JULY 2012

RESIDENTIAL TRACTION @ GLANCE

Knight Frank

Chennai

Market Overview

Chennai's residential property market has witnessed a steady growth in terms of pricing, demand and supply in the past two years post the economic recession. The city has typically been a base for the automobile/ auto ancillary industry and is one of the premier port cities in the country. In addition to these industries, the city's realty market has been driven by a host of other sectors, primarily led by the IT/ITeS sector that has brought in considerable changes in the city's landscape. The Chennai residential market can be divided based on its geographical pattern into four segments – Chennai Central, North, West and South. It may be noted that being a coastal city,Chennai does not have an eastern market. Table 1 depicts the market classification in Chennai.

Table 1. Residential Micro-markets in Chennai

Central	Nungambakkam, Boat Club, Poes Garden, Egmore, Kilpauk, T Nagar
West	Vadapalani, Ashok Nagar, Sriperumbudur, Koyambedu, Ayyapakkam, Mogappair, Porur, Poonamallee
North	Purusawalkam, Ayanavaram, Perambur, Tondiarpet, Ambattur, Kolathur
South	Old Mahabalipuram Road (OMR), GST Road, Velachery

With the advent of the IT sector, Chennai's residential real estate market has become increasingly dependent on its growth and expansion for continued residential demand. The current scenario of job stability in this sector is at a much better position than it was during 2008- 2010. Thus, the demand for homes has reached a comfortable and stable growth trajectory, thereby leading developers to take cues for their residential projects.

The central part of Chennai has the highest property prices in the city. Residential property prices have been steadily increasing in this region in the past couple of years and have set the bench mark for the segment, the highest being at Boat Club Road and Poes Garden. Other prominent locations include Nungambakkam, T Nagar, Mylapore and RA Puram. Most of the residential developments in the central locations are bungalows and independent residential units while some pockets like Alwarpet and Kilpauk are witnessing growth in high-rise construction as well.

The residential market in the northern part of Chennai has been hitherto relatively less developed as compared to other parts of the city. This belt has predominantly been home to small-scale industries like textiles and chemicals. It faces a dearth of large contiguous land parcels for residential development as compared to its southern counterparts. However, of late there has been a renewed interest in parts of the northern belt such as Purusawalkam, Ayanavaram, Tondiarpet and Ambattur. A number of well known developers have launched their projects in these northern locations.

The western part of the city has some of the most upcoming locations. The saturation of land banks towards the central and the northern parts of the city led developers to explore the westward market. The setting up of the electronic hardware corridor at Sriperumbudur by the government has resulted in increase in land prices in the vicinity. Multinationals like Hyundai, Nokia, Dell and Samsung have set up their units in these locations leading to rise in demand for residential space.

The southern part of Chennai is the cynosure of hectic real estate development. Growth in the region is taking place in Adyar, Velachery and Taramani to Shollinganallur belt. Emerging corridors like East Coast Road (ECR) have become good avenues for plot investment. The presence of the IT corridor along the Old Mahabalipuram Road and the concessions given by the government in promoting the industry have indirectly led to the growth of the residential market in South Chennai. This region accounts for a major part of the upcoming supply in the city in the coming years.The influx of IT companies has led to an increase in demand for quality residential space. The growth potential of the region has seen many prominent developers from other cities to invest in its residential market. Another important stretch which has come up on the residential real estate map in Chennai is the GST Road, a number of prominent projects being located there as well.

THE PRESENCE OF THE IT CORRIDOR ALONG THE OLD MAHABALIPURAM ROAD AND THE CONCESSIONS GIVEN BY THE GOVERNMENT IN PROMOTING THE INDUSTRY HAVE INDIRECTLY LED TO THE GROWTH OF THE RESIDENTIAL MARKET IN SOUTH CHENNAI

Market Activity

The growth in Chennai's residential market may be attributed to the fact that it is primarily end-user driven. Investor participation is long term in nature, thereby mitigating a speculative market scenario.

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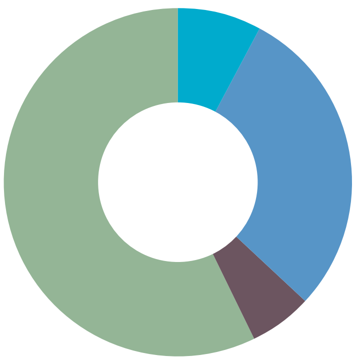
Stability in the market since 2010 has instilled confidence in the end-users to proceed with their purchase decisions. Demand has been more evident in the mid-end category, primarily towards the peripheral locations of the city where majority of the affordable projects are located.

Despite the subdued economic conditions, developers have gone ahead with their plans and several large scale projects have been announced during FY 2012. The period witnessed the launch of approximately 14,900 units which are scheduled to be completed in the next 2-3 years.This optimism shown by developers may be due to the fact that the Chennai market is primarily self-sustained and not much affected by the upheaval in global markets. Amongst the projects launched during FY 2012, a mention can be made of Mandarina by Appaswamy Real Estate at Kotturpuram, Commander's Court by DLF Group at Egmore, Ramaniyam Kattima by Ramaniyam Real Estates at Thoraipakkam, Silent Valley by Vijayshanthi Builders at Tambaram and Arihant Frangipani by Arihant Foundations at Pudupakkam.

FY 2012 WITNESSED THE LAUNCH OF APPROXIMATELY 14,900 UNITS WHICH ARE SCHEDULED TO BE COMPLETED IN THE NEXT 2-3 YEARS

Micro-market Split of Units Launched in FY 2012



Central Chennai- 8%
West Chennai - 29%
North Cehnnai - 6%
South Chennai - 57%
Source: eyestate

It has been observed that majority of the residential units launched during FY 2012 are concentrated towards the southern part of the city along the OMR stretch. Developers such as Unitech Group, Ramaniyam Real Estate, Provident Housing, Marg Properties and Cee Dee Yes Infrastructure have initiated their projects in South Chennai. The southern micro-market is followed by West Chennai as the region that witnessed the second highest number of new residential units launched during FY 2012 with projects by developers such as Hiranandani, ETA Star and Dugar Housing. Central Chennai, though accounting for only 8% of the total number of new residential units launched, has a number of prominent projects as well. A mention can be made of projects like Prince Courtyard by Prince Foundations at Egmore and Akshaya 36 Carat by Akshaya Homes at Kilpauk. The northern part of the city, however, did not see much residential activity in FY 2012 and accounted for merely 6% of the total units launched during FY 2012.

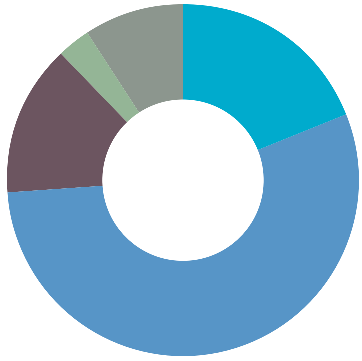
On the pricing front, nearly 74% of the total number of residential units launched in FY 2012 fell within the INR 5 million ticket size category. Several prominent developers strove to tap the affordable housing segment with their new launches. Another 14% of the residential units launched in FY 2012 belonged to the INR 5-7.5 million ticket sizes, catering to the needs of the upper mid-end segment. On the other hand, just 9% of the total units launched in FY 2012 surpassed the ticket size of INR 10 million to fall into the premium segment.

ON THE PRICING FRONT, NEARLY 74% OF THE TOTAL NUMBER OF RESIDENTIAL UNITS LAUNCHED IN FY 2012 FELL WITHIN THE INR 5 MILLION TICKET SIZE CATEGORY

Supply

As of March 2012, nearly 82,000 residential units are under various stages of construction in the Chennai market. Of the total upcoming supply in the residential market, the southern region will account for a significant share of around 59%. Notable projects underway in the region include Indiabulls Greens by Indiabulls Real Estate, Fair Square Harmony by XS Real Properties,

Ticket Size Split of Units Launched in FY 2012



< INR 2.5 Million - 19%
INR 2.5-5 Million - 56%
INR 5-7.5 Million - 14%
INR 7.5-10 Million - 3%
INR 10 Million and Above - 9%
Source: eyestate

Park Avenue by Vijayshanthi Developers and Dugar MME Gold City by Dugar Housing. Besides these projects, there are integrated township projects like Estancia by Arun Excello, Chennai Pattinam by Cee Dee Yes Infrastructure and Hiranandani Palace Gardens by Hiranandani Group that have provisions for office, retail, hospitals and educational institutes in their precincts. Taking into consideration the glut in supply in South Chennai, it may create a demand-supply mismatch in the near future.

AS OF MARCH 2012, NEARLY 82,000 RESIDENTIAL UNITS ARE UNDER VARIOUS STAGES OF CONSTRUCTION IN THE CHENNAI MARKET

Meanwhile, West Chennai will contribute 33% to the total upcoming residential supply in Chennai, followed by the northern region with 5% and Central Chennai with 3%.

An important trend witnessed in the Chennai residential market is the change in the preference for unit size. The preferred size for 3 BHK flats in Chennai has increased from an average of around 1250 sq.ft. during the recession to an average size of 1450 sq.ft. in the revival phase. The preference for 2 BHKs has also increased from an average of around 900 sq.ft. to about 1150 sq.ft.

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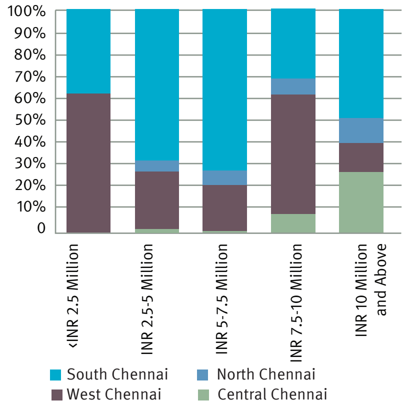
This inclination of home buyers for larger unit sizes can be largely attributed to the increased budgets brought by improvement in the performance of the IT / ITeS sector.

An analysis of the ticket size split of new residential supply in the city throws up several interesting facets. It has been observed that South Chennai has considerable presence in most of the ticket size ranges, which shows that the region offers a variety of residential units to suit all categories of income segments. Central Chennai understandably has a presence only towards the higher end of the ticket size split, largely in the ticket size range of INR 10 million and upwards. Interestingly, North Chennai, which is typically characterized by mid-end homes, finds itself more in the higher ticket size range due to the presence of a few high-end developments underway in particular pockets of the region. For instance, projects such as Mystique by Vijayshanthi Developers and TVH Lumbini Square by True Value Homes, both located in Purusawalkam, have property worth INR 10 million upwards.

Ticket Size Share of Total Residential Units Across Micro-markets as on March 2012



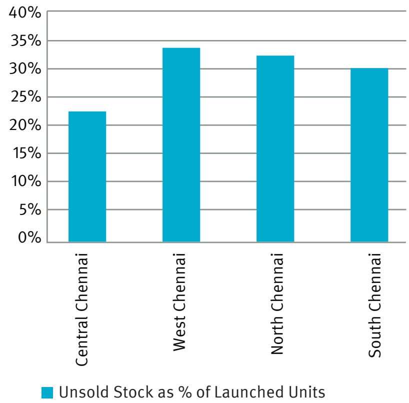
Source: eyestate

Absorption

Chennai residential market has been quite resilient to the looming threat of global economic turmoil and has observed a healthy sales level. It is predominantly end user driven and this has aided in sustaining consistent absorption throughout FY 2012. The absorption rate has also been helped by the cautious pricing strategies adopted by local builders. The absence of overt speculation ensured that the developers could peg their pricing of homes more realistically.However, the residential market witnessed a dip in sales velocity in Q3 FY 2012, compared to the previous two quarters. The decline in absorption level was observed more in the western and northern micro-markets of the city. On a positive note, the city regained its sales velocity in the subsequent quarter. Property registrations in the city were observed to have increased in anticipation of the revised guideline values. On the other hand, Central Chennai was not much impacted by any external factor and witnessed steady growth in absorption across the quarters

THE ABSORPTION RATE HAS ALSO BEEN HELPED BY THE CAUTIOUS PRICING STRATEGIES ADOPTED BY LOCAL BUILDERS. THE ABSENCE OF OVERT SPECULATION ENSURED THAT THE DEVELOPERS COULD PEG THEIR PRICING OF HOMES MORE REALISTICALLY

Unsold Stock as % of Launched Units as on March 2012

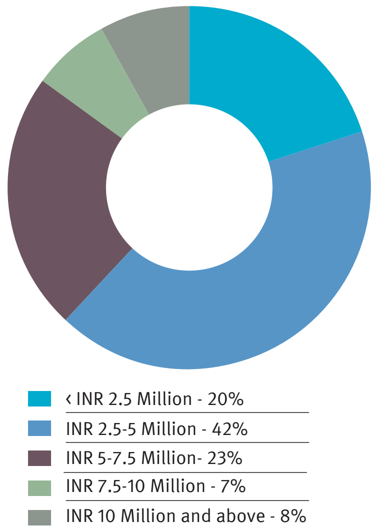


Source: eyestate

The vacancy level in the city's residential market as on March 2012 was recorded at approximately 31%. The southern part of the city, with the highest number of residential units up for sale, has a vacancy level of approximately 30% as of March 2012, while North and West Chennai have vacancy levels of 32% and 33% respectively. Central Chennai, despite a higher ticket size, has a lower vacancy rate of 22%, which may be attributed to the limited number of residential units on offer, coupled with the fact that it has its own target segment of customers who are willing to pay premium price to be centrally located in the city.

THE VACANCY LEVEL IN THE CITY'S RESIDENTIAL MARKET AS ON MARCH 2012 WAS RECORDED AT APPROXIMATELY 31%.

Absorption by Ticket Size as on March 2012



Source: eyestate

It has been observed that nearly 42% of the absorption in FY 2012 has been in the ticket size range of INR 2.5-5 million, followed by the range of INR 5-7.5 million at 23%. Meanwhile, around 20% of the absorption in FY 2012 took place below INR 2.5 million. The clubbing together of these categories essentially denotes the fact that the affordable and mid-end segment has been responsible for the absorption of total 85% of the residential units booked or sold. The premium segment of INR 10 million and above consisted of around 8% of the total absorption in FY 2012.

Price

Chennai residential market did not witness much variation in weighted average of residential prices in FY 2012. Substantial availability of properties in the market facilitated the buyers to choose from a wide range and also to avail of customized discounts and value added services.

In certain micro-markets of North Chennai, weighted average prices dipped by around 5-10% during FY 2012. On the other hand, the southern and western regions of the city witnessed a weighted average price appreciation of around 12%.South Chennai locations like GST Road and OMR saw

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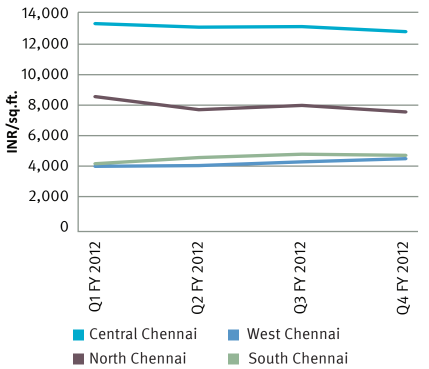
persistent rise in prices due to demand for affordable and mid-end projects. The central region of the city observed an almost stable run of weighted average residential prices throughout the year.

Weighted Average Price Movement in FY 2012



Source: eyestate

*** Prices are weighted average prices of under construction residential units and do not take into account the secondary market.*

Outlook

Chennai's has been a relatively steady residential property market as compared to what has been witnessed in many of the more volatile cities over the last couple of years. The economic scenario notwithstanding, developers have continued to launch their projects, consisting of a balanced mix of both high-end and mid-end developments. Affordable housing projects continue to rule the roost in areas with social infrastructure lag and lower capital values. This has been particularly in the case of OMR where there have been user concerns about civic infrastructure. On a positive note, the government has committed to large scale investments in the recent budget to expedite all power plants and put water sewerage connections all through OMR.

It has been envisaged that the corridor between Shollinganallur and Tiruporur in the southern belt will be the next investment destination for residential property in the city.This can be attributed to the SIPCOT IT Park at Siruseri and the Sholliganallur IT SEZ, which are expected to contribute towards demand for residential property in the region, generally within the cost of INR 5 million. At present, the Sriperumbudur-Oragadam belt towards the west is one of the best options with large manufacturing companies and other multi-nationals expanding their foot print there. Moreover, with the Greenfield airport planned here, the region will further gain prominence on the real estate radar. However, in order to achieve the desired recognition, social infrastructure in the region will have to be significantly improved in the next 3-4 years. Besides the southern and the western regions, Central Chennai is expected to witness an impetus to its residential micro-market as well due to the already under construction Chennai Metro. The announcement of the Monorail also augurs well for the Central Chennai residential projects.

IT HAS BEEN ENVISAGED THAT THE CORRIDOR BETWEEN SHOLLINGANALLUR AND TIRUPORUR IN THE SOUTHERN BELT WILL BE THE NEXT INVESTMENT DESTINATION FOR RESIDENTIAL PROPERTY IN THE CITY

AT PRESENT, THE SRIPERUMBUDUR-ORAGADAM BELT TOWARDS THE WEST IS ONE OF THE BEST OPTIONS WITH LARGE MANUFACTURING COMPANIES AND OTHER MULTI-NATIONALS EXPANDING THEIR FOOT PRINT THERE

Meanwhile, the affordable housing sector in the city has been opined to have huge potential in the forthcoming years with the government announcing additional floor space index (FSI) for development of affordable homes. On the price front, with the quantum of supply lined up in the city, developers may be faced with pressure on pricing in the forthcoming quarters. However, prices are unlikely to decline drastically due to rising cost of construction.

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