

REAL ESTATE SECTOR IN INDIA

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1. INDIA'S REAL ESTATE SECTOR

1.1 Overview

With around 1.1 billion people, India is the second most populous country after China and it is expected to overtake it by 2030. Its economic transformation over the past decade has pushed up real GDP growth to an average of 6 per cent per annum since 1992.

India is emerging as an important business location, particularly in the services sector. Its favourable demographics and strong economic growth make the country an attractive place for property investors, given that demand for property is determined chiefly by business development and demographic trends.

Historically, the real estate sector in India was unorganised and characterized by various factors that impeded organised dealing, such as the absence of a centralized title registry providing title guarantee, lack of uniformity in local laws and their application, non-availability of bank financing, high interest rates and transfer taxes, and the lack of transparency in transaction values.

In recent years however, the real estate sector in India has exhibited a trend towards greater organisation and transparency, accompanied by various regulatory reforms. These reforms include:

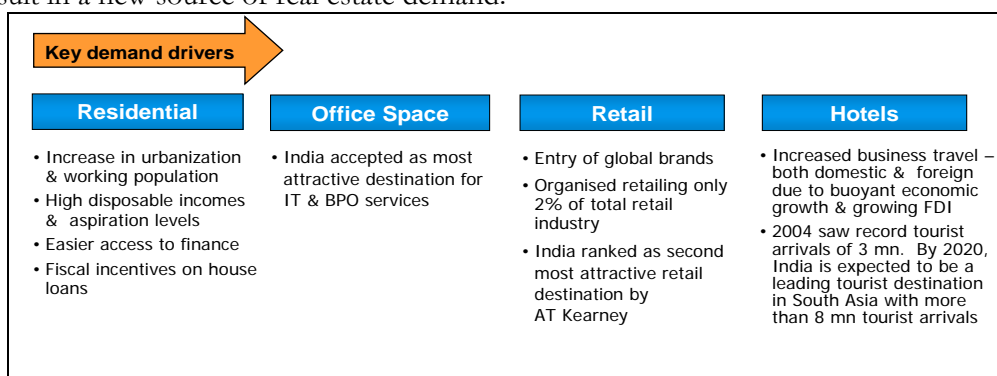
- Government of India support to the repeal of the Urban Land Ceiling Act, with nine state governments having already repealed the Act;
- Modifications in the Rent Control Act to provide greater protection to homeowners wishing to rent out their properties;
- Rationalization of property taxes in a number of states; and
- The proposed computerization of land records

The trend towards greater organisation and transparency has contributed to the development of reliable indicators of value and the organised investment in the real estate sector by domestic and international financial institutions, and has also resulted in the greater availability of financing for real estate developers. Regulatory changes permitting foreign investment are expected to further increase investment in the Indian real estate sector. The nature of demand is also changing, with heightened consumer expectations that are influenced by higher disposable incomes, increased globalization and the introduction of new real estate products and services.

1.2 1.2 Demand Drivers

These trends have benefited from the substantial recent growth in the Indian economy, which has stimulated demand for land and developed real estate across the real estate industry. Demand for residential, commercial and retail real estate is rising throughout India, accompanied by increased demand for hotel accommodation and improved

infrastructure. Additionally, the tax and other benefits applicable to Seas are expected to result in a new source of real estate demand.



1.2.1 Residential Real Estate Development

The growth in the residential real estate market in India has been largely driven by rising disposable incomes, a rapidly growing middle class, low interest rates, fiscal incentives on both interest and principal payments for housing loans, heightened customer expectations, as well as increased urbanisation and growing number of nuclear families.

According to National Council of Applied Economic Research (NCAER), income classes with annual incomes between Rs. 2 million and Rs. 5 million per year, Rs. 5 million and Rs. 10 million per year, and in excess of Rs. 10 million per year are expected to increase in size by 23 per cent, 25 per cent and 28 per cent, respectively, from fiscal 2005 to fiscal 2010. These higher income households are expected to be the target customers for the luxury and super luxury residential developments.

The residential sector is expected to continue to demonstrate robust growth over the next five years, assisted by the rising penetration of housing finance and favourable tax incentives. It is estimated that spending on new middle and higher income housing at Rs. 1.72 trillion in fiscal 2005 would grow at a CAGR of 18.6 per cent over the next five years to Rs. 4.03 trillion in fiscal 2010.

1.2.2 Commercial Real Estate Development

The recent growth of the commercial real estate sector in India has been fuelled by increased revenues of companies in the services business, particularly in the IT and ITES sectors. Industry sources expect the IT and ITES sectors to continue to grow and generate additional employment, which they expect will result in increased demand for commercial space.

Within the IT and ITES sectors, the Indian off shoring operations of multinational companies are expected to increase demand for commercial space. The trend for these companies has been to set up world class business centres to house their growing work force. India continues to lead the AT Kearney Offshore Location Attractiveness Index by a significant margin.

Knight Frank, an international property agency, estimates that the growth in the IT and ITES sectors is likely to require over 118 million square feet of additional commercial space between fiscal 2006 and 2008.

1.2.3 Retail Real Estate Development

According to CRIS INFAC estimates the retail spending in India in fiscal 2005 was Rs. 9.9 trillion, of which organised retail accounted for Rs. 349 billion, or approximately 3.5 per cent. The organised retail segment in India is expected to grow at a rate of 25 per cent to 30 per cent over the next five fiscal years. The growth of organised retail is expected to be driven by demographic factors, increasing disposable incomes, changes in shopping habits, the entry of international retailers into the market and the growing number of retail malls.

The major organised retailers in India currently include Tata-Trent, Pantaloon, Shopper's Stop and the RPG Group. While organised retail has so far been limited to larger cities in the country, retailers have announced major expansion plans in smaller cities and towns. The growth of organised retail in India will also be affected by the reported entry into the sector of major business groups such as Reliance, Bennett & Coleman, Hindustan Lever, Hero Group and Bharti. International retailers such as Metro, Shoprite, Lifestyle and Dairy Farm International have already commenced operations in the country. It is estimated that real estate development in the organised retail sector will require investment of Rs. 31 billion per year over the next five years.

1.2.4 Hospitality Industry

The hotel industry in India has grown as a result of a growing economy, increased business travel and tourism. Room demand is expected to grow by approximately 4 per cent in fiscal 2007 and that this demand will result in an increase in occupancy rates from 72 per cent in fiscal 2005 to 75 per cent in fiscal 2007 across India's larger cities. This is expected to be accompanied by increases in average room rates of 21 per cent in fiscal 2007.

It is expected that the growth in occupancy rates will be assisted by factors such as the 10 per cent CAGR in the number of incoming travellers into India over the next five years. Further, investments in the premium segment of the hotel industry are expected to be between Rs. 20 billion and Rs. 23 billion in the aggregate over the next five years.

THE DEMAND STORY	
in million square feet	
COMMERCIAL	
2005	2006-2010
24.3	120-125
HOSPITALITY	
6-8	78
RESIDENTIAL	
90-100	600-800

RETAIL	
8-9	50
TOTAL	
128.3-151.3	840-1055
Demand for Mumbai, NCR, Bangalore, Hyderabad, Pune, Kolkata, Chennai	

According to an industry report, the majority of segments in the Indian hotel industry have shown robust recent growth in room rates as well as occupancy rates. With increased demand and limited availability of quality accommodation, the average room rates in metropolitan markets have grown by approximately 50 per cent over the last two years, the exceptions being Bangalore, where the rates have more than doubled, and Kolkata, where they have risen only marginally notwithstanding strong growth in occupancy rates. The general increase in room rates and occupancy rates is expected to contribute significantly to the demand for new hotel developments.

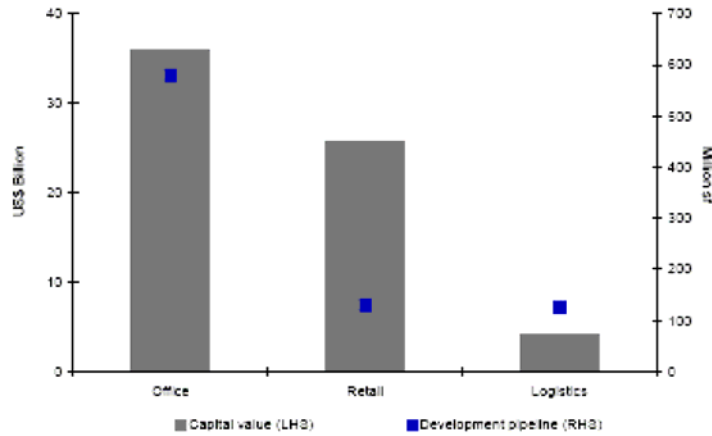
1.2.5 Special Economic Zones (SEZ)

SEZs are specifically delineated duty free enclaves deemed to be foreign territories for purposes of Indian custom controls, duties and tariffs. There are three main types of SEZs: integrated SEZs, which may consist of a number of industries; services SEZs, which may operate across a range of defined services; and sector specific SEZs, which focus on one particular industry line. Regulatory approvals have been received for SEZs proposed to be developed by a number of developers. SEZs, by virtue of their size, are expected to be a significant new source of real estate demand. According to Ministry of Commerce and Industry, currently 100 SEZs are approved, 19 of them are functioning and rest are under establishment.

1.2.6 Infrastructure Development Projects

Central and state governments in India are increasingly focused on infrastructure development. A significant portion of infrastructure development is expected to be undertaken through public-private partnerships, thereby increasing the flow of private capital into infrastructure projects. Key areas of infrastructure development include transport, power, telecommunications, ports, pipelines, sanitation, water supply and irrigation. The current rate of infrastructure investment in India at 3.5 per cent of GDP is well below the target rate of 8.0 per cent proposed by the Expert Group on Commercialisation of Infrastructure Projects. The Government of India (GoI) has taken various initiatives to encourage this investment, such as capital grants, tax holidays and other fiscal incentives for certain types of projects.

Growth Potential for India's Commercial Real-estate



Source: Deutsche Bank

1.3 1.3 Cities are the Hubs of Development Activities

For centuries cities have been the centre for economic and cultural development. On the one hand, urban market places enable cost-efficient barter processes, resulting in a meaningful division of labour. And on the other, cities guarantee economies of scale for the funding of public goods such as education.

Indian cities are customarily divided into three groups: Tier I comprises the capital Delhi, the financial centre Mumbai and the IT hub Bangalore. Tier II consists of Hyderabad, Pune and Chennai, the cities targeted by companies as alternative off-shoring destinations and which now possess a well-trained pool of labour. The cost advantage of Tier II cities over those in Tier I is estimated at 15 per cent to 20 per cent. But given the rising costs in Tier II cities in recent years, companies are increasingly eyeing Tier III cities. These are cities with populations of more than a million but which are not yet completely established as outsourcing and off-shoring destinations. Their absolute cost advantage over Tier I cities is estimated at between 15 per cent and 30 per cent.

Classifying Indian Cities	
Tier I	Delhi, Mumbai, Bangalore
Tier II	Hyderabad, Pune, Chennai
Tier III	Kolkata, Nagpur, Ahmedabad, Chandigarh, Indore, Kochi, Trivandrum, Mangalore and about 30 more cities

According to the last official estimate by the Census of India, there were a total of 27 cities with more than one million inhabitants in 2001, in which nearly 75 million people lived. By 2005 this has risen to 35 cities with a population of more than one million, and almost 500 with at least 100,000 inhabitants. However, given that many cities sprawl beyond the official city boundaries, it makes more sense to focus on urban areas. In 2001, 35 such agglomerations with at least one million people existed, inhabited by around 108 million people in total. Meanwhile, almost 150 million people are believed to

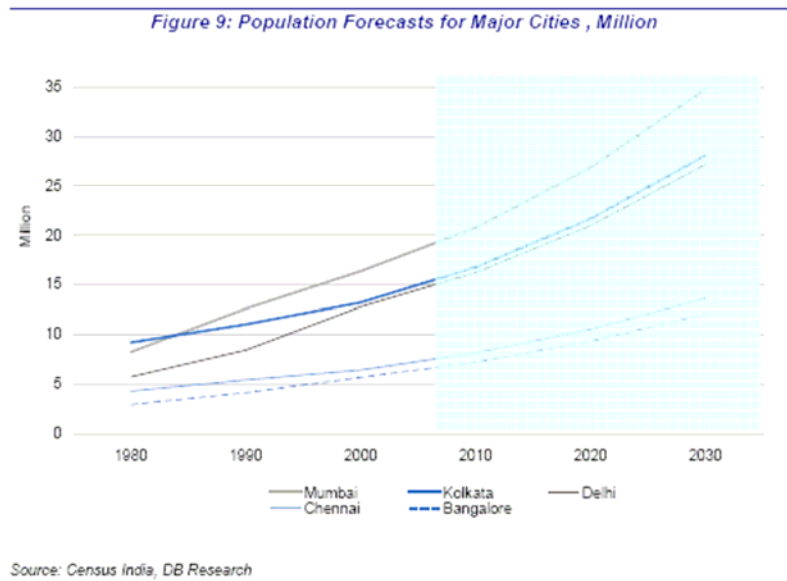
live in the 44 urban areas housing a million people and more. The Mumbai and Delhi regions alone are home to almost 20 million people each.

Market	Demand-supply position			
	Absorption in 2006 (mn sft)	Estimated supply in 2007 (mn sqft)	Estimated absorption in 2007 (mn sqft)	Excess supply(% of estimated supply)
Delhi NCR	10.6	15.9	13.2	18
Bangalore	12.0	18.3	13.3	32
Chennai	5.3	19.5	6.5	66
Mumbai	6.4	6.9	7.5	(9)

Source: DTZ Research

Cities will Continue to Grow

The United Nations Population Division (UNDP) expects the degree of urbanisation to grow to over 40 per cent by 2030, implying that urban population will grow by 2.5 per cent per annum in the next 25 years. Hence, while the rural population increases only marginally, urban population will double by 2030 to around 600 million people.



Applying this average to the biggest urban agglomeration areas in the country, it follows that in 2030 Mumbai will have a population of roughly 35 million and Kolkata and Delhi just under 30 million in 2030. This could still be considered a conservative estimate as it puts urbanisation in India then only at China's level today. Assuming that the growth of India's industrial activity and high-end services grow at an above-average pace, the rural exodus could speed up sharply, similar to the development in China. Were India's urban population to increase at a similar pace to the Chinese urban population between 1980 and 2000 (by more than 4 per cent p.a), the number of people living in Indian cities would soar from 320 million today to 900 million in 2030. Urbanisation would then exceed 60 per cent, roughly in line with the current level in many east European

countries. Further, were the mega centres to expand at the same rate, the Mumbai agglomeration area would have a population of over 50 million by 2030, and the Delhi and Kolkata agglomerations a good 40 million.

There are two clear outcomes following from this. Firstly, India's cities must gear up to a dramatic increase in size. Their infrastructure (schools, roads, airports, seaports etc.) and housing capacities will need to expand massively. Secondly, the accelerated rate in urbanisation throws into particularly sharp focus the possibility that established centres (i.e. Tier I cities) are already straining the limits of their capacities, leading to above average expansion in the second-tier cities.

The most important office locations are in the **Central Business Districts** (CBD). It has only been in the last few years, as space has become more limited in the CBDs and new higher quality offices with lower prices have been built in peripheral locations that demand has shifted from downtown areas out to the new locations called **Secondary Business Districts** (SBD). Most recently, additional development areas, with a mixture of office, retail and residential, have been built. Just like other global locations, the most important locational factors are the availability of staff, ease of access by car and public transport and regional growth potential. In Indian cities it is also important to access the technical infrastructure provision (e.g. electricity, telephones and water supply) to ensure that it meets requirements.

The most transparent and liquid office markets are that of Delhi, Mumbai and Bangalore. It is worth noting, however, the enormous potential of the growing markets in the Tier II and Tier III cities, such as Pune, Hyderabad or Chennai.

Growing Satellite Business Destinations

With commercial space in the CBDs and SBDs in the metros getting saturated, the surrounding non-metro areas are getting investor attentions. In northern part of the country, the business activities of Delhi NCR are getting extended to the adjoining areas of Rajasthan adjacent to Delhi NCR like Bhiwadi, Neemrana (in Alwar district) has attracted a lot of domestic and foreign industrial investments. Similarly in Southern India, the adjoining areas of Bangalore like Hosure district of Tamil Nadu has provided space for extension of the industrial areas.

However, the Mumbai and Chennai, by virtue of its geographical conditions of being surrounded by sea, face constraint in terms of expansion.

Due to insufficient information, smaller real estate stock and a poor level of infrastructure, however, these markets are still relatively illiquid and offer greater risks.

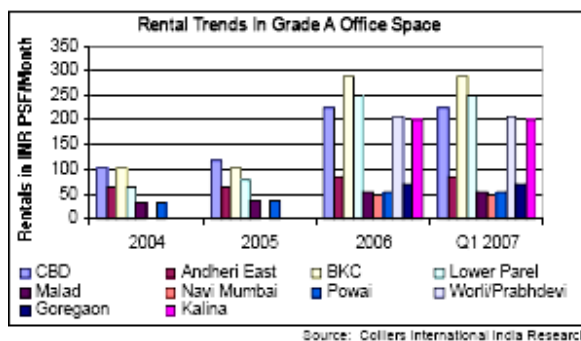
1.3.1 Mumbai – India's Financial Centre

Mumbai is India's economic and financial centre. The central bank (the Reserve Bank of India), the two most active stock exchanges in the country (the National Stock Exchange and Bombay Stock Exchange), the capital markets supervisory authority (the Securities and Exchange Board of India) and numerous domestic and foreign financial services

providers have their headquarters there. Thus, many IT and ITES firms catering to the financial sector have established themselves in Mumbai and its surroundings.

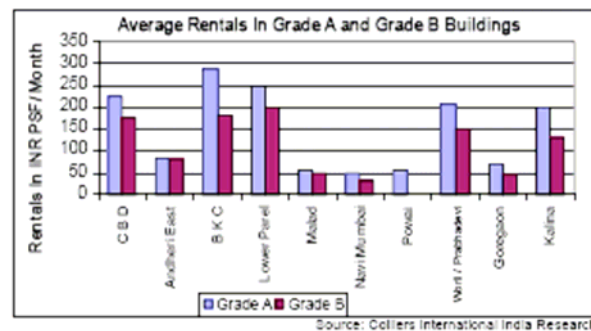
Jones Lang LaSalle estimates the office market at a total of 33 million square feet. About 12 million square feet of this total is classified as Class A and Class B space, arguably not half as large as the office market in Düsseldorf or Amsterdam. The CBD in the southern tip of Mumbai (Nariman Point) is regarded as the prime office location. As Mumbai is a peninsula, projecting into the sea, the coastline guarantees a shortage of space. The cityscape in the CBD is characterised by numerous buildings from colonial times. This historic city centre is a natural location not just for state institutions, such as the Bombay High Court, but also for company head offices, international firms and business-related service providers.

For many companies the central location, with proximity to very good hotels, has become an important locational factor. The majority of buildings in this area, however, only meet Class B standard. As only a limited number of large-scale, modern buildings can be constructed in the CBD, several new centres – Secondary Business Districts (SBD) – have emerged in the last few years. Most of the development has been towards the north, along the west coast. The first SBDs to be developed were in Bandra Kurla, Worli and Prabhadevi. There are also peripheral locations in Andheri and Malad – located even further to the north, in order to meet the growing demand for high-quality and, at the



same time, good-value office space.

The SBDs in Bandra Kurla and Worli now count as extensions to the CBD. Modern and generously-sized office buildings have attracted many large occupiers. These include the National Stock Exchange, the Bank of India and ICICI Bank, as well as an increasing number of multinationals like Motorola and Cisco. Many IT and ITES companies have then followed their clients. The peripheral locations are along the arterial roads and closer to the residential areas.



Mumbai Office Rents Have Risen Sharply

The demand for offices in the whole market continues to be dominated by IT companies, followed by financial services providers and pharmaceutical companies. The IT companies are mainly looking for large, contiguous space of between 10,000 and

30,000 square feet. In the last few years the strong level of demand has not only reduced the vacancy level from 13 per cent in 2001 to just over 5 per cent in 2005, but rents have also reacted.

*Average prime value in Rs. per sq. ft.
Source: Cushman & Wakefield India*

Prime rents climbed from INR 130 per sq ft per month in 2003 to INR 160 last year. In the CBD there have even been a few contracts at as high as INR 250 for Class A¹ space. The reason for rents rising by “only” INR 30 in the last few years can be attributed to the constant shifting of demand to the north, where new and high-quality buildings are

	MUMBAI			
	2004	2005	2006	2007
Cuffe Parade	12,500	14,000	16,500	23,500
Malabar Hill	16,500	18,500	20,000	28,000
Worli	11,500	13,500	16,500	23,500
Bandra (W)	8,500	10,000	13,500	19,000
Santacruz (W)	5,500	6,250	9,000	13,000
Andheri (W)	3,500	4,000	6,000	8,500

being constructed on cheaper development land. The SBDs are therefore acting as a brake on rents in the city centre. This also means, however, that rents in the SBD are only slightly lower than those in the CBD. In isolated cases up to INR 200 per sq ft is being paid for Class A offices in secondary locations.

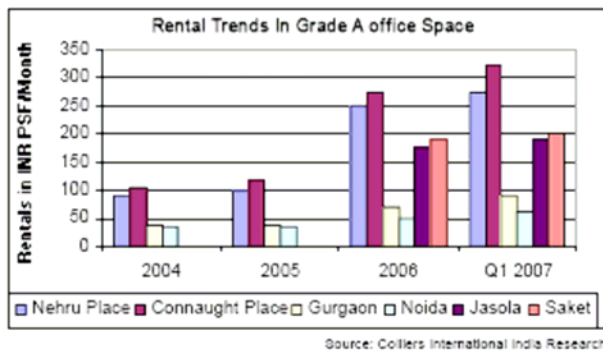
High demand has also led to extensive new development. In 2005 a total of around 3.2 million sq ft was completed, amounting to a quarter of the high-quality office space in Mumbai. At the same time the net absorption was around 3.5 million sq ft new developments (2006 approx. 3.5 million sq ft, 2007 approx. 2.5 million sq ft) are projected to continue in the next few years, matched by expected increasing demand. The majority of new space is being built in Bandra Kurla. The extensive development activity will result in increased importance for the secondary locations.

In addition, increasing numbers of factory sites in the city are being sold to private investors. In total, there are 58 of these derelict industrial sites in Mumbai, accounted for around 60 million sq ft of space. Projects have already been completed in 23 of these locations, with additional office buildings expected to be completed from 2007. The Supreme Court has, in principle, opened the gates to project development, although the Environment Ministry has tied up development with an approvals procedure. It can take up to nine months to obtain the relevant clearance.

The majority of the space planned for 2006 will not be ready until the end of the year. For this reason, further increases in rents are expected during the current year. In 2007, however, in view of the extensive new developments, rents may only increase moderately.

¹ Class A (Class B) office buildings are characterized by very high (high) constructional quality; and professional (good) management. In India Class A office buildings must have air-conditioning and a 24-hour power backup.

1.3.2 Delhi NCR



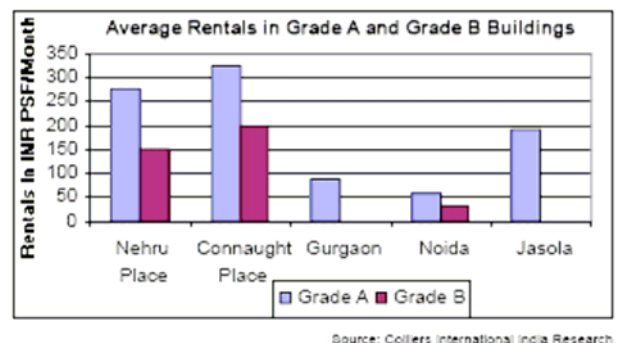
Delhi, India's second biggest city is the seat of government and represents the central traffic hub in the north of India. Delhi's office market extends beyond the metropolitan area to the neighbouring towns of Gurgaon in the south and Noida/Greater Noida in the east. Known as the Northern Capital Region (NCR), the agglomeration encompasses a

stock of office space of around 30 million sq ft, a quarter of which is Class A. This is extremely low for a city of this size and implies a huge catch-up potential.

As in the other metro cities, the main sources of demand are IT and ITES companies. In addition, Delhi has established itself as a call centre hub, which draws on the workforce's excellent and almost accent-free English language skills. Demand for space has spiraled in recent years. New building construction of around 3 million sq ft in 2005 was insufficient to meet the demand, driving down vacancy rates.

CBD Still Prime Location

The CBD is located in the centre of New Delhi. Most of the office buildings date from the 1980s and 1990s and are categorized only as Class B. Banks and corporate service providers (e.g. lawyers, tax consultants) with close proximities to the ministries are also situated there. The new Metro makes it easier to reach downtown Delhi. The prime address, for office use and retail, is around Connaught Place, although there is very little space for new buildings there. As a result, rents are comparatively high and new office blocks are being built on the outskirts in the south of the metropolitan area and in peripheral districts.



	DELHI & GURGAON			
Independent houses	2004	2005	2006	2007
Golf links/Jorbagh	125,000	145,000	207,500	400,000
Vasant Vihar	95,000	115,000	152,250	300,000
GK 1 & 2, South Extension	60,000	80,000	85,000	157,500
Gurgaon	15,000	25,000	37,500	80,000

*Residential capital value in Rs. Per sq. yards for 4-bedroom high quality construction independent houses on a plot size of 400-500 sq. yards
Source: Cushman & Wakefield India*

New Satellite Office Locations

Immediately to the south of Delhi, Gurgaon was the first non-metropolitan location in which an international IT company (IBM) opened an office. Its far bigger supply of space and low office rents make it extremely attractive, a fact increasingly recognised by media and technology companies (Microsoft, Nortel, Samsung etc.).

Offices were followed by residential developers for the staff, giving rise to a satellite town with high-grade infrastructure that is also conveniently located for the international airport. The only hurdle is that the motorway to Delhi is not yet open. Meanwhile, though, construction work can no longer keep up with demand growth and as reserves of space shrink, so office rents are beginning to climb in Gurgaon, too. But at roughly INR 40 per sq ft and month, they are still way below the CBD level.

The shortage of space in Gurgaon makes other out-of-town locations interesting as well. Noida and Greater Noida are to the east of Delhi; Noida is about 10 km from the city, and Greater Noida is being built another 20 km east of Noida. Both towns - like Gurgaon, are based on a master plan assigning individual districts specific purposes. Whereas a large number of buildings are already complete in Noida, Greater Noida is still in the making.

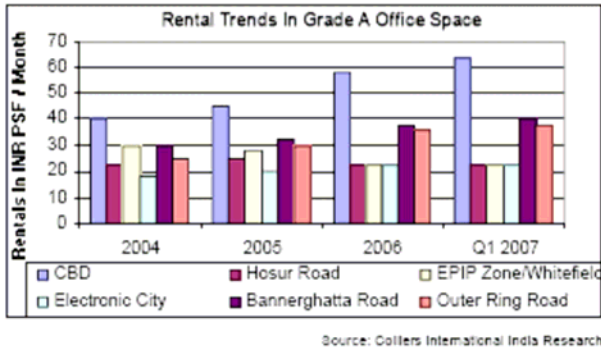
The infrastructure is already in place (expressway to Delhi), but work on offices and apartments is still in an early phase. As in Gurgaon, a new satellite town is being fashioned with office blocks, shopping malls and housing estates. The potential for expansion is enormous, and at around INR 35 per sq ft per month, office rents in Noida are still below those in Gurgaon.

With demand in the Northern Capital Region still rising, new building construction in 2006 is estimated at 7.5 million sq ft, which should satisfy the additional demand anticipated. Limited reserves of space in Gurgaon are increasingly forcing price-conscious takers to Noida and Greater Noida. The satellites' modern, premium-grade buildings and positive locational factors will presumably also attract demand out of the CBD. While prime rents still have upside potential even in the city centre, growth rates in the periphery are expected to be higher than downtown. We see rents throughout the

capital region nudging up a little in 2006, but brisk building activity will somewhat dampen price rises.

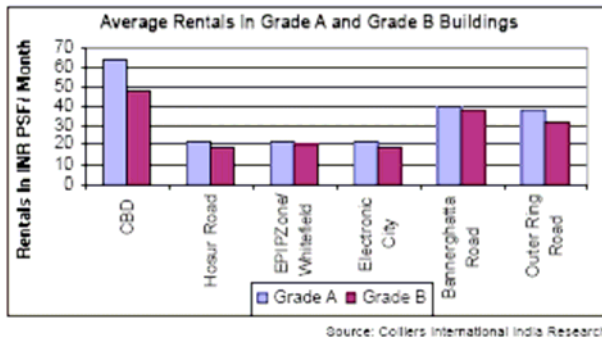
1.3.3 Bangalore

In the last few years Bangalore has developed as India's IT centre and has since been coined India's "Silicon Valley". But even before that, the city was already an important location as the centre for aerospace research. Today, nearly all well-known international IT firms are represented there.



However, the infrastructure of the city has not been able to keep pace with the rapid development of the IT market. Both the road network and the electricity and water supplies are overloaded. Local public transport is provided only by buses, although an underground railway is being planned. For a city of this size and impetus, the airport is also much too small. A new airport is being built in the north of the urban area. The first phase should be opened in mid-2007.

The office stock is considerable higher quality than those in Mumbai or Delhi. The first office buildings were constructed in the city centre (CBD) around Mahatma Gandhi Road. As the demand for modern space has continually increased, new office locations have had to be developed in the south and east of the urban area. The main locations for the secondary centres (SBD) are Hosur Road, Whitefield and Airport Road. Despite its suburban location in the east, Whitefield is the second-best location after the CBD while the Ring Roads are recognised as important peripheral locations.



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Average prime values in Rs. Per sq. ft. of quoted built -up -space

	BANGALORE			
Micro Business	2004	2005	2006	2007
Richmond Town	5,000	6,500	7,500	8,000
Palace Orchards	5,300	6,800	7,000	8,200
Indiranagar	3,200	3,900	5,000	6,500
Koramangala	3,100	3,800	4,500	6,000

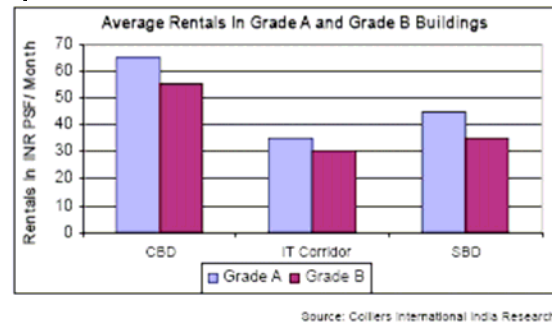
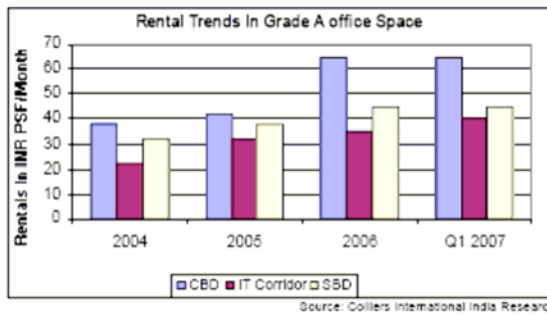
Average prime values in Rs. Per sq. ft. of quoted built -up -space

Source: Cushman & Wakefield India

Although competition with other Indian, Chinese and Eastern European IT outsourcing locations is growing, at least in the beginning, this will mainly affect the basic service areas. Bangalore has now moved further up the supply chain. In December 2005, both Intel and Microsoft stated their intention to strengthen their development activities in Bangalore. In this respect Bangalore still has a unique selling proposition. However, developments in the Tier II and Tier III cities will somewhat dampen medium term growth possibilities for Bangalore. The improvement of infrastructure has therefore become an indispensable prerequisite for Bangalore.

1.3.4 Chennai

Prime office properties in Chennai are located in three principal sub-markets– CBD, IT Corridor and SBD. SBD comprises of Guindy, T Nagar and other areas. In addition to this, Ambattur - a western industrial suburb of Chennai, is rapidly emerging as city's new IT hub.



With a huge supply of around 10 million sq ft office space expected to hit Chennai in year 2007, the market may see a slow absorption of spaces in near future. This may also result in stabilisation of rentals in the long run.

Business District	CHENNAI				
	2004	2005	2006	2007	2007
CBD-Mount Road	3,500	3,600	4,900	6,200	7,500
Off CBD-Nungambakkam	3,200	3,500	4,100	5,500	6,500
Peripheral-Old Mahabalipuram Road	2000	2,300	2,900	3,500	3,500
Suburban-Guindy	2,300	2,300	3,650	5,200	5,200
Suburban-Poonmaliee Road	2,500	2,500	3,550	4,200	4,500

Average capital value in Rs. Per sq.ft
Source: Cushman & Wakefield India

Assessing from the current demand - supply scenario, office rentals are expected to edge up in CBD area; however, the values will remain unchanged in SBD & IT corridor.

2. POLICY INITIATIVES

2.1 Foreign Direct Investment in Real Estate

The Department of Industrial Policy and Promotion (DIPP) vide Press Note No. 2 (2005) permitted FDI up to 100% under automatic route in townships, housing, built-up infrastructure and construction development projects (which would include, but not be restricted to, housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities, city and regional level infrastructure facilities, such as roads and bridges, transit systems etc), subject to the following guidelines:

The minimum area to be developed under each project would be as follows:

- In case of development of serviced housing plots, a minimum land area of 10 hectares.
- In case of construction development projects, a minimum built-up area of 50,000 sq.mts.
- In case of a combination of the above two projects, any one of the above two conditions would suffice.

The minimum capitalization norm shall be USD 10 million for a wholly owned subsidiary and USD 5 million for joint ventures with Indian partner/s. The funds would have to be brought in within six months of commencement of business of the company.

Original investment cannot be repatriated before a period of three years from completion of minimum capitalization. However, the investor may be permitted to exit earlier with prior approval of the government through the Foreign Investment Promotion Board (FIPB).

Development of at least 50% of the integrated project within a period of five years from the date of obtaining all statutory clearances has to be completed. The investor would not be permitted to sell underdeveloped plots (underdeveloped connotes, where roads, water supply, street lighting, drainage, sewerage and other conveniences as applicable under prescribed regulations, have not been made available). The investor must provide this infrastructure and obtain the completion certificate from the concerned local body/service agency before being allowed to dispose of the serviced housing plots.

The project shall conform to the norms and standards, including land use requirements and provision of community amenities and common facilities as laid down in the applicable building control regulations, by-laws, rules and other regulations of the State Govt./Municipal/Local Body concerned.

The investor shall be responsible for obtaining all necessary approvals, including those of the building/ layout plans, developing internal and peripheral areas and other infrastructure facilities, payment of development, external development and other charges and complying with all other requirements as prescribed under applicable rules/bye-laws/regulations of the State Government/Municipal Body/ Local Body

concerned. The State Government/ Municipal/ Local Body concerned, which approves the building/ development plans, will monitor the developer's compliance to the above conditions.

In order to slow down the inflow of foreign debt into the real estate sector, recently, the Government banned real estate companies from raising funds through the External Commercial Borrowing (ECB).

2.2 Investment Trend

There is a gradual shift in the way the construction of both residential and commercial property is being financed-away from debt and towards equity. Traditionally, developers funded their construction cost by pre-selling houses to buyers. But this mode has faded out, thanks partly to competition and financial sophistication. Private debt and bank lending have since emerged as the most important source of real estate finance in India, accounting for 60 per cent of the total money being spent on new construction activities. In the past four years, bank loans to commercial real estate have increased by more than 500 per cent to USD 2.4 billion.

Alternative financing options	
Model: PRIVATE EQUITY CAPITAL	Description: Pure financial investment to provide the base capital required to undertake large projects and, thus, reduce exposure to debt financing.
Model: JOINT VENTURE COMPANY	Description: Joint ownership of project specific Special Purpose Vehicles (SPV), foreign partner contributes capital and engineering capabilities, Indian developer contributes land, local resources and expertise.
Model: JOINT DEVELOPMENT AGREEMENT	Description: Foreign investors set up Indian presence and undertake development activity, Indian partner contributes land and receives deferred consideration in terms of development or revenue share.

At the end of 2005, the total Indian private equity looking for real estate was roughly USD 1.6 billion, accounting for 409 per cent of the Indian real estate capital market. New funds worth as much as USD 4.8 billion are being planned by JP Morgan, Knight Frank and other foreign investors.

THE USD 5 BILLION LINEUP

Sponsor	Fund Size # (USD million)
Ajay Piramal	78
American Inter Group (AIG)	275
Anand Rathi	112
Ascendas India IT Parks Fund	230
CalPERS	400
Carlyle-Santa Fey	300
CIG Realty (Unitech group)	400
Dawnay Day	75

Dewan Housing	55.6
Edelweiss Capital	35
Fire Capital	50
HDFC	345
ICICI-Tishman Speyer (India)	300
IDFC	345
IL&FS Investment Managers	502
Kotak Mahindra Realty Fund	100
Kshitij Venture Capital Fund	57.3
Maia (NRI Malini Alles)	150
Morgan Stanley	68
Reliance Group	112
Siachen Capital	100
Stargate Capital	186
The Chatterjee Group	450
Trikona	250
Total	4853.9

Source: CLSA Report

Amounts raised or proposed

3. MAJOR PLAYERS

3.1 Ansal Properties & Infrastructure Limited

Name	The Ansal Group
Year of Establishment	It was established in 1965
Company Profile	<p>The Ansal Group is a conglomerate of 35 companies, with Ansal Properties and Industries Ltd, (Ansal API); Ansal Housing and Construction Limited, (AHCL) and Ansal Buildwell Ltd. (ABL) at the core of the Group. All three are public limited companies, and engaged in the entire gamut of civil construction and real estate development activity in India and abroad. Employing 5000 people nationwide, with over 1000 of these in supervisory and managerial positions, all three companies have acquired the ISO 9001-2000 certificate.</p> <p>Its other group companies include Ansal Engineering Projects Ltd., Ansal Club Ltd., Ansal Hotels Ltd., Star Estates Management Ltd., Sunrise Management and Estate (P) Ltd., "Rigoss" Exports International Pvt. Ltd., and "Rigoss" Estates Network Pvt. Ltd.</p> <p>API's joint venture companies include Ansal Landmark Township (P) Ltd, Greenmax Estates (P) Ltd, Ansal Mittal Township (P) Ltd, Ansal Lotus Melange (P) Ltd. and Ansal Seagull SEZ Developers Ltd.</p>
Sales/Revenues/Turnover	The Group's turnover is around Rs. 3.5 billion and the projects in process cross Rs. 32 billion.
Global Presence/ Marketing Network	Ansal API has an extensive land bank of 5504 acres with a net value of Rs. 523.75 billion spread across 16 towns and cities in North India.
Acquisitions/Divestment/Strategic Alliances	<p>Their Joint Venture Collaborators (in the past & present)</p> <ul style="list-style-type: none"> - HDFC Bank - Faber Group, Malaysia - Coastal Carolina University, USA - Clemson University, USA

	<ul style="list-style-type: none"> - Tarleton state University, USA - North Dakota State University, USA - GP Group - Bangko, Thailand - Itochu Corporation - Tokyo, Japan - ITC Hotels Ltd- Delhi, India - Infotech Global Inc. (IGI)-USA - Marriott Corporation - USA - National Panasonic - Japan <p>Architects</p> <ul style="list-style-type: none"> - RSP Architects Planners & Engineers (India) Pvt. Ltd., Bangalore - APA Architects, New York, USA - WoodHead International, Sydney, Australia - Bose International, Mexico, USA - F.X. Fowle Architects, New York, USA
Future Prospects	<p>The company intends to shift its focus to value-added development, or constructed property. Ansal's thrust areas would be expansion into hospitality, and a focus on premium locations in Tier II cities of North India.</p> <p>In the pipeline are projects in Parwanoo, Bhopal, Narnaul, Shahpur, Ajmer, Zirakpur, Paonta Sahib, Panchkula and Yamuna Nagar Simultaneously, it plans to penetrate the Tier I cities further. It chooses to make a cautious approach to SEZs and IT Parks, but will pioneer mall development in integrated townships. Retirement homes for senior citizens are also on the agenda of the company.</p>

3.2 The DLF Group

Name	The DLF Group
Year of Establishment	Founded in 1946
Company Profile	The DLF group is a leading real estate developer based in New Delhi, India. The group has over 220 million sq. ft. of existing development and 574 million sq. ft. of planned projects. DLF is committed to quality, trust and customer sensitivity, and

	<p>deliver on promises with agility and financial prudence. In September 2006 DLF was the only real estate firm amongst the 60 businesses named Superbrands of India under the real estate category.</p> <p>The core business traditionally has been made up of 3 prime divisions; residential, commercial and retail. To these DLF has added 3 further divisions; hotels, infrastructure and SEZs.</p>
Sales/Revenues/Turnover	
Global Presence/Marketing Network	The DLF Group has over 748 million sq. ft. of development across its businesses, including developed, on-going and planned projects. This land bank is spread over 32 cities, mostly in metros and key urban areas across India.
Acquisitions/Divestment/Strategic Alliances	<ul style="list-style-type: none"> - Laing O'Rourke- famous UK based construction company will construct all DLF's landmark projects. Together DLF-Laing O' Rourke shall build the expressways, ports and other megastructures of India's new economy. - Nakheel of Dubai are partnering with DLF for townships of pathbreaking concepts in India. - WSP Group Plc is also partnering DLF, providing Management and consultancy to the built and natural environment. - Feedback ventures the leading practitioners in project management, is providing its expertise in terms of faster project execution. - DLF has also tied up with Hilton Hotels to jointly develop world class hotels in India.
Future Prospects	<ul style="list-style-type: none"> - Increase land reserves in strategic locations - Expand core business verticals nationally - Diversify into SEZ development - Diversify into hotel development - Enhance execution capabilities - DLF also plans to develop around 100,000 acres of land over the next couple of years, nationally.

3.3 Unitech Limited

Name	Unitech Limited
Year of Establishment	Unitech Limited was established in 1972 by a group of engineers, initially as a consultancy firm for soil and foundation engineering. In 1986, it set its eyes on the real estate business in Gurgaon.
Company Profile	The Group's principal activities are the construction, real estate development, consultancy in related areas, hotels, electrical transmission and information technology. The activities of the Construction segment include highway projects, industrial projects and overseas projects. Real estate development includes the development of commercial as well as residential properties. The Group operates in India and exports engineered construction products to the Middle East.
Sales/Revenues/Turnover	
Global Presence/ Marketing Network	Has a land bank of 43.85 million sq. mt. across 10 Indian cities
Acquisitions/Divestment/Strategic Alliances	<ul style="list-style-type: none"> - Entered into a tie-up with Hotel major Marriott to launch its Courtyard brand of business hotels in Gurgaon, Noida & Kolkata - Allied with Turner International for Pogo and Cartoon Network.
Future Prospects	<ul style="list-style-type: none"> - Achieve high growth by establishing a pan India presence – focus on major economic centres. - Focus on profitable projects that maximize returns. - Undertake large mixed-use projects like integrated townships in the suburbs of main cities. - Unitech is eyeing the southern real estate market & has begun a brand building exercise in Chennai.

3.4 Parsvnath Developers Limited

Name	Parsvnath Developers Ltd.
Year of Establishment	It was founded in 1990
Company Profile	Parsvnath Developers Limited is one of the leading real estate companies in India. The

	<p>Parsvnath Group has a diverse business portfolio of commercial complexes, shopping malls, integrated townships and group housing. Besides strengthening its position in core operations of real estate, Parsvnath Developers is striving to broad base its product offerings by catering to emerging markets and segments.</p> <p>In recognition to its commitment towards technical excellence and world-class real estate solutions, Parsvnath Group has become the first real estate company to achieve a NAREDCO-ICRA DR 2- rating. Parsvnath Developers Limited is also the first real estate developer to be certified to Integrated Management Systems (IMS) comprising of ISO 9001:2000, ISO 14001:2004 and OHSAS 18001:1999 certification by the Italy-based, Global Certification Organization, RINA group.</p>
Sales/Revenues/Turnover	Revenues in FY 2007 was Rs. 153.45 billion
Global Presence/ Marketing Network	Parsvnath Developers Limited has a PAN - India presence and an experience of more than 17 years in offering state of the art construction in 49 cities and 17 states with across key verticals of real estate industry. It is the most diversified and widespread real estate developer in India with 108 ongoing projects with a developable area of over 209.75 mn sq.ft. All across verticals.
Acquisitions/Divestment/Strategic Alliances	<ul style="list-style-type: none"> - Formed a JV with Royal Orchid Hotels to develop 10 hotels - Recently tied up with ITC to manage 50 hotels, comprising over 4,000 rooms, in next 5 years - It is said to be in talks with JW Marriott, Starwood & Intercontinental for management tie-ups
Future Prospects	<ul style="list-style-type: none"> - Plans to have at least 17 hotels across 13 cities operational by 2011 - Expanding footprints in newer locations across India. - Participating in re-development of land near Railway Stations. - Exploring possibilities of power generation and distribution. This will get

	<p>extended to their townships and SEZ locations also.</p> <ul style="list-style-type: none"> - Exploring infrastructural projects such as Highway and Airport development. Already submitted EOI for development of five Airports at Jalgaon, Karad, Phaltan, Dhulia & Chandrapur in Maharashtra. - Explore opportunities for taking up the real estate projects outside India.
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3.5 Omaxe Limited

Name	Omaxe Limited
Year of Establishment	It was established in 1989.
Company Profile	<p>Omaxe began life as a civil construction and contracting company, has Successfully executed more than 120 prestigious Industrial, Institutional, Commercial, Residential and Hospital construction projects.</p> <p>The company entered the Real Estate Development business in 2001 and is now amongst the largest Real Estate Development companies in India The company has executed construction contracts for a number of prestigious Indian private, public sector and Multinational's clients.</p>
Sales/Revenues/Turnover	Total revenues during the year 2006-07 amounted to Rs.14.40 billion.
Global Presence/ Marketing Network	The company is at present developing over 156 million sq ft of area across 31 towns in 10 states in Northern, Central India and Southern India.
Acquisitions/Divestment/Strategic Alliances	<ul style="list-style-type: none"> - Omaxe is in talks with US based Starwood Hotels & Resorts worldwide for its hotel projects. - They have initiated a tie-up with an Israeli firm for a hotel project in Surajkund.
Future Prospects	<ul style="list-style-type: none"> - Omaxe is planning to invest a total of Rs. 20 billion in its hotel projects in 11 cities across India. - They are also planning a Rs. 20-30

	<p>billion real estate project in Punjab.</p> <ul style="list-style-type: none"> - Omaxe is also planning to invest Rs. 2 billion in Dubai real estate projects. - They have exhaustive plans to upgrade living environs of smaller cities in North India in next 5 years
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3.6 Sobha Developers Limited

Name	Sobha Developers Ltd.
Year of Establishment	Sobha Developers was incorporated in Bangalore in 1995 by Mr P N C Menon.
Company Profile	<p>Sobha Developers pioneered in India the concept of truly international quality in construction industry. Here again, such superior standards set by him ensured consistent international quality to customers which soon became the industry benchmark for international quality. Having built innumerable residential, contractual and commercial projects, Sobha enjoys excellent brand presence in Bangalore.</p> <p>Today, they believe that the Sobha brand is well accepted as the industry benchmark for world class building techniques and quality standards, and also enjoys an ever widening reputation for reliability, dependability and honesty.</p>
Sales/Revenues/Turnover	Their scale of operations has expanded and their revenues reached Rs 11.89 billion in fiscal 2007.
Global Presence/ Marketing Network	<p>The company has gone from strength to strength completing 18.8 million square feet of area as of September 2007.</p> <p>It is an industry leader in Bangalore, Karnataka, contractual projects have also been constructed in Kerala, Andhra Pradesh, Orissa, Tamil Nadu, Punjab, Harayana and Maharashtra.</p>
Acquisitions/Divestment/Strategic Alliances	
Future Prospects	They anticipate building a presence in varied industries including Hotels & Resorts,

	<p>Hypermarkets, Home Stores, and Building Materials.</p> <p>In the area of Real Estate, the company has plans to be present in over 12 cities across India. Mysore, Mangalore, Cochin, Hyderabad, Pune, Chennai, Chandigarh, Coimbatore and Delhi are the likely cities where the brand will be present. With plans to be a truly multi-faceted organization, Sobha's amazing growth trajectory is clear to see.</p>
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3.7 Emaar MGF

Name	Emaar MGF
Year of Establishment	They commenced their operations in India in February 2005.
Company Profile	<p>Emaar MGF Land Limited is a joint venture between Emaar Properties PJSC ("Emaar") of Dubai and MGF Development Limited ("MGF") of India. MGF has over the last 10 years established itself as one of the key players in retail real estate development in Northern India.</p> <p>Their primary business is the development of properties in the residential, commercial, retail and hospitality sectors. In addition, they have also identified healthcare, education and infrastructure as business lines for future growth. Their operations span across various aspects of real estate development, such as land identification and acquisition, project planning, designing, marketing and execution.</p>
Sales/Revenues/Turnover	
Global Presence/ Marketing Network	Emaar is one of the world's leading real estate companies with operations in 16 countries, as of August 31, 2007.
Acquisitions/Divestment/Strategic Alliances	<ul style="list-style-type: none"> - Joint ventures with Leighton International Limited and Multiplex Limited, for the project construction in India. - Joint venture with Turner Construction

	<p>International LLC, to provide construction, program and project management services.</p> <ul style="list-style-type: none"> - Joint ventures with Accor (for the development and operation of “Formule 1” budget category hotel) and Premium Travel Inn (for the development and operation of “Premier INN” midmarket category hotels). - Entered into a management agreement with SC Hotels & Resorts (India) Private Limited, part of the Intercontinental Hotels Group, pursuant to build and fit out a “Holiday Inn” branded hotel in Kolkata. - Entered into an operating agreement and a MoU with Marriott Hotels India Private Limited (with respect to the development, operation and management of a hotel under the “Courtyard by Marriott” brand in Amritsar and a hotel under the “JW Marriott” brand in Kolkata) - Letter of intent signed with Four Seasons Hotels Limited. - MoU with Fortis Healthcare Limited to develop hospitals across India. - MoU with Dubai Aerospace Enterprise to explore potential areas of co-operation and development of existing and new airports in India.
<p>Future Prospects</p>	<ul style="list-style-type: none"> - Emaar MGF will construct 4 luxury hotels in 3 years, with an investment of \$400 million. It will include 3 JW Marriott hotels each in Delhi, Hyderabad and Kolkata and one business hotel under the Courtyard brand in Amritsar. - The company is also looking at a tie-up with Global Hyatt corporation for about 20 hotels. - They are basically looking at a long-term commitment through integrated master plan communities. So shopping along with entertainment and a luxury stay is on the offering.

4. OPPORTUNITIES AND CHALLENGES

4.1 Opportunities

The opportunities in the Indian real estate sector, has been highlighted as follows:

- There is a shortage of 12 million housing units in urban areas
- There is scope for 400 township projects over the next five years spread across 30 to 35 cities, each having a population of 0.5 million
- Total project value dedicated to low and middle income housing in the next seven years is estimated at USD 40 billion
- The retail market for mortgages is currently valued at slightly over USD 5 billion; and
- Considering that the outstanding loan to GDP ratio in India is less than 2 per cent, the mortgage market is expected to grow in excess of 25 per cent over the next five years, so as to be at par with Asian peers.
- Instruments such as residential mortgage-backed security (MBS), commercial MBS and collateralized debt obligations (CDO) are being used to make capital work more efficiently and de-risk project incomes from promoter risk while creating a robust secondary market for commercial real estate.

4.2 Impediments to Investment

Despite the huge investment potential there are certain snags related to investment in India's real estate. Topping the list of impediments is the opaque nature of the business in India. There are challenges of investing in India relate to transparency, limited market history and forecasting difficulties, as well as title complexities and imperfections. Ownership records and land titles are one of the biggest blind spots in property valuations. Further there is no title insurance in the country. Title insurance, as the name suggests, guarantees against massive losses in case of faulty title. While domestic funds are able to negotiate these issues, foreign funds too are learning to handle them.

Major Impediments

- Limited market history of property
- Procedural complexities
- Title complexities
- No title insurance available
- Lack of urban planning

Issues such as cost of property related to built-up, super built-up areas or carpet area have created a lot of confusion in the market. Land use issues, as evidenced in the sealing drive in Delhi, are pointers to an overall lack of urban planning. The 2006, Delhi Sealing Drive, a campaign by the Municipal Corporation of Delhi (MCD) to close (and thus apply a 'seal' on the locks of) a number of illegal commercial establishments in Delhi which are running in residential areas without authorization was a great cause of panic in the real estate markets, forcing the rentals in the surrounding areas to shoot sky high.

Stamp duties and archaic laws such as Urban Land Ceiling Act (ULCA) and Rent Control Act need to be rationalized or scrapped. The ULCA provide for the imposition of a ceiling on vacant land in urban agglomerations, for the acquisition of such land in excess of the ceiling limit, to regulate the construction of buildings on such land and for matters connected therewith, with a view to preventing the concentration of urban land in the hands of a few persons and speculation and profiteering therein and with a view to bringing about an equitable distribution of land in urban agglomerations to subserve the common good.

Recently, the Government has imposed some restrictions on the external commercial borrowings (ECBs) in order to slow down the inflow of foreign debt into the real estate sector. The finance ministry had barred companies' integrated townships from raising ECBs. It also made it difficult for small players to raise such funds by lowering the ceiling on interest rates, thereby making it tough for smaller firms to meet credit rating requirements.

Now that the window has been narrowed down, the Government hopes that the flow of external debt to the real estate sector will slow down. The Government is apprehensive about excessive external funds raised by smaller players in the realty sector. Excessive flow of foreign funds leads to inflation, which has recently been a major concern for the UPA government. Through tightening of ECB norms, the Government wants to curtail inflation as well as currency appreciation.