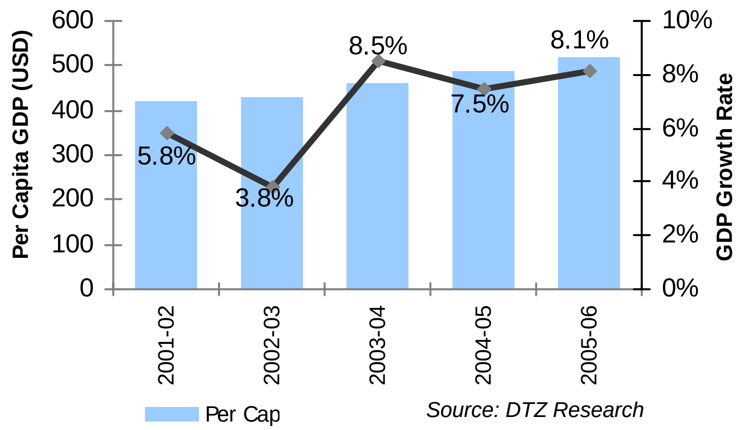
The 'India Story'

A Real Estate Overview

Marco-economic Overview

GDP at factor cost
(at constant prices: 1999-00)

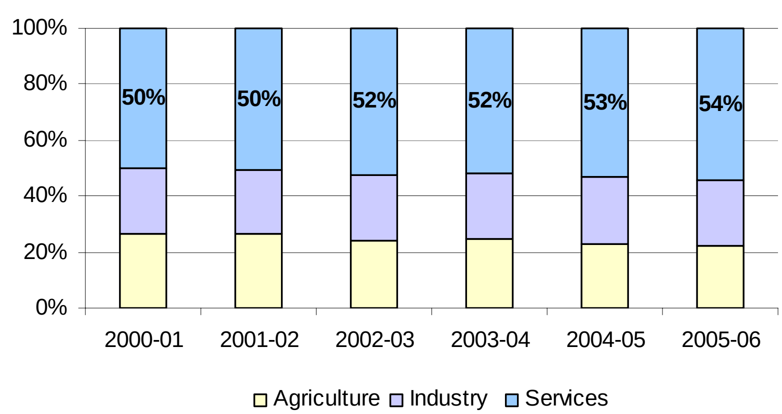


Source: DTZ Research

The Indian economy currently stands among the world's fourth largest growing economy in terms of purchasing power parity and holds the distinction of being a key contributor to Asia's balance of payment surplus. India's GDP is estimated to be the third largest in the world by 2020. India is also considered the second most attractive country in the world for Foreign Direct Investment (FDI). Forex Reserves (excluding gold and SDRs) stood at US$157.25 billion at the end of July 2006. India now holds the fifth largest stock of reserves among the emerging market economies and the sixth largest in the world.

The performance of the country has been consistent and steady over the past three years with an average annual growth rate of 8%. The growth trend is being led by positive movements across sectors in agriculture, manufacturing and services.

Composition of GDP (%)

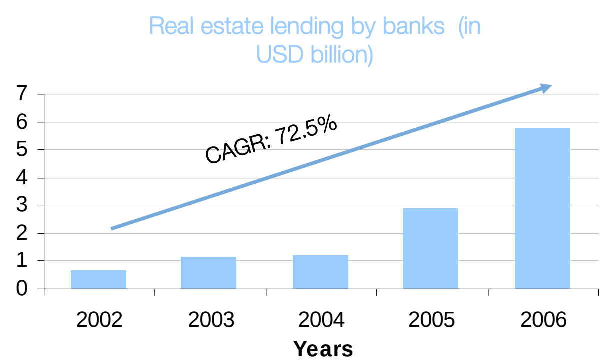


Source: DTZ Research

In recent years, the broad based growth in services sector has been a principle driver of the GDP growth. Business services (including Information Technology (IT) and IT Enabled Services), communication services, financial services, hotels and restaurants and trade (distribution) services are among the fastest growing service sectors. India's share in the world market for IT software and services (including BPO) increased from around 1.7% in 2003-04 to 2.3% in 2004-05 and an estimated 2.8% in 2005-06. The proportion of manufacturing in the GDP has remained stable at around 25%, however, the growth rate of manufacturing has increased over years, from 2.7% in 2001 to 9.0% in 2006 against the growth rate of 2.3 % and 9.8% in agriculture and services respectively. Manufacturing Industries like textiles, automobiles, cement, steel, petrochemicals, Infrastructure (civil aviation, roads, and ports), electronics, beverages and tobacco products have been the prime drivers in India's Industrial growth.

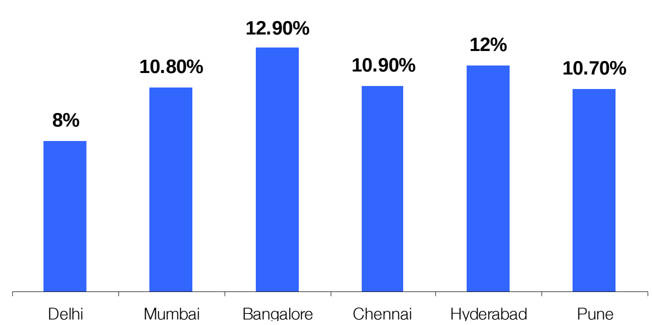
Real Estate Scenario in India

The size of the Indian real estate market is estimated at USD 12 billion and it is currently growing at rate of about 30% annually. Real estate lending by banks has increased by 3.78 times in the last two years, forming 18% of the total bank credit. Strong and improved economic growth, proactive policy initiatives like relaxation of FDI in construction and availability of finance (institutional and retail) has driven the demand for real estate across all sectors - Commercial, Residential, Retail and Hospitality. Also, there is an increased focus towards development of Special Economic Zones (SEZ) in India.



Source: DTZ Research

Grade – A (CBD) commercial property yields

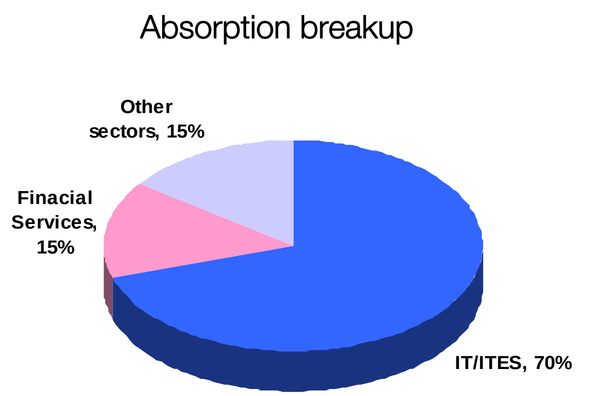


Source: DTZ Research

The last few years have seen Indian market mature through regulatory reforms (rationalization of stamp duties, reform of urban land ceilings), improving products in terms of quality and technology, changing tenant profile (MNCs, and respect for tenancy laws), and improving management and maintenance models (enhanced product life-cycles and sustained project / real estate yields). Although the initial real estate boom was concentrated in places like Bangalore and the National Capital Region of Delhi (including Gurgaon), more recently the geographical spread has widened. There has been a significant shift in real estate market from metros to its suburbs and to tier II and tier III cities. Lease rentals and occupancies have been picking up steadily and there is an increasing demand for quality infrastructure across various segments of the real estate sector.

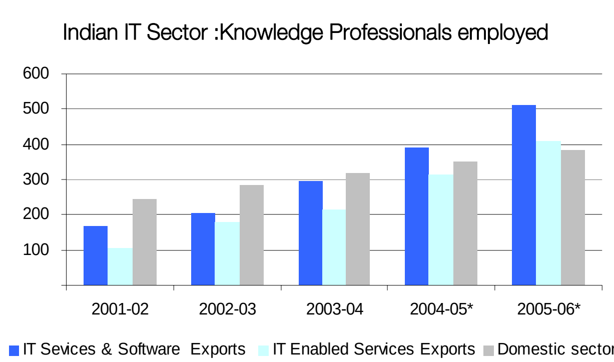
Commercial Real Estate

The demand for new office space in India has grown from an estimated 3.9 million sq. ft in 1998 to over 16 million sq. ft in 2004-05. 70% of the demand for office space in India is driven by over 7,000 Indian IT and ITES firms and 15% by financial service providers and the pharmaceutical sector. Cumulative demand for office space in India over the next two years (2006-08) is estimated to be in excess of 45 million sq. ft.



Source: DTZ Research

The Indian IT-ITES Industry, estimated at USD 36.3 billion in 2006 has grown at a CAGR of 36% over the last decade and by 2008, is expected to account for over 7% of India's GDP and 30% of foreign exchange inflows. In 2005 alone, IT/ITES sector absorbed a total of approx 30 million sq. ft and is estimated to generate a demand of 150 million sq. ft. of space



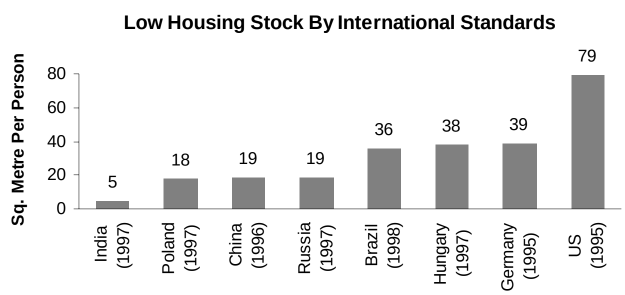
Source: DTZ Research

across major cities by 2010. South Indian cities like Bangalore, Chennai and Hyderabad along with NCR (National Capital Region) continue to attract the major share of IT/ITES and business investment. However, secondary cities, like Pune, Chandigarh, Indore, Kochi and Kolkata are now emerging as the new preferred destinations for these companies due to their cost and infrastructure advantages.

Residential Real Estate

The residential property market in India constitutes almost 75% of the real estate market in terms of value. Low per capita housing stock, rising disposable income coupled with easy availability of finance from the housing finance companies and banks are driving demand in this sector.

Also, Average age of housing loan borrowers have decreased to 30- 35 years from 40- 45 years a few years ago, indicating a younger buying threshold. The housing sector is currently growing at 30-35% per annum. A proportion of demand is also being driven from investors who view housing as an attractive investment option as compared to mutual funds and stocks.

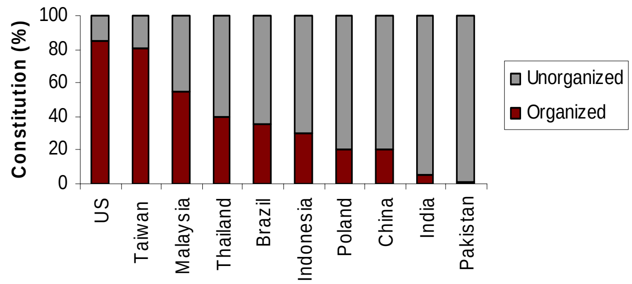


Source: DTZ Research

The demand for housing is geographically widespread with townships being built in both the metros and the tier II and III cities. In India, there is a housing shortage of 19.4 million units out of which 6.7 million are in urban areas alone. This translates into very high opportunities for investors in the residential sector.

Retail Real Estate

The Retail industry in India continues to be dominated by individual small format stores with floor space of less than 500 sq.ft. Total number of retail outlets is estimated to be around 12 -15 million, indicating a retail density of 12-14 outlets per 1,000 people, which is one of the highest in the world. The retail sector in India is currently estimated at USD 230 billion. The current size of the organized retail activity is USD 7 billion, which is a mere 3% of the total retail market. The retail sector is witnessing a growth of 5-7% per annum; however the organized retail is poised to grow at a rate of 25% - 30% per annum and is expected to be worth over USD 30 billion by the year 2010, thereby increasing the share of organized retail activity from the current level of 3% to 15% in the coming decade.



Source: DTZ Research

Hospitality Real Estate

Hospitality industry in India is growing at an annual rate of over 8%. The number of foreign tourists' arrivals (a major driver of hospitality industry) in the country increased to approx. 4 million in 2005. Over 55% of the total demand for hotels in the country is generated by foreign leisure tourists and business travelers (domestic and foreign). A large proportion of lodging demand in commercial cities such as Bangalore, Mumbai, Delhi etc. comes from business travelers. This category also accounts for the major proportion of demand for five star or five star deluxe hotels. However, against the total current supply of 96,000 rooms, five star category accounts for just a quarter of the supply. With the expected growth in demand for rooms at 18%, another 65,000 – 80,000 hotel rooms will be needed till 2010. This demand – supply gap is expected to result in high level of activity in construction of hotels. The established brands in this sector such as Asian Hotels, Indian Hotels, ITC, Le Meridien etc are in expansion mode with many new players such as Accor Group, Marriot, Choice, IHG Group keen to establish their footprint.

Special Economic Zones

The upcoming realty trend in India after multiplexes and mega housing projects are the Special Economic Zones (SEZ). Currently, 28 SEZs are operational in the country, including those converted from Export Processing Zones (EPZ) to SEZ. Approx. 189 proposals have already been granted approval since the SEZ Act, 2005 came into force. These include SEZs in various segments such as multi-product, Information Technology, Bio-technology, Gems and Jewellery, Textiles and technology intensive industries.

Both developers and corporates have shown tremendous interest in developing SEZs in the country. Reliance Industries, for instance, is planning a 25,000 acre SEZ in Gurgaon and is also the main partner in twin SEZs coming up at Navi Mumbai and Maha Mumbai, with a combined size of 35,000 acres. The Adani group is also setting up an SEZ at Mundra, covering 30,000-35,000 acres, and it proposes to invest Rs 7,300 crore on infrastructure. Other corporates who are in process of setting up SEZs include TCG Refineries of the Chatterjee Group (SEZ refinery at Haldia in West Bengal), Suzlon Infrastructure (hi-tech engineering products and services near Coimbatore in Tamil Nadu, Udupi in Karnataka and Vadodara in Gujarat), Hindalco (aluminium SEZ at Sambalpur in Orissa), Genpact (IT SEZ at Bhubaneshwar in Orissa, Jaipur in Rajasthan and Bhopal in Madhya Pradesh), Vedanta Alumina (aluminium SEZ at Orissa). Seeking the permission for SEZs are also a number of real estate developers, including DLF, Ansals, Omaxe, Parsvnath, Shipra Estate and Sunny Vista Realtors.

FDI in Real Estate

With the opening of the sector for 100% FDI under automatic route, the real estate sector is estimated to capture about 18-20% of the total FDI coming to India in 2005-06. The FDI in Real Estate is expected to have a favaourable multiplier effect on the economy. As an indicator, for every rupee spent on construction, an estimated 75-80% gets added to the GDP. The spill-over effect of this initiative can also be witnessed in important sectors like the cement and construction industries, where the key players are expanding capacity to meet the soaring demand.

With the relaxation of the FDI limit, the country saw an influx of global real estate developers like Dubai-based Emaar Properties (the largest listed real estate developer in the world) – which enetered India in a joint venture with Delhi based MGF Developments.

Other groups showing interest in India include insurance company American International Group Inc (AIG), High Point Rendel of the UK, Edaw-US, Japan's Kikken Sekkel, Lee Kim Tah Holdings and Cesma International from Singapore.

The following table shows various foreign private equity investments that have taken place in Indian real estate market following the relaxation of FDI norms in real estate:

Foreign investors	Projects	Investment (in $ Mn)
Ascendas, Singapore	IT parks in Bangalore. A private fund for IT parks in Hyderabad, Chennai	350
Keppel Land, Singapore	JV with Purvankara Projects for two condo-style projects in Bangalore	6
UM, Malaysia	Township in Hyderabad in a JV; another planned in Chandigarh	5
GE Commercial Finance, US	Invested in Ascendas' private fund for IT parks	63
Tishman Speyer Properties, US	Partnered with ICICI Ventures to form TSI Ventures	300
Morgan Stanley Real Estate	Invested in Mantri Developers	68
Blackstone	Acquisition of 49% equity stake in an IT Park SPV of RMZ	50
GIC (Govt.	Acquisition of 20% equity stake in an IT Park SPV of RMZ	50

Source: DTZ Research

Future Outlook

The Indian real estate sector promises to be a lucrative destination for foreign investors into the country. The continued growth of the Indian outsourcing industry provides excellent opportunities for real estate investors. The booming middle class will continue to drive the demand for housing and retail space. The Indian realty sector, if channelized properly, could catapult the growth of several other sectors in India through its backward and forward linkages.

However, there are potential constraints for domestic as well as foreign investments in India. Absence of a single regulator to monitor business practices prevailing in Indian real estate market is perceived to be a risk factor by investors. Also, there remain numerous ambiguities in guidelines relating to the real estate sector. The SEZ guidelines which are issued by the Commerce Ministry are constantly modified, again creating uncertainty.

The primary constraint for foreign investments in India is the availability of exit options. Since the liberalization of FDI norms significant foreign investments have flown into real estate; but availability of suitable exit options for such investments is still constrained. It is expected that the need for exit options will prompt foreign investors and other real estate players to devise financial instruments to enable them to divest their investments. Creation of these financial products and instruments will go a long way in adding depth and maturity to the real estate market. With the Indian securities market regulator SEBI allowing real estate mutual funds (REMFs) in India, foreign equity investors will have another exit option available to them. Also, retail investors will be able to invest in real estate with smaller investment through these REMFs. The introduction of suitable financial instruments and REMFs will make real estate similar to any other asset class and will enable investors to diversify their investment portfolio by investing in real estate through such options.

Infusion of foreign investment will also lead to adoption of international best practices by real estate players. Developers will get more organized, corporatise themselves and become more transparent to avail of these funds. All these factors will contribute in making the Indian real estate market more organized and structured.

– Ends –

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