



REAL ESTATE

April 2010

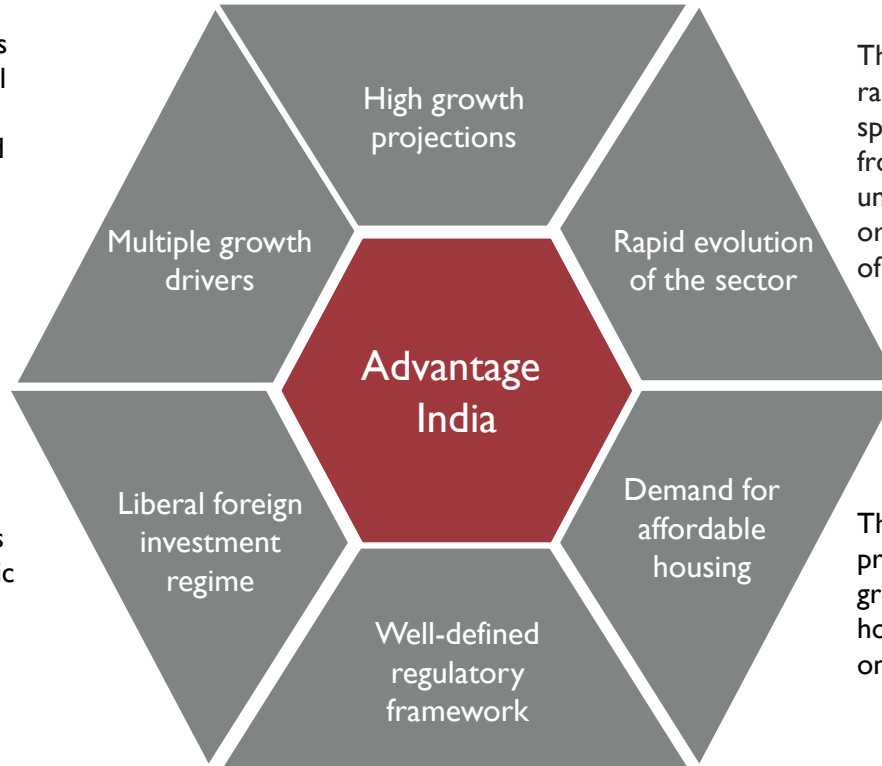
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Advantage India

The Indian real estate industry is expected to reach a size of US\$ 180 billion by 2020.

- High growth in the services sector — telecom, financial services, IT & ITeS, etc.
- There is a growing demand for affordable housing and high rate of urbanisation.
- Growing penetration of mortgage finance into the urban housing finance market.



The real estate sector in India is on a rapid growth trajectory. Over a short span of time, the industry has evolved from a highly fragmented and unorganised market into a semi-organised market, with a large number of listed companies.

FDI of up to 100 per cent is allowed under the automatic route in most asset classes.

The Indian Government and private developers, realising the growing demand for affordable housing, are strongly focussing on affordable housing.

The Government of India has well-drafted regulations for the Indian real estate sector.

Sources: CREDAI (Confederation of Real Estate Developers' Association of India) website accessed on 12th March 2010
Ernst & Young-FICCI Real Estate Report – 2009
Eleventh Five-year plan (2007–2012).

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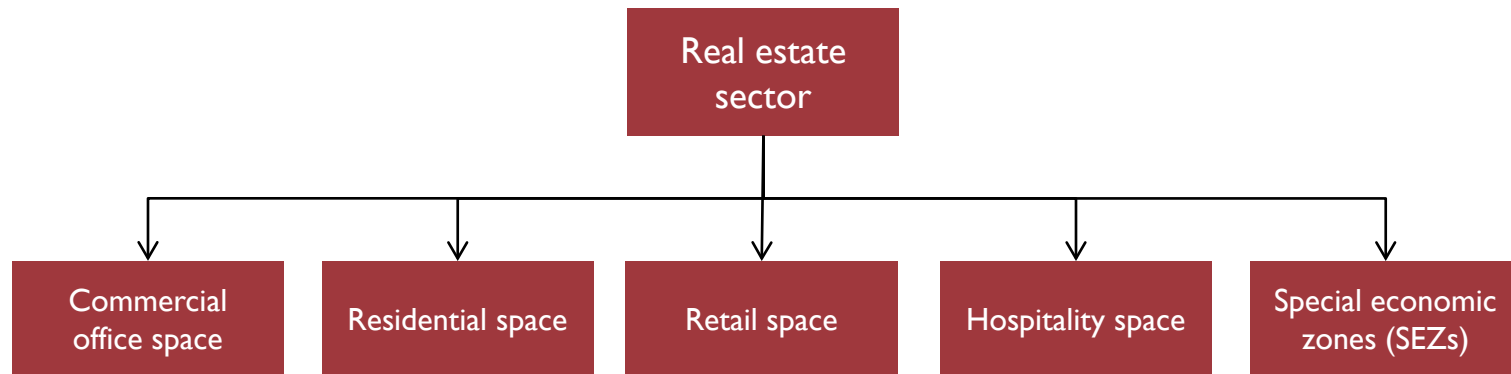
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Market overview

- The current contribution of real estate to India's GDP is about 5 per cent.
- The real estate sector is one of the highest FDI attracting sectors in India, having recorded FDI inflows worth more than 2.8 billion between 2000 and 2009.
- Growth has been driven primarily by the IT & ITeS sector, with an increase in the demand for office space, growing presence of foreign businesses in India, global strides of Indian corporates and a rapidly increasing consumer class.
- The major Indian players in the sector are DLF, Unitech, Ansal Properties, K. Raheja Corporation and Parsavnath Developers.
- After the 2008–09 global economic slowdown, the Indian real estate industry is now charting a path to recovery.
- In the last decade, FDI in real estate has increased due to the growing interest of foreign players in the Indian market. Many international players, including developers such as Emaar, Ascendas, Keppel Land, Tishman Speyer and Nakheel Group, and investors such as Morgan Stanley, Och-Ziff Capital, Citigroup, Goldman Sachs, JP Morgan, Warburg Pincus and Deutsche Bank, have entered the Indian real estate market during the last decade.

Sources: CREDAI (Confederation of Real Estate Developers' Association of India) website, www.credai.com, accessed on 23 March 2010; Ernst & Young-FICCI Real Estate Report – 2009.

Market segments



- In recent years, the industry has evolved from a highly fragmented and unorganised market into a semi-organised market.
- The sector can be divided into residential, commercial, retail and hospitality asset classes.

Commercial office space

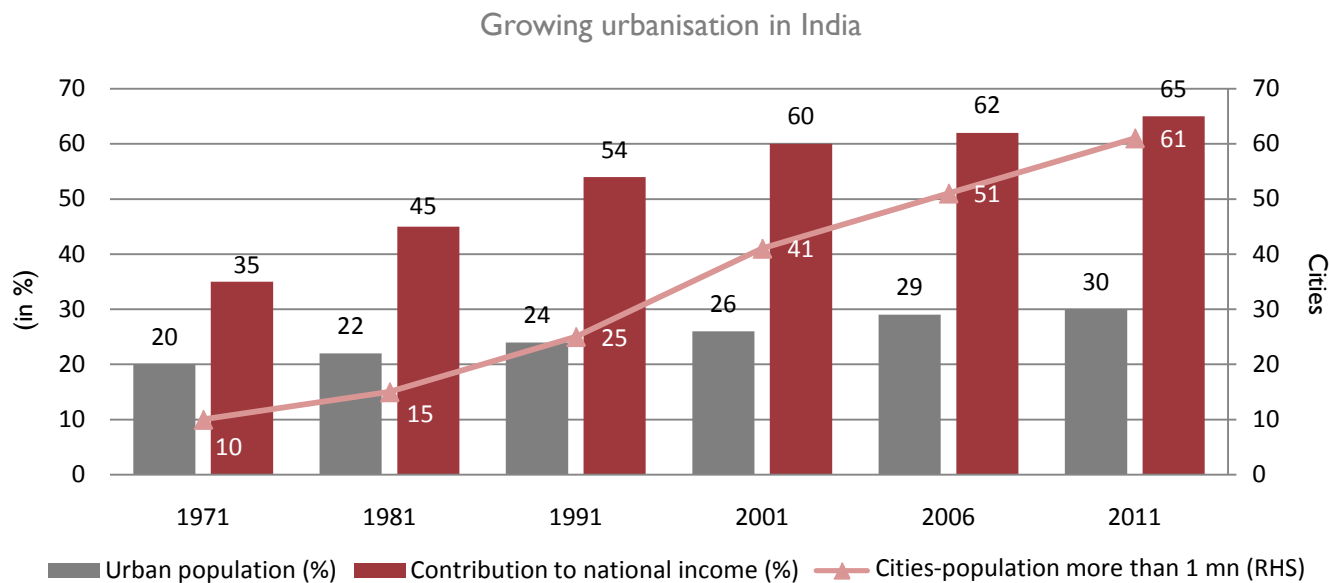
<p>Growth drivers</p>	<ul style="list-style-type: none"> • The commercial real estate (CRE) segment (primarily office space) has grown with the growth in the Indian economy. • The demand for office space has been driven by the influx of multinational companies (MNCs) and the growth of the services sector. • Progressive liberalisation and relaxation of FDI norms in various sectors have paved the way for growth in FDI in the real estate sector that has led to a burgeoning demand for office space from MNCs and other foreign investors.
<p>Market structure</p>	<ul style="list-style-type: none"> • Dominated by a few large national developers with a pan-India presence. • Regional players are expanding aggressively to achieve a pan-India presence. • Shift in the type of operations from a sale to a lease and maintenance model.
<p>Segmentation</p>	<ul style="list-style-type: none"> • Business activity shifting from central business district (CBD) to special business district (SBD) and from tier I cities to tier II cities.
<p>Outlook</p>	<ul style="list-style-type: none"> • Growth in services — telecom, financial services, IT & ITeS, etc., which accounts for the maximum demand of commercial office space in the country.

Residential space ... (1/2)

<p>Growth drivers</p>	<ul style="list-style-type: none"> • Rapid urbanisation — urban population estimated to reach 590 million by 2030. • Decreasing household size — number of nuclear families estimated to cross 300 million (middle-class population). • Growing working age population in the 16 to 64 age group — almost 64 per cent of the total population. • There is a growing demand for affordable housing, which is a priority segment for both the government and developers.
<p>Market structure</p>	<ul style="list-style-type: none"> • Highly fragmented and unorganised. • Regional players are expanding to achieve a pan- India presence.
<p>Segmentation</p>	<ul style="list-style-type: none"> • Broad categories include low-cost, mid-market and premium housing.
<p>Outlook</p>	<ul style="list-style-type: none"> • Current space shortage is close to 19.4 million units, largely in the middle and low income groups. • While the government has announced lower interest rates for home loans up to US\$ 41,667 (INR 2 million), developers have announced the launch of affordable housing projects, which will mostly come up in the suburbs of large cities and tier I and tier II cities. • Mortgage finance is expected to increase penetration into the urban housing finance market.

Sources: Ernst & Young-FICCI Real Estate Report – 2009.

Residential space ... (2/2)



Source: National Institute of Urban Affairs, UNDP, Ernst & Young analysis.

Retail space

<p>Growth drivers</p>	<ul style="list-style-type: none"> • Rising consumerism with doubling of disposable income. • Growth in organised retailing. • Entry of international retailers.
<p>Market structure</p>	<ul style="list-style-type: none"> • The retail segment is a small proportion of the total real estate industry in India. • The segment is dominated by unorganised retail space providers. • In the organised retailing segment, demand for good quality mall space has grown, with the entry of international retailers in India. • International retail brands are tying up with Indian partners.
<p>Segmentation</p>	<ul style="list-style-type: none"> • Contribution of organised retail to the retail industry increased from 2 per cent in 2003 to 4 to 5 per cent in 2007. • International retailers are present through the franchisee route.
<p>Outlook</p>	<ul style="list-style-type: none"> • Government is exploring the possibility of a relaxation in FDI norms. • Organised retail expected to grow at a compound annual growth rate (CAGR) of 19 per cent over the next five years. • The share of organised retail in the total retail space, in terms of sales, is expected to reach 5.6 per cent by 2010. • By 2010, there will be an estimated requirement of 220 million sq ft of new retail space.

Hospitality space

<p>Growth drivers</p>	<ul style="list-style-type: none"> • The hospitality segment has witnessed robust growth in demand, primarily due to strong growth in tourism, including both business and leisure travel. • India is acquiring recognition as a medical tourism destination. • International events, such as the Commonwealth Games, 2010, are expected to drive growth. • According to a research by the World Travel & Tourism Council, travel and tourism in India is expected to grow at 12.7 per cent per annum until 2019.
<p>Market structure</p>	<ul style="list-style-type: none"> • Existing hotel operators are scaling up their operations. • Developers are tying up with major international chains. • Developers have set up real estate funds to finance their ventures. • Hospitality players are diversifying into budget hotels and service apartments.
<p>Segments</p>	<ul style="list-style-type: none"> • Classification on the basis of star rating — one-star to five-star deluxe. • Number of approved hotel rooms has been estimated at 110,000 (including approved projects), 30 per cent of which are in the five-star segment.
<p>Outlook</p>	<ul style="list-style-type: none"> • The total estimated supply of hotel rooms is expected to reach 2.9 million and 6.6 million in 2010 and 2020, respectively. • High potential for budget hotels. • Service apartments, hospitals, wellness spas gaining popularity.

Sources: Tourism Statistics at a glance, 2008, Department of Tourism (DOT); India report, The Voyage, January 2009, World Travel and Trade Council (WTTC) estimates.

Key trends

- Geographic de-concentration of real estate activity from large metros — Bengaluru, Chennai, Mumbai and NCR — to tier II and tier III cities (cities such as Chandigarh, Chennai, Jaipur, Pune, Hyderabad, Kochi and Visakhapatnam). This transition has been driven primarily by the shift of IT-BPO companies towards tier II and tier III cities, which has increased the demand for commercial and hospitality real estate.
- The global economic slowdown in 2008–09, slowed the demand and investor interest in all segments of real estate. Industry players adopted a two-pronged approach to survive the slowdown. First, they worked upon improving their balance sheets and liquidity position and second, they focussed on developing self-funded projects such as affordable housing.
- Correction in prices — the decrease in demand due to the global economic slowdown in 2008–09 forced developers to offer discounts and incentives to boost sales. The offers for purchases ranged from a discount in base price, free parking/modular kitchen, free vacations, extension of equated monthly installment (EMI) period, EMI reimbursements, free luxury cars with the purchase, etc.
- In recent months, the residential real estate segment has witnessed a revival in demand, primarily due to improved affordability. Several players have launched new projects in the affordable housing sub-segment, which has received an encouraging response.

Growth drivers

Demand pull factors

Robust and sustained macro-economic growth.

Upsurge in industrial and business activities, especially new economy sectors.

Favourable demographic parameters.

Significant rise in consumerism.

Rapid urbanisation.

Availability of a range of financing options at affordable interest rates.

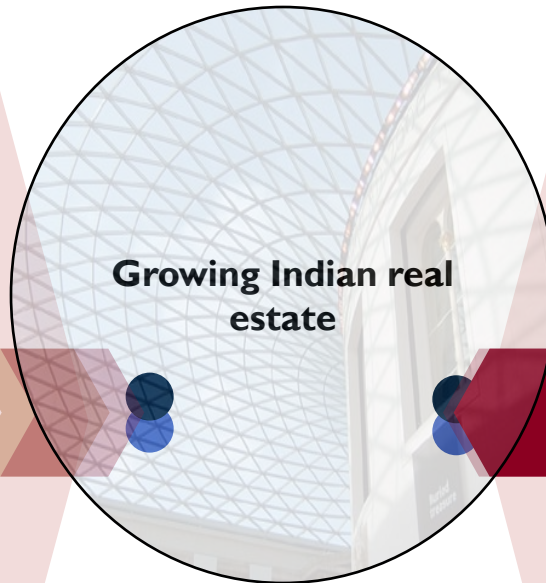
Impact

Increasing occupier base.

Significant rise in demand for office/industrial space.

Demand for newer avenues for entertainment, leisure and shopping.

Creation of demand for new housing.



Supply push factors

Policy and regulatory reforms (100 per cent FDI relaxation).

Positive outlook of global investors.

Fiscal incentives to developers.

Simplification of urban development guidelines.

Infrastructure support and development initiatives by the government.

Impact

Entry of a number of domestic and foreign players; increasing competition and consumer affordability.

Easy access to project financing options.

Increases developers' risk appetite and allows large scale development.

Improved quality of real estate assets.

Development of new urban areas and effective utilisation of prime land parcels in large cities.

Key players — international

Ascendas, Singapore	Emaar, Dubai
<ul style="list-style-type: none"> • Present in India since 1997. • Established a wholly-owned subsidiary, Ascendas India Private Limited. • Operating five IT parks across Bengaluru, Hyderabad and Chennai. • Key ongoing projects are International Tech Parks in Pune (ITPP) and Nagpur (ITPN) and CyberVale, an IT park within Mahindra World City in Chennai. • Invested US\$ 270 million in its flagship project, International Tech Park (ITPB), Bengaluru. • Ascendas Advantage India Development Fund worth US\$ 325 million launched in 2007. • Ascendas India IT Fund worth US\$ 520 million launched in 2005. 	<ul style="list-style-type: none"> • Present in India since 2005. • Developing integrated township at Mohali, spread over 3,000 acres. • Plans to develop integrated townships, commercial offices, IT parks, SEZs and hotels. • Planning to venture into the healthcare and education sectors. • Joint venture with MGF Development Limited, India • Emaar MGF has a joint venture with Accor Hotels (France) and Premier Travel Inn (UK). • Capital outlay of US\$ 4 billion for real estate projects in India.

Key players — Indian ... (1/2)

Unitech	DLF	Ansal Properties
<ul style="list-style-type: none"> • Operating in various asset classes in residential, commercial and retail segments. • Completed development of more than 24 million sq ft with six townships. • Eleven hospitality projects are under development across various cities of India • Presently developing five IT & ITES SEZs and one IT Park spread across Gurgaon, Noida, Greater Noida and Kolkata, with potential leasable area of 21.4 million sq ft • Major presence in the National Capital Region (NCR) and other areas such as Kolkata, Chennai and Hyderabad. 	<ul style="list-style-type: none"> • Largest real estate developer in India. • Developed Asia's largest private township, DLF City at Gurgaon, Haryana, spread over 3,000 acres. • Present across all asset classes — residential, commercial and retail. • Developed more than 220 million sq ft of built-up area (BUA). • Specialises in planning hotels, infrastructure and SEZs. • DLF is focussing strongly on affordable housing. • Pan-India footprint, major presence in Gurgaon and Kolkata. 	<ul style="list-style-type: none"> • Operates primarily in residential and commercial asset classes. • Developed over 2,850 acres in Gurgaon and Delhi. • Developing integrated townships, malls, hotels IT parks and SEZs. • Presently planning to construct 157.6 million sq ft of BUA. • Pan-India footprint with major presence in 16 North Indian cities across four states.

Key players — Indian ... (2/2)

K. Raheja Corporation	Sobha Developers	Parsvnath Developers
<ul style="list-style-type: none"> • Present in commercial, retail and residential asset classes. • Developed over 5 million sq ft of BUA. • Presently developing 15 self-contained townships and 10 hotels. • Major presence in Mumbai with operations in Bengaluru, Ahmedabad, Goa, Pune and Hyderabad. 	<ul style="list-style-type: none"> • Asset classes include residential, commercial, development of plots and contractual projects. • Completed 60 residential projects and 166 contractual projects covering about 36.34 million sq ft of area as of 31 March 2010 in 18 cities across India. • The company currently has 27 ongoing residential projects aggregating 9.08 million sq ft and 4.24 million sq ft in ongoing contractual projects • Major concentration in Bengaluru with presence in other cities such as Cochin, Chennai and Pune. 	<ul style="list-style-type: none"> • Presence in residential, retail, commercial and SEZs asset classes. • Land for development of over 193 million sq ft • The company has 98 ongoing projects. • Major presence in National Capital Region. • Increasing pan-India footprint — active in more than 45 cities across 16 states.

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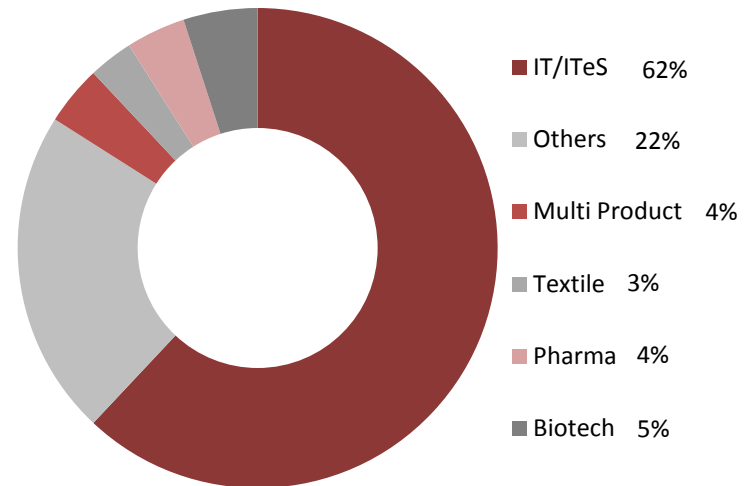
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Industry infrastructure — SEZs

- The Government of India introduced the SEZ Act, 2005, to generate additional economic activity, promote exports and create employment opportunities in the country.
- Developing an SEZ is approximately 15 to 20 per cent cheaper than developing non-SEZ commercial space, given the various fiscal benefits available to SEZ developers — several real estate developers have been attracted to these projects.
- Under the new SEZ Policy, formal approvals have been granted to 574 SEZ proposals as of March, 2010.
- As of March 2010, there were 350 notified SEZs and 146 have received in-principle approval.
- The SEZ Policy allows usage of as high as 50 per cent of the SEZ area as non-processing zone, offering significant potential for residential and support infrastructure.

Source: SEZ India website, www.sezindia.nic.in.

Industry-wise classification of formally approved SEZs



Source: SEZ India website, www.sezindia.nic.in.

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Investments

FDI in Indian real estate

- FDI inflows were recorded at US\$ 2.80 billion in 2008–09, as per the Department of Industrial Policy and Promotion (DIPP).
- Over the years, FDI in real estate has increased due to growing interest of foreign players in the Indian market.
- Majority of FDIs are from West Asia and investors from the US and Europe, who have shown keen interest in the launch of several real estate funds.
- FDI in the real estate sector is expected to witness an increase of US\$ 21 billion from the current values over the next 10 years.

Source: Fact Sheet on Foreign Direct Investment (FDI) from August 1991 to October 2009, Department of Industrial Policy and Promotion

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Policy and regulatory framework ... (1/2)

Guidelines for FDI in real estate in India		
Conditions for development	Conditions for investment	Other conditions
<ul style="list-style-type: none"> • Minimum 10 hectares to be developed for serviced housing plots. • For construction-development projects, minimum built-up area of 50,000 sq mt prescribed. • In case of a combination project, any one of the above two conditions should be met. • At least 50 per cent of the project to be developed within five years from the date of statutory clearances. 	<ul style="list-style-type: none"> • Minimum capitalisation of US\$ 10 million for wholly-owned subsidiaries and US\$ 5 million for joint ventures with Indian partners. • Infusion of funds within six months of commencement of business. • Original investment cannot be repatriated before a period of three years from completion of minimum capitalisation. • Investor may be permitted to exit earlier with prior government approval. 	<ul style="list-style-type: none"> • Investor is not permitted to sell undeveloped plots. • Project to conform to norms and standards laid down by respective state authorities. • Investor responsible for obtaining all necessary approvals as prescribed under applicable rules/bye-laws/regulations of the state. • Designated authority to monitor compliance of above conditions by developer.

Source: India Foreign Direct Investment Policy

Policy and regulatory framework ... (2/2)

Budget analysis

Union Budget 2010 — impact on real estate		
Policy impact	Direct tax impact	Indirect tax impact
<ul style="list-style-type: none"> Interest subvention on housing loans — a scheme was introduced by the Finance Minister in the Union Budget 2009–2010, which allowed an interest subvention of 1 per cent on housing loans of upto US\$ 20,833 (INR 1 million), provided the cost of house does not exceed US\$ 41,666 (INR 2 million). This scheme has now been extended up to 31 March, 2011. Allocation for housing and urban poverty alleviation has been raised from US\$ 177 million (INR 8.5 billion) to US\$ 208 million (INR 10 billion) for 2010–11. 	<ul style="list-style-type: none"> Threshold slabs for individual taxation broadened, which is expected to result in more disposable income in the hands of the consumers. Corporate tax rates remain unchanged. However, surcharge in the case of a domestic company having income above INR 10 million reduced from 10 per cent to 7.5 per cent. Minimum alternate tax (MAT) hiked from 15 per cent to 18 per cent. Turnover threshold limit for getting accounts audited (under section 44AB) has been relaxed to US\$ 12,500 (INR 6 million) from the existing limit of US\$ 83,333 (INR 4 million). 	<ul style="list-style-type: none"> Service tax rate maintained at 10.3 per cent. Relevant definition of taxable service, provided in relation to renting of immovable property, has been amended with retrospective effect from June 2007 to clarify that renting of immovable property would constitute a taxable service. Service tax to be levied on lease of vacant land if the lessor undertakes construction on such land for furtherance of business or commerce during the tenure of lease. Peak excise duty rate has been increased from 8 per cent to 10 per cent. Accordingly, peak effective customs duty rate has been increased from 24.42 per cent to 26.85 per cent.

Source: EY India Budget 2010

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Opportunities ... (1/2)

- Growth of services sector and organised retail, increasing urbanisation, rising income levels, contracting household sizes and easy availability of home loans are key growth drivers of the industry.
- According to the Eleventh Five Year Plan (2007–2012), the housing shortage in urban areas was estimated to be 24.7 million units in 2007, of which over 88 per cent was in the economically weaker section (EWS). Further, the housing shortage in rural areas was estimated to be at 47.4 million units in 2007.
- In recent months, the residential real estate segment has witnessed a revival in demand, primarily due to improved affordability. Several players have launched new projects in the affordable housing sub-segment, which have received an encouraging response.
- Long-term view on the Indian real estate industry is positive as the fundamental demand drivers such as increasing urbanisation, favourable demographics, growth of services sector and rising incomes are still intact.

Opportunities ... (2/2)

- Demand in coming years is expected to be driven primarily by the unmet need in the housing segment, stable economic reforms and large infrastructure investments from the government, besides the strong demographic profile of the Indian consumers.
- The Government of India plans to spend about US\$ 350 billion on infrastructure development under the Eleventh Plan, which is expected to drive demand in the real estate sector.
- Further, upcoming industrial clusters, improved infrastructure and growing availability of land for development in emerging tier II and tier III cities are also expected to fuel growth in the real estate sector.

Opportunities — emerging asset classes and formats

Logistics and warehousing	Healthcare infrastructure	Education infrastructure	Low-cost housing
<ul style="list-style-type: none"> • Booming trade, both international and domestic. • MNCs establishing Indian operations. • Agricultural logistics require creation of cold chain infrastructure. • Logistics required for large infrastructure and engineering projects. • Consolidation of warehousing, if uniform tax regime is applied. 	<ul style="list-style-type: none"> • Healthcare industry expected to grow at a CAGR of 12 per cent over the next five years. • The industry was valued at US\$ 38.8 billion in 2008. • Healthcare BPO is a growing segment. • Medical infrastructure expanding, with one million beds to be added by 2012. • Medical tourism growth driven by low cost and high-quality services. 	<ul style="list-style-type: none"> • Huge market with untapped potential and low competition. • Need for development of more world-class educational institutions. • Driven by knowledge-based industries, large demand for qualified engineers. • Research laboratories adding value to global outsourcing. • Growing interest of leading global educational institutions in setting up institutions in India. 	<ul style="list-style-type: none"> • Over 70 per cent of the total population lives in rural areas. • Housing shortage is expected to increase to 26.53 million units by 2012 and requires an investment of US\$ 877 million. • Shift from rented to owned house. • Easy access to finance. • Growing demand for housing among nuclear families.

Sources: Healthcare industry: opinion, August 2009, CRISINFAC
India real estate - shifting gears, Ernst & Young 2008

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Industry associations

The Confederation of Real Estate Developers' Associations of India (CREDAI)

National Secretariat, 703, Ansal Bhawan,
16, Kasturba Gandhi Marg, New Delhi – 110 001.
Tel: (011) 43126262/43126200
Fax: 91 11 43126211
E-mail: info@credai.org
Website: <http://www.credai.com/>

Builders' Association of India (BAI)

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Tardeo, Mumbai 400034
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Fax : (91-22) 23521328
E-mail: bai@vsnl.com, baihq.mumbai@gmail.com
Website: <http://www.baionline.in/>

Note

Wherever applicable, numbers in the report have been rounded off to the nearest whole number.

Conversion rate used: US\$ 1 = INR 48

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