RESEARCH

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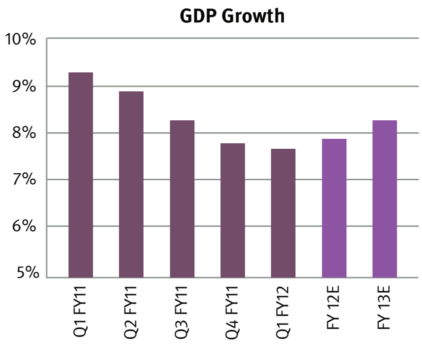
Knight Frank

Economic outlook

Slowdown in the global economy along with consistent increase in policy rates by the Reserve Bank of India (RBI) finally seems to be impacting the domestic economy with the GDP growth cooling down since past few quarters. The GDP growth recorded during Q1 FY12 has slowed down to 7.7% as against 9.3% during Q1 FY11. Even the projected GDP growth for FY12 has been revised downward to 7.9% from 8.2% by the RBI.

Other economic indicators such as Gross Fixed Capital Formation (GFCF) and Index of Industrial Production (IIP) have also been slowing down in the recent quarters. GFCF, a measure of investment taking place in the economy, has registered an increase of 7.9% during Q1 FY12, which is less than 11.1% for the same quarter of last fiscal. Similarly, growth in IIP has dropped to 3.3% during July 2011 against 10% growth in July 2010. Inflation still remains a major concern for policy makers and the inability to contain it at acceptable levels despite continuous monetary tightening is adversely impacting the domestic growth story. The Wholesale Price Index (WPI) grew by 9.8% in August 2011, higher than 9.2% recorded during July 2011.

Figure 1



Source: RBI, Knight Frank Research

The brunt of economic slowdown is being felt on the investment activity with investors realigning their portfolio towards safer assets like gold and avoiding riskier assets like equities. Investment in real estate has also suffered in the last few quarters despite the perception of it being a low risk investment. Unaffordable prices, high interest rates and delays in project completion could be some of the major reasons for the fading investor interest in real estate. However, investors should bear in mind that real estate is a long term investment and over a period of 5-10 years it is most likely to outperform other asset classes.

> THE BRUNT OF ECONOMIC SLOWDOWN IS BEING FELT ON THE INVESTMENT ACTIVITY WITH INVESTORS REALIGNING THEIR PORTFOLIO TOWARDS SAFER ASSETS LIKE GOLD AND AVOIDING RISKIER ASSETS LIKE EQUITIES

In figure 2, a comparison of investment into various asset classes has been made over a period 19 years. Assuming an investment of INR 10 mn was made into each of the asset classes namely property, commodities, equities and currency in 1992, the figure illustrates the movement of such investment on an annual basis.

It is evident from figure 2 that real estate investment has clearly outperformed other asset classes indicating its ability to provide higher return over a long time period.

Followed by real estate are silver and gold which are also considered as safe bets in times of economic volatility. However, unlike silver and gold, real estate has been able to generate consistent return over the years whereas prices of silver and gold have witnessed the maximum appreciation in the previous two years only coinciding with the volatility in the global economy. Additionally, commodities are non-income generating assets against the rental income that can be generated out of real estate. Equities and currency are further down the line in terms of returns among the four asset classes compared.

> UNLIKE SILVER AND GOLD, REAL ESTATE HAS BEEN ABLE TO GENERATE CONSISTENT RETURN OVER THE YEARS WHEREAS PRICES OF SILVER AND GOLD HAVE WITNESSED THE MAXIMUM APPRECIATION IN THE PREVIOUS TWO YEARS ONLY

It can be inferred from the above analysis that real estate is a clear winner in terms of returns over a long period of time. However, there are certain limitations to real estate investment which may act as hindrances to achieve the desired returns. Big ticket size, poor tradability and liquidity, high transaction cost and recurring maintenance costs are some of the downsides of investing in real estate which are absent in the other asset classes mentioned above.

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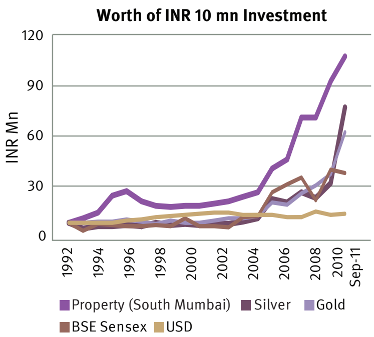
For real estate, we have assumed that the investment was made in a South Mumbai property which was a hot investment destination 19 years back. However, currently the same location may not be an attractive destination but on the other hand there are various other locations available across the country at present which may be able to provide similar kind of returns over the next decade.

In the current scenario, there is a strong case of marginal price correction in real estate markets across most of the cities in the coming quarters. However, in a country where the demand for housing far outstrips the supply, long term investment in real estate will most probably provide higher return than other asset classes.

Figure 2



Source: Knight Frank Research

NCR Retail Market Review

The NCR is one of the biggest retail markets of the country comprising nearly 27% of the overall retail stock amongst the metro cities in India. The region has an interesting mix of retail development between the five micro-markets of Delhi, Noida, Gurgaon, Faridabad and Ghaziabad which has evolved over the years. The retail market of the region was once concentrated only in the high streets of Delhi like Connaught Place, Lajpat Nagar, South Extension, Defence Colony and Sarojini Nagar to name a few. Even though the high streets still attract a lot of retailers and have seen immense growth in the last decade, the NCR has also witnessed an abundant supply of malls.

Growing middle class population and rising number of double income households in the region with greater disposable incomes have given a major push to organized retail development. Developers have been improvising the existing retail formats to suit the demands of today's consumer. Formats like retail clubbed with multiplex, retail with entertainment zones like the Ambience Mall and Great India Place provide "everything under one roof" be it grocery shopping, fine dining , recreation, shopping or getting a spa treatment.

Demand for organized retail developments has also been driven by new international brands foraying in the Indian market. Recent allowance of foreign direct investment by the Committee of Secretaries, India in the multi brand retail sector to up to 51% is also expected to have an impact on the demand in the coming year. Existing brands also have expansion plans in the coming years which in turn will create additional demand.

Supply and Developments

Effects of the economic slump in 2009 were evident in the NCR retail market as quite a number of retail projects which were slated to enter the market in the year 2010 got delayed. About 4.7 mn.sq.ft. of organized retail supply was operational, compared to the 9.9 mn.sq. ft of planned supply in 2010. Retailers also put their expansion plans on hold due to low footfalls and reduced sales activities. The NCR retail market saw a revival in Q1, Q2 2011, both in terms of supply as well as demand. The NCR witnessed approximately 1.2 mn. sq.ft of retail supply in the first two quarters of this year, additional 3.90 mn.sq.ft. is likely to become operational by the end of the year.

THE NCR WITNESSED APPROXIMATELY 1.2 MN. SQ.FT OF RETAIL SUPPLY IN THE FIRST TWO QUARTERS OF THIS YEAR, ADDITIONAL 3.90 MN.SQ.FT. IS LIKELY TO BECOME OPERATIONAL BY THE END OF THE YEAR

Most of the supply in H1 2011 was in the Delhi and Gurgaon micro-markets. Some of the projects that became operational were Pacific Mall (West Delhi), R-Mall (Sohna Road), Gurgaon, Ninex Mall (Sohna Road), Gurgaon.

Retail had a great boost in business as compared to last year which is evident with an increase in transaction activities as compared to H1 2010. Delhi was the preferred market for retailers compared to the peripheral micro-markets of Gurgaon and Noida, as most of the transactions took place in Delhi in H1 2011. Notable lease transactions took place in the department store category with Shoppers Stop and Pantaloons taking up spaces in Rohini and South Extension II respectively. New international brands also took up spaces in the NCR market which include Roxy in Ambience Mall, Clark's in DLF Promenade and Kiehl's in Ambience Mall Vasant Kunj. Key leasing transactions in H1 2011 are shown in Table 1.

AROUND 11.35 MN.SQ. FT OF RETAIL SUPPLY IS EXPECTED TO ENTER THE NCR RETAIL MARKET BY 2012

Around 11.35 mn.sq.ft of retail supply is expected to enter the NCR retail market by 2012. Nearly 37% of the projected supply will be in Noida and Greater Noida, many projects which were put on hold in the year 2010 will enter the market in the next two years. Table 2 shows select projects under construction. Grand Venezia, one of the biggest projects with an area of over 1.5 mn.sq.ft., is expected to be operational by Q1 2012 in Greater Noida.

This is an integrated development with a 200 room 5-Star hotel and commercial

Table 1: Key leasing transactions in H1 2011

Project Name	Location	Tenant	Area (sq.ft.)
Jackson's Crown Heights	Rohini	Shoppers Stop	48,000
Standalone	South Extension II	Pantaloons	20,000
Pinnacle Mall	Dwarka	Reliance Digital	12,000
Plaza Building	Connaught Place	Marks and Spencer	12,000
DLF Place	Saket	Pure Home	15,000
Standalone	Karol Bagh	Joyallukas Jewellery	8,000
Pacific Mall	Delhi	Mamagoto	3,000
Ambience Mall	Gurgaon	Diesel	2,800

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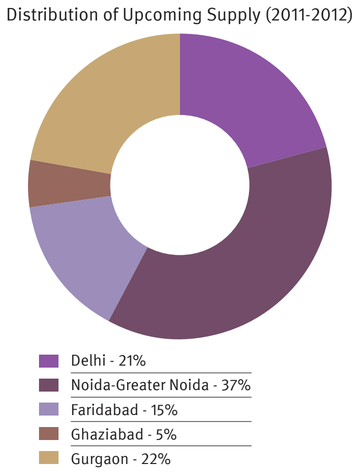
Table 2: Select Projects under Construction

Project Name	Developer	Location	Micro-Market	Expected Completion Date	Area
Grand Venezia	Bhasin Group	Kasna Road	Greater Noida	Q1 2012	1,500,000
Metropolis	MGF	MG Road	Gurgaon	Q4 2011	1,100,000
MSX Mall	MSX Group	Site IV	Greater Noida	Q4 2011	500,000

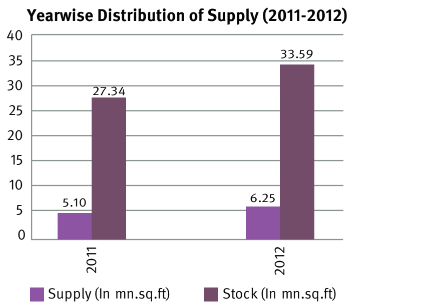
office space. The mall will have four anchors and one multiplex and house high end luxury brands and offer a unique shopping experience to customers. Another project which is slated for operations by Q4 2011 is Metropolis Mall, Gurgaon located on M.G. road with an area of 1.1 mn. sq.ft . It will house brands like Shoppers Stop, Lifestyle Max, Mustafa, Espirit, UCB and Imax Cinema.

Figure 3



Source: Knight Frank Research

Figure 4



Source: Knight Frank Research

Rental Values

Mall rentals have remained stable across all the micro-markets in Q1, Q2 2011. At present the average prime rentals in South Delhi market are around INR 220/sq.ft. per month, as most of the supply comprises premium category malls like Select City Walk in Saket, Ambience Mall, DLF Emporio and Promenade in Vasant Kunj. South Delhi still remains one of the most attractive destinations for international retailers. Noida has seen a decline of about 6-7% in rentals as compared to H1 2010, due to limited retailer's interest. Mall rentals in Ghaziabad and Faridabad remained stable between INR 85-90/sq.ft. per month due to limited transactions in these areas. High street markets of Khan Market and South Extension have been commanding premium rentals of INR 1100/sq.ft. per month and INR 750/sq.ft/month respectively and have witnessed approximately 4-5% increase in rentals compared to H1 2010.

Table 3: Average Mall Rentals (INR/sq.ft/month)

Micro-market	Q2 2010	Q1 2011	Q2 2011
South Delhi	200	220	220
West Delhi	180	200	200
Gurgaon	200	220	220
Noida	200	185	185
Faridabad	88	88	88
Ghaziabad	85	85	88

Outlook

Rentals across micro-markets have stabilized with a marginal appreciation seen in markets like Delhi and Gurgaon. However, supply under construction is significant and will put pressure on rentals. Further, since the economy is slightly weak than that reported in H1 2011, with GDP projections for the current year revised downwards, it is also expected to have a negative impact on consumer confidence, which will reflect in the consumption expenditure and overall consumer sentiments. Considering the current economic situation retailers are expected to execute their plans cautiously. Investments in large format stores may however strengthen in case of FDI allowance in multi brand outlets.

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