RESEARCH

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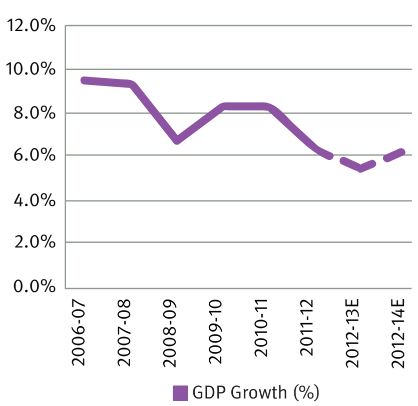
Knight Frank

The Indian economy's growth rate has taken a toll post Global Financial Crisis, the GDP growth rate decelerated from 9.3% in FY2007-08 to 6.5% in FY2011-12. However, the last month of the year has been very crucial for keen observers of the Indian economy – all eyes were set on RBI's monetary policy and on the winter session of the parliament where important pending bills were to be passed. Policy rates were very prudently kept unchanged by the central bank citing stubbornly high retail inflation. However, RBI through its dovish commentary hinted a calibrated series of rate cuts, if any headroom is provided by the growth-inflation dynamics. Amidst the waning economic scenario, the government and bureaucratic machinery have aided economic growth momentum by passing seven bills including two crucial bills – the Banking (Amendment) Bill 2011 and the Companies Bill 2011. Notwithstanding the significance of these bills, other important bills such as Insurance, Pension and Land Acquisition have been deferred until the next parliamentary session.

GDP Growth



Source: RBI

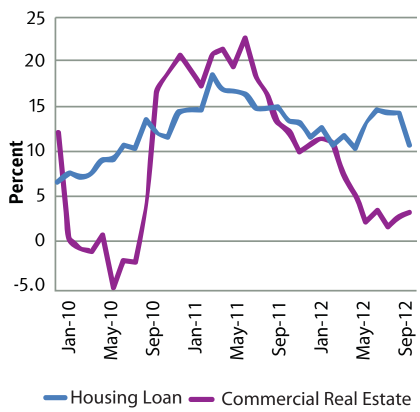
The year has been particularly challenging for the real estate industry. Since residential segment accounts for more than three-fourths of the industry, the state of affairs in this segment largely defines the performance of the real estate industry as a whole. Taking cognizance of this importance we have looked at indicators that can gauge the market momentum in the residential segment of the country in general and six cities (Delhi-NCR, Mumbai, Pune, Bengaluru, Hyderabad and Chennai) in particular.

Bank credit to the real estate industry is a critical indicator of the on-going development activity on the real estate landscape. The indicator for 'housing loan' captures the growth of bank loans to individual home loan borrowers and 'commercial real estate' indicator signifies the credit extended to developers for construction activity.

The housing loans disbursed by banks had consistently grown in double digits since Jul-2010; however the growth momentum has tapered off alarmingly since Jun-2012. High residential real estate prices along with relatively high mortgage rates have led to this downfall. Similar is the fate of the commercial real estate sector. Banks' credit exposure to developers has fallen from its peak growth rate of 23.21% in Jun-2011 to 3.88% as per the latest reported data on Sep-2012.

> AMIDST FALTERING ECONOMIC GROWTH, RESIDENTIAL SALES MOMENTUM FOR THE TOP-6 CITIES ALSO TOOK A BEATING; ABSORPTION IN THESE CITIES HAS FALLEN BY 14% AND 16% DURING 2011 AND 2012 RESPECTIVELY.

Banks' Credit Exposure Growth (YoY)



Source: RBI

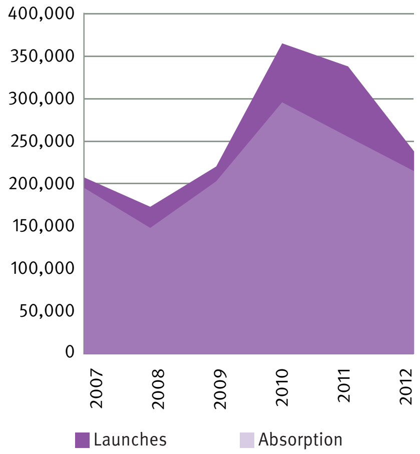
A lacklustre residential market in 2012 was plagued by high property prices, relatively higher mortgage rates, weak business sentiments and a bleak employment scenario. This is reflected in the residential launches, which declined by 30% in 2012 in comparison to a fall of 7% in 2011. Amidst faltering economic growth, residential sales momentum for the top-6 citiesalso took a beating; absorption in these cities has fallen by 14% and 16% during 2011 and 2012 respectively. Taking cue from the market, developers have now become more rational

India Research

Dr. Samantak Das Director - Research & Advisory Services
+91 (022) 6745 0101
samantak.das@in.knightfrank.com

in launching their projects. This can be clearly seen by closely studying the gap between the launch and the absorption numbers. This gap reduced to 32,000 units in 2012 compared to 82,000 and 94,000 units in 2010 and 2011 respectively.

Residential Demand Supply Analysis



Source: Knight Frank Research

TAKING CUE FROM THE MARKET, DEVELOPERS HAVE NOW BECOME MORE RATIONAL IN LAUNCHING THEIR PROJECTS. THIS CAN BE CLEARLY SEEN BY CLOSELY STUDYING THE GAP BETWEEN THE LAUNCH AND THE ABSORPTION NUMBERS. THIS GAP REDUCED TO 32,000 UNITS IN 2012 COMPARED TO 82,000 AND 94,000 UNITS IN 2010 AND 2011 RESPECTIVELY.

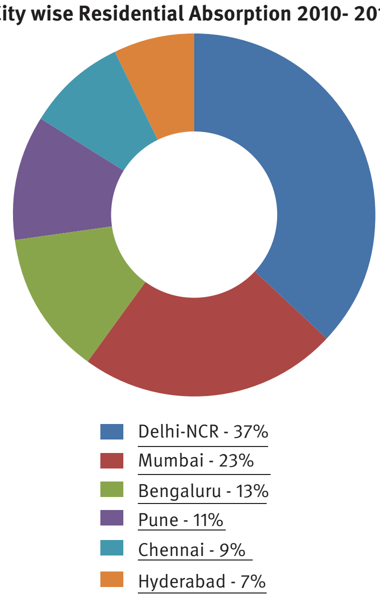
Among the top-6 cities, the NCR led the residential market in terms of absorption as well as launches during the three year period of 2010-2012. The two biggest residential markets i.e. NCR and Mumbai account for almost 60% of the total absorption in the top-6 cities followed by Bengaluru (13%), Pune (11%), Chennai (9%) and Hyderabad (7%).

Going forward, increase in supply in the NCR will primarily emanate from the opening up of new sectors in the Gurgaon market. Gurgaon, Noida and Greater Noida will continue to lead the overall NCR residential market. However, controlled new supply will keep a check onthe quantum of unsold inventory. As a result we expect the NCR residential market to stabilize in 2013.

In Mumbai, during the last 2-3 years, the residential market has witnessed a phenomenon of rising property prices and declining sales volumes. High prices coupled with a stagnating job market have adversely impacted sales momentum. Going forward, the price growth in Mumbai will be muted on account of the unsold inventory and increasing share of peripheral markets.

Bengaluru being an end-user driven market, is expected to remain comparatively steady. South-East and North-East residential markets will continue to lead the overall Bengaluru residential market. Controlled new supply will keep a check on the quantum of unsold inventory in 2013. Steady supply coupled with stable absorption will ensure market health.

City wise Residential Absorption 2010- 2012



Source: Knight Frank Research

AMONG THE TOP-6 CITIES, THE NCR LED THE RESIDENTIAL MARKET IN TERMS OF ABSORPTION AS WELL AS LAUNCHES DURING THE THREE YEAR PERIOD OF 2010-2012. THE TWO BIGGEST RESIDENTIAL MARKETS I.E. NCR AND MUMBAI ACCOUNT FOR ALMOST 60% OF THE TOTAL ABSORPTION IN THE TOP-6 CITIES FOLLOWED BY BENGALURU (13%), PUNE (11%), CHENNAI (9%) AND HYDERABAD (7%).

The residential market in Pune much like Bengaluru is driven by end-users. West and East Pune, where majority of new jobs are being created, will continue to witness the maximum amount of traction in the residential space going forward. A comparatively higher number of unsold units in 2012 will ensure a marginal drop in new launches for the next year. Additionally, the prices will also stagnate as the supply overhang decreases.

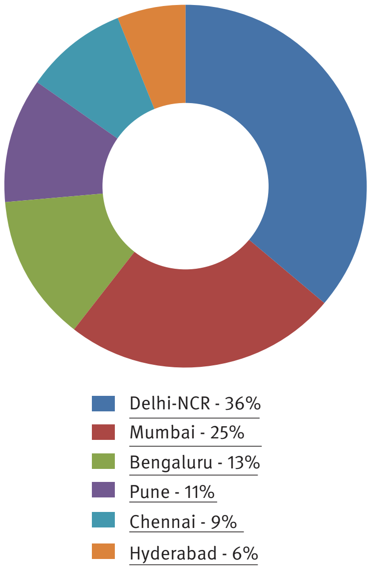
Residential demand in Hyderabad and Chennai – both driven by IT/ITeS sector, is expected to be stable in the coming year. We expect absorption to maintain its current level in the coming year as well. In Chennai, going forward South Chennai will continue to witness the maximum traction in terms of absorption followed by West Chennai. In Hyderabad the western zone will continue to see the most activity in terms of launches and absorption.

Dr. Samantak Das Director - Research & Advisory Services
+91 (022) 6745 0101
samantak.das@in.knightfrank.com

As a whole, based on the economic growth estimates from RBI, IMF and others, the GDP growth rate is expected to improve in the subsequent three years. Although high inflation continues to remain a concern, with RBI shifting gears of focus from taming inflation to salvaging economic growth, key policy rates and consequently interest rates are expected to soften in the next two quarters. We expect business sentiment as well as the investment climate in India to improve with the recent policy initiatives by the government. As a result of these factors, we expect the real estate sector to marginally improve in 2013.

ALTHOUGH HIGH INFLATION CONTINUES TO REMAIN A CONCERN, WITH RBI SHIFTING GEARS OF FOCUS FROM TAMING INFLATION TO SALVAGING ECONOMIC GROWTH, KEY POLICY RATES AND CONSEQUENTLY INTEREST RATES ARE EXPECTED TO SOFTEN IN THE NEXT TWO QUARTERS.

City wise Residential Launches 2010-2012



Source: Knight Frank Research

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