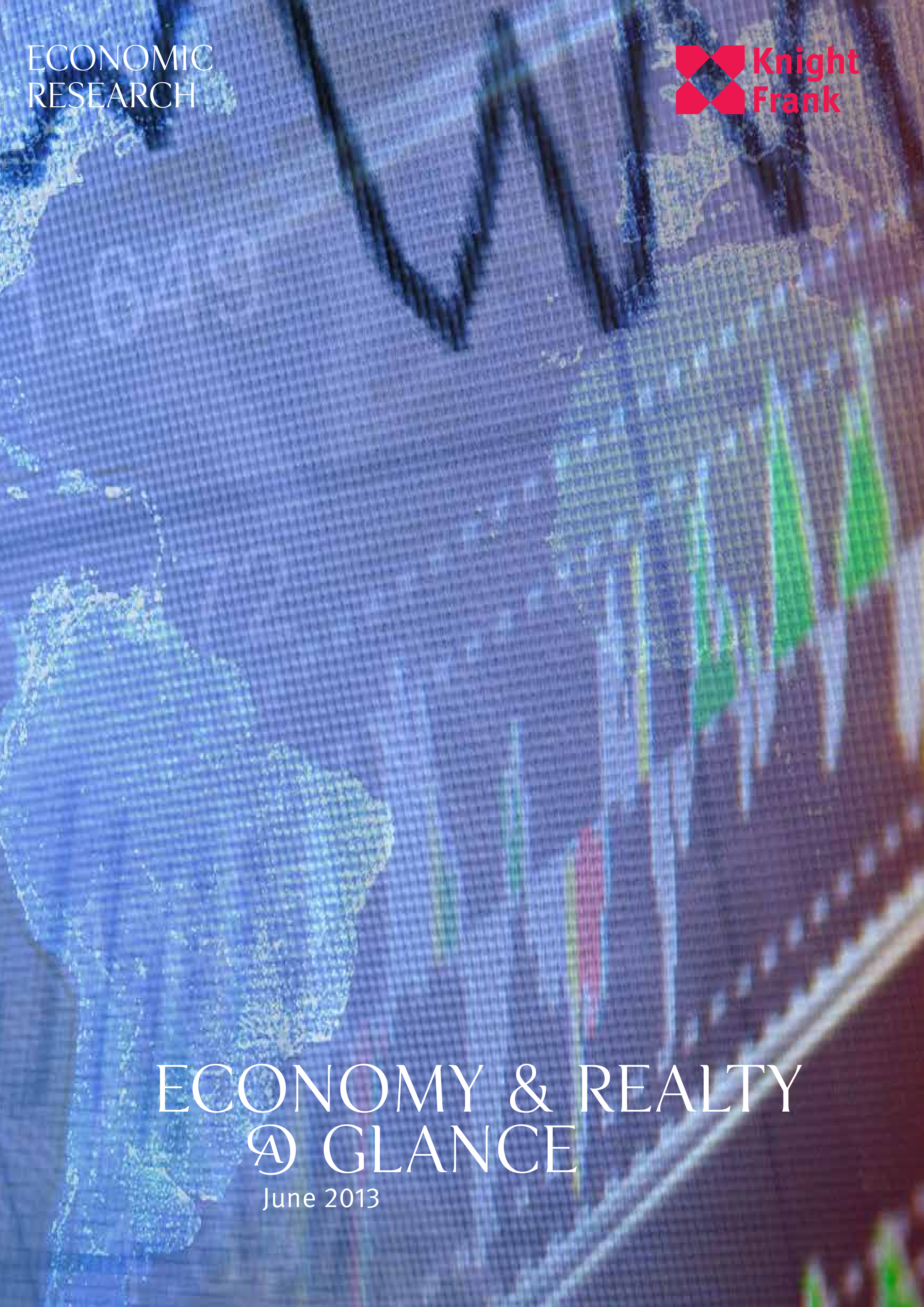


ECONOMIC RESEARCH

Knight Frank

ECONOMY & REALTY AT A GLANCE

June 2013

MARKET OVERVIEW

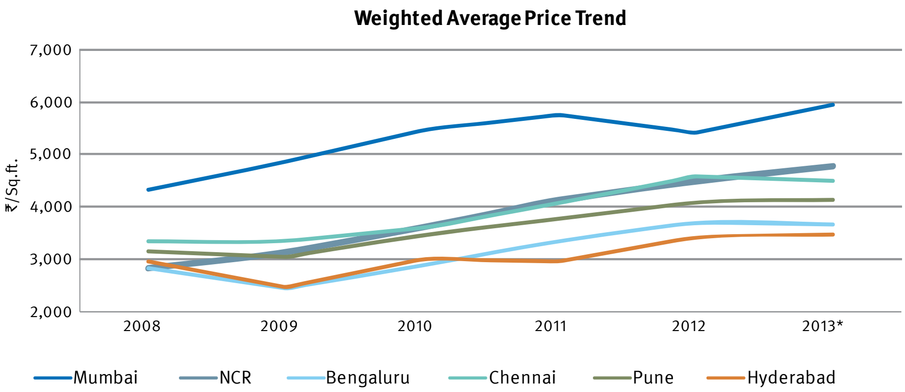
Among the various segments of the real estate market, office, retail and hospitality are relatively more prone to the vagaries of the macro-economic situation as compared to the residential segment.

Recovery of the Indian economy has once again come under cloud with key economic indicators like Current Account Deficit (CAD) and consumer inflation remaining above the comfort level of the Reserve Bank of India (RBI). While CAD reached a high of 6.7% of GDP in the December 2012 quarter, consumer price index grew at 10.2% in April 2013. Both these indicators are set to deteriorate further as the Indian currency has depreciated sharply against the US Dollar (USD) in the last one quarter. The Indian Rupee has changed from ₹ 54.4/USD in April 2013 to ₹ 59/USD in June 2013 resulting in an 8.5% fall. Such a fall will make imports more expensive resulting in higher CAD and consumer inflation. The worsening macro-economic condition is expected to delay the reduction of policy rates by the RBI thereby deferring the much needed monetary stimulus for bringing back the domestic economy's growth on the right track.

Real estate market has a very strong linkage with the economic growth of a country and any signs of a slowdown in the domestic economy can have a cascading effect on the health of the realty market. Among the various segments of the real estate market, office, retail and hospitality are relatively more prone to the vagaries of the macro-economic situation as compared to the residential segment. The primary reason behind this is the stark difference between rationales behind the purchase decision of a residential property as compared to other real estate segments. While there is an economic consideration for buying retail, hospitality or office property with the primary objective of using it for carrying out business activities, purchase decision for a residential property is generally driven by a totally different set of motives. Factors such as affordability, proximity to the employment hub, presence of physical & social infrastructure, sentimental value attached to a locality and community consideration among others can have an overbearing impact on the buyer's decision. Since many of these factors vary from one city to another, movement in the residential market is often divergent for each city.

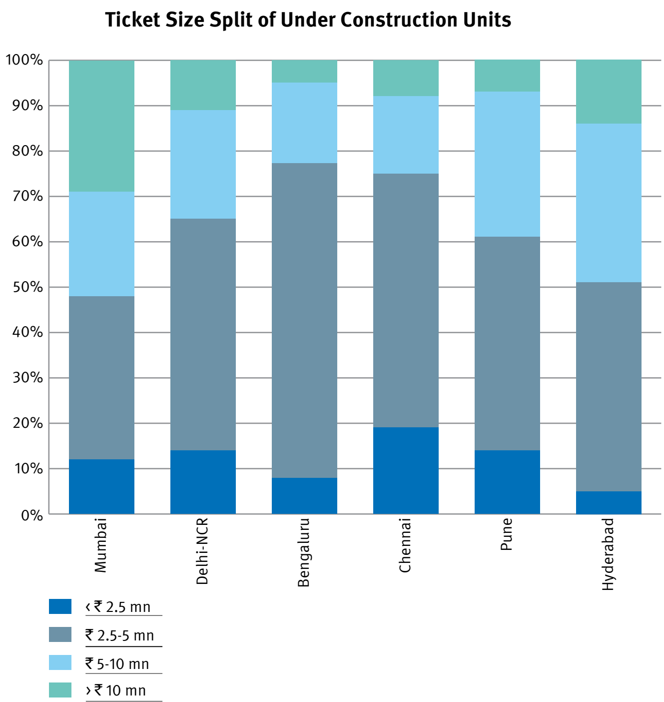
Analysis of the weighted average price trend in the top six residential markets of the country namely Mumbai, the NCR, Bengaluru, Chennai, Hyderabad and Pune can help in understanding the varying characteristics of the residential market in each of these cities. Cities like Mumbai and Chennai, which are land locked from one side by the sea, have the highest weighted average price of ₹ 5,900/sq.ft. and ₹ 4,500/sq.ft. respectively. The unique topography of these two cities has ensured restricted supply of land resulting in high prices for residential properties here. While the weighted average price in Mumbai city is much higher at ₹ 14,400/sq.ft., it goes down to ₹ 5,900/sq.ft. for the entire Mumbai Metropolitan Region which also includes areas such as Thane, Navi Mumbai, Mira-Bhayandar and Vasai-Virar.

Bengaluru remains the most affordable residential market with more than 77% of its total under construction units falling below the ticket size of ₹ 5 mn. This is followed by Chennai at 75%.



Source: Knight Frank Research

* Till June

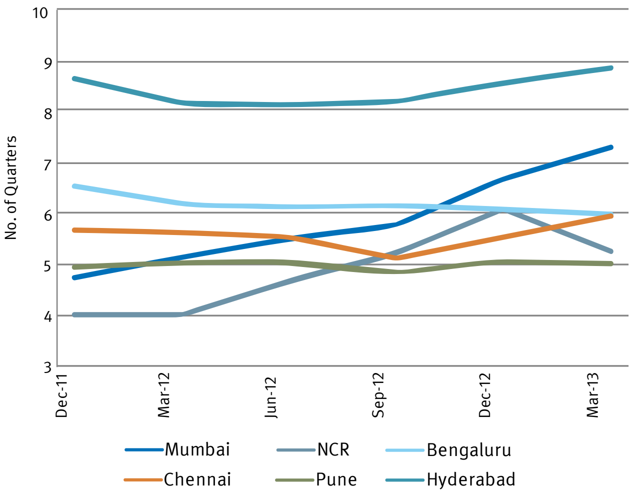


Source: Knight Frank Research

Cities such as Bengaluru, Pune and Hyderabad have a relatively lower weighted average price of ₹ 3,660/sq.ft., ₹ 4,100/sq.ft. and ₹ 3,450/sq.ft. respectively. Emergence of the peripheral markets in these cities on the back of large scale development of the IT/ITeS employment hubs has ensured lower weighted average price here. Prices in the NCR are relatively higher at ₹ 4,750/sq.ft. inspite of the availability of vast tracts of land in its periphery. This is primarily because of the relatively higher prices prevalent in Gurgaon which still accounts for a majority of the new launches within the NCR. Hence, despite low prices prevailing in other peripheral locations such as Noida, Greater Noida, Ghaziabad and Faridabad, prices in Gurgaon are skewing the weighted average price of the NCR upwards.

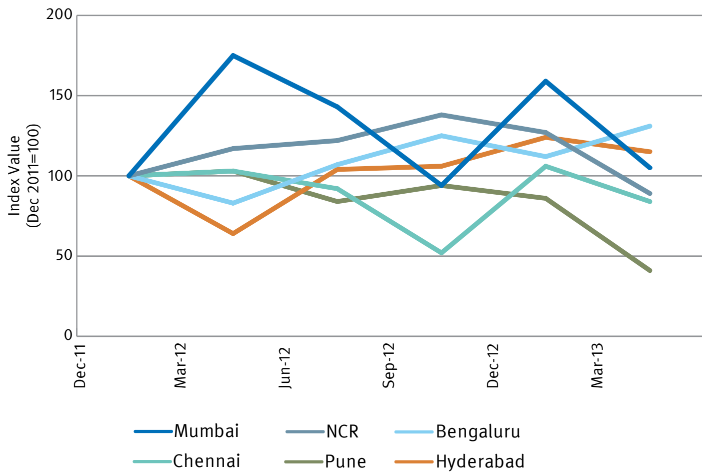
Mumbai remains the most unaffordable market with 29% of the city's total under construction units surpassing the ₹ 10 mn. mark as compared to 11% and 5% for the NCR and Bengaluru markets respectively.

Quarters to Sell Unsold Inventory



Source: Knight Frank Research

Residential Units Launch Trend



Source: Knight Frank Research

Analysis of prices within a city in isolation can lead to improper conclusions and hence a detailed study of the ticket size is necessary in order to understand the dynamics of a city's residential market. Bengaluru remains the most affordable residential market with more than 77% of its total under construction units falling below the ticket size of ₹ 5 mn. This is followed by Chennai at 75%. The deliberate strategy on the part of the developers in these cities to focus on the peripheral areas with the right size of apartment area has ensured that the new supply does not breach the affordability level of the target segment. In contrast to this, Hyderabad has only 51% of its total under construction units below the ₹ 5 mn. ticket size despite the city having the lowest weighted average price among the top six cities.

Since majority of the new projects are skewed towards larger sized apartments, the ticket size breaches the ₹ 5 mn. mark despite the lower per sq.ft. price.

Mumbai remains the most unaffordable market with 29% of the city's total under construction units surpassing the ₹ 10 mn. mark as compared to 11% and 5% for the NCR and Bengaluru markets respectively. Only 48% of the city's under construction units are below the ₹ 5 mn. mark, which is the lowest among the top six cities.

Price movement and ticket size split of under construction units directly impacts the demand for housing in a city. In order to understand the demand supply dynamics of a market, we have calculated the Quarters to Sell Unsold Inventory (QTS) ratio for each of the top six cities. QTS is the number of quarters it will take to exhaust the existing unsold inventory in the market. The existing unsold inventory is divided by the average sales velocity of the preceding six quarters in order to arrive at the QTS ratio for that particular quarter. A lower QTS ratio indicates a healthier market. For instance, a QTS ratio of 6 in March 2013 signifies that it will take 6 quarters for the market to absorb the current unsold units. Hence, going forward if no new units are launched, the existing unsold inventory will get exhausted by September 2014. The ratio assumes that the average sales velocity of the preceding six quarters will continue in the future.

Hyderabad had the highest QTS ratio at 9 as of March 2013 among the six cities under consideration. Slowdown in demand on the back of political uncertainty, unaffordable ticket size and sluggish growth in the IT/ITeS sector has resulted in the city's residential market witnessing such a high number. Additionally, a slew of launches in the last four quarters have created a supply glut ensuring a higher QTS ratio. Going forward, prices in Hyderabad are expected to remain depressed as the market continues to remain in favour of buyers.

Mumbai follows Hyderabad in terms of QTS ratio at 7 as of March 2013. The ratio has been on a constant rise since December 2011 and has increased from 5 to 7 during this period. Incessant price rise and higher concentration of premium projects with a ticket size of more than ₹ 10 mn. in new launches have limited the purchasing ability of home buyers resulting in a decelerating rate of absorption over the previous four quarters. Furthermore, the large number of new launches in the previous four quarters has significantly increased the unsold inventory in the market. Peripheral locations like Vasai, Virar, Mira Road, Ghodbunder Road and Panvel witnessed a slew of new launches during the last one year. However, despite the waning interest of home buyers, quoted prices in Mumbai continue to remain high as developers are increasingly offloading their unsold inventory at a discount to investors who are willing to make substantial upfront payment.

Health of the residential market in cities like Bengaluru, Chennai and Pune has remained relatively stable over the last one year with a constant QTS ratio of 6, 6 and 5 respectively since March 2012. Affordable prices, right size of apartments and higher share of below ₹ 5 mn. in new launches among others are some of the reasons for the steady performance of these markets. Additionally, the ratio of end-users to investors is highly skewed towards end-users in these markets providing a steady rate of absorption unlike Mumbai and the NCR. Chennai and Pune have witnessed a decelerating trend in the number of new launches since June 2012 which has further helped in maintaining the QTS ratio despite moderation in absorption during this period. In contrast to this, the Bengaluru market has been able to maintain its QTS ratio at 6 despite the consistent rise in new launches since June 2012. This is because of the strong absorption that the city has been able to report during this period. Going forward, prices are expected to marginally inch upwards in these markets as the QTS ratio starts declining.

QTS ratio in the NCR market has marginally improved from 6 in December 2012 to 5 in March 2013 as the quantum of new launches has significantly reduced during this period. Although the rate of absorption has been gradually falling down with every passing quarter, the relatively sharp drop in new launches has helped in bringing down the unsold inventory level and thereby the QTS ratio. However, in the NCR market, the QTS ratio may not present the real picture on the health of the market as a large number of units are held by brokers, which is nothing but shadow inventory. Hence, despite the market reporting a steady drop in unsold inventory, in reality the unsold units could be much higher. Considering this, we expect prices in the NCR market to remain stable and do not foresee any substantial rise in the coming quarters.

It is evident from the above analysis that Bengaluru, Chennai and Pune residential markets are in relatively better health as compared to Hyderabad, Mumbai and the NCR. Going forward, we expect the momentum in new launches to reduce significantly across these cities. This will help ease the inventory overhang in these cities, thereby improving market health in coming quarters.

Despite the waning interest of home buyers, quoted prices in Mumbai continue to remain high as developers are increasingly offloading their unsold inventory at a discount to investors who are willing to make substantial upfront payment.

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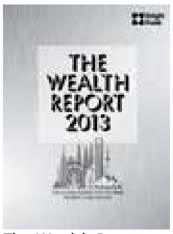

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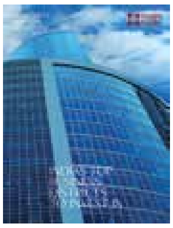
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