besides these, it has also helped in creating millions of direct and indirect jobs in the country.

Having witnessed accelerated growth between 2003 and 2008, the real estate sector in India was hit hard by the financial crisis of 2008-09. Having recovered from sudden jolt, the sector has fast consolidated itself since then. Being a capital intensive sector; access to and cost of funds plays a significant role for the sellers as well as the buyers. For the sector, not only has the cost of funding increased but also access to debt and equity funds have got measured in the recent times. Last year RBI had increased the standard asset provisioning by commercial banks for teaser home loans from 0.4 % to 2%, capped the loan to value (LTV) ratio to 80% and increased the risk weight on loans of more than ₹75 lakh to above 125%. On equity side also the funds availability was limited.

- Very few real estate companies opted to raise capital through IPO route recently. As a result IPOs markets for the sector has been completely dry since 2011
- FDI in real estate & housing dropped down to ₹3326 crore in April 2011 to February 2012 period, from ₹5149 crore in the previous financial year.

FDI Inflow in Housing and Real Estate Sector (₹ in Crore)



*April 2011 to February 2012 period

(Source: Dept. of Industrial Policy & Promotion, Govt. Of India-Apr,2012)

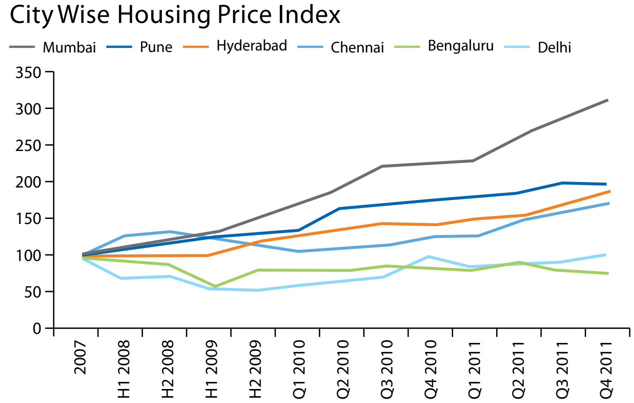
- Private equity financing in real estate sector improved in 2011 with infusion of $2.68 billion through 53 deals as against $1.58 billion through 58 deals in 2010. On the flip side, though, a total of 14 divestments from real estate were also announced by PE financing companies with a combined value of $603 million.
- During 2011 NRI share in real estate investment increased from an average of 4% to 8% primarily due to sharp depreciation in INR against most other currencies.

Residential Segment:

Favorable demographics of the country have led to a healthy growth of real estate market in the residential sector. Improving socio-economic factors are leading to a consistent fall in the average age of ownership of the first house and consistent increase in the number of house owned. The rising demand and limited availability of the dwelling units within the city limits will continue and the same would result in higher prices of residential real estate. A recent study by CRISIL estimates the overall housing shortage in India to reach 75.5 million units by the end of 2014 and suggests the housing prices to consolidate between 2010 and 2014 period.

During the financial year 2011-12, led by hardening of interest rate, macro uncertainities and sharp increase in capital value of residential units post 2008-09 financial crisis slowed down the demand momentum in most cities. Despite that, the capital value of residential market in most cities continued to remain stable with a positive bias. While in cities like Bangalore and Hyderabad the prices are still at or below the 2007 level, in most other cities prices have more than doubled during the same period.

City Wise Housing Price Index



Source: http://www.nhb.org.in/Residex/Data&Graphs.ph

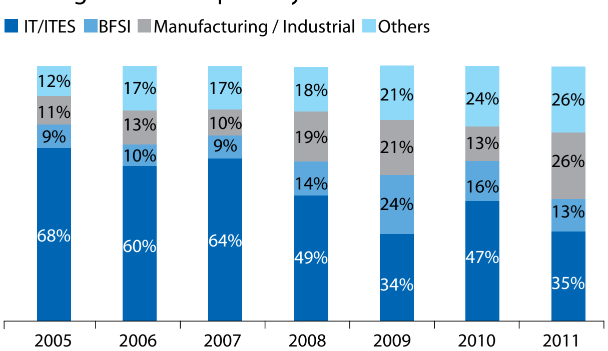
Commercial Space:

The commercial office space in India has fast evolved over recent years with the emergence of India as an IT/ITeS hub. As shown in the graph below, the demand of commercial real estate has been driven largely by services sectors.

Commercial properties earlier were majorly concentrated towards Central Business District areas in large cities. However, with the huge office space requirement, commercial development started moving towards other areas like Lower Parel & BKC in Mumbai, Gurgaon near New Delhi and the Electronic city in Bengaluru (Bangalore). In addition locations such as Bengaluru, Gurgaon, Hyderabad, Chennai and Pune have established themselves as emerging destinations for commercial development.

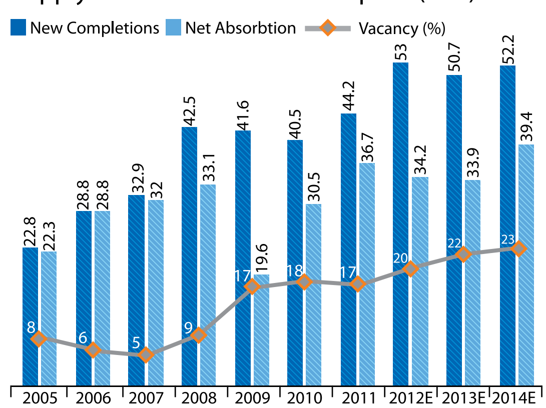
During 2011 while the new completion increased by 9.1% to 44.5 msf, the demand grew by 20.3% to 36.7 msf. As per JLL report, in 2012 while the new completion would increase by 20%, the demand would contract by 7%, driving vacancy rates further up.

Leasing of Offices Space by Various Sectors



Source: Real Estate Intelligence Service (JLL), 4Q11

Supply and Demand of Office Space (msf)



Source: Real Estate Intelligence Service (JLL), 4Q11

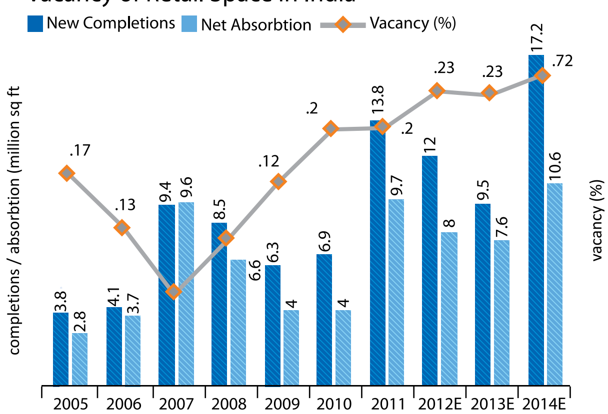
According to CRISIL Research in 2010, commercial office lease rentals may show an additional correction of another 3-10% in most of micro markets primarily due to the considerable oversupply across cities and lack of adequate demand.

Retail:

Organized retail penetration has grown to about 5.6 % in 2009-10, which is further expected to increase to about 7.3 % by 2012-13, according to a CRISIL report for real estate. In the past few years, India's organized retail industry has posted high growth rates giving improvement in key driving factors namely, lavish lifestyles and high disposable incomes. The US-based global management consulting firm, A T Kearney, in its Global Retail Development Index (GRDI) 2011, has ranked India as the fourth most attractive nation for retail investment, among 30 emerging markets.

After growing at high rate over the last decade, the organized retail industry in India witnessed a sudden slowdown in investments after financial crisis in 2008-09 which led to large build up in supply. During 2011, fresh completion doubled to 13.8 msf and absorption increased by over 140% to 9.7 msf. This also led to further increase in vacancy rate. As per JLL report in 2012 the demand is expected to slow down to 8 msf. Going forward, due to weak demand environment and lack of any evident demand trigger, the lease rentals are expected to remain under pressure.

Supply, Net Absorbtion and Vacancy of Retail Space in India



Source: Real Estate Intelligence Service (JLL), 4Q11

The absence of a clear approval towards FDI in multi-brand retail segment has also played a key role in disturbing the demand-supply curve, as fresh demand has slowed down. Corrective measures such as reforms from government and right pricing of lease rentals & selling prices may help in due course of time.