



AUGUST 2011 E&R @ GLANCE

ECONOMY & REALTY

Knight Frank

Economic Outlook

The Reserve Bank of India (RBI) has maintained its stand on the need for further monetary tightening in order to keep a check on inflation. Repo and reverse repo rates were increased by 50 basis points to 8% and 7% respectively in July 2011 making it the eleventh such hike since February 2011. Although this will help in keeping a check on price rise, cost of funds will move further up impacting the India growth story. The RBI has already revised GDP growth rate to 7.9% for 2011-12 from 8.2% projected earlier.

Industrial activity is already witnessing a slowdown with the Index of Industrial Production (IIP) growing at a rate of 5.8% and 5.6% for the month of April and May 2011 respectively. IIP for the similar months in the previous year grew at 13% and 8.5%. Even the manufacturing Purchasing Managers Index (PMI) for July 2011 dipped to a 20 month low at 53.6 compared to a high of 59 in May 2010. PMI is a survey-based compilation by HSBC of manufacturing sentiment and is considered a good indicator of factory output. An index level above 50 indicates expansion, and higher the index above that threshold greater the growth.

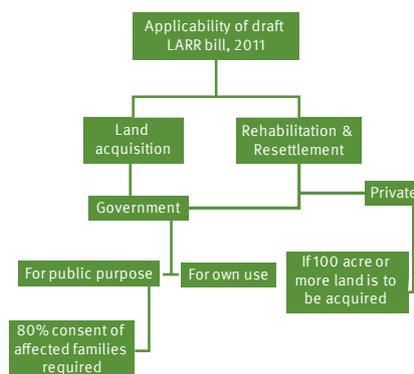
Apart from rising cost of funds, there are various reasons for the sluggish growth being witnessed in industrial activities such as slowdown in global economy, poor infrastructure support, archaic labour laws, inconsistent industrial policies, land acquisition and others. Among the various issues faced by Indian companies for operating within the country, land acquisition still remains the biggest challenge and recent events in Greater Noida have once again brought this issue to the forefront. In order to avoid such mass scale agitation in the future due to land acquisition, the

Government of India has introduced the draft national Land Acquisition and Rehabilitation & Resettlement (LARR) bill, 2011.

The essence of the bill is to make land acquisition process more transparent and ensure that the original land owners are rehabilitated with minimum impact on their livelihood. Although land is a state subject in India, land acquisition is a concurrent subject and a national bill will act as a benchmark for the states to follow in the coming years.

The draft LARR bill has been divided into two sections namely Land Acquisition (LA) and Rehabilitation & Resettlement (R&R). The LA provisions will apply only to land acquired by the government for its own use or for public purpose. However, the Rehabilitation & Resettlement (R&R) provisions will apply to private companies too which are acquiring land area of more than 100 acres.

Applicability of draft national Land Acquisition and Rehabilitation & Resettlement (LARR) bill, 2011



The compensation process for land acquisition by government has been suggested in such a manner that the land owner in urban and rural areas will receive at least twice and six times the determined market value respectively. The draft bill suggests that the compensation to land

owners will also include the R&R package wherein the buyer of the land will have to provide all the R&R entitlements to the land owner. Some of the key R&R entitlements to be provided are:

- Subsistence allowance at INR 3,000 per month per family for 12 months
- INR 2,000 per month per family as annuity for 20 years, with appropriate index for inflation
- If house is lost, a constructed house of plinth area of 150 sq.mts of house site in rural areas or 50 sq.mts plinth area in urban area
- Where land is acquired for urbanization, 20% of the developed land will be reserved and offered to land owners in proportion to their land acquired
- Upon every transfer of land within 10 years of the date of acquisition, 20% of the appreciated value shall be shared with the original owner whose land has been acquired
- Mandatory employment for one member per affected family or INR 0.2 mn if employment is not offered

Since this is still a draft bill and open to public comments, changes and suggestions will be incorporated before the bill is passed in the parliament for it to become an act. Apart from replacing the existing century old Land Acquisition Act of 1894, this bill will also bring in the much needed reforms required by the country for industrialization. Although the intention of the government is noble, the bill in its present form may throw up certain challenges for the private sector which may act as deterring factors for companies looking to invest in India. One such challenge is the R&R entitlements required to be adhered to for land acquisition of 100 acres or more.



Small manufacturing companies looking to set up a plant may not have the financial or administrative strength to honour such entitlements. We believe that either the minimum threshold area should be increased to a higher level or the number of entitlements should be reduced to make the applicability of the bill more pragmatic.

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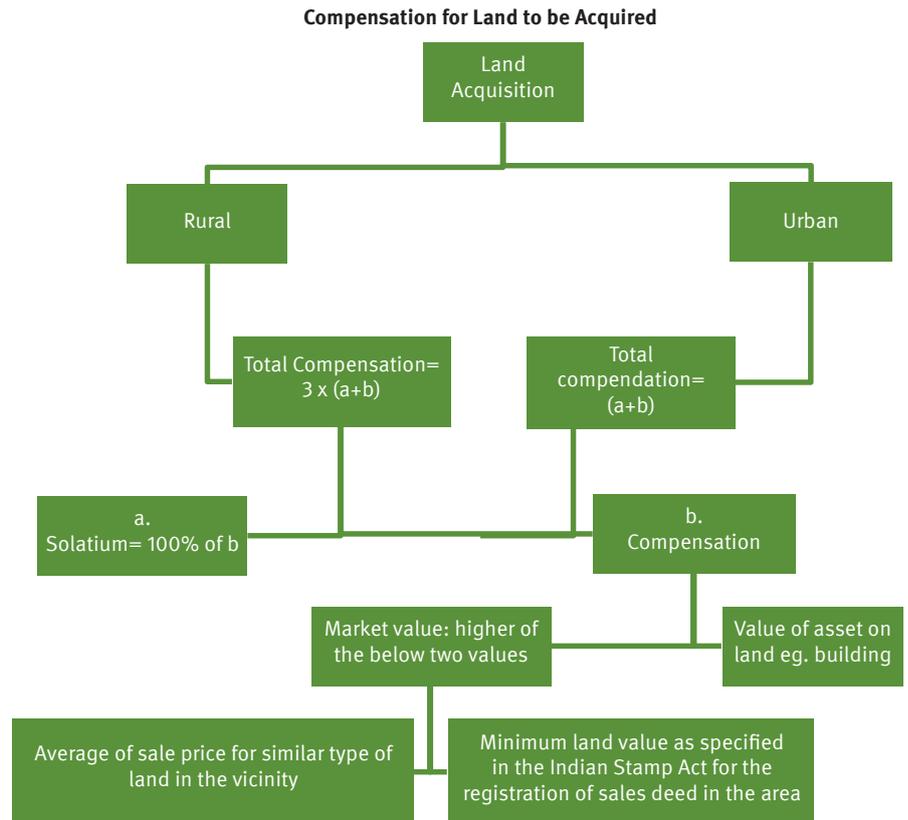
Bangalore

Market Overview

Bangalore has long been one of the preferred destinations for people to reside in India. Favourable socio-economic conditions and a salubrious climate were the prime reasons behind the demand for housing sector in the city. With the advent of the IT sector in the region in the recent years Bangalore has evolved from being a ‘Garden City’ to the ‘Silicon Valley of India’. At present, the city is home to about 60% of US-based MNCs.

Influx of multinational companies as well as expansion of domestic firms have largely contributed to the growth of the city’s

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population. Bangalore also attracts a large number of floating population, further augmenting the demand for housing. The choices for housing in Bangalore range from traditional villas and flats for sale at economic prices, to high-end penthouses and customized apartments that include attractive waterfront residential layouts with luxurious amenities.

The city has been expanding radially to meet the residential demands of the increasing populace. The Bangalore residential market can be divided based on its geographical pattern into CBD, Off-CBD, Bangalore North, Bangalore South, Bangalore East and

Bangalore West. Table 1 depicts the market classification in Bangalore.

The city had witnessed considerable decline in residential demand during the recent slowdown in the country with developers and buyers both maintaining a negative outlook on the real estate market. However, with the economy back on track, the ‘feel good’ factor seems to have returned to the city. Home buyers are showing more interest now as apprehensions about job losses have receded and the market has bounced back with better salary hikes. Developers have also become optimistic about their projects with the banks beginning to fund them, though in an extremely cautious way.

Table 1. Residential Micro-markets in Bangalore

Residential Micro-markets	
CBD	MG Road, Richmond Road, Lavelle Road, Cunningham Road, Brunton Road, Residency Road, St.Mark’s Road
Off-CBD	Frazer Town, Cox Town, Indiranagar, Sadashivnagar, Ulsoor, Jayamahall
Suburban micro-markets	
East	Airport Road, Old Madras Road, K R Puram, Whitefield, Marathahalli, Varthur Road, Brookefield
North	RT Nagar, Hebbal, Bellary Road, Yelahanka, Banaswadi, HRBR Layout, Doddaballapur Road, Jakkur
South	Koramangala, Sarjapur Road, HSR Layout, Jayanagar, JP Nagar, Banashankari, Bannerghatta Road, Outer Ring Road, Kanakapura Road, Hosur Road, Mysore Road
West	Malleswaram, Rajajinagar, Vijaynagar, Magadi Road, Yeshwanthpur, Tumkur Road, Jalahalli

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WITH THE ECONOMY BACK ON TRACK, THE 'FEEL GOOD' FACTOR SEEMS TO HAVE RETURNED TO THE CITY. HOME BUYERS ARE SHOWING MORE INTEREST NOW AS APPREHENSIONS ABOUT JOB LOSSES HAVE RECEDED AND THE MARKET HAS BOUNCED BACK WITH BETTER SALARY HIKES

The Bangalore residential market is likely to witness enhanced activity as property buyers who had delayed their purchases are likely to revisit their buying plan in anticipation of increase in the property prices

Supply and Development

The real estate sector seems to have witnessed significant recovery with improved demand for housing space. While end users from the city form a significant part of the demand for housing, interest has been evinced by investors from other southern cities like Coimbatore, Madurai, Hosur and Chennai as well.

WHILE THE CONCEPT OF AFFORDABLE HOUSING WAS IN THE FOREFRONT DURING THE RECESSION PERIOD, WITH MOST OF THE DEVELOPERS MARKETING THEIR PROJECTS WITHIN A LOWER PRICE BRACKET, THE SECOND HALF OF 2010 SAW RELATIVELY HIGHER PRICED PROJECTS BEING LAUNCHED IN THE REGION

Table 2. Select Upcoming Projects in Bangalore

Project Name	Developer	Location	Number of Units	Price/sq.ft. (Rs.)	Possession
Prestige Parkview	Prestige Group	Whitefield Main Road	350	3650	2014
Confident Leo II	Confident Group	Sarjapur Road	120	3800	2014
Brigade Omega	Brigade Group	Off Kanakapura Road	520	3490	2014
Sobha Aspire	Sobha Developers	Yeshwanthpur	192	3190	2014
Skylark Esta	Skylark Mansions	Hoodi Junction	212	3750	2014
Ramky One North	Ramky Estates	Yelahanka	800	2550	2015
Uniworld Resorts	Unitech Group	Electronic City Ph 1	NA	4295	2014
Sobha Forest View	Sobha Developers	Kanakapura Road	492	4500	2015
Prestige Tranquility	Prestige Group	Off Old Madras Road	2312	2728	2015
Brigade Exotica	Brigade Group	Old Madras Road	474	3990	2014

Source: Knight Frank Research

Economic recovery and positive market sentiments resulted in the launch of several new residential projects in 2010 and the first half of 2011, which included projects by high-profile developers like Sobha Developers and Prestige Group. While the concept of affordable housing was in the forefront during the recession period, with most of the developers marketing their projects within a lower price bracket, the second half of 2010 saw relatively higher priced projects being launched in the region. Buoyant demand and positive outlook in the IT/ITES sector infused renewed confidence in the market, consequently leading the developers to come up with projects in the high-end category. Table 2 presents some of the upcoming projects in the city which were launched during the period Q4 2010 to Q2 2011.

At present, most of the residential projects are concentrated towards the northern and the southern part of the city. South Bangalore has been abuzz with construction activity across all the fronts – residential, commercial and retail. The availability of land, strong infrastructure development and presence of the middle-income segment has contributed

AT PRESENT, MOST OF THE RESIDENTIAL PROJECTS ARE CONCENTRATED TOWARDS THE NORTHERN AND THE SOUTHERN PART OF THE CITY

to the development of this zone. Amongst the infrastructure projects present in the region, mention can be made of the elevated expressway, the BMIC peripheral road and several flyovers. The elevated expressway project between Silk Board intersection and Attibele will enhance the connectivity of Electronic City and surrounding locations on Hosur Road with the city. This will improve the potential of the residential locations around Electronic City.

Another important project that is expected to benefit the southern micro-markets is the Bangalore Mysore Infrastructure Corridor (BMIC). Expected to be ready in 2011, this project will increase the micro-markets' accessibility to the western zone of the city.

THE ELEVATED EXPRESSWAY PROJECT BETWEEN SILK BOARD INTERSECTION AND ATTIBELE WILL ENHANCE THE CONNECTIVITY OF ELECTRONIC CITY AND SURROUNDING LOCATIONS ON HOSUR ROAD WITH THE CITY. THIS WILL IMPROVE THE POTENTIAL OF THE RESIDENTIAL LOCATIONS AROUND ELECTRONIC CITY

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Moreover, the development of the first phase of the awaited Bangalore Development Authority-Peripheral Ring Road (BDA-PRR), estimated to be completed by 2012, will further work in favour of the residential development in this region.

South Bangalore has generally been a preferred residential destination for employees of the IT sector due to the presence of a large number of IT companies in the vicinity. The cosmopolitan nature of the southern micro-markets has also attracted a large number of NRI settlers. Locations such as Koramangala, Hosur Road, Bannerghatta Road, Sarjapur Road, HSR Layout, Outer Ring Road, JP Nagar, Jayanagar and Banashankari have emerged as some of the most favoured residential areas over the years. Social infrastructure like availability of quality hospitals and popular retail malls are some of the major reasons behind residential demand in this part of Bangalore.

Meanwhile, in the northern region of the city, the Hebbal-Devanahalli stretch is considered to be one of the fast emerging residential hubs. Availability of land at relatively reasonable rates and key infrastructure developments had spurred developers to launch premium projects in this region. The international airport and the improved connectivity to the city through the four-lane Bellary Road triggered the rush to the

THE HEBBAL-DEVANAHALLI STRETCH IS CONSIDERED TO BE ONE OF THE FAST EMERGING RESIDENTIAL HUBS. AVAILABILITY OF LAND AT RELATIVELY REASONABLE RATES AND KEY INFRASTRUCTURE DEVELOPMENTS HAD SPURRED DEVELOPERS TO LAUNCH PREMIUM PROJECTS IN THIS REGION

northern corridor. The scope for capital value appreciation in this stretch is also attracting a lot of attention from buyers. At present several residential projects by high profile developers have been launched in Yelahanka on the Doddaballapur Road. Malls and hospitality projects are expected to increase the development potential in the region.

In the eastern part of the city, Whitefield is one of the most preferred residential locations, primarily for the IT employees. Over the years, Whitefield has evolved into a self sufficient micro-market. Besides the IT sector, which entered the market in the recent years, public sector companies such as HAL, BEML, ITI and NGEF were instrumental in the growth of the eastern zone of the city. With the development of the region as an office district, residential development commenced in locations like KR Puram, Mahadevpura, Whitefield and Old Madras Road. Of late, with the revival in the market, developers have launched a number of luxury villa projects in Whitefield. Grade A apartment developers in the micro-market include Prestige, Sobha, Brigade, Nitesh, Total Environment, Gopalan and Sterling Developers.

The western part of the city comprising residential catchments such as Magadi Road, Malleshwaram, Rajajinagar, Vijaynagar and Yeshwanthpur has not been able to compete with the newer locations down south or with the northern counterparts. While real estate in the south, south-eastern and eastern parts of Bangalore have flourished since the mid-1990s thanks to the IT/ITeS boom, the west has lagged behind. These western locations, which were once sought after locations, have witnessed almost stagnant residential development with relatively less interest from home buyers in the city. This may be

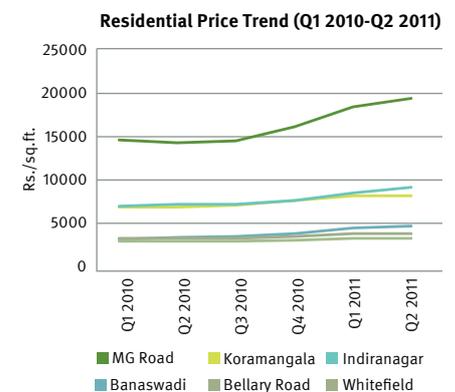
WHILE REAL ESTATE IN THE SOUTH, SOUTH-EASTERN AND EASTERN PARTS OF BANGALORE HAVE FLOURISHED SINCE THE MID-1990S THANKS TO THE IT/ITES BOOM, THE WEST HAS LAGGED BEHIND

attributed to the fact that it is predominantly an industrial hub. Also, the government agencies did not show interest in the initial days to develop infrastructure, leading most developers to shy away from the region. The area has not seen many big projects like the other regions in the city due to the dearth of large land parcels to come by for new developments.

Price Trend

Due to the increasing stability in the IT/ITeS sectors, residential demand in Bangalore is on a definite upswing. Housing capital values across both high end and mid segments recorded considerable appreciation. While the early quarters of 2010 saw prices stabilizing after the decline in the previous year, the values picked up momentum in the third quarter of the year. The price trend for select micro-markets in the city has been represented in Chart 1 and the price change in the past one year has been presented in Table 3.

Chart 1. Residential Price Trend (Q1 2010 – Q2 2011)



Source: Knight Frank Research

Table 3. Price Increase in Q2 2011 over Q2 2010

Micro-markets	Price increase in Q2 2011 over Q2 2010
MG Road	34%
Koramangala	17%
Indiranagar	25%
Malleshwaram	32%
Banaswadi	32%
Bellary Road	13%
Whitefield	9%
BTM Layout	35%

Source: Knight Frank Research



As evident from Table 3, significant appreciation to the tune of 32-34% took place in high-end markets like the CBD of MG Road and the western micro-market of Malleshwaram where supply is stagnant. Besides, the southern micro-markets too witnessed a high appreciation rate over the past one year. Location like BTM Layout saw residential prices increase by around 35% during the period Q2 2010 – Q2 2011. However, not too much movement was seen in the eastern market of Whitefield where prices appreciated by around 9% during the same period. The northern market of Bellary saw prices increase by approximately 13%, which is expected to be much higher in the forthcoming months.

Some residential transactions that took place in the first six months of the year across the city have been listed out in Table 4

Outlook

The Stamps and Registration Department, Government of Karnataka, has come out with preliminary notification regarding guidance values, and the new rates are expected to come into effect shortly. Emerging areas in Bangalore North and East, especially those abutting the outer ring road (ORR) and national highways, have seen the maximum increase in the guidance value revision for property tax even as older residential areas in the city have seen a moderate rise.

The average increase in the guidance value of the properties is around 30% while the increase ranges from as low as 10% to as high as 150%, depending on the demand and development of the areas. Guidance value for properties on Bellary Road towards the north has been revised to Rs.10,000/sq.ft. from Rs.7,000/sq.ft. New rates would

mean an increase in spend by way of higher stamp duty and registration charges. Buyers may now have to shell out 30-35% more in the form of taxes and duties. Prices may also increase by around 15% due to stamp duty on joint development, thus leaving the developer with no choice but to pass on the increased burden on to the customer. Since buyers book apartments in the suburbs for price advantage, increased guidance value will result in demand being affected, as there may be delays in decision making.

NEW RATES WOULD MEAN AN INCREASE IN SPEND BY WAY OF HIGHER STAMP DUTY AND REGISTRATION CHARGES. BUYERS MAY NOW HAVE TO SHELL OUT 30-35% MORE IN THE FORM OF TAXES AND DUTIES

Meanwhile, amongst the upcoming locations to look out for in the next few years, mention can be made of Sarjapur Road in the south and Doddaballapur Road in the north. Besides, in anticipation of the Knowledge City and BMIC project, prominent developers have positioned their projects along the Kanakapura Road. This micro-market may also emerge to be one of the preferred residential hubs in the future. Also, the stretch extending from Electronic City in the south towards Varthur in the east is expected to be a strong contributor to residential development over the next two-three years.

Table 4. Select Residential Transactions in Bangalore in H1 2011

Project Name	Location	Unit Configuration	Area (sq.ft.)	Price of Transaction (Rs.)*
Chaithanya Oakville	Whitefield	4 BHK	5200	4.6 Crore
Ozone Residenza	Haralur Road	3 BHK	3336	1.70 Crore
Hiranandani Upscale The Villa	Devanahalli	4 BHK	4800	3.4 Crore
Skyline Eternity	Richmond Road	3 BHK	3500	3.6 Crore

Source: Knight Frank Research

*Statutory charges extra

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