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# Asia Pacific Property Digest

## WEST ASIA – INDIA

Fourth Quarter 2006

# Jones Lang LaSalle Research – Asia Pacific

**ASIA PACIFIC**
**Dr Jane Murray,** Head of Research – Asia Pacific

**GREATER CHINA**

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**Myles Huang,** Associate Director
**Dennis Fung,** Manager
**Denis Ma,** Analyst
**Joanne Lee,** Analyst
**Karen Lau,** Analyst
**Rosanna Tang,** Analyst
**Patrick Wong,** Analyst
**Liz Hung, Graduate** Trainee

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**Alvin Mak,** Analyst

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**Benjamin Christensen,** Senior Analyst
**Yafang Liang,** Analyst
**Carol Zhang,** Assistant Analyst

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**Shelly Xie,** Analyst

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**Ivy Li,** Manager
**Silvia Zeng,** Analyst

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**Nienhan Cheng,** Analyst
**Daniel Yao,** Analyst
**Sunny Han,** Graduate Trainee

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**Weny Zuraina,** Analyst

**VIETNAM**
**Buu Le,** Senior Manager
**Hai Nguyen,** Senior Analyst

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**Benedict Lai,** Analyst (REIS)

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**Rachata Meythangkul,** Analyst
**Teerapat Preudsaradch,** Analyst

**WEST ASIA**
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**INDIA**
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**Debarpita Roy,** Manager
**Nitika Masih,** Assistant Manager
**Bhaskar Sharma,** Senior Analyst
**Pushpendra Uprety,** Senior Analyst (REIS)

**AUSTRALASIA**
**Kathryn Matthews,** Head of Research & Consulting – Australasia

**AUSTRALIA**
**Kathryn Matthews,** Head of Research & Consulting – Australasia
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**Darren Krakowiak,** Head of Strategic Research, Melbourne
**Leigh Warner,** Manager Research & Consulting, Brisbane
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**Declan Walsh,** Cadet, Research
**Barbara Freedman,** Information Centre Manager, Sydney

**NEW ZEALAND**
**Jonathan Hedger,** Analyst, Auckland
**Lisa Bryan,** Analyst, Auckland
**Georgia Myers,** Analyst, Wellington

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# Asia Pacific Economy

## Staying on a Growth Trajectory

**Dr Jane Murray**

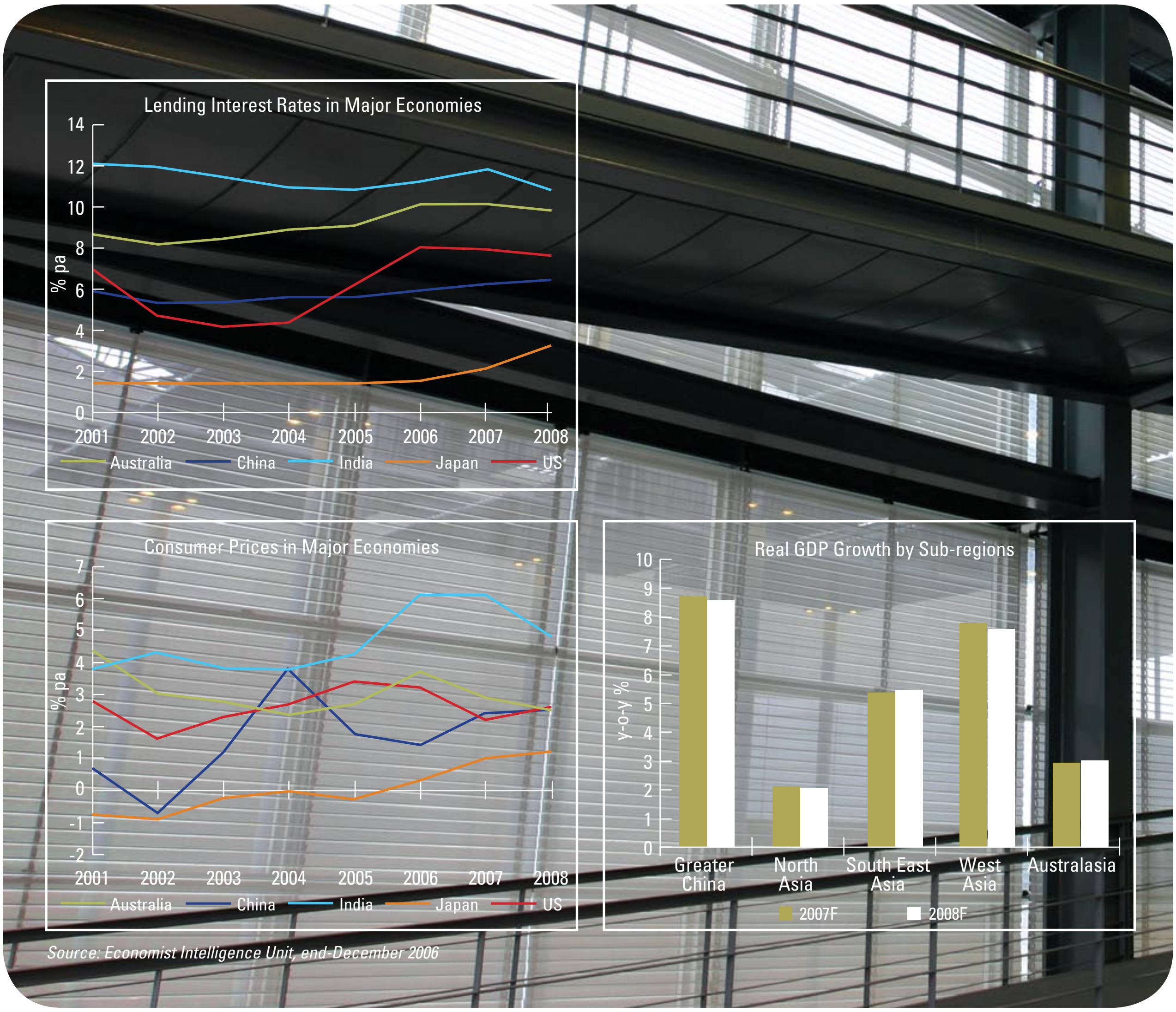
*Head of Research - Asia Pacific*

### Another strong year for the region

Prospects for the Asia Pacific region over the next 12 months continue to look bright. Continuing expansion of the global economy, albeit at a slightly slower pace than the estimated 3.7 per cent in 2006, should continue to underpin growth at the regional level. GDP growth in Greater China and West Asia is likely to once again outperform global growth by a significant margin. Major central banks in the region remain vigilant towards the risks of inflation. Other overhanging risks include a sharper-than-expected downturn in global IT product demand and the possibility of a human pandemic from avian flu.

### Greater China – the strongest performing sub-region

China's economy is expected to slow gradually on the back of monetary and administrative measures by the central government. However, growth is unlikely to decelerate significantly ahead of the 2008 Olympics in Beijing. Going forward, China will strive to reduce its reliance on investment and external demand. Retail sales should continue to grow at a double-digit rate in 2007, while growth in investment and industrial production may decelerate due to weaker overseas demand and the emergence of excess capacity. The central bank will focus on containing any excessive expansion of money and credit and will maintain a gradual appreciation of




*Source: Economist Intelligence Unit, end-December 2006*

## Key Performance Indicators

| | GDP (%) | | Prime Lending Rate (%) | | CPI (%) | | Employment Growth (%) | | Retail Sales Growth (%) | | Industrial Production (%) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007F | 2008F | 2007F | 2008F | 2007F | 2008F | 2007F | 2008F | 2007F | 2008F | 2007F | 2008F |
| Hong Kong | 4.6 | 4.8 | 8.3 | 8.2 | 2.5 | 2.6 | 1.8 | 1.6 | 1.7 | 2.1 | 0.6 | 0.5 |
| China | 9.6 | 9.3 | 6.2 | 6.4 | 2.1 | 2.5 | 1.1 | 1.1 | 12.9 | 14.1 | 20.3 | 14.5 |
| Taiwan | 4.3 | 4.4 | 4.4 | 5.9 | 1.5 | 1.2 | 0.7 | 1.3 | 1.1 | 3.2 | 5.3 | 5.6 |
| Japan | 1.7 | 1.6 | 2.1 | 3.2 | 1.0 | 1.2 | -0.4 | -0.5 | 0.7 | 0.2 | 1.6 | 1.1 |
| South Korea | 4.0 | 4.5 | 6.5 | 6.4 | 2.3 | 2.4 | 0.7 | 0.7 | 2.3 | 1.4 | 4.8 | 4.4 |
| Philippines | 5.5 | 5.3 | 9.5 | 10.0 | 5.1 | 4.9 | 2.5 | 2.8 | 2.1 | 2.8 | 1.0 | 2.5 |
| Singapore | 4.5 | 4.4 | 5.5 | 5.7 | 1.0 | 1.1 | 0.9 | 1.1 | 1.0 | 2.0 | 6.0 | 4.9 |
| Malaysia | 5.3 | 5.4 | 6.6 | 6.6 | 3.4 | 3.3 | 2.0 | 2.3 | 2.6 | 3.2 | 4.6 | 6.2 |
| Thailand | 4.9 | 5.0 | 7.6 | 6.3 | 3.6 | 3.0 | 1.4 | 1.1 | 2.5 | 4.1 | 5.8 | 6.0 |
| Indonesia | 5.9 | 6.1 | 12.8 | 12.3 | 6.6 | 6.1 | 1.9 | 0.9 | 5.4 | 6.0 | 3.4 | 3.3 |
| India | 7.8 | 7.6 | 11.8 | 10.8 | 6.1 | 4.8 | 2.3 | 2.3 | 7.7 | 7.5 | 8.1 | 8.5 |
| Australia | 3.0 | 3.0 | 10.1 | 9.8 | 2.9 | 2.5 | 1.5 | 1.4 | 1.4 | 2.1 | 3.9 | 2.6 |
| New Zealand | 1.8 | 3.0 | 11.4 | 11.2 | 3.0 | 2.7 | 1.0 | 1.1 | -0.4 | 0.1 | 1.8 | 2.5 |

*Source: Economist Intelligence Unit, end-December 2006*

the RMB exchange rate to avoid a shock to the economy. The Hong Kong economy expanded strongly in 2006 on the back of strong re-export trade and consumer spending. Growth in 2007 is expected to moderate due to weaker external demand, but still remain in line the five-year historical trend.

## West Asia – not far behind

The Indian economy continues to grow strongly, driven by domestic demand and inflows of foreign investment. Imports and exports have been expanding rapidly as India integrates with the world economy. Consumption demand from a rising middle-class and investment demand, buoyed by strong business confidence, should keep India on a high growth trajectory in 2007. However, the risk of inflation is increasing. Domestic demand is likely to remain strong even though the central bank may lean toward more tightening to keep inflation in check.

## North Asia – similar growth to last year

Japan's economy is expected to continue its expansion through 2007. Labour market conditions are tightening as demand for employees rises in line with the growing economy. The annual average of the ratio of job offers to applicants exceeded 1 for the first time in 14 years by the end of 2006. Rising employment and household income may firm the upward trend in private consumption. The Bank of Japan is expected to further adjust interest rates, which are still at an historically low level, but relatively low inflation risks may give leeway in regard to the extent of future tightening. In Korea, investment growth and private consumption generally slowed last year due to rising interest rates, and overall growth is expected to stay slightly below trend in 2007.

## Australasia – relatively steady growth also

The Australian economy continued to expand at a moderate rate last year, assisted by strong global growth and high commodity prices. The latter has boosted Australia's terms of trade by more than 30 per cent over the past three years. The unemployment rate reached 30-year lows by the end of 2006. The pick-up in underlying inflation is likely to tie the Reserve Bank to a more restrictive stance of monetary policy. Growth in New Zealand is expected to stay below trend, thus unwinding the inflationary pressures persisting in the economy.

## South East Asia – Singapore to slow, others to maintain pace of last year

Economic growth in this part of the region held up in 2006 but eased towards the end of the year. The Singapore economy is expected to slow significantly in 2007 in line with falling export growth. However, domestic demand should make a stronger contribution, bolstered by high consumer sentiment levels. Investment growth and private consumption slowed in the last quarter in Thailand, the Philippines and Indonesia due to factors such as political uncertainties and higher interest rates. On the other hand, inflation began to trend downward due to lower oil prices and slower domestic demand. This may give monetary authorities leeway in pursuing more accommodative policy. Looking forward, GDP growth in 2007 in these countries is expected to match the pace of 2006 as demand from China and India should provide support for exports.

# Asia Pacific Property Market

## Another bumper year ahead

**Dr Jane Murray**

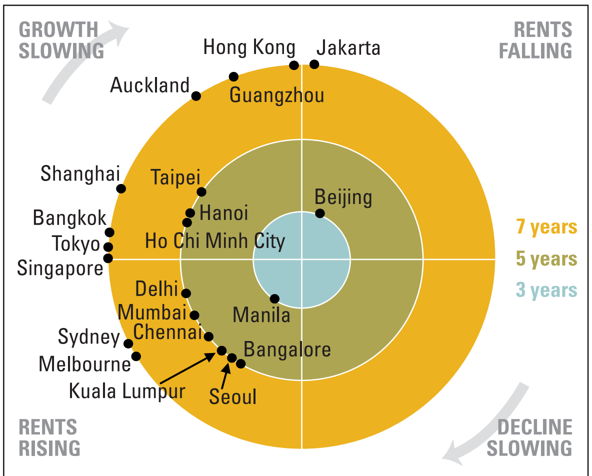
*Head of Research, Asia Pacific*

Bolstered by favourable economic conditions globally, real estate markets in the Asia Pacific region moved further in their cycles in 2006. Office rents and capital values in the financial centres of Tokyo, Singapore, Hong Kong and Shanghai traded at new highs. Retail rents climbed on the back of solid income and employment growth. In the residential sector, the boom in equity markets has encouraged buyers to seek better-quality accommodation. The industrial sector has started to turn around as funds seek yield-accretive assets. This positive sentiment continues in the new year, and 2007 is set to be another solid year for Asia Pacific's real estate markets.

### Office market cycles – how long can the upturn continue?

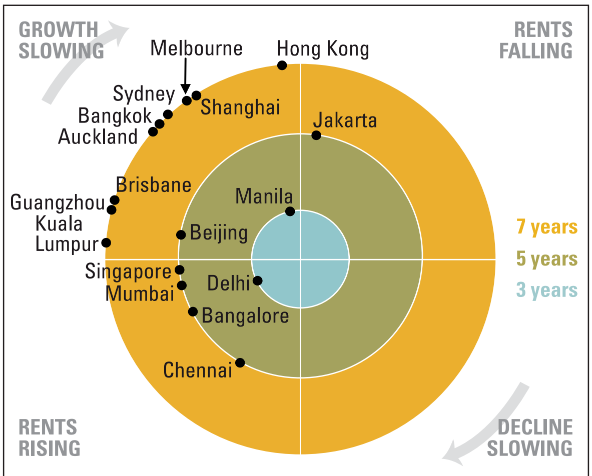
New business set-ups and corporate expansion are fuelling the take-up of office space across the region. This trend is likely to continue over the next 12 months with capital spending expected to remain strong. On the other side of the equation, limited new supply is hampering leasing activity in many cities, where the majority of new completions are pre-committed. This suggests further rental growth in the near term. Most markets are trading close to the previous peak of 1996/1997, with many expected to surpass these levels and set new highs.

**Grade A Office**



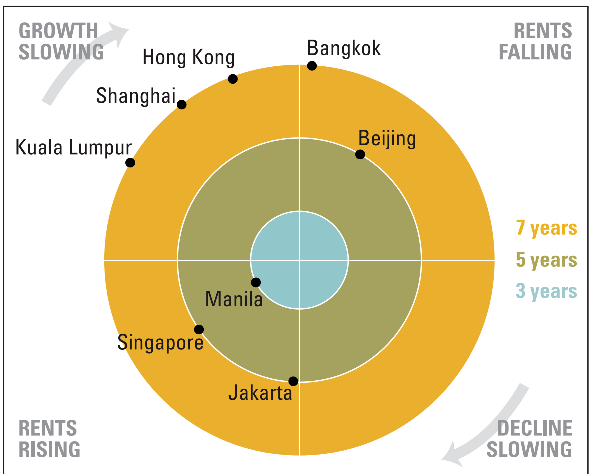

* For Grade A Offices

**Prime Retail**



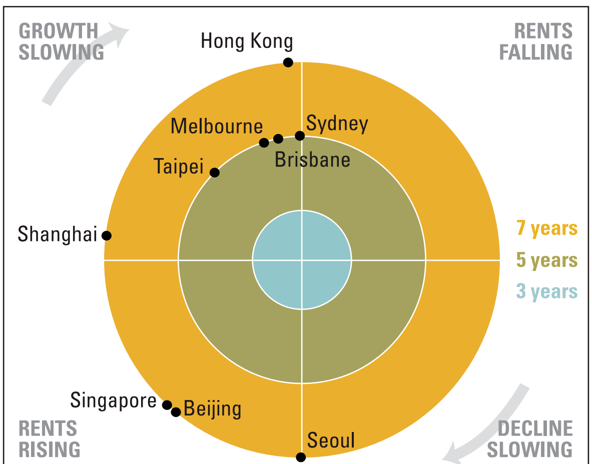

* For Prime Shopping Malls

**Prime Residential**




* For High-end Residential Properties

**Industrial**




* Business Parks (Singapore, Beijing, Taipei), Logistics Space (Sydney, Hong Kong, Shanghai) and Manufacturing Space (Brisbane, Melbourne, Seoul)

## The emergence of industrial property as a hot asset class

Industrial property has emerged in recent years as a hot asset class. Asia's status as the 'world's workshop' has fuelled demand for manufacturing and logistics space from a wide spectrum of industries. At the same time, the relatively higher yields of industrial properties across the region and the scarcity of traditional real estate assets have increasingly caught the attention of investors, who are seeking higher yields, lower capital expenditure and modest entry points. Tenant requirements have also evolved. Warehousing is no longer the primary driver; logistics facilities, tech parks for R&D and BPOs are shaping this evolution. This trend is set to continue in the years ahead as industrial properties offer excellent exposure to Asia Pacific's fast growing export-oriented sectors.

## Retail and residential benefiting from rising incomes

Healthy employment prospects, rising income levels and the booming equity markets underpin the retail and residential sectors across much of Asia Pacific. The past Christmas season has been one of the best in recent years with keen shoppers and brisk sales. Similarly, strong growth in the equity markets globally has helped lift investor sentiment, prompting potential buyers to re-look at buying homes. Meanwhile, the expansion of business is suggesting another strong year in the residential leasing market.

## The rise of cross-border capital flows

Asia Pacific's real estate markets, particularly Japan and China, have been a top destination for global investors in recent years. This trend has been driven by the continuous search for yield and the need to diversify portfolios. Investors will continue their cross-border search for returns and indeed have started to look further afield for stock. In Japan, funds are increasingly looking outside of Tokyo to other key regional cities of Osaka and Nagoya. Similarly in China, the focus is turning to the second-tier cities of Chengdu, Dalian and Tianjin. The strong fundamentals and long-term prospects of markets such as China and India will attract institutional investors to allocate a larger portion of their portfolios as part of their diversification strategy.

One of the reasons behind the surge in cross-border capital flows is the growth of the securitisation market, in particular REITs. At end-2006, the Asia Pacific REIT sector had a total of 154 listings with a market capitalisation of USD 172.5 billion. Securitisation is one of the major forces that is helping to deepen and widen the region's real estate capital markets.

## The real estate markets in 2007

Over the short to medium term, the real estate markets across Asia Pacific should remain robust. Business sentiment remains buoyant and corporations continue to expand. With new quality supply remaining tight and demand remaining firm, rents should increase further. However, businesses are feeling the pinch of rising occupancy costs, which are expected to drive the trend for companies to decentralise their operations.

The different levels of maturity of real estate markets across Asia Pacific present significant investment opportunities. Cyclical demand-side factors and relatively tight supply in most of the markets are attractive to investors. Competition is only likely to intensify over the short to medium term with increasing cross-border capital flows from Europe, the US, the Middle East and within Asia Pacific. This should result in further yield compression over the next 12 months. All in all, 2007 will be another bumper year for the real estate markets in Asia Pacific.


### ABOUT THE AUTHOR

Dr Jane Murray joined Jones Lang LaSalle in 1998 and in April 2005 was appointed as Head of Research, Asia Pacific.

In this role, Jane leads a team of 90 professional researchers in the region, which forms part of a network of around 250 researchers in 36 countries around the globe.

The Asia Pacific Research team produces a range of outputs to assist the clients of the Firm with their decision making, including comprehensive market monitoring and analysis across major institutional-grade real estate markets in the region; forecasts of key real estate indicators; consultancy projects; thought leading research papers on topical issues as well as regular publications.

## Grade A Office Market

| | Vacancy Rate (%) | RENTAL VALUES* | | | | CAPITAL VALUES | | | | Yield (%) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | q-o-q+ (%) | y-o-y+ (%) | USD psm pa++ | 12-month outlook | q-o-q+ (%) | y-o-y+ (%) | USD psm++ | 12-month outlook | |
| Tokyo CBD | 0.3 | 5.4 | 27.5 | 1,287 | ↗ | 11.0 | 63.3 | 26,390 | ↗ | 3.3 |
| Seoul CBD | 1.1 | 0.4 | 2.2 | 592 | ↗ | 0.3 | 11.6 | 5,484 | ↗ | 6.5 |
| Beijing | 12.9 | 0.1 | 0.4 | 314 | ↓ | 0.7 | 6.4 | 2,655 | ↗ | 7.9 – 9.9 |
| Shanghai (Central Puxi) | 2.9 | 2.6 | 9.2 | 355 | ↗ | 4.8 | 17.8 | 4,266 | ↗ | 8.3 |
| Guangzhou | 18.9 | 1.3 | 3.1 | 191 | → | 5.2 | 11.3 | 1,969 | → | 8.8 – 11.2 |
| Chengdu | 32.8 | 0.5 | - | 126 | ↗ | 0.0 | - | 1,225 | ↗ | 11.6 |
| Taipei CBD | 14.6 | 2.4 | 4.9 | 259 | ↗ | 5.9 | 9.4 | 4,710 | ↗ | 5.3 |
| Hong Kong Central | 4.2 | 4.1 | 27.9 | 1,104 | → | 1.7 | 9.4 | 14,151 | → | 4.5 – 6.4 |
| Singapore | 3.6 | 25.9 | 73.9 | 644 | ↗ | 25.9 | 66.7 | 11,930 | ↗ | 5.0 – 5.5 |
| Kuala Lumpur CBD & GT | 10.5 | 0.3 | 4.1 | 140 | ↗ | 0.3 | 5.7 | 1,765 | ↗ | 7.7 |
| Makati CBD | 6.6 | 0.6 | 13.5 | 144 | ↑ | 5.6 | 21.3 | 1,354 | ↑ | 10.0 |
| Bangkok CBD | 12.9 | 1.7 | 8.6 | 176 | ↗ | 1.6 | 8.2 | 2,177 | ↗ | 7.5 |
| Jakarta CBD | 17.7 | 0.9 | 10.2 | 106 | → | 2.0 | 13.3 | 1,326 | → | 8.0 |
| Delhi CBD & SBD | 4.3 | 24.3 | 54.3 | 553 | ↑ | 22.9 | 55.8 | 4,759 | ↑ | 11.6 |
| Mumbai CBD & SBD | 5.4 | 21.2 | 66.4 | 691 | ↑ | 25.0 | 71.5 | 6,008 | ↑ | 11.5 |
| Bangalore CBD & SBD | 0.6 | 3.1 | 12.1 | 141 | ↗ | 5.1 | 9.6 | 1,245 | ↗ | 11.3 |
| Chennai CBD & SBD | 1.6 | 7.5 | 21.0 | 151 | ↗ | 5.1 | 33.1 | 1,282 | ↗ | 11.7 |
| Melbourne CBD | 7.2 | 3.4 | 8.7 | 281 | ↗ | 5.8 | 15.3 | 4,905 | ↗ | 6.5 |
| Sydney CBD | 9.1 | 2.5 | 13.6 | 454 | ↗ | 3.5 | 18.0 | 7,763 | ↗ | 6.9 |
| Brisbane CBD | 0.8 | 12.0 | 32.1 | 376 | ↑ | 11.9 | 33.4 | 5,043 | ↑ | 6.3 |
| Auckland CBD | 8.5 | 1.4 | 7.2 | 264 | ↗ | 3.9 | 14.5 | 3,585 | ↗ | 7.4 |

* Refers to net rent except for Tokyo (gross rent), Singapore (effective rent), Jakarta (effective rent), Melbourne (gross effective rent), Sydney (gross effective rent), Brisbane (gross effective rent), Hong Kong (net rent quoted on gross floor area), Mumbai,(gross rents on GFA), Delhi (gross rents on GFA), Bangalore (gross rents on GFA) , Chennai (gross rents on GFA), Taipei (gross rents on GFA).

\+ Percentage changes are based on local currency of individual markets.

++ The USD exchange rate as at end-December 2006.

## Prime Retail

| | RENTAL VALUES* | | | | CAPITAL VALUES** | | | | Yield (%) |
|---|---|---|---|---|---|---|---|---|---|
| | q-o-q+ (%) | y-o-y+ (%) | USD psm pa++ | 12-month outlook | q-o-q+ (%) | y-o-y+ (%) | USD psm++ | 12-month outlook | |
| Beijing | 3.1 | 3.1 | 890 | ↗ | 3.1 | 5.7 | 6,276 | ↗ | 7.8 |
| Shanghai | 5.4 | 28.9 | 1,789 | ↗ | 5.4 | 36.8 | 14,904 | ↗ | 11.5 |
| Guangzhou | 1.6 | 8.1 | 430 | ↗ | - | - | - | - | - |
| Macau (Prime Street Shops) | 1.2 | 1.2 | 1,652 | → | 1.4 | 1.4 | 27,272 | → | 6.1 |
| Hong Kong (Prime Street Shops) | -0.1 | 1.3 | 4,336 | → | -1.9 | -3.8 | 113,906 | ↘ | 3.8 |
| Hong Kong (Prime Shopping Centres) | 1.4 | 8.1 | 4,491 | → | - | - | - | - | - |
| Hong Kong (Decentralised Shopping Centres) | -0.9 | 2.7 | 1,965 | → | - | - | - | - | - |
| Singapore | 0.8 | 4.8 | 2,884 | ↗ | 1.6 | 13.7 | 47,718 | ↗ | 5.5 |
| Kuala Lumpur (City Centre) | 0.0 | 1.0 | 731 | ↗ | 0.0 | 0.0 | 6,998 | → | 8.5 – 12.0 |
| Makati | 4.5 | 10.5 | 352 | ↗ | 3.7 | 11.1 | 2,981 | ↑ | 11.5 |
| Bangkok | 1.0 | 6.2 | 505 | ↗ | 0.7 | 5.7 | 3,893 | ↗ | 12.0 |
| Jakarta | 0.0 | 2.7 | 492 | → | -1.0 | -1.1 | 3,260 | → | 15.1 |
| Delhi | 9.1 | 36.4 | 878 | ↑ | 9.5 | 52.9 | 8,581 | ↑ | 10.2 |
| Mumbai | 10.0 | 25.0 | 805 | ↑ | 14.4 | 23.3 | 7,673 | ↑ | 10.5 |
| Bangalore | 0.0 | 5.5 | 395 | ↗ | 0.0 | 5.6 | 3,659 | ↗ | 10.8 |
| Chennai | 8.3 | 14.0 | 190 | ↗ | 10.6 | 0.9 | 1,872 | ↗ | 10.2 |
| Sydney (Regional) | 0.9 | 4.0 | 1,356 | ↗ | - | - | - | - | 5.8 |
| Sydney (Sub-regional) | 1.1 | 4.1 | 676 | ↗ | - | - | - | - | 6.5 |
| Auckland | 4.8 | 14.9 | 1,356 | ↗ | 10.6 | 27.7 | 20,095 | ↗ | 6.8 |

* Rents are net prime rent except Beijing (net effective rent on NLA), Delhi (gross rent), Mumbai (gross rent), Bangalore (gross rent) and Chennai (gross rent).

** Capital values are quoted on net lettable area except for Beijing, Hong Kong, Macau and Guangzhou (quoted on gross floor area).

\+ Percentage changes are based on local currency of individual markets.

++ The USD exchange rate as at end-December 2006.

## Luxury Residential

| | RENTAL VALUES* | | | | CAPITAL VALUES | | | | Yield (%) |
|---|---|---|---|---|---|---|---|---|---|
| | q-o-q+ (%) | y-o-y+ (%) | USD psm pa++ | 12-month outlook | q-o-q+ (%) | y-o-y+ (%) | USD psm++ | 12-month outlook | |
| Beijing (Luxury Apt) | 2.3 | 4.4 | 175 | ↗ | 2.9 | 4.6 | 2,026 | ↗ | 8.6 |
| Shanghai (Luxury Apt) | 0.1 | 1.3 | 335 | → | 0.2 | -0.1 | 3,846 | → | 8.7 |
| Shanghai (High-end Apt) | -0.3 | -1.3 | 181 | → | -0.2 | -1.5 | 2,622 | → | 6.9 |
| Macau (Overall) | 1.3 | 3.7 | 115 | ↗ | 3.6 | 6.9 | 3,269 | ↗ | 3.5 |
| Hong Kong (Overall) | 1.9 | 8.9 | 555 | ↗ | 2.5 | 3.2 | 16,740 | ↗ | 3.3 |
| Singapore | 8.6 | 36.0 | 374 | ↗ | 8.3 | 33.6 | 12,631 | ↗ | 3.0 |
| Kuala Lumpur | 0.0 | 3.7 | 133 | → | 0.0 | 6.7 | 1,598 | → | 7.4 |
| Makati | 2.9 | 32.3 | 112 | ↗ | 3.7 | 38.0 | 1,513 | ↑ | 7.4 |
| Bangkok | -2.8 | -2.4 | 105 | ↘ | -0.5 | 7.0 | 2,051 | ↘ | 5.2 |
| Jakarta | 0.0 | -0.9 | 141 | ↗ | -0.8 | -2.6 | 1,300 | ↗ | 10.8 |

* *Rents are net rent except for Shanghai (gross rent) and Jakarta (effective rent).*
** *Capital values are quoted on net lettable area except for Beijing, Shanghai, Hong Kong and Macau.*
\+ *Percentage changes are based on local currency of individual markets.*
++ *The USD exchange rate as at end-December 2006.*

## Industrial

| LOGISTICS | RENTAL VALUES | | | | CAPITAL VALUES | | | Yield (%) |
|---|---|---|---|---|---|---|---|---|
| | q-o-q+ (%) | y-o-y+ (%) | USD psm pa++ | 12-month outlook | q-o-q+ (%) | y-o-y+ (%) | USD psm++ | |
| Hong Kong | 0.6 | 10.7 | 113 | ↘ | 1.0 | 23.8 | 1,586 | 6.8 - 7.2 |
| Brisbane | 1.8 | 11.5 | 91 | ↗ | - | - | - | 7.4 |
| Sydney | 0.0 | 1.1 | 81 | → | 2.7 | 7.5 | 1,157 | 7.3 |
| Melbourne | 0.0 | 0.0 | 48 | ↗ | - | - | - | 7.4 |
| Shanghai | 2.5 | - | 47 | ↗ | 0.0 | - | 564 | 8.3 |
| Tokyo* | - | - | 149 | ↗ | - | - | 2,124 | 7.0 |

| BUSINESS PARKS | RENTAL VALUES | | | | CAPITAL VALUES | | | Yield (%) |
|---|---|---|---|---|---|---|---|---|
| | q-o-q+ (%) | y-o-y+ (%) | USD psm pa++ | 12-month outlook | q-o-q+ (%) | y-o-y+ (%) | USD psm++ | |
| Taipei | 12.3 | - | 150 | → | 5.1 | - | 2,192 | 6.8 |
| Shanghai | 3.0 | - | 131 | → | 7.5 | - | 1,438 | 9.1 |
| Singapore | 3.2 | 18.5 | 111 | ↗ | 3.8 | 6.3 | 1,530 | 6.5 - 7.0 |
| Beijing | 0.5 | - | 94 | → | - | - | - | - |
| Chengdu | 2.4 | - | 33 | → | 6.6 | - | 493 | 6.8 |
| Guangzhou* | 3.0 | - | 68 | ↗ | - | - | - | - |

| MANUFACTURING | RENTAL VALUES | | | | CAPITAL VALUES | | | Yield (%) |
|---|---|---|---|---|---|---|---|---|
| | q-o-q+ (%) | y-o-y+ (%) | USD psm pa++ | 12-month outlook | q-o-q+ (%) | y-o-y+ (%) | USD psm++ | |
| Brisbane | 2.2 | 9.2 | 76 | ↗ | 4.0 | 18.5 | 1,000 | 7.3 |
| Korea | - | - | - | - | - | - | - | - |
| Singapore | 5.3 | 5.3 | 70 | ↗ | 4.1 | 4.1 | 1,105 | 5.8 - 6.0 |
| Melbourne | 5.4 | 7.8 | 53 | ↗ | 5.6 | 18.5 | 727 | 7.4 |
| Chengdu*^ | 0.0 | - | 18 | - | 0.0 | - | 219 | 8.1 |
| Jakarta* | - | - | 4 | ↗ | - | - | - | - |
| Shanghai* | - | - | 30 | ↗ | - | - | 301 | 10.0 |

* *Indicates newly covered markets.*
\+ *Percentage changes are based on local currency of individual markets.*
++ *The USD exchange rate as at end-December 2006.*
^ *Chengdu updates manufacturing coverage twice per year.*

# Financing – the new innovation platform for the Indian real estate markets

**Abhishek Kiran Gupta**
*Senior Manager – Research, Jones Lang LaSalle India*

## An estimated USD 4.5 billion funding required by Indian developers in the next 2-3 years in the key cities alone

Similar to the last couple of years, the real estate industry in India is expected to continue its growth story in 2007. Across the nation, real estate players are planning expansion into multiple markets across multiple sectors. Numerous projects entailing prime office space, residential communities, hospitality chains and organised retail formats are in the pipeline. An estimated 100 million sq ft of office and retail space is expected to be developed in the next two to three years in the key cities of the country. This will entail large financing requirements at various stages of the projects, estimated at USD 4.5 billion[1].

With the stakes in the real estate markets rising, the industry's erstwhile dependence on self-financing is giving way to a greater degree of institutional and public funding. There are various avenues available to real estate developers for raising funds—from the traditional debt-raising from banks to the newer offshore listing in markets such as the Alternative Investments Market (AIM) at the London Stock Exchange (LSE) and the Singapore Stock Exchange for listing REITs. Other fund-raising avenues being increasingly resorted to by developers include private equity placements at entity or project level, domestic Initial Public Offerings (IPO) and Follow-on Public Offerings (FPO).

## Developers are flocking to the capital markets to address their financing needs for growth

Recently, the Reserve Bank of India increased the risk weights for advances to commercial real estate from 125% to 150%. It also increased the provisioning requirements


[1]Source: Jones Lang LaSalle. Calculated using cost assumptions for quality construction.

Table 1 Examples of Real Estate Companies Raising Capital and Routes Adopted

| Company | Route / Market | Capital (USD million) | Status |
|---|---|---|---|
| Parsvnath Developers Ltd | IPO, India | 225 | Listed |
| Sobha Developers | IPO, India | 126 | Listed |
| Pyramid Saimira | IPO, India | 19 | Listed |
| DLF Universal Ltd | IPO, India | 2,333 (expected) | IPO awaited |
| Lodha Group | Private equity JP Morgan | 61 | Complete |
| Lokhandwala Builders | Private equity Trinity Capital PLC | 22 | Complete |
| Kapstone Constructions | Private equity Trinity Capital PLC | 20.5 | Complete |
| RR Industries | Private equity Old Lane | 45 | Complete |
| K Raheja Corp | AIM, LSE | 340 | Listed |
| Unitech Ltd | AIM, LSE | 650 | Listed |
| Hiranandani Constructions | AIM, LSE | 750 | Listed |
| Ansal Group | AIM, LSE | NA | Considering listing |
| Lok Housing | AIM, LSE | NA | Considering listing |
| Nicholas Piramal | AIM, LSE | NA | Considering listing |
| Runwal Group | AIM, LSE | NA | Considering listing |

*Sources: www.nseindia.com; Jones Lang LaSalle and leading British and Indian newspapers.*

for standard advances of INR 2 million from 0.4% to 1% to tighten liquidity in the real estate market. This move made the traditional debt fund raising through banks more difficult and expensive.

On the back of the dream run that the Indian stock markets have witnessed over the last 18 months and with the improved fundamentals of the real estate markets, developers have aggressive plans for fund raising through the capital markets. Developers such as Sobha Developers and Parsvnath Developers raised USD 126 million and USD 225 million respectively, whilst DLF's much publicised public offering is awaited. K Raheja Corp and Hiranandani Constructions have raised approximately USD 340 million and USD 750 million respectively by listing on the AIM at the LSE.

Real estate developers prefer the capital market route as it provides access to retail investors and increases confidence among institutional investors due to improved corporate governance that follows with the listing. The promoters are able to retain management control, unlike in a private placement where the stakeholder expects a degree of management control that is generally not palatable to traditional family-run businesses. The real estate development companies listed in 2006—B.L. Kashyab & Sons Ltd, DS Kulkarni Developers Ltd, Parsvnath Developers Ltd and Sobha Developers Ltd – together raised USD 422 million[2] from the equity market. In the next 12–18 months, we expect at least ten real estate companies to opt for the domestic IPO route to raise capital. We also expect about USD 10 billion of foreign investment to enter the Indian real estate sector through the private placement route in the next three to four years.

[2]Calculated using historic IPO data from National Stock Exchange India website.

The new offshore listing route on the AIM has also caught the fancy of Indian developers due to less stringent regulations for future operations/acquisitions and the absence of minimum public shareholding requirements. K Raheja Corp, Hiranandani Constructions and Unitech Ltd collectively raised approximately USD 1.74 billion on the AIM in 2006. About a dozen real estate companies have expressed interest in listing on the AIM in the next 18–24 months.

We expect 2007 to be a positive year for real estate developers in India, fuelled by multiple factors including improving transparency, rising investor confidence and broadening capital markets. We foresee higher interest from domestic and international investors in the real estate market across all sectors – office, retail, residential and hospitality

## ABOUT THE AUTHOR

Abhishek Kiran Gupta is a senior member of the Jones Lang LaSalle India Research team based in Mumbai. He is responsible for the team's outputs including research reports such as topical white papers, property market digests and bespoke research projects based on specific client requirements. Prior to joining Jones Lang LaSalle, he had seven years of experience in market research, business analysis and market strategy consulting, servicing diversified industries including pharmaceutical, software publishing and insurance.

# Delhi NCR: Grade A Office

## Demand

The CBD and the SBD continue to attract corporates because of their locational benefits and improved connectivity. With limited Grade A stock, the CBD witnessed absorption of only 10,537 sq ft (979 sqm) during 2006 with no transactions recorded in 4Q06. Demand in this micro-market continues to come from the banking, financial services and insurance sector. Areas like Nehru Place, Jasola and Saket in the SBD saw leasing activity of 311,733 sq ft (28,960 sqm) during the year.

Key transactions in the quarter include:

> Ivex leasing 1,500 sq ft (140 sqm) in Rectangle One in Saket, SBD;
> Metlife leasing 5,000 sq ft (465 sqm) in Rectangle One in Saket, SBD;
> OTIS leasing 10,000 sq ft (929 sqm) in Rectangle One in Saket, SBD.

## Supply

Total completions of 1.1 million sq ft were added to the existing stock in SBD in 2006. Approximately 1.2 million sq ft of Grade A stock is expected to be added to SBD in 2007.

The CBD in Delhi continues to be completely occupied. Vacancy levels in the SBD saw a further dip of 70 basis points from 5.6% in 3Q06 to 4.9% in 4Q06. We expect the upcoming stock in Jasola, SBD to bridge the demand-supply gap in Delhi City. The area has an advantage mainly on account of connectivity, proximity to the CBD and forthcoming retail development.

## Asset Performance

Limited supply and increasing commercial demand pushed CBD rental values up by as much as 66% in the past one year from INR 150 per sq ft per month in 4Q05 to INR 250 per sq ft per month in 4Q06. The demolition drive by the Municipal Corporation of Delhi (MCD) prompted corporates to relocate to designated commercial areas marked by the Delhi government as per the new city master plan. This led to an increase in commercial space demand in the SBD areas, pushing rentals up by as much as 56% from INR 115 per sq ft per month in 4Q05 to INR 180 per sq ft per month in 4Q06.

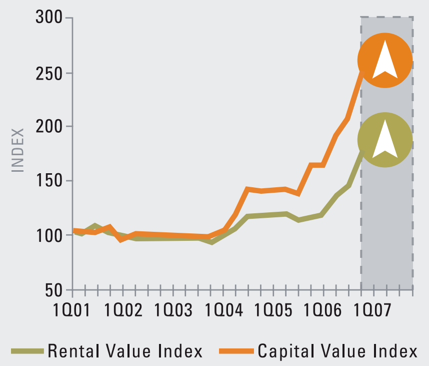
## 12-Month Outlook

The CBD will continue to demand the highest rentals because of acute shortage of Grade A space and non-availability of land parcels for new construction. We expect CBD rental values to rise by another 10–15% in 1H07.

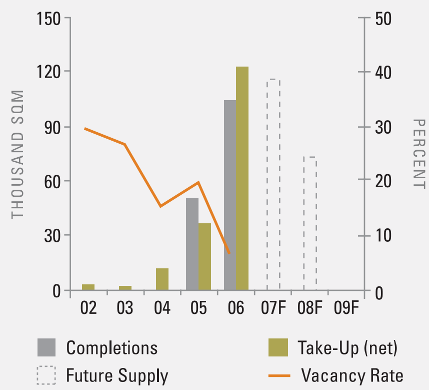
Even though new supply is expected to be added to the existing stock in the SBD, rental values are expected to appreciate by 8–10% in 1H07, led by the MCD demolition drive and high pre-leasing activity.

The vacancy levels in both the CBD and the SBD decreased throughout the year 2006. The CBD vacancy levels declined from 3.0% in 4Q05 to zero in 2Q06. It has remained same ever since 2Q 06. The SBD vacancy levels also declined from 23.3% in 4Q05 to 4.9% in 4Q06. We expect a further dip in vacancy levels in the SBD region in the next six to eight months.

We foresee Jasola in the SBD to be the next preferred commercial destination after Connaught Place due to its proximity to the CBD and the availability of new Grade A office stock within Delhi City limits.




*Index base: Apr 2001 = 100*
*Source: Jones Lang LaSalle*




*Source: Jones Lang LaSalle*

| Growth | Rental Value | Capital Value |
|---|---|---|
| q-o-q | 24.3% | 22.9% |
| 1 Year | 54.3% | 55.8% |
| 3 Years | 92.4% | 161.9% |

*Rental and Capital values are based on GFA

| | 4Q06 |
|---|---|
| Vacancy Rate | 4.3% |
| Gross Rent | INR 24,378 psm pa |
| Capital Value | INR 209,981 psm |
| Investment Yield | 11.6% |

**12-MONTH OUTLOOK**

RENTAL VALUE | CAPITAL VALUE

# Delhi NCR: Grade A Office – Suburbs (Gurgaon and NOIDA)

## Demand

Office market absorption continues to be driven by the IT/ITES sector followed by the back-office operations of banking, financial services and insurance companies. A total of 4.4 million sq ft of office stock was absorbed over the past 12 months in the suburban markets of NCR out of which 83% was in Gurgaon alone. Approximately 70–80% of commercial space absorption was by IT/ITES companies.

NOIDA posted leasing transactions of 1.1 million sq ft in 2006. Traditionally, companies in NOIDA either operated out of large self-owned buildings or took up space in Grade B industrial buildings. However, 2006 saw an increasing demand of Grade A buildings in NOIDA. We expect this trend to gain momentum in 2007.

The year 2007 will witness major campus developments by IT companies in the suburban market of NOIDA.

Solitaire Plaza, Gurgaon

## Supply

Eight Grade A buildings totalling 4.5 million sq ft were made available for fit-outs in the suburban market of Gurgaon and NOIDA in 4Q06. The new stock added in Gurgaon comprises the third phase of DLF Building 8 with a built-up area of 850,000 sq ft (78,968 sqm), Solitaire Plaza with a built-up area of 150,000 sq ft (13,935 sqm), The Statement (Baani) with a built-up area of 125,000 sq ft (11,613 sqm) and Vipul Agora with a built-up area of 200,000 sq ft (18,580 sqm). We foresee a total of 10.2 million sq ft (947,844 sqm) of commercial space to be added to the existing stock by 2008 in Gurgaon.

Buildings available for fit-outs in NOIDA were Tech Boulevard (Towers A & B) with a built-up area of 140,000 sq ft (13,006 sqm) & 180,000 sq ft (16,722 sqm) respectively, Logix Infotech Park with a built-up area of 135,000 sq ft (12,542 sqm), and Logix Techno Park (Tower D) with a built-up area of 160,000 sq ft (14,865 sqm). We expect 3.78 million sq ft (351,174 sqm) of Grade A space to be added by 2008 in NOIDA.

The vacancy level for Gurgaon was 3.0% and that for NOIDA was 6.0% for the quarter.

## Asset Performance

Rental values in Gurgaon appreciated from INR 55 per sq ft per month in 3Q06 to INR 70 per sq ft per month in 4Q06. NOIDA also saw an increase in rental values from INR 38 per sq ft per month to INR 45 per sq ft per month this quarter. This increase in NOIDA was mainly because of the rising demand for Grade A office space by corporates due to easy availability of land, superior support infrastructure and good connectivity to Delhi.

| Growth | Rental Value | Capital Value |
|---|---|---|
| q-o-q | 25.1% | 25.0% |
| 1 Year | 78.1% | 78.0% |
| 3 Years | 91.1% | 100.1% |

*Rental and Capital values are based on GFA

| | 4Q06 |
|---|---|
| Vacancy Rate | 3.4% |
| Gross Rent | INR 8,640 psm pa |
| Capital Value | INR 75,382 psm |
| Investment Yield | 11.5% |

## Major Leasing Transactions

> Nokia leasing 12,500 sq ft (1,161 sqm) in Solitaire Plaza, Gurgaon at INR 90 per sq ft per month;

> Google leasing 500,000 sq ft (46,451 sqm) in DLF Building 10, Gurgaon at INR 45 per sq ft per month;

> Saatchi & Saatchi leasing 3,500 sq ft (2,322 sqm) in Solitaire Plaza, Gurgaon at INR 85 per sq ft per month; and

> Coke leasing 57,000 sq ft (2,322 sqm) in DLF Building 9A, Gurgaon at INR 50 per sq ft per month.

**12-MONTH OUTLOOK**

| RENTAL VALUE | CAPITAL VALUE |
|---|---|
| ▲ | ▲ |

# Delhi NCR: Prime Retail

## Demand

The National Capital Region (NCR) has been and continues to remain the leader in retail mall development among all cities in India. Although many new retail developments are expected in the next couple of years, with many national and international retailers planning entry or expansions in the Capital, we do not foresee the existing positive demand–supply gap in prime retail space to narrow in the near future.

The key transactions of the quarter are:

> Bosini leasing 2,500 sq ft (232 sqm) in MGF Metropolis Mall, Gurgaon; and
> Samsung leasing 2,700 sq ft (250 sqm) in MGF City Square, Netaji Subhash Place, SBD.

## Supply

There was no new supply added in 4Q06. A total of 625,000 sq ft (58,064 sqm) of new supply was added in 2006. Some new launches slated for 4Q06 were delayed by a quarter. In NCR, Gurgaon has had the maximum retail mall area. However, 2006 saw retail stock in Delhi City outstrip the Gurgaon market on account of retail plot auctions by the Delhi Development Authority in the SBD areas of Shivaji Place, Pitam Pura, Saket and Dwarka. The total retail mall space in Delhi stands at 3.5 million sq ft, Gurgaon at 2.9 million sq ft and NOIDA at 2.3 million sq ft.

By end-2007, we expect Delhi City to house a total retail mall stock of 8 million sq ft, whereas the suburbs of Gurgaon and NODIA will have total stock of 5.3 million sq ft and 2.3 million sq ft, respectively. We expect the other suburban areas of Faridabad, Ghaziabad and Greater NOIDA to be the future potential areas for the development of large retail formats. Currently, the total retail stock in these submarkets is about 1.5 million sq ft. The total stock of NCR (including Ghaziabad, Faridabad and Greater NOIDA) will be 17 million sq ft by end-2007.

Although there was no new supply added this quarter, vacancy levels dropped by only 50 basis points to 10.0%. This can be attributed to the fact that occupiers are being very cautious in leasing legitimate and quality spaces after the demolition drive of unauthorised retail structures in residential areas.

We foresee healthy competition among the upcoming malls. Only those offering good facilities such as ample parking space and value-added services like mall promotions and facility management will survive in the long run.

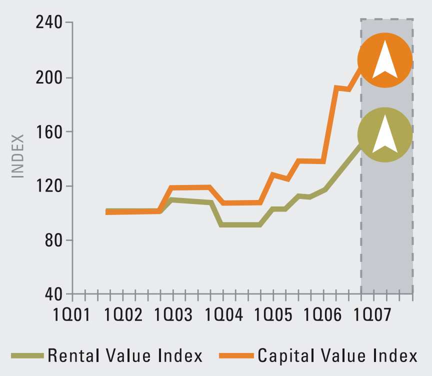
## Asset Performance

Rental values in 4Q06 registered a 9.1% increase in line with the expected 8–10% hike over the last quarter. A y-o-y appreciation of 36.4% in rental values of prime city malls was seen in 2006. We expect this trend to continue in spite of the large new supply in 2007 as brands queue up to secure quality retail space in the capital. High streets continue to command the highest rentals. High-street locations of Khan Market, South Extension I & II and Connaught Place recorded the highest rental values in Delhi.

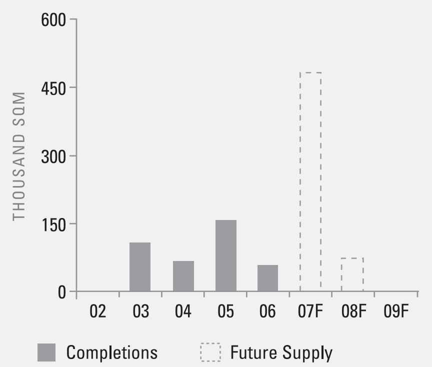
## 12-Month Outlook

Rental values will continue to see appreciation in the next year. We expect the SBD areas of Vasant Kunj, Saket and Shivaji Place to witness a lot of retail activity in the next 12 months. We also expect 2007 to see prime retail rentals, presently quoting at INR 300 per sq ft per month, to reach INR 375 per sq ft per month.

Total retail stock in Delhi City outstrips the suburban leader Gurgaon in NCR in 2006.




*Index base: Jan 2002 = 100*
*Source: Jones Lang LaSalle*




*Source: Jones Lang LaSalle*

| Growth | Rental Value | Capital Value |
|---|---|---|
| q-o-q | 9.1% | 9.5% |
| 1 Year | 36.4% | 52.9% |
| 3 Years | 40.8% | 77.1% |

* Rental and Capital values are based on GFA

| | 4Q06 |
|---|---|
| Vacancy Rate | 10.0% |
| Gross Rent | INR 38,750 psm pa |
| Capital Value | INR 378,600 psm |
| Investment Yield | 10.2% |

**12-MONTH OUTLOOK**

**RENTAL VALUE** ▲ **CAPITAL VALUE** ▲

# Mumbai: Grade A Office

## Demand

In 2006, it was in the fourth quarter when the highest transaction volumes were witnessed. More than 2 million sq ft (185,806 sqm) of Grade A space was transacted across all the micro-markets of the city. The transaction volumes doubled on q-o-q comparison over the last quarter. In 2006, approximately 5 million sq ft of Grade A and B space was transacted across the city. About two-thirds of this total volume is Grade A stock.

In the CBD, SBD Central and SBD North, about 650,000 sq ft (60,358 sqm) of Grade A space was transacted in 4Q06. It was 10% lower than the volumes transacted in 3Q06. The demand was primarily driven by the banking, financial services and insurance sector. In total, ten financial companies leased space in these micro-markets. A number of financial institutions absorbed space in multiple buildings across the city. A few key transactions of the quarter include:

> Credit Suisse First Boston leasing 25,000 sq ft (2,323 sqm) in Ceejay House, Worli in SBD Central and 2,000 sq ft (186 sqm) in Free Press House, Nariman Point in the CBD;
> Goldman Sachs leasing 3,472 sq ft (322.5 sqm) each in Rational House (Prabhadevi) and Neelam Centre (Worli) in SBD Central; and
> Featherlite Industries leasing 22,000 sq ft (2,044 sqm) in Windsor, Santacruz (East) in SBD North.

The aggregate vacancy levels for the three micro-markets declined by 1% from 6.4% in 3Q06 to 5.4% in 4Q06.

## Supply

Two buildings totalling 296,000 sq ft (27,500 sqm) and four buildings totalling 484,000 sq ft (44,965 sqm) were completed in the SBD Central and SBD North micro-market in 4Q06. Currently, 6.7 million sq ft (629,380 sqm) of Grade A stock is under construction in SBD North, the majority being in Andheri (E). The bulk of the stock is expected to be completed in 2007, with only 570,000 sq ft (52,955 sqm) slated for completion in 2008. Compared to 2006 completions in this micro-market, which amounted to 484,000 sq ft (44,965 sqm), the expected 2007 completions look robust. The bulk of these buildings are expected to adhere to the deadlines as they are witnessing high levels of pre-leasing activity. A number of these buildings were earlier slated for 4Q06 completion. However, they got delayed due to the low pre-completion demand in the market in 1H06.

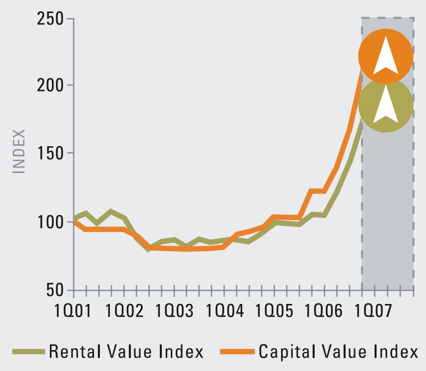
## Asset Performance

Rents across the three micro-markets rose q-o-q in 2006. The appreciation in 4Q06 was marked with the weighted average rent rising by 21.2% compared with the 3Q06 rent. The appreciation was primarily due to the low additions to the stock in 2006, which has fallen short of the demand in the market. The highest average rent in the SBD Central micro-market in 4Q06 is INR 240 per sq ft per month with highest rent recorded at INR 375 per sq ft per month – the highest in the city. The average rent in the CBD is INR 275 per sq ft per month and SBD North is INR 198 per sq ft per month in 4Q06. Yields have marginally moved southwards in 4Q06 compared with in 3Q06 from 11.9% to 11.5% respectively.

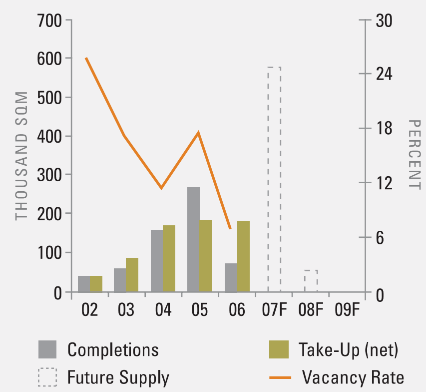
## 12-Month Outlook

The 4Q06 market performance surpassed expectations, both in terms of demand and rental value growth. Vacancy levels are expected to decline further in 1Q07 as bulk of 2007 completions are expected from 2Q07 onwards. Rental values are expected to remain stable in 2007 after a robust appreciation in 2006, due to high volume of future supply.

Mumbai SBD Central records the highest rent in the city - INR 375 per sq ft per month.




*Index base: Apr 2001 = 100*
*Source: Jones Lang LaSalle*




*Source: Jones Lang LaSalle*

| Growth | Rental Value | Capital Value |
|---|---|---|
| q-o-q | 21.2% | 25.0% |
| 1 Year | 66.4% | 71.5% |
| 3 Years | 106.4% | 161.5% |

* Rental and Capital values are based on GFA

| | 4Q06 |
|---|---|
| Vacancy Rate | 5.4% |
| Gross Rent | INR 30,486 psm pa |
| Capital Value | INR 265,096 psm |
| Investment Yield | 11.5% |

**12-MONTH OUTLOOK**

**RENTAL VALUE** | **CAPITAL VALUE**

# *Mumbai: Grade A Office – Suburbs (Malad, Powai, Navi Mumbai and Thane)*

## Demand

In terms of total transactions, the 4Q06 demand for office space more than doubled in the Malad, Powai, Navi Mumbai and Thane micro-markets in comparison with 3Q06. Majority of these transactions were in the suburb of Powai.

About 1.5 million sq ft (134,710 sqm) of Grade A space was transacted in these micro-markets in 4Q06. The key transaction was Tata Consultancy Services (TCS) pre-leasing the entire B wing of Kensington measuring 783,315 sq ft (72,772.4 sqm) in addition to leasing 180,765 sq ft (16,793 sqm) in the A wing of the same building in Powai. It has a total built-up area of 1.5 million sq ft, 66% of which will be occupied by TCS.

The aggregate vacancy levels in these micro-markets declined to 1.4%, owing to the positive demand–supply situation. These suburbs of Mumbai have been witnessing robust pre-leasing activity due to high IT/ITES sector demand and lack of available Grade A supply, compared with the other micro-markets in the city.

High leasing activity is expected in 2007 due to high existing demand and robust future supply.

Kensington, Powai

## Supply

These micro-markets did not witness any completion in 4Q06. Currently, 7.2 million sq ft (677,243 sqm) of Grade A space is under construction in the market. Building number 11 in the Interface complex in Malad (West) with a built-up area of 295,000 sq ft (27,406 sqm) and BSEL Tech Park, a 240,000-sq ft (22,297 sqm) property in Navi Mumbai were the only two notable completions in 2006 totalling 500,000 sq ft (46,452 sqm).

## Asset Performance

As expected, rental values appreciated by 9.1% in 4Q06 in comparison with 3Q06. The average rent in the suburban micro-market is about INR 60 per sq ft per month. The highest rentals in the market are prevalent in the suburb of Powai.

Rental values in the suburbs saw an appreciation of 33% in 2006 from INR 45 per sq ft per month in 4Q05 to INR 60 per sq ft per month in 4Q06. We expect rental values to further rise through 1H07 owing to the demand–supply mismatch in the market. Expected supply of about 3.5 million sq ft of Grade A space in 2007 might help stabilise the rising rentals in 2H07.

The yield remained stable at the 3Q06 level while capital values registered an appreciation of 10% over the 3Q06 values.

| Growth | Rental Value | Capital Value |
|---|---|---|
| **q-o-q** | 9.1% | 9.9% |
| **1 Year** | 33.3% | 22.0% |
| **3 Years** | 53.8% | 52.5% |

* Rental and Capital values are based on GFA

## Major Leasing Transactions

The major transactions of the quarter, apart from the TCS deal, are:

> Lehman Brothers leasing 180,765 sq ft (16,793 sqm) in Kensington, Powai;
> Shell leasing 7,000 sq ft (650 sqm) in Powai Plaza; and
> WNS leasing 44,000 sq ft (4087 sqm) in Raheja Plaza, Ghatkopar.

| | 4Q06 |
|---|---|
| **Vacancy Rate** | 1.4% |
| **Gross Rent** | INR 7,750 psm pa |
| **Capital Value** | INR 65,678 psm |
| **Investment Yield** | 11.8% |

**12-MONTH OUTLOOK**

**RENTAL VALUE** | **CAPITAL VALUE**

# Mumbai: Prime Retail

## Demand

Unlike in 3Q06, which witnessed robust demand for space in retail malls, net take-up was depressed in 4Q06. Malls witnessed a net take-up of 14,424 sq ft in this quarter. The bulk of transactions took place in the city's high streets, with most of the tenants being single-brand vanilla retailers. Vacancy levels in most of the malls remained stagnant at the 3Q06 level. In a few malls, including Nirmal Lifestyle (Mulund), Citi Mall (Andheri West), Infiniti Mall (Andheri West) and Atria Mall (Worli), vacancy levels declined. High streets in prime locations across the city such as Colaba Causeway and Santacruz, witnessed high leasing activity.

The key transactions of the quarter are:

> Watches & More leasing 1,200 sq ft (111.5 sqm) in Infiniti Mall, Andheri in SBD North;
> Imagine, a high-end electronics retailer, leasing 1,200 sq ft (111.5 sqm) in Inorbit Mall, Malad in the suburbs;
> Maspar, a home furnishing brand, leasing 2,300 sq ft (213.7 sqm) in the high street of Colaba Causeway, CBD;
> United Colors of Benetton leasing 3,200 sq ft (297.3 sqm) in the high street of Haji Ali, SBD Central;
> Bawree Sarees, a local ethnic wear dealer, leasing 5,000 sq ft (464.5 sqm) in the high street of Santacruz, SBD North; and
> Catwalk leasing 1,500 sq ft (139.35 sqm) in the high street of Santacruz, SBD North;

## Supply

Orchid City Centre Mall, located in Mumbai Central, SBD Central with built-up area of 210,000 sq ft (19,509 sqm) was completed in 4Q06. The mall was originally expected to be completed in 2Q07. The quick turnaround time was encouraged by robust demand for quality retail space in South Mumbai. Year 2006 saw completions of five malls across all the micro-markets totalling 830,000 sq ft (77,110 sqm). Currently, 11 malls in the city with space totalling 4.1 million sq ft, are under various stages of construction. These are expected to be available in the market in 2007. Thirteen malls totalling 6 million sq ft are expected to be completed in 2008.

Raghuvanshi Mills, an old mill property located in Lower Parel, SBD Central, was transformed into a 150,000-sq ft high-end retail destination housing home furnishing and accessories brands such as Good Earth, Veneta Cucine and art d'inox and opened for business in 4Q06.

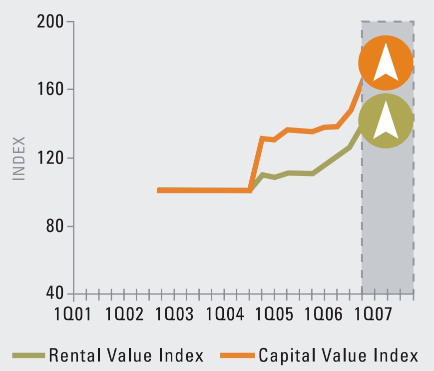
## Asset Performance

The average rents across prime city malls of Mumbai appreciated by 10% compared with the last quarter values. Rents in high-street locations remained stable. Rents in the prime city malls such as Atria in SBD Central, Infiniti Mall in SBD North and Inorbit Mall in the suburbs are now at par with those in the prime high-street locations in these micro-markets.

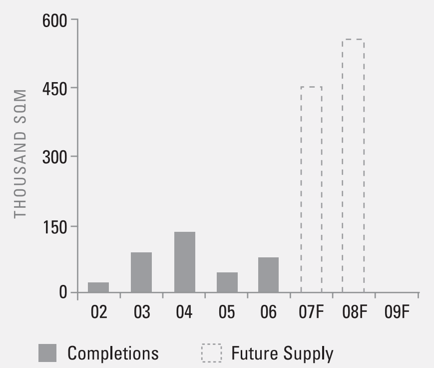
## 12-Month Outlook

The high level of demand for retail space is expected to persist in 2007. Over the next 12 months, malls are expected to witness robust pre-leasing activity, continuing trend of appreciating rents and, low vacancy levels. Rents will appreciate by a higher percentage (10-15%) in the city's high street locations compared with those in malls (5–15%) due to low space availability in the high-streets compared to malls.

### Rental values in prime city malls are at par with those of prime high street locations in Mumbai.




*Index base: Jan 2003 = 100*
*Source: Jones Lang LaSalle*




*Source: Jones Lang LaSalle*

| Growth | Rental Value | Capital Value |
|---|---|---|
| q-o-q | 10.0% | 14.4% |
| 1 Year | 25.0% | 23.3% |
| 3 Years | 37.5% | 65.5% |

* Rental and Capital values are based on GFA

| | 4Q06 |
|---|---|
| **Vacancy Rate** | 8.0% |
| **Gross Rent** | INR 35,521 psm pa |
| **Capital Value** | INR 338,500 psm pa |
| **Investment Yield** | 10.5% |

**12-MONTH OUTLOOK**

| RENTAL VALUE | CAPITAL VALUE |
|---|---|

# Bangalore: Grade A Office

Strong market demand for commercial space and low stock availability continue to widen the demand–supply gap in the CBD and the SBD of Bangalore. Tenants are increasingly signing pre-lease agreements with developers, leading to low vacancy levels in these micro-markets. However, high vacancy levels were observed in suburban locations of the city. In terms of transactions, 2006 was a mirror image of 2005. The city witnessed 9.8 million sq ft of transactions across all micro-markets.

## Demand

Demand continued to outstrip supply in the CBD and the SBD in 2H06. The current construction cycle is augmenting the SBD office stock in terms of built-up area and in creating more options for tenants to upgrade and expand their accommodation outside of the CBD. Although the CBD and the SBD witnessed completions of 354,993 sq ft (32,980 sqm) and 3 million sq ft (286,585 sqm) of office space, respectively, in 2006, vacancy figures were reported at lowest ever levels in the past four years at 0.6%.

Many existing corporates are either relocating or expanding in the SBD. For example, Philips and Ernst & Young relocated their facilities in Embassy Manyata and RMZ Infinity, respectively. IT/ITES companies accounted for 85% of the total transactions across all micro-markets.

## Supply

Bangalore CBD witnessed the completion of J P Techno Park with a built-up area of 50,000 sq ft (4,645 sqm) and Nitesh Times Square with a built-up area of 130,000 sq ft (12,077 sqm). The buildings that were completed in the SBD during this quarter are RMZ Infinity B with a built-up area of 282,000 sq ft (26,198 sqm), KSSIDC IT/BT Park with a built-up area of 168,000 sq ft (15,608 sqm), Kalyani Magnum (Tower A) with a built-up area of 450,000 sq ft (41,806 sqm), IBC Knowledge Park (Tower C and Tower D) with a built-up area of 600,000 sq ft (55,741 sqm) and Baghmane Parin with a built-up area of 240,000 sq ft (22,296 sqm). In total, 1.92 million sq ft (178,374 sqm) of new office stock was added in the CBD and the SBD of Bangalore in 4Q06. Presently, 6.4 million sq ft of office stock is under construction.

## Asset Performance

Prime CBD and SBD rents have benefited from the strong tenant demand. The weighted average of quoted rents in the CBD and the SBD in 4Q06 is 12.1% higher than that same time last year. The CBD rental values rose from INR 48 per sq ft per month in 4Q05 to INR 60 per sq ft per month in 4Q06.

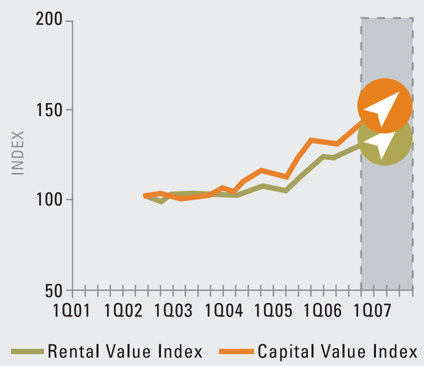
Rents continued to rise in the SBD, primarily on the eastern stretch of the Outer Ring Road, largely due to the high preference for this location from the large occupiers. SBD rental values rose from INR 36-38 per sq ft per month in 4Q05 to INR 42-45 per sq ft per month in 4Q06.

We can expect variations in the rental values as the speculative supply will have to compete with special economic zones (SEZs) in the future. The three IT/ITES SEZs under development in the SBD are Vrindavan Tech Park, Embassy Manyata and Cessna Business Park.

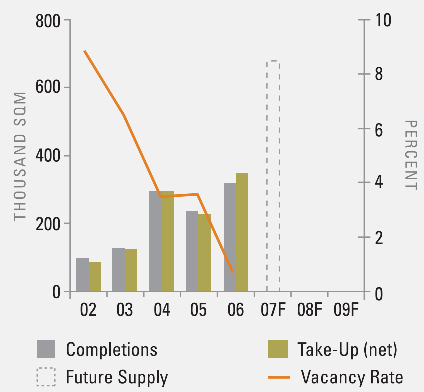
## 12-Month Outlook

New construction is expected in the CBD in near term. However, since most of this supply is pre-leased, we do not expect any major change in the vacancy levels. In addition, looking at the increased occupier-interest towards SEZs, we can expect that the speculative office stock in the SBD will face competition in terms of rentals in the longer term.

In 2006, IT/ITES companies accounted for 85% of total transactions in Bangalore City.




*Index base: Oct 2002 = 100*
*Source: Jones Lang LaSalle*




*Source: Jones Lang LaSalle*

| Growth | Rental Value | Capital Value |
|---|---|---|
| q-o-q | 3.1% | 5.1% |
| 1 Year | 12.1% | 9.6% |
| 3 Years | 27.4% | 41.4% |

* Rental and Capital values are based on GFA

| | 4Q06 |
|---|---|
| Vacancy Rate | 0.6% |
| Gross Rent | INR 6,204 psm pa |
| Capital Value | INR 54,926 psm |
| Investment Yield | 11.3% |

**12-MONTH OUTLOOK**

| RENTAL VALUE | CAPITAL VALUE |
|---|---|

# *Bangalore: Grade A Office Market – Suburbs (Whitefield and Electronic City)*

Development activity in the suburban business districts of Bangalore remained subdued due to the restricted demand for these locations prodding the developers to stagger the development activity. Only developments with large pre-commitments have headed towards completion. The suburban business district of Whitefield witnessed interest for built-to-suit (BTS) facilities from clients considering expansion plans. For example, Huawei and Accenture have entered into agreements with DivyaSree Developers for setting up their BTS facilities in Whitefield.

The much-needed broadening of the railway overbridge in Varthur Road is expected to bring some respite to the daily commuters to Whitefield, though the traffic situation and travel time will continue to remain one of the key issues affecting demand from occupiers in the region.

After successive drops in the last three quarters, rental values in the suburban districts of Bangalore stabilised in 4Q06.

Information Technology Park Ltd, Whitefield

## Demand

The demand for commercial space remained subdued on account of better space options available on the eastern stretch of the Outer Ring Road. Owing to this, high vacancy levels were observed in the suburban business districts of Bangalore. We expect that the vacancy figures will not rise further as the developers have slowed down the construction activity on the ongoing projects. In the event that the vacancy level do not see improvement, we can expect some delays in the completion of the future stock as well.

## Supply

RMZ Centennial Tower C with a built-up area of 204,000 sq ft (18,952 sqm) and RMZ NXT 1B with a built-up area of 161,000 sq ft (14,957 sqm) were completed during this quarter. These buildings were completely pre-leased by Shell and Caterpillar, respectively. Regent Gateway with a built-up area of 116,000 sq ft (10,776 sqm) in Whitefield was also completed in 4Q06.

No completion was witnessed in Electronic City. Presently, 7.7 million sq ft (715,354 sqm) of stock is under construction in the suburbs of Bangalore. This is expected to be available in the next two years. An increased occupier-interest in setting up their own facilities was also observed. For example, Siemens bought 5.95 acres of land in Bommasandra Industrial Area, Electronic City while Hewlett Packard set up its facility on Whitefield Road.

## Asset Performance

Whitefield and Electronic City rental values fell in 1H06 due to high level of competition from the developments on the eastern stretch of Outer Ring Road, a much preferred location. The Grade A weighted average rental values in Whitefield and Electronic City dropped from a high of INR 31 per sq ft per month in 4Q05 to INR 28.8 per sq ft per month in 3Q06.

The rental values in 4Q06 remained stable at the 3Q06 levels. This trend is expected to continue in the medium term.

| Growth | Rental Value | Capital Value |
|---|---|---|
| **q-o-q** | 0.2% | 2.0% |
| **1 Year** | -6.9% | -10.8% |
| **3 Years** | 13.1% | 38.7% |

* Rental and Capital values are based on GFA

| | 4Q06 |
|---|---|
| **Vacancy Rate** | 15.8% |
| **Gross Rent** | INR 3,730 psm pa |
| **Capital Value** | INR 32,914 psm |
| **Investment Yield** | 11.3% |

## Major Leasing Transactions

> Accenture leasing 182,000 sq ft in DivyaSree Tech Park in Whitefield;
> Avestagen leasing 200,000 sq ft in ITPL, Whitefield; and
> ESI Software Pvt Ltd leasing 14,500 sq ft in Brigade TechPark.

**12-MONTH OUTLOOK**

**RENTAL VALUE** ➤ **CAPITAL VALUE** ➤

# Bangalore: Retail

Retail high street locations in Bangalore are increasingly becoming the preferred location for retailers to set up their outlets. Locations such as Indiranagar, Koramangala and Jayanagar 4th Block witnessed buoyant retailing activity due to large established residential catchments in these locations.

Suburban locations of Bangalore are also attracting developers to set up malls because of the availability of land parcels and to cater to the upcoming residential townships in these micro-markets.

## Demand

Due to low vacancy levels in malls, transaction activity in the retail high streets gained momentum. More and more retailers are demanding larger retail space built-up area ranging between 1,700 sq ft to 8,000 sq ft as compared with last year where majority of transactions ranged between 1,000 sq ft to 2,500 sq ft. Bhanshankari in the SBD is also emerging as a favoured location for setting up factory outlets. Another high street location that is witnessing increased interest from retailers is the BEL (Bharat Electronics Ltd) Road. The demand in this location is primarily augmented by its neighbouring residential locations of Dollars Colony, Sanjay Nagar and RMV Extension. Also, the large student population of Indian Institute of Science and Ramaiah Institute is catalysing demand for retail outlets in this location. Supermarket chains such as Big Bazaar, Subhiksha, Food World and Fabmall are also planning to set up stores in these residential areas of Bangalore. Brigade road and MG road did not witness any transaction because of the unavailability of retail space.

The major transactions at the high streets of Bangalore in 4Q06 were:

> Masper leasing 3,000 sq ft (279 sqm) at Indiranagar;
> Koutons leasing 4,000 sq ft (372 sqm) at Indiranagar;
> Tanishq leasing 3,000 sq ft (279 sqm) at Koramangala;
> Titan leasing 1,800 sq ft (167 sqm) at Koramangala;
> Tata retail leasing 4,000 sq ft (372 sqm) at Jaynagar 4th Block;
> Samsonite leasing 3,000 sq ft (279 sqm) at Jaynagar 4th Block; and
> Cassa Picolla leasing 3,000 sq ft (279 sqm) at Jaynagar 4th Block.

## Supply

No new mall was completed in 4Q06. Lido Mall with a built-up area of 110,000 sq ft was expected to start operations in 4Q06. However, it was delayed by a quarter. Sringaar Multiplex and Pantaloons, the major anchors in Lido Mall are expected to start their operations in 1Q07. UB City Mall with a built-up area of 150,000 sq ft (13,935 sqm) on Vittal Mallya Road and Esteem Mall with a built-up area of 120,000 sq ft (11,148 sqm) on Bellary Road are expected to be operational in 2Q07. Sigma Grand Mall with a built-up area of 550,000 sq ft (51,096 sqm) on the Outer Ring Road is expected to become operational in 4Q07. In total, we expect about 660,000 sq ft (61,316 sqm) of new supply to be added to the present stock by end-2007.

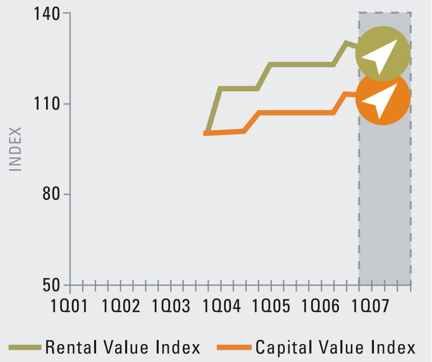
## Asset Performance

Rental values in prime retail malls of Bangalore remained stable at 3Q06 levels at INR 135-150 per sq ft per month. Similarly, the yield figures remained unchanged at 10.8% same as the previous quarter.

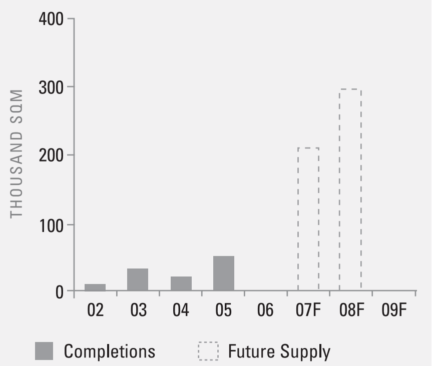
## 12-Month Outlook

In the next 12 months, we expect the high streets to continue a q-o-q rental appreciation due to the buoyant demand. This increase will be more on the emerging secondary locations of Jayanagar 4th Block and Kormangala. Since no space is available on MG and Brigade roads, we expect these primary high streets to command highest rental values if space was made available.

Leasing activity in the retail high streets gained momentum due to low vacancy levels in malls.




*Index base: Jan 2004 = 100*
*Source: Jones Lang LaSalle*




*Source: Jones Lang LaSalle*

| Growth | Rental Value | Capital Value |
|---|---|---|
| q-o-q | 0.0% | 0.0% |
| 1 Year | 5.5% | 5.6% |
| 3 Years | 28.6% | 11.9% |

* Rental and Capital values are based on GFA

| | 4Q06 |
|---|---|
| Vacancy Rate | 3.5% |
| Gross Rent | INR 17,438 psm pa |
| Capital Value | INR 161,463psm |
| Investment Yield | 10.8% |

**12-MONTH OUTLOOK**

| RENTAL VALUE | CAPITAL VALUE |
|---|---|

# Chennai: Grade A Office

The Chennai CBD and SBD micro-markets witnessed an upbeat transaction activity in 2006 to the tune of 5.8 million sq ft compared with 3.5 million sq ft in 2005. About 20% of these transaction volumes were pre-leases. The year 2006 also witnessed the entry of DLF Universal, which commenced its project—DLF Info City which is 4.1 million sq ft in size and is expected to be completed in six phases.

## Demand

Low vacancy levels and in reaction to the same, a huge future supply best describe the city's commercial real estate market. Demand for commercial space continued to be buoyant in the CBD and SBD of Chennai. A total of 2.43 million sq ft (206,010 sqm) of office space was absorbed across these micro-markets in 2006. The SBD attracted about 75% of all transactions in the city compared with 25% in the CBD.

Major transactions in 4Q06 include:

> Petrofac leasing 22,730 sq ft (2,111 sqm ) in DLF IT Park on Mount Poonamallee Road;

> Symantec leasing 220,000 sq ft (20,438 sqm) in DLF IT Park on Mount Poonamallee Road; and

> Polaris leasing 48,000 sq ft (4,459 sqm) in Prince Infopark in Ambattur.

## Supply

In the CBD and SBD, there was no Grade A office building completion in 4Q06. Grade A completions in 2006 were 1.85 million sq ft. We estimate another 4.2 million sq ft of Grade A space will be made available in the market by end-2007.

Three projects—Espee IT Park with a built-up area of 140,000 sq ft (13,000 sqm), Vishranthi AMITI IT park phase I with a built-up area of 200,000 sq ft (18,580 sqm) and Cathedral Square with a built-up area of 209,000 sq ft (19,416 sqm)—are expected to be completed in 1Q07. DLF Universal released its DLF Info City project for pre-leasing this quarter and successfully booked 700,000 sq ft (65,032 sqm) of pre-leased transactions. The first phase of this IT park is expected to be completed by 3Q07.

## Asset Performance

Positive office demand and economic conditions are catalysing rental appreciation in the city. Average rental value appreciation in the CBD and SBD micro-markets was about 4–5% every quarter throughout 2006.

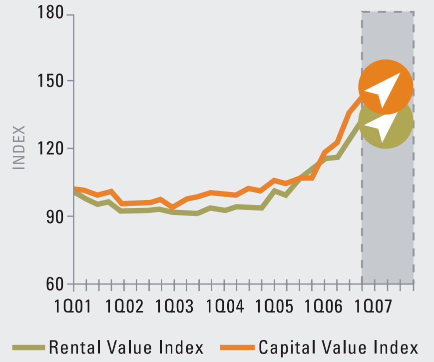
The rental values appreciated from INR 42.5 per sq ft per month in 4Q05 to INR 51.5 per sq ft per month in 4Q06. Vacancy levels dropped to 1.6% this quarter compared with 8.5% same time last year.

## 12-Month Outlook

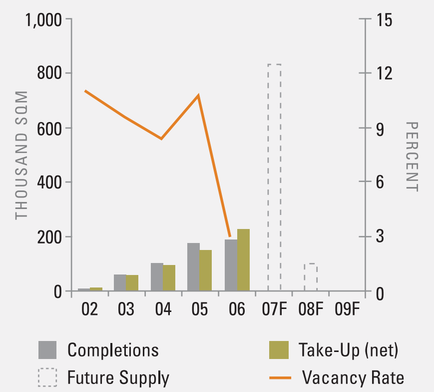
Steady IT/ITES sector employment growth will be a major demand driver for office space going forward. With steady demand along with large future supply coming up in the next 12 months, we expect the vacancy figures to remain low. We expect that rental values will remain stable in the SBD on account of robust supply expected at Ambattur, Guindy and Mount Poonamale Road.

New supply in the CBD will remain restricted owing to low availability of land parcels for fresh development. Any space made available in the CBD will be readily absorbed.

Chennai City witnessed transaction volumes to the tune of 5.8 million sq ft in 2006, 48% higher than 2005.




*Index base: Apr 2001 = 100*
*Source: Jones Lang LaSalle*




*Source: Jones Lang LaSalle*

| Growth | Rental Value | Capital Value |
|---|---|---|
| q-o-q | 7.5% | 5.1% |
| 1 Year | 21.0% | 33.1% |
| 3 Years | 42.9% | 42.6% |

* Rental and Capital values are based on GFA

| | 4Q06 |
|---|---|
| Vacancy Rate | 1.6% |
| Gross Rent | INR 6,643 psm pa |
| Capital Value | INR 56,587 psm |
| Investment Yield | 11.7% |

**12-MONTH OUTLOOK**

RENTAL VALUE | CAPITAL VALUE

# Chennai: Grade A Office – Suburbs (Old Mahabalipuram Road and GST Road)

Just as in 2005, the suburban commercial markets of Chennai remained developer-friendly throughout 2006. Demand outstripped supply in the suburbs, pushing vacancy figures to the all-time low of 1.39% recorded in the last four years.

## Demand

Chennai suburbs witnessed 3.2 million sq ft (297,705 sqm) of office space transaction volumes in 2006. About 850,000 sq ft was transacted in 4Q06. Rental values inched upwards by mere 2.9% compared with the same time last year from INR 35 per sq ft per month to INR 36 per sq ft per month. This is primarily because of ample availability of ready stock across Chennai suburbs.

With the exception of Ascendas – Mahindra IT Park, the market witnessed a slower pre-leasing activity this quarter.

## Supply

IT Corridor witnessed completion of Rayala Techno Park with built-up area of 300,000 sq ft (27,870 sqm) . Anticipating buoyant demand similar with the last two years, developers remain bullish about future market conditions and the same is reflected in the estimated 16 million sq ft (1.5 million sqm) of commercial space under various stages of construction and due for completion through the next three years. Half of this total future supply is expected to be completed by end-2007.

Siruseri is emerging as an SEZ hub in the suburbs of Chennai. Four IT/ITES SEZs are under development in this micro-market. These include SEZ by Tata Consultancy Services, Hexaware, Syntel and Cognizant, aggregating to area of 103.5 hectares.

## Asset Performance

Rental values were stable at 3Q06 levels in Chennai suburbs. This is primarily because of divided tenant interest between the suburbs and the other secondary locations of the city. The difference in the rental values across locations on the GST and Old Mahabalipuram roads are due to different land prices along these roads.

Tenants are increasingly expecting more value for their money. Therefore, we can expect that most upcoming Grade A commercial developments will offer not only superior construction but also amenities to beat competition.

As witnessed in Bangalore, Chennai can also expect competition in terms of rental values between the speculative and the SEZ future supply. This can further induce variations in rental values in these micro-markets.

## Major leasing transactions

- Scope International leasing 55,600 sq ft (5,165 sqm) in Marg Digital Zone II on the IT corridor;
- Mind Tree leasing 280,000 sq ft (26,013 sqm) in Mahindra City on GST Road; and
- 3I leasing 180,000 sq ft (16,722 sqm) in Prince IT park on the IT corridor

Four IT majors, TCS, Hexaware, Syntel and Cognizant, are setting up their SEZs in Siruseri, an emerging IT/ITES hub in Chennai suburbs.

| Growth | Rental Value | Capital Value |
|---|---|---|
| q-o-q | 0.0% | 0.0% |
| 1 Year | 2.9% | 5.6% |
| 3 Years | 5.9% | 10.3% |

* Rental and Capital values are based on GFA

| | 4Q06 |
|---|---|
| Vacancy Rate | 1.39% |
| Gross Rent | INR 4,650 psm pa |
| Capital Value | INR 40,365 psm |
| Investment Yield | 11.5% |

**12-MONTH OUTLOOK**

| | |
|---|---|
| RENTAL VALUE | CAPITAL VALUE |

# Chennai: Retail

The large number of immigrant working population from different parts of India and the growing household income have translated into a retail spending growth in Chennai. This encouraged developers to launch mall projects across all the quadrants of the city. We estimate that eight to ten malls will be operational in Chennai by end-2008.

## Demand

With the backdrop of shifting consumers' consumption pattern from traditional to branded retail, retailers are expecting strong growth opportunities in the medium term. This is translating into strong demand for branded retail outlets as retailers actively compete for the upcoming quality spaces to capture new businesses and market share.

High streets continue to witness buoyant leasing activity due to the lack of mall space. Rental values in traditional high streets of T Nagar, Adayar and RK Salai continued to show an upward trend q-o-q due to the steady increase in occupier demand. Retailers are purchasing old properties and converting them into retail space.

Large residential catchments of IT/ITES sector employees have developed in the micro-markets of Velachery, Thiruvanmiyur, Tambaram and Pallavaram due to their proximity to the IT corridor. This has raised retailers' sentiment in these areas. These locations also witnessed the leasing of hypermarket chains such as Food World, Subhiksha, etc.

Major leasing transactions in 4Q06 include:

> Cafe Coffee Day leasing 2,500 sq ft (232 sqm) in the high streets of Besant Nagar;
> Barista leasing 1,000 sq ft (93 sqm) in the high streets of Besant Nagar;
> Lee leasing 3,000 sq ft (278 sqm) in the high streets of Pondy Bazaar;
> Samsonite leasing 5,000 sq ft (464 sqm) in the high streets of RK Salai; and
> Fun City leasing 3,000 sq ft (278 sqm) in Citi Centre Mall

## Supply

Currently, there are two operational malls in Chennai: ETA City Centre and Safina Plaza. This indicates that the need for retail shopping is still catered by the city's high streets. No mall was completed in 4Q06. Ampa Mall with a built-up area of 325,000 sq ft (30,193 sqm) along Nelson Manickham Road, which was originally scheduled for completion in 3Q06, was further delayed. It is now expected to be operational in 2Q07. As stated in earlier reports, all the retail space in this mall has been pre-leased. At present, 3.4 million sq ft (315,777 sqm) of the mall space in Chennai is under various stages of construction. We expect 749,000 sq ft (69,584 sqm) of this to be completed by end-2007. The rest will come up gradually in 2008–2009.

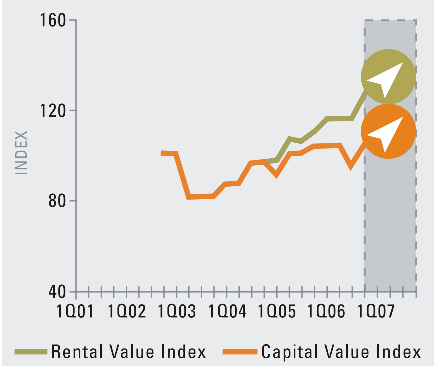
## Asset Performance

Robust demand and thin supply pushed up the rental values in Chennai prime retail market by 8.3% - from INR 60 per sq ft per month in 3Q06 to INR 65 per sq ft per month in 4Q06. Yields moved marginally downwards from 10.4% in 3Q06 to 10.2% in 4Q06.

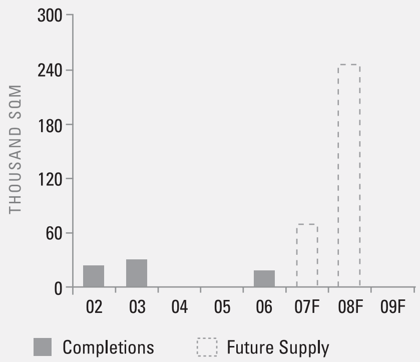
## 12-Month Outlook

In the medium term, we expect this positive momentum of the retail development in Chennai to continue. We foresee more retail developments in the city to be announced in the next 12 to 18 months. The market will see a northward trend in rental values, leveraging on strong demand and favourable market conditions. Malls will continue to witness low vacancy levels because of the high pre-leasing activity in the market.

Retail shopping in Chennai is still catered by the high-streets as there are only 2 operational malls in the city. Three to four malls are expected to start operations in 2007.




*Index base: Jan 2003 = 100*
*Source: Jones Lang LaSalle*




*Source: Jones Lang LaSalle*

| Growth | Rental Value | Capital Value |
|---|---|---|
| **q-o-q** | 8.3% | 10.6% |
| **1 Year** | 14.0% | 0.9% |
| **3 Years** | 54.8% | 29.4% |

* Rental and Capital values are based on GFA

| | 4Q06 |
|---|---|
| **Vacancy Rate** | 2.0% |
| **Gross Rent** | INR8,396 psm pa |
| **Capital Value** | INR 82,580 psm |
| **Investment Yield** | 10.2% |

**12-MONTH OUTLOOK**

| RENTAL VALUE | CAPITAL VALUE |
|---|---|

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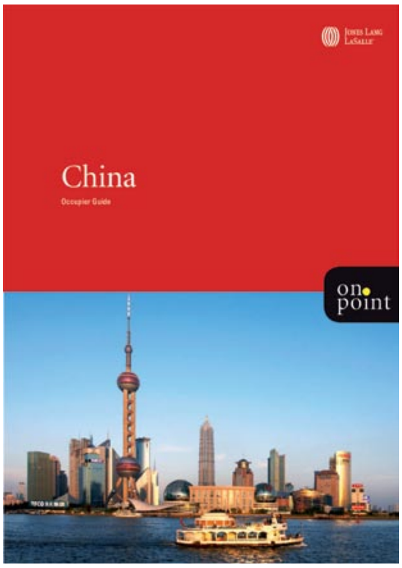


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General overview and market update of the office, industrial and residential property sectors in key markets across Asia Pacific, including a guide to property market practices in those countries. The Corporate Occupiers Guide series covers: Australia, China, Hong Kong, Japan, South Korea, India, Malaysia, The Philippines, Singapore, Taiwan and Thailand. It is published in conjunction with the Asia Pacific Real Estate Operating Guide (wall chart) and a regular bulletin.


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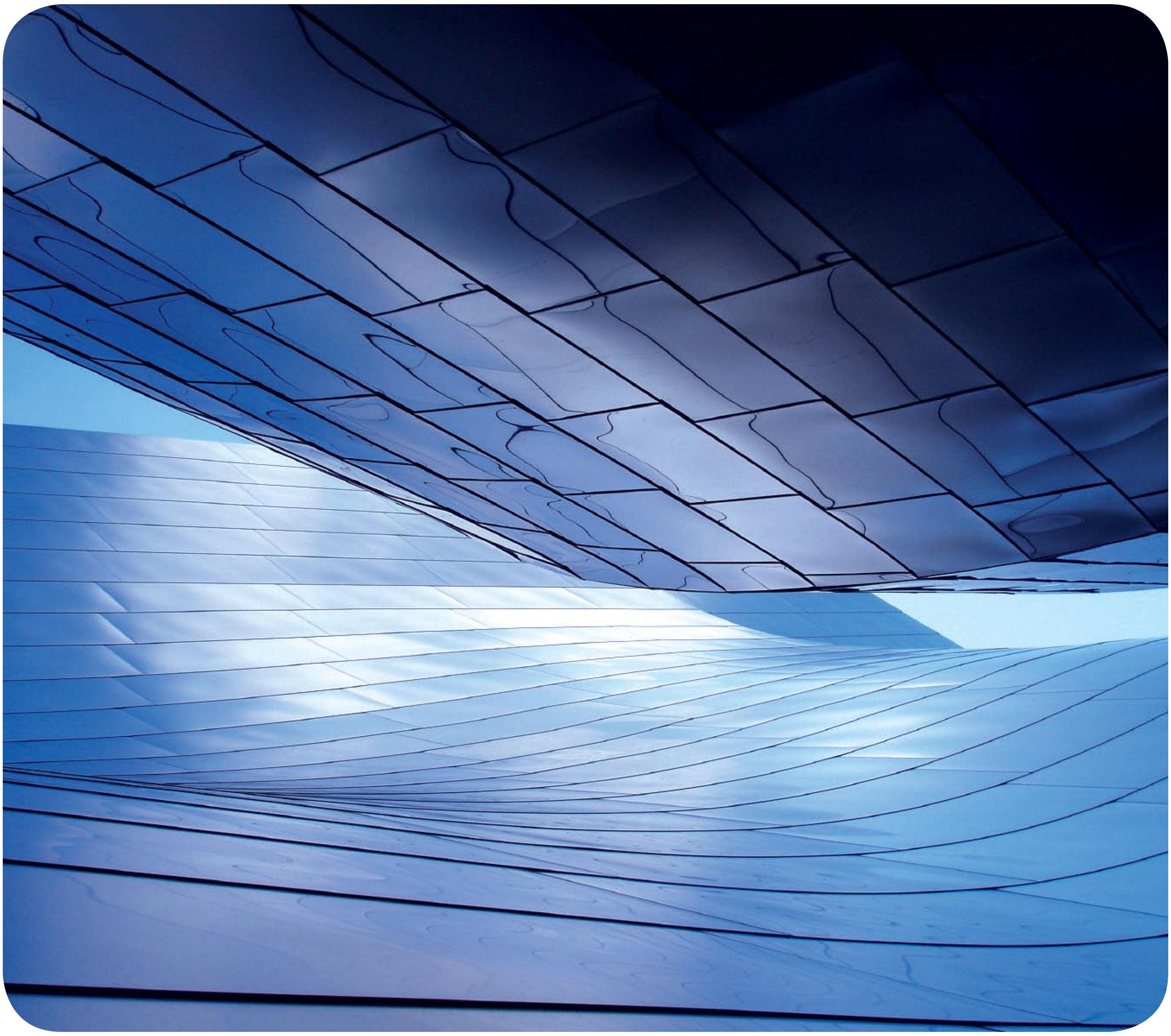
## Sectoral Coverage

Focusing on three key investment sectors:

Investment-grade offices
Luxury residential
International-standard retail

## For subscription details and enquiries, please contact

Leslie Chua
Head of REIS (Asia)
tel +65 6539 9037
leslie.chua@ap.jll.com



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www.joneslanglasalle.com

# For further information, please contact

**ASIA PACIFIC**

Dr Jane Murray
Head of Research – Asia Pacific
tel +852 2846 5274
jane.murray@ap.jll.com

**GREATER CHINA**

**Marcos Chan,** Hong Kong
tel +852 2846 5276

**Alvin Mak,** Macau
**tel +853 2871 8822**

**Anna Kalifa,** Beijing
**tel +86 10 5922 1375**

**Shelly Xie,** Chengdu
**tel +86 28 8665 1022**

**Lily Li,** Guangzhou
**tel +86 20 3891 1238**

**Kenny Ho,** Shanghai
**tel +86 21 6132 3750**

**Jeffrey Hurren,** Taipei
**tel +886 2 8758 9898**

**NORTH ASIA**

**Takeshi Akagi,** Tokyo
**tel +81 3 5501 9235**

**Steven Craig,** Seoul
**tel +82 2 3704 8836**

**SOUTH EAST ASIA**

**Dr Chua Yang Liang,** Singapore
**tel +65 6539 9814**

**Dan Tantisunthorn,** Bangkok
**tel +66 2 679 6500**

**Lindsay Orr,** Manila
**tel +63 2 750 8012**

**Anton Sitorus,** Jakarta
**tel +62 21 515 5655**

**Buu Le,** Ho Chi Minh City
**tel +84 8 910 1054**

**WEST ASIA**

**Abhishek Kiran Gupta, Mumbai**
**tel +91 22 6658 1000**

**AUSTRALASIA**

**Kathryn Matthews, Sydney**
**tel +61 2 9220 8511**

**Jonathan Hedger, Auckland**
**+64 9 970 4880**

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**SECTORAL COVERAGE**

Focusing on four key investment sectors:
Investment-grade offices
Luxury residential
International-standard retail
Industrial

**FOR SUBSCRIPTION DETAILS AND ENQUIRIES, PLEASE CONTACT**

**Leslie Chua,** Head of REIS-Asia
tel +65 6539 9035
leslie.chua@ap.jll.com

**Nigel Southern,** Head of REIS-Australia
tel +61 2 9220 8747
nigel.southern@ap.jll.com

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www.research.joneslanglasalle.com

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