



REAL ESTATE

December 2008

MARKET OVERVIEW

Market overview: Real estate

- Real estate industry is currently estimated to be US\$ 48 billion, with a CAGR of 30 per cent
- Total economic value estimated to be US\$ 40-45 billion accounting for four to five per cent of the GDP
- Growth driven primarily by IT/ITeS, growing presence of foreign businesses in India, the globalization of Indian corporates and, the rapidly increasing consumer class providing a huge market potential
- The real estate sector is in an early growth stage, can be segmented into residential, commercial, retail and hospitality asset classes
- Demand-supply gap across all segments for quality real estate

Source: Industry Sources, E&Y Analysis

Commercial office space

Growth Drivers

- Growth in IT/ITES sector at 30 per cent annually (source: NASSCOM)
- Significant growth in FDI

Market Structure

- Dominated by a few large national developers with pan-India presence
- Regional players are expanding to achieve a Pan-India presence
- Shift in the type of operations from Sale Model to lease & maintain model

Commercial office space

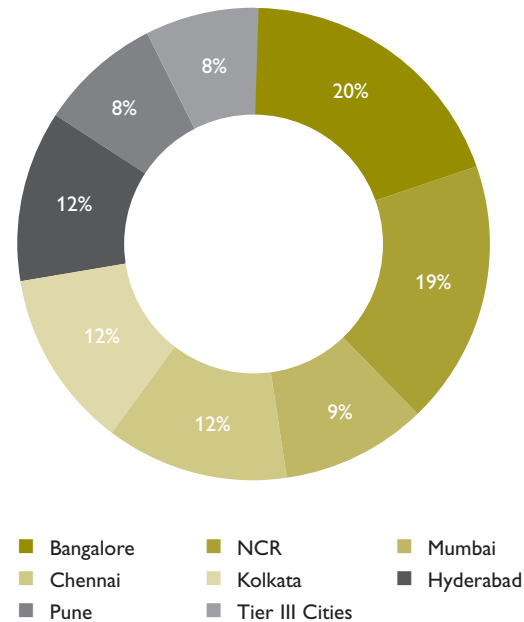
Segmentation

- Commercial Space can be classified broadly into Grade A and B
- Business activity shifting from CBD to SBD and from Tier I to Tier II & III

Outlook

- Commercial market expected to grow at CAGR of 20 per cent to 22 per cent over the next five years
- IT/ITeS sector expected to require in excess of 250 million sq. ft of commercial office space by 2012-13

Commercial Office Space Absorption
Total: 45 mn sq. ft (2006)



Source: E&Y estimates for top seven cities

Residential space

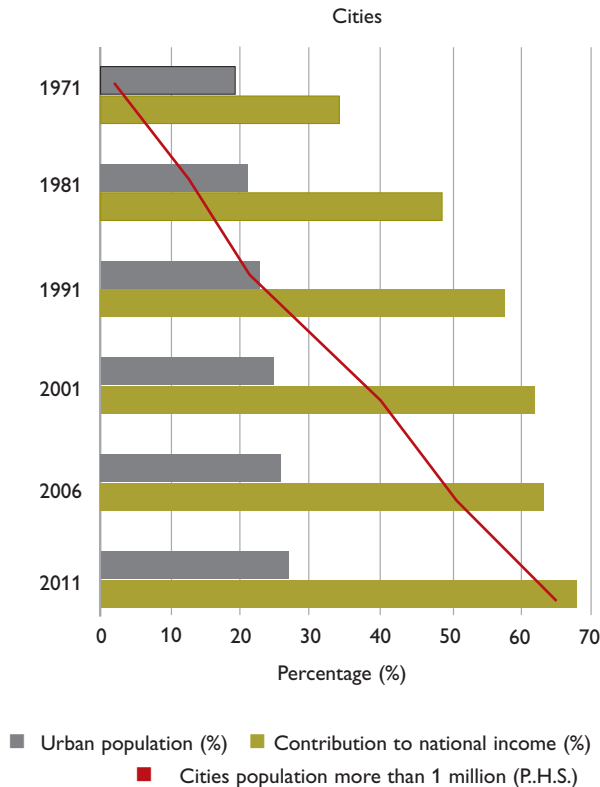
Growth Drivers

- Rapid urbanisation: Urban population expected to touch 590 million by 2030.
- Decreasing household size: Average increase in number of nuclear families estimated to be over 300 million (middle class population).
- Number of rich household growing at CAGR of 21 per cent.
- Increasing working age population (almost 64 per cent in 16-64 age group).
- Increasing income levels: per capita GDP increased by 66 per cent in last five years.

Market Structure

- Highly fragmented and unorganized
- Regional players are expanding to achieve a Pan-India presence

Rising Urbanisation in India



Source: - National Institute of Urban Affairs, UNDP, E&Y Research

Residential space

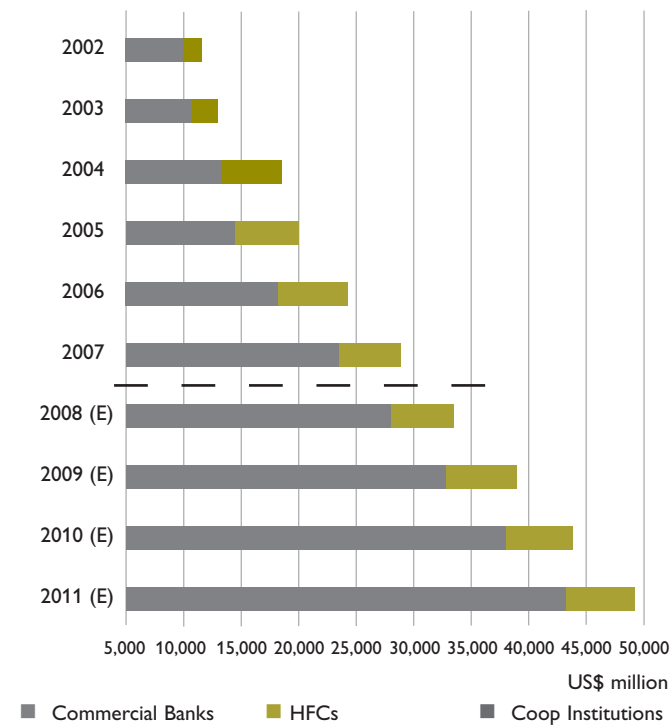
Segmentation

- Broad categories include Low cost/Mid market/Premium housing
- Luxury segment growing annually at 25-30 per cent

Outlook

- Current shortage close to 25 million units, predominantly in middle and low income group
- Expected to grow at CARG of 18 per cent to 19 per cent upto by 2010
- Mortgage finance will be increasing penetration into the urban housing finance sector

Annual Home Loan Disbursal from Formal Sector



Source: Report of the 11th Five Year Plan (2007-12), Working Group on Urban Housing

Source: The Working Committee of the 11th Plan (2007-12)

Retail space

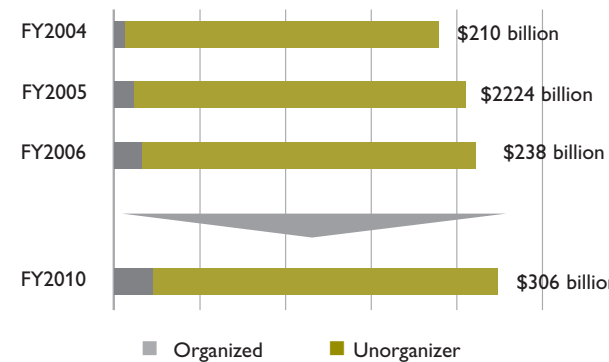
Growth Drivers

- Rising consumerism with doubling of disposable income
- Growth in Organized Retailing
- Entry of international retailers

Market Structure

- Dominated by unorganised retail
- Large corporate houses entering the organized retail sector
- International retail brands are tying up with Indian partners

Growth of Retail Industry



Source: Edeliwiss, E&Y Research

Retail space

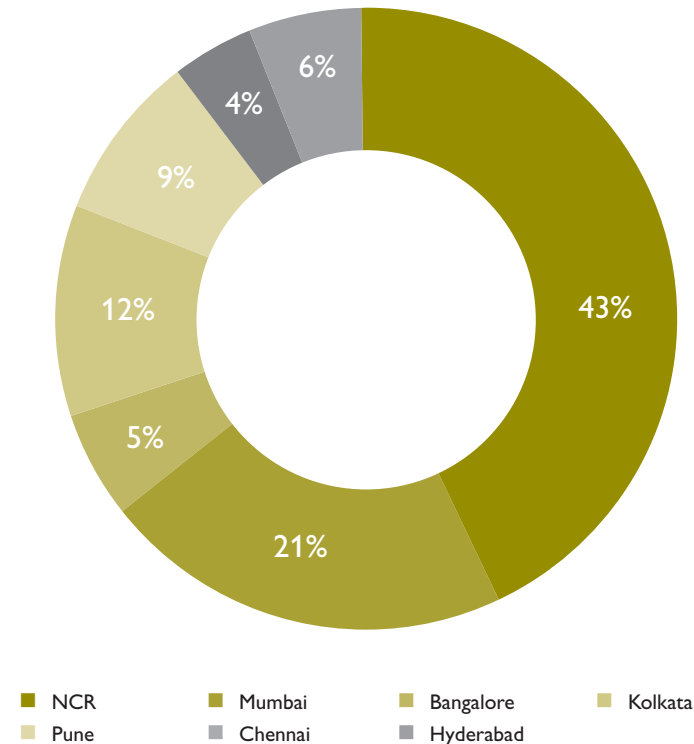
Segmentation

- Organized retail contribution to the retail industry grew from 2 per cent in 2003 to four to five per cent in 2007
- International retailers are present through franchisee route

Outlook

- FDI norms are likely to be relaxed in next two to three years
- Organised retail expected to grow at around 30 per cent
- Share of organised retail, by sales expected to reach 10 per cent by 2010
- By 2012, 323 million Sq.ft. of new retail space will be required.

Absorption of Organised Retail Space
Total Absorption: 19 million sq. ft (2006-07)



Source: E&Y estimates for top seven cities, KSA Technopak

Source: KAS Technopak, E&Y estimates

Hospitality space

- Number of malls in India is expected to increase from 105 in 2006 to 412 in 2010

Growth Drivers

- More than 4.4 million international visitors and 430 million domestic tourist visits in 2006
- Low cost airlines
- India requiring recognition as a medical tourism destination
- International events such as Commonwealth Games
- Emergence of India as a MICE destination

Market Structure

- Entry of several corporate houses such as Reliance
- Existing hotel operators are scaling up their operations

Hospitality space

- Developers are tying up with major international chains
- Developers have set up RE funds to finance their Ventures

Segmentation

- Classification on the basis of Star Rating of 1 star to 5 star deluxe
- Number of approved hotel rooms: 1,10,000 (including approved projects), 30 per cent of this is in the five-star segment

Hospitality space

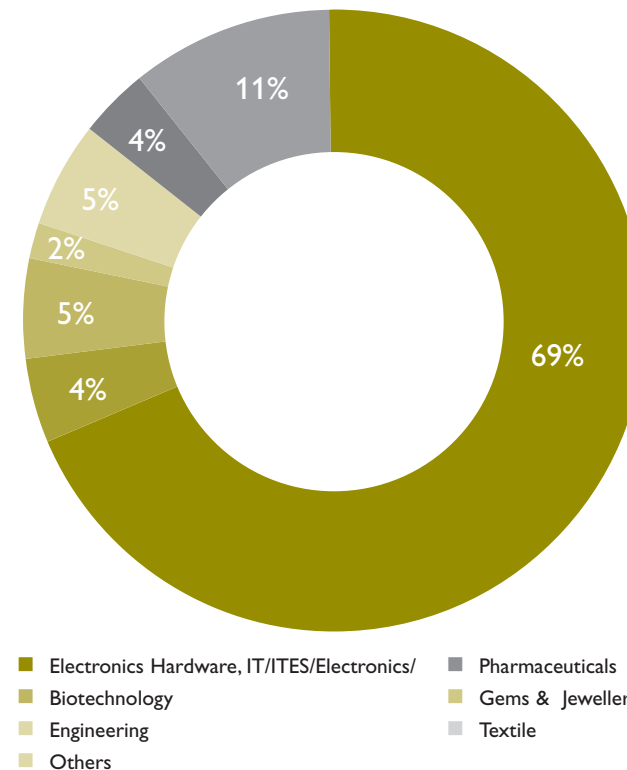
Outlook

- Indian tourism industry to grow by eight per cent per annum over the next 10 years.
- Tremendous potential for budget hotels
- Service apartments, hospitals, wellness spas gaining popularity.
- International hotel chains have big expansion plans for India

Special Economic Zones (SEZs)

- Under the new SEZ Policy, formal approvals have been granted to 462 SEZ proposals
- 222 have already been notified as SEZs, as on 30th August 2007
- Fiscal benefits to IT Parks expected to come to an end in 2009; SEZs likely to be preferred for IT/ITeS commercial office space development
- Policy allows usage of as high as 50 per cent of area as non-processing zone, offering immense potential for residential & other support infrastructure.

Industry-wise classification of formally approved SEZs



POLICY

Key regulations for FDI in real estate in India

Guidelines for FDI In Real Estate in India

Conditions for Development

- Minimum 10 hectares to be developed for serviced housing plots
- For construction-development projects, minimum built-up area of 50,000 square meters prescribed
- In case of a combination project, any one of the above two conditions should suffice
- At least 50 per cent of project to be developed within 5 years from date of statutory clearances

Key regulations for FDI in real estate in India

Guidelines for FDI In Real Estate in India

Conditions for Investment

- Minimum capitalization of US\$ 10 million for wholly owned subsidiaries & US\$ five 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 capitalization.
- Investor may be permitted to exit earlier with prior Government approval

Key regulations for FDI in real estate in India

Guidelines for FDI In Real Estate in India

Miscellaneous Conditions

- Investor 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/ by-laws/regulations of the State
- Concerned Authority to monitor compliance of above conditions by developer

FDI experience in Indian real estate

Key Highlights

- Several global investors and developers keen on investing in India.
- FDI inflows estimated to be US\$ 19.5 billion in FY2007 and, US\$ 7.5 billion in the first five months of FY2008.
- FDI in the sector expected to touch US\$ 25 to 28 billion by 2010.
- US\$ 16.3 billion FDI committed for real estate projects
- Majority of the direct investment is from West Asia with overall commitment of US\$ 9.7 billion from Dubai-based developers.
- Further, investors from US and Europe have shown keen interest with the launch of several real estate funds

Real estate share in FDI



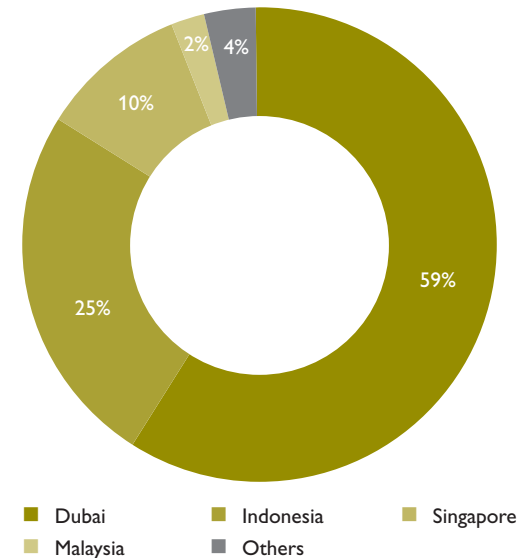
Source: ASSOCHAM, E&Y Research

FDI experience in Indian real estate

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Major Countries investing in Indian Real Estate



Source: Industry sources, E&Y Research

Regulatory interventions

Regulatory and Policy Interventions

Rationalization of process :

- Rationalization of the regulations in governance affecting real estate
- For example, improved land records, rationalizing stamp duty across states, simplifying urban development guidelines etc.

Social Infrastructure:

- Focus from both public and private sector
- Different models for foreign investment being evaluated

Regulatory interventions

Government incentives:

- SEZ Act, 2006 provides major Tax benefits, Tax relief and Single window clearance and approval

Urban Infrastructure Development:

- Focus on urban infrastructure
- Urban Reform schemes
 - * JNNURM
 - * City Challenge Fund
 - * Mega Cities Fund

Budget analysis

Union Budget 2008 : Impact On Real Estate

Policy Impact

- NHB to introduce reverse mortgage
- Senior citizens to receive monthly income against their property
- They do not have to repay the loan
- Regulations for mortgage guarantee companies
- Guaranteeing mortgages on the behalf of the banks and finance companies

Budget analysis

Union Budget 2008 : Impact On Real Estate

Direct Tax Impact

- Reduction in tax burden due to increase in threshold limits on individual tax slabs
- No change in corporate income tax rates and surcharge.
- 100 per cent tax holiday for five years for hotels and convention centres in World Heritage sites if they start functioning before March 31, 2013.
- 100 per cent tax holiday for five years anywhere in India if they start functioning before March 31, 2013.
- No tax regime proposed for Real Estate Investment Trusts.

Budget analysis

Union Budget 2008 : Impact On Real Estate

Indirect Tax Impact

- General rate of excise duty reduced from 16 per cent to 14 per cent.
- Excise duty revised on bulk cement from US\$ 10 per tonne to 14 per cent of assessable value or US\$ 9.8 per tonne, whichever is higher.
- No change in service tax rate
- Seven new taxable services included in the service tax net
- Decrease in customs duty rate on imports under project import scheme from 7.5 per cent to five per cent.

Business and investment models for FDI

Business Models

- **Large Scale Direct Entry:** Independent approach for undertaking real estate projects
- **Establishment of Umbrella Joint Venture:** Foreign developer/investor enters into a joint venture with a local partner to carry out projects
- **Multiple Joint Ventures:** Joint ventures with different local partners on project-to-project basis
- **Investment through creation of Capital Fund :** Facilitating the local developers through funding their ventures

Business and investment models for FDI

Investment Models

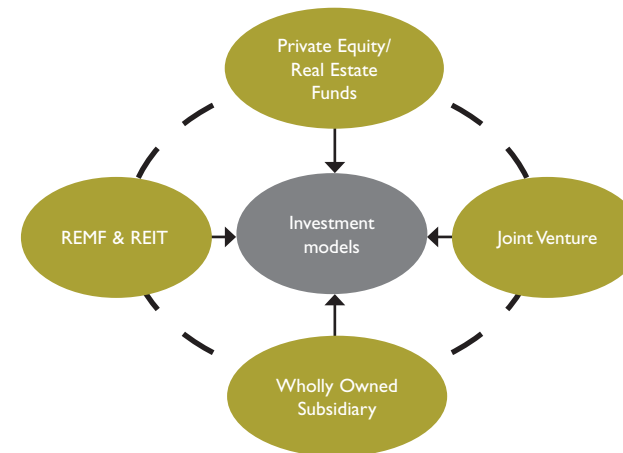
Private Equity/Real Estate Funds :

- The investors pick up equity stake in unlisted real estate firms and collaborate in business plans
- Lowers the transaction costs and provides an easier exit route

Joint Venture

- Long term partnerships or project-specific
- Mitigates the risk of entering the new market

Investment Models



Source: E&Y Analysis

Business and investment models for FDI

Wholly Owned Subsidiary:

- A relatively less preferred arrangement, few overseas developers are developing projects on a stand-alone basis

Public - Private Partnership:

- Government takes a proactive role and collaborates with foreign developers

KEY TRENDS & DRIVERS

Indian economy: Overview

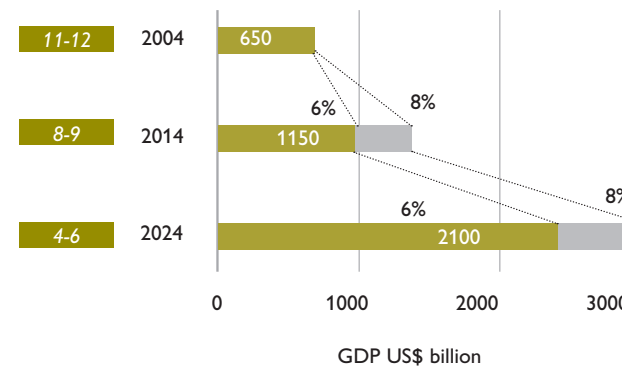
1) Accelerated yet stable reforms process

- Broad consensus on importance of reforms
- Reforms momentum continued despite changing leadership especially in areas of FDI & infrastructure

2) Robust economic fundamentals

- Fourth largest economy in the world in terms of PPP
- GDP growth rate of 9.4 per cent
- Forex reserves at US\$ 204 billion
- Services sector accounts for more than 50 per cent of GDP, while manufacturing sector average growth is at six per cent,

India's GDP over next two decades



Source: E&Y Analysis, CII

Indian economy: Overview

3) Fast improving socio-economic profile

- Per capita GDP has increased by 66 per cent in the past five years
- Favorable demographics with more than 60 per cent of population estimated to be in the working age (15-60 years) till 2050
- Growing lifestyle spending with increased expenditure on consumer durables, eating out and communications.

4) Increased foreign investment

- India's policy on foreign investment has been gradually relaxed with sectors such as construction, telecom and banking allowed. Another route of foreign participation is portfolio investments.







Indian economy: Overview

- FDI inflows estimated to be US\$ 19.5 billion in FY 2007 and US\$ 7.5 billion in the first five months of FY 2008

5) Focus on infrastructure development

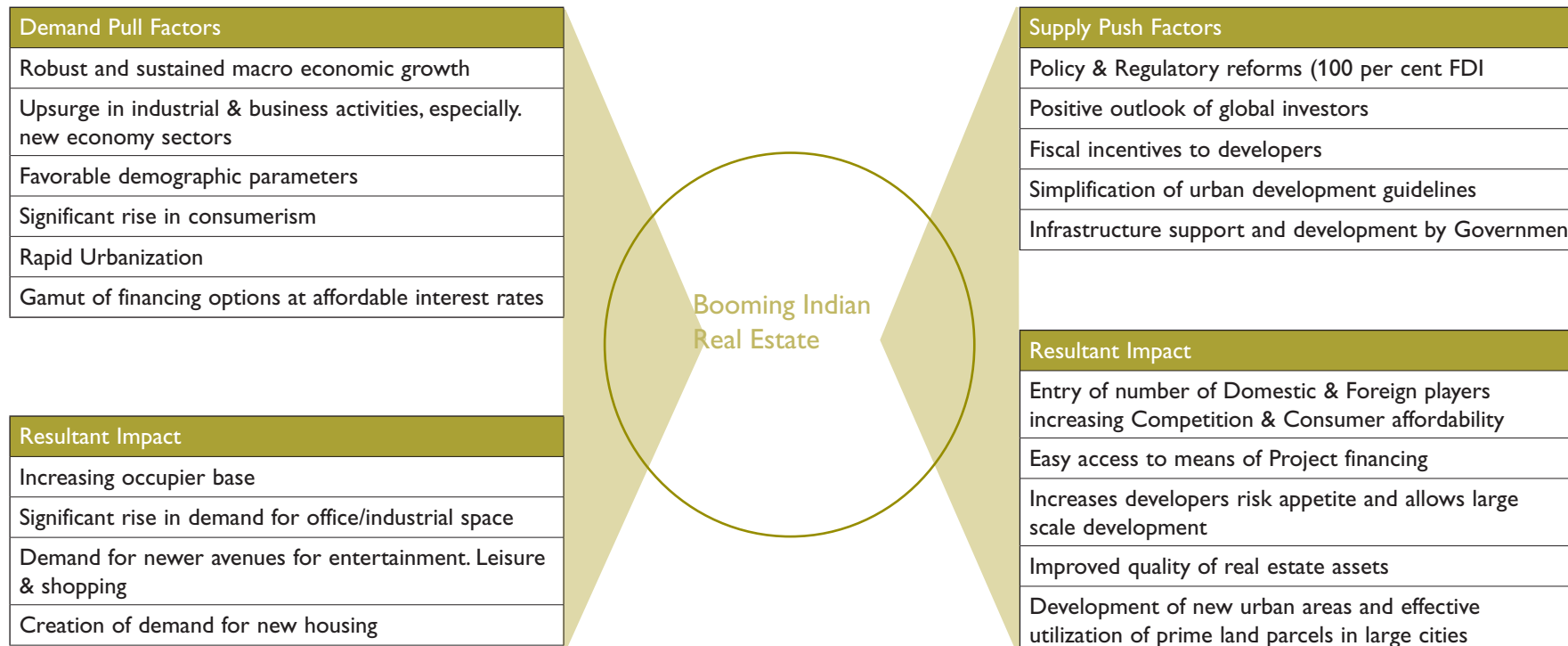
- India has a well developed road and rail network. Large investments are underway in areas of:
 - Highway development
 - Air-connectivity (Domestic & International)
 - Upgradation of ports with their privatisation
 - Power sector

The impact of macroeconomic factors on demand & supply of real estate

Economic Growth	<ul style="list-style-type: none"> - Broad based GDP growth rate of 8-9 % per annum forecast - Demand driven by the growth in services sector - Growth expected to fuel demand across all the asset classes 	
Inflation	<ul style="list-style-type: none"> - Has significant role in supply-demand of real estate - Continues to remain a major concern - Inflation is at its lowest since last year 	
Money Supply	<ul style="list-style-type: none"> - Growth is higher than RBI estimates - Liquidity is key to inflation and over-heating - Restricted availability to reduce options for builders/developers 	
Interest Rates	<ul style="list-style-type: none"> - Higher rates lead to higher cost of borrowing - Developers seeking other options, consumers are re-evaluating options - Investors are revaluating returns from the sector 	
Credit Take-off	<ul style="list-style-type: none"> - Easy availability of capital has led to growth in valuations - Concern over exposure of Banks towards the sector - Restrictions have increased the cost leading to alternate sources like PE/VC 	
Government Policies	<ul style="list-style-type: none"> - Liberalization of FDI has led to an interest from new players - Valuation standards and greater transparency - Service tax on commercial rental to affect retail space 	

Source: RBI, E&Y Analysis

Demand pull and supply push factors



Source: E&Y Analysis

Market trends and outlook

Parameters	Characteristics/ Trends	Outlook
Growth Rate	<ul style="list-style-type: none"> High growth of around 30% in last five years 	<ul style="list-style-type: none"> Expected to maintain the same growth in the medium term (five to seven years)
Structure	<ul style="list-style-type: none"> Highly unorganized sector Entry of numerous new players 	<ul style="list-style-type: none"> Phase of consolidation expected in five to seven years Entry of large number of international players Preference towards strategic development alliances
Market Concentration	<ul style="list-style-type: none"> Highly concentrated within top six to eight cities in the country High concentration leading to significant property price rise in such cities 	<ul style="list-style-type: none"> Growth to be driven primarily by Tier-II and Tier-III cities in the near future, across segments Emergence of at least 10 to 15 new cities as growth centers Increased development of planned cities
Competition	<ul style="list-style-type: none"> High competition with four to six key national players and numerous regional players 	<ul style="list-style-type: none"> Shift in competition towards product focus/ differentiation
Extent of Regulations	<ul style="list-style-type: none"> Moderate-No functional regulatory body Region/Location specific building laws 100% FDI is allowed under the automatic route 	<ul style="list-style-type: none"> Stringent regulations expected to be introduced inline with international norms Reforms in local development guidelines

Market trends and outlook

Parameters	Characteristics/ Trends	Outlook
Financing	<ul style="list-style-type: none"> • 30 to 40 per cent annual increase in the home loan disbursements loan disbursals from Indian housing finance companies • Loan tenures have increased: 150 months (2001) to 173 months (2006) due to declining age of borrowers 	<ul style="list-style-type: none"> • Larger mortgage penetration • Introduction of globally accepted instruments/modes such as REITs
Branding Penetration	<ul style="list-style-type: none"> • Low-Commoditized market in most regions • Brand-consciousness growing in Tier-I cities 	<ul style="list-style-type: none"> • Strong focus on brand development • Developers to have multiple brands focused on specific product segments
Product Focus	<ul style="list-style-type: none"> • Market driven product supply • Developers undertaking activities across asset classes with not much differentiation between product classes • More focus to cater to the premium end consumer 	<ul style="list-style-type: none"> • Enhanced focus on need driven product supply • Emergence of firms with niche asset class focus
Ownership	<ul style="list-style-type: none"> • Developers prefer to exit through sale to end consumer • Only few large developers prefer to hold properties. Most developers prefer to sell 	<ul style="list-style-type: none"> • Developers would start holding properties on a long-term lease basis

KEY PLAYERS

Select foreign investors

ASCENDAS, Singapore

- Present in India since 1997
- Established a wholly owned subsidiary, Ascendas India Private Limited
- Operating 5 IT Parks across Bangalore, Hyderabad and Chennai having BUA of 4.4 million
- Plan to develop two new IT Parks in Pune and Nagpur at a cost of US\$ 375 million
- Ascendas Advantage India Development Fund for US\$ 325 million launched in 2007
- Ascendas India IT Fund for US\$ 520 million launched in 2005

Select foreign investors

EMAAR, Dubai

- Present in India since 2005
- Developing integrated township at Mohali over 3000 acres
- Plans to develop integrated townships, commercial offices, IT Parks, SEZs and Hotels
- Planning to venture into healthcare and education sector
- Joint Venture with MGF Development Limited, India
- EmaarMGF has JV with Accor Hotels (France) & Premier Travel Inn (UK)
- Capital outlay of US\$ 4 Billion for group projects in real estate in India

Select foreign investors

Salim Group, Indonesia

- Present in India since 2004
- Developing township at Howrah over 450 acres
- Plans to construct expressways and bridges, a multi-product SEZ in Haldia and a Chemicals SEZ in East Midnapore and Health and Knowledge “cities”
- Joint venture with Unitech and Universal Success
- Plans to invest US\$ 4.2 billion for projects

Select domestic players

Unitech

- Operating various asset classes in residential, commercial and retail segment
- Developed more than seven million sq.ft. of built up area (BUA)
- Specialises in planning residential, commercial, SEZ development, retail and hospitality, integrated townships
- 430 million sq.ft. of BUA under planned projects
- Major presence in National Capital Region and other areas such as Kolkata, Chennai and Hyderabad

Select domestic players

DLF

- Largest real estate developer in India
- Developed Asia's largest private township DLF City at Gurgaon, Haryana spread over 3000 acres
- Present across all the asset classes : Residential, Commercial and Retail.
- Developed more than 220 million sq.ft. of BUA
- Specialises in planning Hotels, Infrastructure and SEZs 574 million sq. ft. of BUA under planned Projects
- Pan-India footprint, major presence in Gurgaon & Kolkata

Select domestic players

Ansal Properties

- Operates primarily in Residential & Commercial asset classes
- Developed over 2850 acres in Gurgaon and Delhi
- Developing integrated townships, malls, hotels IT parks and SEZs
- Plan to construct 157.6 million sq.ft. of BUA
- Pan-India footprint with major presence in 16 North-Indian cities across four states

Select key domestic players

K Raheja Corp

- Present in Commercial, Retail & Residential asset classes
- Developed over five million sq. ft. of BUA
- Developing 15 self-contained townships and 10 hotels
- Planning to construct 13.2 million sq. ft. of BUA
- Major presence in Mumbai with operations in Bangalore, Ahamedabad, Goa, Pune and Hyderabad.

Select key domestic players

Sobha Developers

- Asset classes include Residential, Commercial, Development of plots and Contractual projects
- Developed over 4.5 million sq. ft. of BUA
- Planning residential and retail projects
- 101 million sq. ft. of BUA is planned under various projects
- Major concentration in Bangalore with presence in other areas such as Cochin, Chennai and Pune.

Select key domestic players

Parsvnath Developers

- Presence in Residential, Retail Commercial asset classes
- Developed over 3.8 million sq. ft. of BUA
- Plans to develop IT Parks and 12 SEZs across the country
- Plannin to construct around 46.5 million sq. ft. of BUA
- Major Presence in National Capital Region
- Increasing Pan-India Footprint, active in over 46 cities across 17 states

KEY OPPORTUNITIES

Missing asset classes and formats

Logistics & Warehousing

- Booming trade, both International and Domestic
- Number of MNCs establishing Indian operations
- Agricultural logistics requiring creation of cold chain infrastructure
- Logistics required for large infrastructure and engineering projects
- Consolidation of warehousing if uniform tax regime is applied

Missing asset classes and formats

Healthcare Infrastructure

- Healthcare industry expected to grow at a CAGR of 11.6 per cent over the next five years
- Healthcare BPO is growing at steady pace
- Medical infrastructure expanding with one million beds to be added by 2012
- Medical tourism growth driven by low cost and high quality services

Missing asset classes and formats

Education Infrastructure

- Huge market with untapped potential and low competition
- Lack of enough world class educational institutions
- Driven by Knowledge based industries, large demand for qualified Engineers
- Research Laboratories adding value to Global outsourcing trend
- Growing interest of leading global educational institutions in setting up institutions in India

Missing asset classes and formats

Low Cost Housing

- 72 per cent of the total population is still rural areas
- Current housing shortage of 22 million units at an estimated cost of US\$ 88 billion
- Increasing shift from rented to owned house
- Easy access to financing
- Nuclear families increasing the demand for housing

Appraisal of opportunities

- As India vaults from being an also-ran to a leader in the global economy, Indian real estate industry is poised to emerge as one of the most preferred investment destinations for global realty and investment firms.
- There are a few anticipated initiatives/actions, which are likely to be instrumental in ensuring sustained growth of the Indian realty sector in the medium to long term.
- These engines for growth will act as a catalyst for the real estate development across country.
- Some of these opportunities which is expected to further drive the demand for the real estate development are:
 - * Logistics and Warehousing Infrastructure
 - * Healthcare Infrastructure
 - * Low-cost Housing

Logistics and warehousing

Rationale for Investment

- Healthcare delivery market expected to grow at a CAGR of 11.6 per cent over the next five years.
- The total investment needed to reach the optimum target of 1.85 beds per thousand population is US\$ 77.9 billion, out of which US\$ 69.7 billion is expected to come from private sector.
- An estimated one million beds would be added by 2012 taking the total beds available in the country to over two million.
- The revenues currently generated by private hospitals (all-inclusive) are US\$ 15.51 billion.
- Medical tourism is estimated to emerge as a US\$ 2,000 million market by 2012.

Logistics and warehousing

Key Challenges

- Relatively small manufacturing base – but growing
- Mindset and culture of outsourcing logistics activities to capable third party operators is just emerging
- In fact, there is no general awareness of standard logistics practices and due to the protected environment for Indian industries, until recently there was no incentive for companies to improve their operational performance

Logistics and warehousing

Opportunities

- Booming trade – Domestic & International
- As more MNCs establish their operations in India, the need for good quality warehousing, distribution and sourcing centres is on the rise
- VAT, if uniformly implemented, is expected to change warehousing and distribution fundamentals and is expected to consolidate warehousing needs
- Agriculture Logistics – proper cold chain management and opportunity
- Logistics for large infrastructure and Engineering Projects

Healthcare infrastructure

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Healthcare infrastructure

Key Challenges

- Rapidly changing market
- Rising cost
- Low accessibility and unavailability of facilities and services
- The sector would increasingly witness foreign equity participation, Joint Ventures, Alliances and Tie-ups among healthcare institutions resulting in transfer of technology, skills and practices

Healthcare infrastructure

Opportunities

- Healthcare BPO
- Medical Infrastructure
- Medical Value Travel
- Medical Devices
- Pathology Services
- Telemedicine

Low-cost housing

Rationale for Investment

- Rural population of almost 72 per cent
- Huge market potential
- A housing shortage of 26.8 million units (2008) and the need to invest over US\$ 97.6 billion over 10 years.
- Shift from rented to owned house
- Easy Access to financing
- Nuclear Families
- Government initiatives such as extension of benefits u/s 80 I to mass housing projects, scrapping of the Urban Land Ceiling Act, implementation of the Securitization Act

Low-cost housing

Case Study: SP Shukhobrishti

- India's largest mass housing project, SP Shukhobrishti, is being developed by the real estate major, Shapoorji Pallonji, the project will comprise of two enclaves named as 'Spandan' and 'Sparsh'.
- The US\$ 366 million project will comprise of 765 four storied apartments and 100 fourteen storied apartments. Of the total 20,000 dwelling units to be spread over an area of 150 acres, 19,999 will be allotted to lower income and middle class income groups. The complex, SP Shukhobrishti, is scheduled to be built in phases and expected to be over by early 2011.

Low-cost housing

- The Township will also have an array of facilities including two primary schools, health centre, shopping arcade, provision stores, community centres, children's play area, amphitheatre, entertainment and two clubs.
- The Township will be located in Action Area-III in the New Town of Kolkata.

Illustrations of unlocking of land assets

National Commission recommendations for formation or reorganization of Institutions

- Public Sector Units assessing their land holdings for commercial exploitation
- Public Sector estimated to have more than 45,000 hectares of under-utilized land
- VSNL – 300 Ha
- IDPL – 1000 Ha
- LIC – 400 Ha
- HIL – 20 Ha
- National Textile Corporation–280 Ha
- Indian Railways – 43,000 Ha

Illustrations of unlocking of land assets

Private sector also plans to exploit their land banks

- Private sector units assessing their land holdings to exploit them commercially.
- Industrial houses are developing excess land adjacent to industrial sites
- Major private groups include Mukand, IVRCL, Kilburn Engineering, Unichem, Indo Rama, Raymonds, Alembic Glass

Illustrations of unlocking of land assets

Real Estate Development by Delhi Metro Rail Corporation

- Adopts a PPP model
- It leases out the land and private developer develops retail and commercial offices
- Earned US\$ 66 million from real estate segment and only US\$ 25 million from traffic operations
- Real estate contribution increased from six per cent to 25 per cent for funding future expansion of network

RISKS AND CONCERNS

Key risks and concerns

Overheating market

- On the macroeconomic front, inflation has risen sharply from 3.9 per cent in April 2006 to 6 per cent in April 2007
- On the real estate front, persistent demand-supply gap has led to spiraling property prices
- Capital values risen by more than 100 per cent in all key markets
- Oversupply expected in few product classes
 - IT SEZs, Luxury end residential

Key risks and concerns

RBI's measures to cool the real estate market

Change in preference share policy

- Foreign investment coming as non-convertible, optionally convertible or partially convertible preference shares would be considered as debt and shall require compliance with ECB guidelines

Change in ECB Policy

- Utilization of ECB proceeds is no longer permitted in real estate; exemption granted to integrated townships has been withdrawn

Risk weightage increase

- In 2006, RBI increased the risk weightage on bank exposures to commercial real estate from 125 per cent to 150 per cent

Key risks and concerns

Rising interest rates

- RBI has implemented various monetary measures to curb inflation and growth in credit to real estate
- These have caused home loan interest rates to increase from 8.25 per cent in 2004 to 8.75 per cent in 2005 to 9.5 per cent in 2006 to 10 per cent in Jan 2007 and to 12.75 per cent at present
- Rising interest rates may cause higher loan defaults

Absence of REITs

- REITs are a significant source of capital and liquidity for real estate industry globally
- Absence of REITs in India has restricted retail investor participation and limited capital flows

Key risks and concerns

Regulatory issues

- ULCRA is yet to be repealed in some key states, such as Maharashtra, Karnataka and West Bengal
- Stamp duty rates are still high in many states resulting in high transaction costs
- Tenancy laws are not in favor of owner

Unclear titles

- A high percentage of land holdings do not have clear titles
- Land is typically held by individuals/families, which hinders easy transfer of title

Key risks and concerns

Time-consuming Approval

- Approvals required from multiple agencies,
- Time consuming and circuitous procedures
- Leads to project delays and affects marketability of projects

High Dependence on NRIs

- Certain pockets are heavily dependent on NRI money
- Leads to speculation and an asset bubble kind of situation
- Prices become prohibitively expensive for domestic consumers

Key risks and concerns

Speculative Supply

- Certain pockets witnessing speculative supply
- Some pockets are purely investor driven, end-user and genuine consumers suffering
- Oversupply leading to downward pressure on prices - “price correction”

Overindulgence

- Overindulgence of Developers on asset classes which are not demand driven
- Overstretched commitments and hence quality risks

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