

Industry Flash

10 October 2008 | 10 pages

Per Sq Ft Portable

India Property Weekly

- Property stocks fall sharply** — The BSE Realty Index fell 17% this week vs. 13% decline in sensx as global financial crises worsens; Indian property index is down in-line with Chinese index (fig.3) now. With liquidity crunch worsening, news of debt/interest defaults on the rise, we believe Indian property stocks will continue to face tough times – sector to remain volatile given high beta (fig.4).
- Takeaways from Indiabulls Real Estate analyst meet** — 1) Rs30bn ICD given to Indiabulls Financial Services has been reversed; current cash on books, Rs36.35bn i.e. Rs141/share. 2) 1.2msf office space leased in Jupiter Mills, no lease below Rs275/msf/mth, – rentals for 1st tower to begin from Nov'08, office space to be completed by end 2008; 3) Elphinstone mills still under construction, no space leased yet, also exploring options of sale here. 5) New residential projects soft-launched at attractive prices, lower than market and 6) retail mall strategy changed to pre-sales vs. build-lease model earlier.
- PE trends in real estate** — PE's invested Rs269b over last 12-mths largely funding through SPV route (51%); residential (41%) and township (21%) are key asset classes with West (37%) and South (32%) being the most popular investment destinations. However, investors have turned cautious – 1) increased emphasis on developer reputation; 2) expect higher IRRs; and 3) more imposed restrictions on end use of funds.
- Industry news** — 1) Lacklustre demand forces developers to offer price discounts/incentives in festive season. 2) Railway lowers reserve price of plot near BKC – signs of land prices softening; and 3) Developers moving to time-lined plan vs. construction linked earlier – signs of increasing liquidity crunch.

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Figure 1. India Real Estate Universe: Statistical Abstract

Company	RIC	Price	Mkt Cap	Rating	Target Price	Est NAV		1-wk Perf		
						Rs/Sh	% Disc	Absolute	vs Sensex	vs BSE Realty
DLF	DLF.BO	309	10,988	1M	585	650	-52%	-11%	3%	8%
Unitech	UNTE.BO	95	3,202	2H	193	257	-63%	-18%	-6%	-1%
Puravankara	PPRO.BO	132	587	3H	212	325	-59%	-27%	-16%	-12%
Omaxe	OMAX.BO	81	294	3H	135	225	-64%	-13%	0%	4%
Parsvnath	PARV.BO	72	279	3H	126	210	-66%	-21%	-9%	-4%
Ansal Prop	ANSP.BO	72	169	3H	94	170	-58%	-20%	-8%	-4%

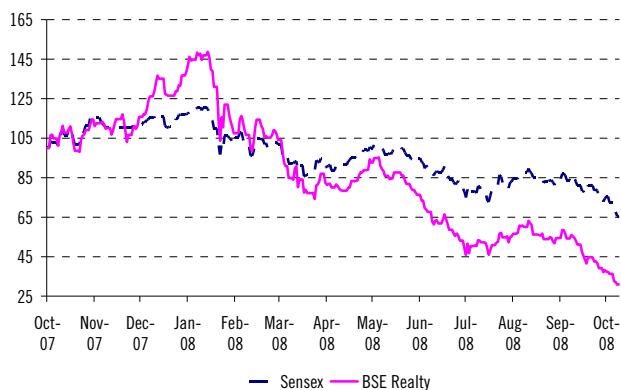
Source: Citi Investment Research estimates

See Appendix A-1 for Analyst Certification and important disclosures.

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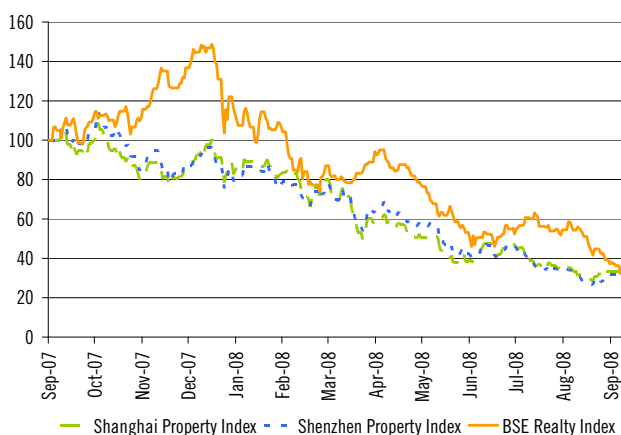
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Figure 2. Performance of Real Estate Index vs. Sensex



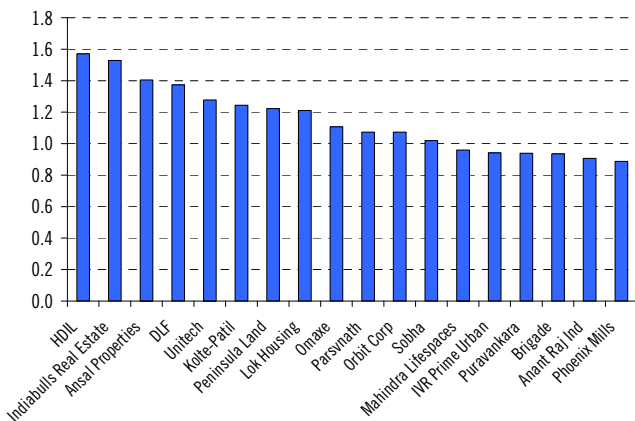
Source: Bloomberg, Citi Investment Research

Figure 3. BSE Realty vs. Shanghai & Shenzhen Property Index



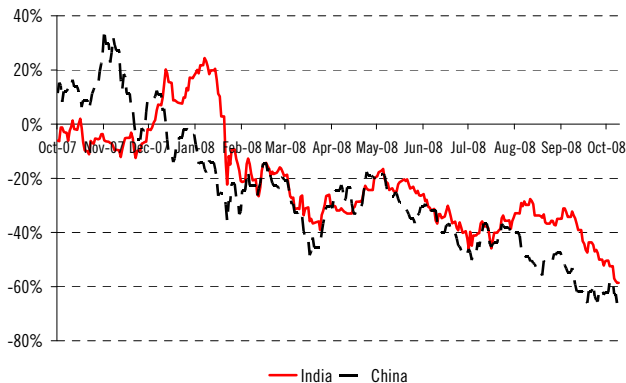
Source: Bloomberg, Citi Investment Research

Figure 4. 6-mth Beta of Select Indian Real Estate Developers



Source: Bloomberg, Citi Investment Research

Figure 5. NAV Discount Trend for Select India & China Developers



Source: Citi Investment Research

Figure 6. Price Performance of Real Estate Stocks (in descending order of market cap)

	RIC	Absolute						Relative to Sensex						Relative to BSE Realty					
		15d	1m	3m	6m	9m	12m	15d	1m	3m	6m	9m	12m	15d	1m	3m	6m	9m	12m
BSE Realty		-27%	-43%	-42%	-60%	-79%	-71%	-13%	-27%	-28%	-45%	-61%	-53%	NA	NA	NA	NA	NA	NA
DLF	DLF.BO	-22%	-38%	-31%	-48%	-74%	-65%	-6%	-20%	-15%	-28%	-53%	-43%	7%	9%	18%	31%	22%	21%
Unitech	UNTE.BO	-24%	-40%	-45%	-64%	-82%	-72%	-9%	-23%	-33%	-50%	-67%	-53%	5%	5%	-6%	-9%	-14%	-1%
Akruti City	AKRU.BO	-28%	-23%	-6%	-27%	-41%	-14%	-14%	-1%	15%	1%	8%	42%	-1%	35%	61%	84%	179%	201%
HDIL	HDIL.BO	-46%	-63%	-68%	-76%	-89%	-81%	-35%	-52%	-60%	-67%	-80%	-68%	-26%	-35%	-44%	-40%	-48%	-32%
IBREL	INRL.BO	-43%	-57%	-58%	-75%	-84%	-82%	-32%	-46%	-49%	-65%	-71%	-70%	-22%	-26%	-28%	-36%	-24%	-36%
Puravankara	PPRO.BO	-22%	-37%	-33%	-47%	-71%	-73%	-6%	-19%	-17%	-26%	-47%	-55%	7%	10%	15%	34%	37%	-5%
Anant Raj	ANRA.BO	-15%	-37%	-31%	-56%	-71%	-70%	2%	-19%	-15%	-39%	-47%	-50%	17%	10%	19%	10%	36%	5%
Omaxe	OMAX.BO	-23%	-37%	-39%	-60%	-84%	-75%	-8%	-20%	-25%	-44%	-71%	-58%	5%	10%	4%	2%	-26%	-11%
Parsvnath	PARV.BO	-30%	-41%	-40%	-63%	-84%	-81%	-16%	-25%	-26%	-49%	-71%	-69%	-4%	3%	3%	-7%	-26%	-34%
Mahindra Life	MALD.BO	-30%	-44%	-42%	-39%	-68%	-57%	-16%	-29%	-29%	-14%	-42%	-30%	-4%	-3%	0%	55%	50%	49%
Peninsula	PENL.BO	-31%	-49%	-54%	-65%	-76%	-72%	-18%	-35%	-43%	-51%	-56%	-54%	-6%	-11%	-21%	-11%	13%	-2%
Sobha	SOBH.BO	-41%	-58%	-54%	-80%	-88%	-88%	-30%	-46%	-44%	-73%	-78%	-81%	-19%	-27%	-21%	-50%	-42%	-59%
Ansal Prop	ANSP.BO	-12%	-29%	-24%	-49%	-82%	-73%	5%	-9%	-7%	-29%	-66%	-56%	21%	25%	30%	28%	-12%	-7%
IVR Prime	IVR.BO	-44%	-56%	-60%	-61%	-81%	-83%	-33%	-43%	-50%	-45%	-66%	-72%	-23%	-22%	-31%	0%	-12%	-41%
Orbit	ORCP.BO	-43%	-61%	-54%	-72%	-87%	-80%	-32%	-50%	-43%	-61%	-76%	-68%	-22%	-32%	-20%	-29%	-38%	-31%

Source: Citi Investment Research

Key takeaways – 1) ICD of Rs30bn reversed, 2) Jupiter to start accruing lease rentals shortly; sale option being explored in Elphinstone; 3) Resi launches at prices lower than market; 4) Management upbeat on progress on power business and 5) changed its retail mall strategy from lease to sale model

With several instances of retailers shying away from mall space, realtors are considering development of commercial complexes instead of malls

Deteriorating financial market conditions coupled with poor demand for real estate is now making it difficult for developers to raise money through private equity also

Research Update

Takeaways from Indiabulls Real Estate analyst meet

- Indiabulls Real Estate's ICD (Inter Corporate Deposit) of Rs30bn given to Indiabulls Financial Services has been reversed. Current cash on balance sheet of the company is Rs36.35bn i.e. Rs141/share.
- **Jupiter mills to accrue rentals from Nov'08** – 1.2m sq ft has been leased out of the total office space of ~1.5m sq ft and the balance 0.3m sq ft is expected to be leased in the next few months. No lease has been signed below Rs275/sq ft/month. The first office tower is complete - rental income will begin from Nov'08; and the second office tower will be completed by end 2008. Retail space of 0.5m sq ft is still under construction, no leases tied up yet.
- **Elphinstone mills still under construction** – The company has not tied-up any leases on this yet. However, it is in discussion with some banks for sale of space in Elphinstone mills. The first tower is near completion and will be ready for fit-outs by end 2008 while the second and third towers are under construction and will be completed in 6-12 months.
- **Residential projects launched at attractive prices** – 1) Soft launch of Indiabulls Greens at OMR (Old Mahabalipuram Road), Chennai last week at Rs2700/sq ft - ~75 apts booked. 2) Castlewood project at Tehkand, Delhi is awaiting final clearances and will soon be formally launched (the project was soft launched earlier this year at Rs12750/sqft). 3) At Sonapat township, which was launched last month, 200 plots sold at an average price of Rs8,000/sq yrd. All launches are priced attractively, largely below current market prices.
- **Power projects** – The company is developing power projects with total capacity of 6772MW. Key projects are coal fired thermal power plants at Amravati (2640MW) and Bhaiyathan (1320MW) - Amravati to be operational first, financial closure for which is expected by Nov'08 and phase-I commissioned by Jan 2012. Financial closure of the Bhaiyathan project is expected by Apr 2009 and first unit will be commissioned by Dec 2012. Timely capital raising for these projects will be crucial.
- **Change in strategy on retail mall** – The company has changed its retail mall strategy for smaller cities and instead of build-lease model, the company now plans to operate on pre-sale model and is looking develop commercial complexes rather than retail malls planned earlier. Expects to use pre-sales proceeds to fund construction costs of these projects.

Changing Dynamics of PE in Indian Realty Sector – Highlights of Cushman & Wakefield's report The Metamorphosis – Changing Dynamics of the Indian Realty Sector

- There has been a progressive slowdown in sale and lease of real estate since early 2008 across residential, commercial and retail segments.
- **Private equity in real estate** – Of late, private equity investors have adopted a cautious approach and are laying increased emphasis on the reputation of the developer thereby making it difficult for lesser known developers to raise funds. Private equity funds have also increased their IRR expectations on account of higher risk and are also becoming more restrictive about the end use of funds and their diversion to other projects.

- **Analysis of private equity deals** – 1) Rs269bn has been invested from mid Aug'07 to mid Aug'08. 2) Most of the funding continues to be at the SPV level (51%). 3) Residential (41%) and township (21%) are asset classes that have received the maximum investment. 4) Western (37%) and Southern (32%) regions have been the most popular investment destinations.
- **Office space** - During the first six months of 2008, oversupply was prominent in suburban and peripheral locations of some cities such as Noida in NCR (National Capital Region), Lower Parel and BKC (Bandra Kurla Complex) in Mumbai and OMR (Old Mahabalipuram Road) in Chennai.
- **Retail space** – Retailers have become cautious because of high rentals of malls and main streets in major metro cities and many are stalling their immediate expansion plans or altering their business strategy.
- **Residential space** – Suburban and non-metro locations have been affected by the slowdown in demand and some developers have resorted to freebies and early bird discounts. Middle income housing projects are gaining visibility. A 10%-15% fall in price or a decline in mortgage rates is most sought after in the current scenario to improve affordability and for home buyers to come back into the market.

Industry News

Realtors cut home prices up to 25%

Most realtors are offering cash discounts of 5%-10% on upfront payments and buyers can get up to 25% discount if they book properties and are willing to wait for 2-3 years until possession. Business Standard, Oct.06

- Oberoi Constructions is considering launching a 300-apartment complex to be completed in 2 years called Oberoi Island in Goregaon at Rs9,000/sq ft compared to the current price of Rs12,000/sq ft.
- Sunil Mantri Realty is offering a 6% discount for its 206-apartment complex Mantri Royale in Bangalore for the next 15 days and is planning to extend it further, depending on buyers' response and is also planning to offer similar discounts at its projects at Gwalior in Madhya Pradesh and at Solapur in Maharashtra.
- Pearls Infrastructure is giving 6% discount on down payments in its Nirmal Chaaya Tower at Zirakpur and 8% discount in the Pearl City project at Mohali in Punjab.

RLDA site near BKC fails to attract buyers second time around

In a recent advertisement (Oct.5 Business Standard) the RLDA (Rail Land Development Authority) announced that it has lowered the reserve price for a commercial site in Bandra, to be given on long term lease, by ~14% from Rs46.28bn to Rs39.6bn.

- This is the third time that RLDA is inviting bids for the same plot of land.
- The plot has failed to evince interest from developers although it is located along the western express highway and is in close proximity to BKC (bandra Kurla Complex) indicating that developers are facing increasing liquidity issues and are now focusing on completing projects on hand rather than making fresh additions to their landbank.

Faced by intensifying liquidity pressures, developers are being forced to offer discounts and other incentives to boost sales

Lowering of reserve price is an indication that land prices too are starting to correct

- In Jun 2008 RLDA had set a reserve price of Rs17.5bn for the 45,371 sq mt plot. Under this arrangement, the developer had to construct two office buildings of the same size and quality one of which would have to be handed over to the railways free of cost while the developer would get the other building on an 80-year lease. RLDA cancelled this arrangement since the response from developers was lukewarm.
- In Aug 2008 RLDA made changes to the RFP (Request for Proposal) and re-invited bids. According to the revised RFP, the developer would get to keep the entire structure to be constructed on the plot for a period of 80 years against an upfront payment of Rs46.28bn.
- With no meaningful responses, RLDA has once again made changes to the RFP. The bid price has now been lowered by ~14% to Rs39.6bn from Rs46.28bn while the net worth requirement has been reduced to Rs6.7bn from Rs7.8bn. Besides, the bid security amount has also been reduced to Rs400m from Rs500m.

Delayed home deliveries likely as realtors move to time-linked plans

Several property firms are increasingly doing away with 'construction-linked' payment plans and instead introducing 'time-linked' payment plans for home buyers. By doing so, buyers become prone to higher risk of late delivery of homes, besides facing an indirect increase in the cost of owning a home. In a construction-linked plan, a developer gets payment based on certain construction milestones, and is thereby forced to ensure progress in the project. Under time-linked plan, a developer gets assured money from a home buyer in instalments but is under no obligation to use that money in the same project to deliver homes in time. It's been a usual business practice for developers to divert sales proceeds from one project to another. Economic Times, Oct.7

Increasing demand for affordable housing in Bangalore

According to a survey by makaan.com, 41% of the demand for residential properties in Bangalore is for those in the sub-Rs4m category while it is 26% for those in the Rs4-7.5m range. There is an oversupply of properties above Rs10m and the supply is more than twice the demand for properties costing above Rs 20m. Business Line, Oct.5

Public sector construction company to offer affordable houses

NBCC (National Building Construction Corporation), the largest public sector construction company, will soon launch a scheme for 2,000-2,500 houses near Mehrauli in south Delhi. Preliminary estimates suggest that two bedroom flat would cost around Rs2m, a three bedroom flat around Rs3m and four bedroom flat around Rs4m. NBCC is set to announce the project by the year end is also working on housing projects in Gurgaon and Greater Noida. Apart from Delhi and NCR (National Capital Region), the company has taken up projects in Kolkata and the north-east and is considering projects in Visakhapatnam, Kochi and Chennai. Times of India, Oct.4

Supply of homes below current market prices by government agencies such as DDA and NBCC are likely to adversely impact demand for homes of real estate developers

Company News

DLF to begin buyback on 15th Oct, to develop first solar power project

- DLF has issued a public announcement for buyback of its equity shares. The buyback will begin on 15th Oct and last date for the buyback is 9th Jul 2009. DLF will buyback a maximum of 22m shares at a price not exceeding Rs600. The maximum offer size represents 9.8% of DLF's total paid up equity capital and free reserves as at 31st Mar 2008. Company Announcement, Oct.6
- DLF has signed an agreement with WBGEDC (West Bengal Green Energy Development Corporation) to use solar power for its upcoming housing project at Rajarhat. Photovoltaic cells will be fitted on rooftops, terraces, refuge areas, balconies and window panes to generate power. Solar technology will help each tower in the complex to generate at least 40% of its total energy requirement. Indian Realty News, Oct.3

Unitech gets spectrum in Bihar

Unitech's telecom subsidiary has been allotted 4.4MHz of spectrum in Bihar. With this Unitech has now been allotted initial spectrum in 13 service areas. Company Announcement, Oct.3

Ganesh Housing board to consider buyback

The Board of Directors will meet on Oct.25 to consider buyback of equity shares. Company Announcement, Oct.6

Uppal Group eyes residential projects in Mumbai, Pune, Hyderabad

Uppal group is planning to develop residential projects in Mumbai, Pune and Hyderabad. The company has already acquired a plot for a housing project in Mumbai and is in advanced stages of land acquisition in Pune and Hyderabad. Business Line, Oct.7

Figure 7. Recent Real Estate Private Equity Transactions

Investor	Company	Month/Year	Invst (US\$m)	Description
Pan Atlantic	Sobha Developers	Jul-08	10	40% stake in SPV developing residential project in Bangalore
Kardan Group	DS Kulkarni	Jul-08	90	50% stake in Pune SEZ project
ICICI Prudential PMS	DS Kulkarni	Jul-08	9	Investment in JV to develop a high-end residential project in Bangalore
Landmark Land Holdings	Prime Textiles	Jul-08	NA	25% stake in SPV developing 1.9m sq ft
Emaar	Emaar MGF	Jul-08	150	stake sale in select projects
Fraser & Neave	KS Realty Constructions	Jul-08	22	74% stake in the company
Yatra Capital	Jalan Intercontinental Hotels	Jul-08	7	40% stake in a 200-room business hotel in Kolkata
TAIB Bank	Anant Raj Industries	Jul-08	50	26% stake in Anant Raj Projects
Monsoon Capital	Anant Raj Industries	Jul-08	46	49.9% stake in JV to develop a project in Panchkula, Haryana
JP Morgan Chase	Alok Industries	Jul-08	35	33% stake in Alok Infrastructure
SUN-Apollo Ventures	Amrapali	Jul-08	75	35%-40% stake in an SPV
Red Fort Capital	Godrej Properties	Jul-08	NA	49% stake in Kolkata IT Park
HDFC Property Ventures	Nitesh Estate	Aug-08	25	25% stake in Nitesh Mall in Bangalore
Credit Suisse	Indu Projects	Aug-08	100	minority stake in the company
Vornado	Reliance Industries	Aug-08	250	Investment in 50:50 JV to develop/run shopping centres in key cities
MPC Synergy	Project specific SPVs of Phoenix Mills	Aug-08	256	10%-49% stake in project specific SPVs
Plaza Centers N.V.	Elbit Imaging	Aug-08	NA	Investment in JV to develop ~3.8m sq ft in Bangalore, Chennai and Kochi
Pan Atlantic	Sobha Developers	Sep-08	10	Additional invst in SPV developing residential project in Bangalore
LTG International	Subsidiary of Prozone Enterprises	Oct-08	12	Subsidiary of Prozone Enterprises, Provogue's real estate arm, dilutes 3.56%

Source: vccircle, Four-S, Company Reports and Citi Investment Research

Figure 8. Recent Land Deals/Notable Transactions Across Key Cities

Month/Year	City	Location	Size (acres)	Cost (Rs m)	Cost/acre (Rs m)	Purchaser
Jan-08	Mumbai	Bandra - Hill Road	70000 sq ft	1400	871	Reliance Retail
Jan-08	Ludhiana		300	3360	11	Mondon Investments
Jan-08	Hyderabad	Budvel	164	6640	40	Unitech
Feb-08	Mohali	Sector 64	9.6	464.12	48	LIC
Mar-08	Mumbai	Mulund (LBS Marg)	10	2000	200	HDIL
Mar-08	Mumbai	Bhandup	7	1300	188	Ashford Infotech
Mar-08	Mumbai	BKC	3525 sq mt	248	2872	Star Light (Ajay Piramal, Suntech Realty JV)
Mar-08	Mumbai	BKC	24000 sq mt	826	5666	Jet Airways
Apr-08	Mumbai	Dombivali	134	6760	50	Indiabulls Real Estate
May-08	Mumbai	Vikhroli (LBS Marg)	17	6500	382	K Raheja
Jun-08	Ludhiana	Sector 32, Samrala Road	305 sq yrd	84	1329	Deepak Land & Developers
Aug-08	Mumbai	Palm Beach Road, Navi Mumbai	47000 sq mt	2830	245	Metropolis Hotels
Aug-08	Chennai	Siruseri IT Park (Off OMR)	5	515	105	Mantri Realty
Aug-08	Mumbai	BKC	5900 sq mt	92	635	Talim Research Foundation
Sep-08	Visakhapatnam	Madhurawada	NA	20,500/sq yrd	10	NA

Source: News Reports (Economic Times, Financial Express, Business Standard, Business Line, Mint, Indian Realty News), CIR

Figure 9. Recent Real Estate Regulatory News

Mar-08	Industrial Parks exempted from restrictions on FDI in real estate [Press Note 2(2005)] provided 66% of area is allocated for industrial activity and no single unit occupies more than 50% of the area
Apr-08	SEBI (Security & Exchange Board of India) permits mutual funds to launch REMFs
Apr-08	Tax benefits for Software Technology Parks has been extended by 12 months to March 31 2010
May-08	MMRDA (Mumbai Metropolitan Region Urban Development Authority) has increased FSI to 4 from 2 in G Block of BKC (Bandra Kurla Complex) subject to payment of premium
Jun-08	Maharashtra government has increased FSI (Floor Space Index) for slum rehabilitation to 3 for low density slums and 4 for high density slums
Aug-08	Cap on space for Financial Institutions in IT Parks in Mumbai Metropolitan Region increased to 80% from 30%
Aug-08	Delhi government plans to rope in private players for slum redevelopment
Aug-08	Developers will have to provide double parking space in all upcoming residential and commercial buildings in Mumbai
Sep-08	The government has decided not to go ahead with a proposal for imposing a minimum 51% mandatory export obligation on SEZ units
Sep-08	Maharashtra government has announced a 300% and 400% increase in FSI for private hospitals in Mumbai island city and Mumbai suburbs respectively
Sep-08	Maharashtra government has increased FSI to 4 for plots owned by MMRDA at key locations such as BKC, Oshiwara, Kanjurmarg, Wadala, Vasai, Kalyan and Bhiwandi

Source: News Reports (Economic Times, Financial Express, Business Standard, Business Line, Mint), CIR

Appendix A-1

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