

Industry Flash

31 October 2008 | 10 pages

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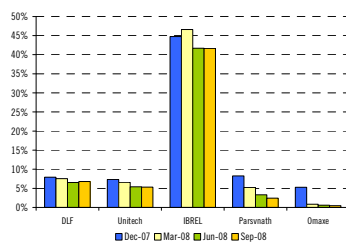
India Property Weekly

- Property stocks continue to slide** — The RBI's unchanged stance on rates in its monetary policy on 24 Oct further dampened sentiment toward property stocks. The property index fell 16% this week, vs. a 7% decline in the Sensex, as an intensifying liquidity crunch weighs on the sector. A sharp (–60%) MoM decline in Real Estate FDI (Fig. 2) for July 08 adds to this concern.
- Correction in FII holdings for key property stocks continues** — The fall has been substantial for Parsvnath (583bps), Omaxe (482bps) and Indiabulls Real Estate (312bps) over Dec 07 to Sep 08. But holdings in Ansal Prop (187bps) and HDIL (139bps) increased over the last quarter (Jun 08-Sep 08). Promoter shareholdings are stable for most companies, except Ansal Prop, which saw a decline of 176bps over Dec 07 to Sep 08.
- CB Richard' Ellis' overview on Indian office market; sees signs of slowdown** — Slack demand and a build-up in inventory have started dampening office rentals in most markets, and there is a likelihood of further correction. Developers have become more flexible to renegotiate quoted rentals — a reflection of the leasing pressure in the market.
- Company news** — Norwegian telecoms firm Telenor is taking up to 60% stake in Unitech's telecoms venture for Rs61.2bn. Management expects Unitech to get Rs7.7bn – will help to meet near-term liquidity needs. 2) Parsvnath cites a 45-50% drop in Diwali sales; plans to cut staff and rationalize salaries.
- Industry news** — 1) Developers double broker commissions; 2) SEBI may limit FMPs' realty investments; 3) Banks raise margin requirement for home loans.

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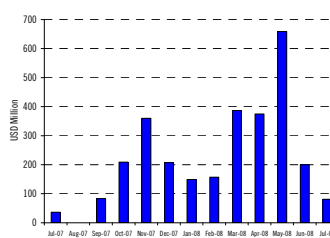
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Figure 1. FII Shareholding



Source: BSE, CIR

Figure 2. FDI in Housing and Real Estate



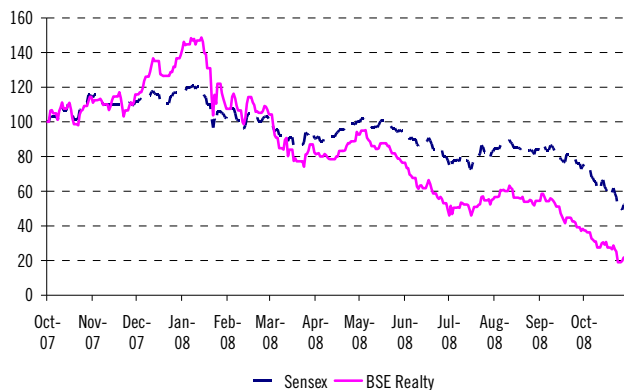
Source: DIPP, CIR

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

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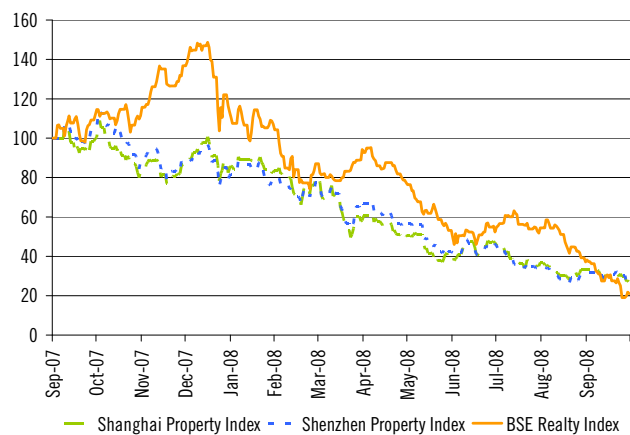
¹Citigroup Global Markets India Private Limited

Figure 3. Performance of Real Estate Index vs. Sensex



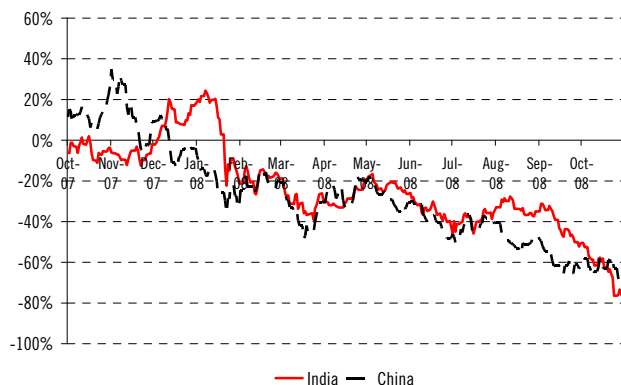
Source: Bloomberg, Citi Investment Research

Figure 4. BSE Realty vs. Shanghai & Shenzhen Property Index



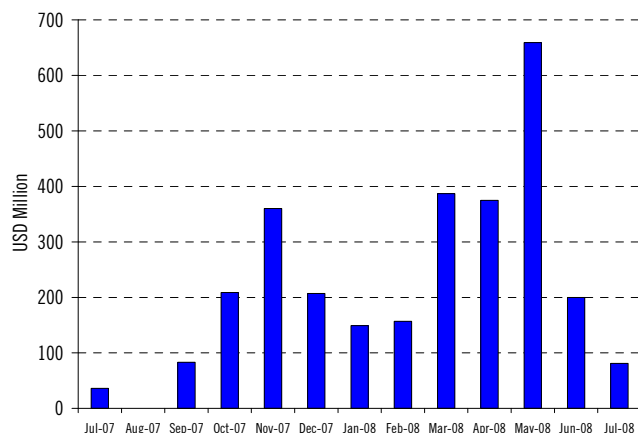
Source: Bloomberg, Citi Investment Research

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



Source: Citi Investment Research

Figure 6. FDI in Housing and Real Estate



Source: Department of Industrial Policy & Promotion, Citi Investment Research

Figure 7. 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		-31%	-46%	-62%	-78%	-80%	-82%	-12%	-22%	-39%	-57%	-60%	-60%	NA	NA	NA	NA	NA	NA
DLF	DLF.BO	-35%	-45%	-59%	-72%	-75%	-79%	-17%	-21%	-35%	-45%	-50%	-53%	-5%	2%	8%	27%	27%	16%
Unitech	UNTE.BO	-44%	-55%	-69%	-84%	-87%	-87%	-28%	-35%	-51%	-69%	-73%	-71%	-18%	-16%	-20%	-29%	-32%	-29%
Akruti City	AKRU.BO	-2%	-14%	-6%	-38%	-46%	-31%	25%	24%	48%	20%	9%	50%	42%	60%	145%	179%	176%	272%
HDIL	HDIL.BO	11%	-23%	-58%	-77%	-79%	-72%	41%	12%	-33%	-56%	-58%	-38%	61%	44%	10%	2%	6%	54%
IBREL	INRL.BO	1%	-33%	-59%	-78%	-80%	-81%	28%	-3%	-35%	-57%	-60%	-58%	46%	24%	8%	-1%	0%	4%
Anant Raj	ANRA.BO	-43%	-59%	-69%	-83%	-87%	-87%	-28%	-41%	-51%	-68%	-73%	-72%	-18%	-24%	-19%	-25%	-33%	-31%
Puravankara	PPRO.BO	-63%	-68%	-75%	-83%	-84%	-89%	-52%	-54%	-60%	-66%	-68%	-75%	-46%	-40%	-34%	-22%	-18%	-39%
Omoxe	OMAX.BO	-32%	-41%	-49%	-76%	-80%	-81%	-13%	-14%	-20%	-52%	-59%	-58%	-1%	10%	33%	10%	4%	4%
Sobha	SOBH.BO	-18%	-42%	-56%	-82%	-85%	-88%	4%	-16%	-30%	-66%	-70%	-75%	19%	8%	15%	-20%	-25%	-37%
Mahindra Life	MALD.BO	-26%	-46%	-59%	-66%	-70%	-66%	-7%	-22%	-35%	-34%	-39%	-26%	7%	0%	7%	53%	55%	84%
Parsvnath	PARV.BO	-52%	-58%	-64%	-83%	-85%	-88%	-39%	-39%	-43%	-67%	-70%	-74%	-31%	-22%	-6%	-23%	-24%	-35%
Peninsula	PENL.BO	-35%	-60%	-71%	-82%	-79%	-86%	-17%	-42%	-53%	-65%	-58%	-69%	-6%	-25%	-23%	-19%	7%	-22%
Ansal Prop	ANSP.BO	-43%	-50%	-57%	-78%	-83%	-84%	-27%	-27%	-33%	-57%	-66%	-64%	-17%	-7%	11%	-1%	-14%	-11%
IVR Prime	IVR.BO	-45%	-67%	-79%	-84%	-87%	-91%	-30%	-52%	-67%	-68%	-74%	-81%	-20%	-38%	-45%	-27%	-35%	-52%
Orbit	ORCP.BO	-49%	-71%	-79%	-90%	-93%	-91%	-35%	-58%	-67%	-81%	-86%	-81%	-26%	-46%	-46%	-55%	-64%	-52%

Source: Bloomberg, Citi Investment Research

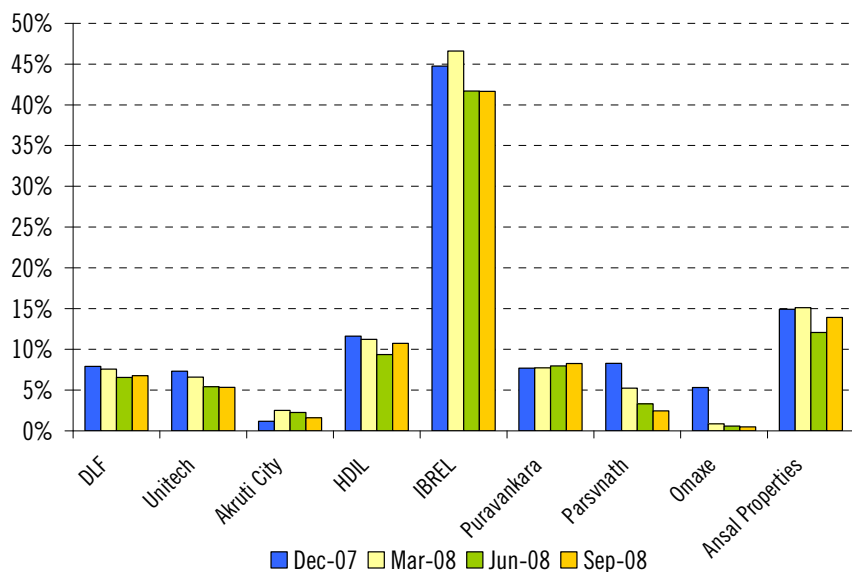
Research Update

Changing shareholding pattern; FII holding in key property stocks

- FII holdings have declined for the majority of real estate stocks as of Sept 08 vs. Dec 07 — particularly Parsvnath (583bps), Omaxe (482bps) and Indiabulls Real Estate (312bps). But QoQ holdings (Jun 08-Sep 08) increased 187bps and 139bps for Ansal Properties and HDIL respectively.
- Promoter shareholding has been stable since Dec 07 for most companies, except Ansal Properties, whose promoter holding declined by 176bps from Dec 07 to Sep 08.

FII holding has declined for most real estate stocks, particularly for Parsvnath, Omaxe and Indiabulls Real Estate

Figure 8. FII Holding in Key Property Stocks (Dec 2007 to Sep 2008)



Source: BSE and Citi Investment Research

Figure 9. NCR Grade A Office Space Rentals (Rs/sq ft/month)

Sub-market	Sep-08	Jun-08
Connaught Place	300	340
Nehru Place	250	270
Jasola	170	175
Gurgaon - Commercial	95	95
Gurgaon - IT	55	55
Noida - IT	40	45

Source: CB Richard Ellis

Highlights of CB Richard Ellis' 3Q08 India Office Market Overview

- Slack demand and build-up in inventory have started dampening office rentals and there is a likelihood of further correction in the near future, especially for off CBD locations and IT Parks/SEZs.
- There is increased flexibility on the part of developers and landlords to negotiate on quoted rentals – a reflection of the pressure in the market.
- NCR:** In Delhi CBD, there has been some correction in rentals, and leasing volumes have been low. In Gurgaon, pre-leasing has been quite slow, a situation that was uncommon before but which clearly highlights lower demand. IT/ITES rentals are expected to be under pressure while rentals for commercial office space are likely to remain stagnant. Noida has significant supply but slow leasing activity because of which rentals are expected to remain low in the next 2-3 quarters.

Figure 10. Mumbai Grade A Office Space Rentals (Rs/sq ft/month)

Sub-market	Sep-08	Jun-08
Nariman Point, Fort, Cuffe Parade	425	475
Worli, Lower Parel, Prabhadevi	325	375
BKC, Kalina	375	415
Andheri, Vile Parle, Jogeshwari	200	220
Malad, Powai	90	100
Thane, Navi Mumbai	50	50

Source: CB Richard Ellis

Figure 11. Bangalore Grade A Office Space Rentals (Rs/sq ft/month)

Sub-market	Sep-08	Jun-08
MG Road, Residency Rd	85	85
Koramangala, Indiranagar	70	65
Outer Ring Road	47	47
Whitefield, Electronic City	29	29
North Bangalore	46	46

Source: CB Richard Ellis

Figure 12. Chennai Grade A Office Space Rentals (Rs/sq ft/month)

Sub-market	Sep-08	Jun-08
Annai Salai, Nungambakkam	78	78
Velachery, Taramani	42	42
Siruseri, Ambattur, GST Rd	30	30

Source: CB Richard Ellis

Figure 13. Hyderabad Grade A Office Space Rentals (Rs/sq ft/month)

Sub-market	Sep-08	Jun-08
Begumpet, Rajbhavan Rd	65	65
Jubilee Hills, Banjara Hills	65	65
Ameerpet, Himayatnagar	35	35
Hitech City, Gachibowli	42	42
Shamshabad, Pocharam	30	32

Source: CB Richard Ellis

Figure 14. Pune & Kolkata Grade A Office Space Rentals (Rs/sq ft/month)

Pune		
Sub-market	Sep-08	Jun-08
Shivaji Nagar, Bund Garden Rd	100	100
Kalyani Nagar, Shankarsheth Rd	70	70
Hinjewadi, Kharadi, Hadapsar	50	50
Kolkata		
Sub-market	Sep-08	Jun-08
Park Street, Camac Street	130	150
Salt Lake, Rajarhat	55	55

Source: CB Richard Ellis

- **Mumbai:** In CBD, rentals across premium buildings have witnessed a correction and this trend is likely to continue over the next quarter. In BKC, new enquiries have slowed and some developers are showing more flexibility in structuring commercial terms. Andheri-Kurla Road, Powai and Malad have not seen substantial activity in the office sector in the current quarter while Thane and Navi Mumbai remain the preferred locations for IT and back-office operations are the only locations in Mumbai that have not witnessed a correction in rentals so far.
- **Bangalore:** There is huge supply coming up in Whitefield, Outer Ring Road, Electronics City and North Bangalore. ~5m sq ft of office space is currently available in Whitefield and much more is under construction and will be ready for occupancy by 1Q09.
- **Chennai:** In off-CBD locations (MRC Nagar, Guindy and Taramani) rentals have been stable but absorption in 3Q08 was much lower than that recorded in previous quarters. Absorption has remained low in suburban and peripheral locations such as OMR and GST Road thereby keeping rentals at competitive rates.
- **Hyderabad:** Demand has been considerably low in Banjara Hills, Jubilee Hills, Secunderabad and Himayatnagar. Demand has also been subdued in the IT corridor of Madhapur and Gachibowli and rentals have remained stable. A number of projects have been delayed because of low demand and the possibility of further slowdown. Rentals are not expected to move upwards for the next few quarters.
- **Pune:** There is some degree of slowdown in terms of take-up in rental growth. In the light of the current slowdown in IT SEZ space requirements, a few developers have deferred their decision to commence construction. Going forward rentals are expected to remain either stable or undergo a correction in certain pockets.
- **Kolkata:** Office leasing is witnessing a temporary stagnation. Rental values have been stagnant in CBD and landlords are willing to offer discounts to quoted rentals. In peripheral markets of Salt Lake and Rajarhat, there has been substantial supply of IT/ITES space but absorption has been low.

Deal will help improve Unitech's liquidity, but any further capital commitment by Unitech to fund the venture's US\$3bn investment will be a dampener

Faced with slowing sales and high interest costs, developers need to take cost rationalization measures

Company News

Unitech to sell 60% stake in telecoms venture to Telenor of Norway

- Telenor has entered into a definitive agreement with Unitech Wireless to invest Rs61.2bn for taking up to a 60% stake by subscribing to new shares. This deal values Unitech Wireless at an equity value of Rs102bn and enterprise value of Rs116.2bn.
- Unitech Wireless owns licenses for all 22 circles and has spectrum across 13 circles. It intends launch services in 1H09 and plans to invest US\$3bn over the next 3 years. The venture has already recruited 250 employees and has established offices across several cities. *Unitech Press Release*, Oct.29
- Telenor will make the equity injection in 4 tranches and will be completed by September 2009. The investment will be funded through draw-down on existing credit facilities and/or issuance of short-term commercial paper and rights issue of NOK12bn in 1Q09. *Telenor Press Release*, Oct.29
- We see this stake sale easing some of Unitech's near-term liquidity crunch as management expects Unitech to receive cash flows of ~Rs7.7bn (advanced as shareholder loan earlier, to be paid back) from the proceeds of the stake sale in Unitech Wireless. Additionally, 60% of Unitech Wireless' debt (Rs14.2bn) would no longer be consolidated and would slightly improve Unitech's leverage position. That said, any further capital commitment by Unitech towards funding the telecom venture's capex plan would be a dampener.

Parsvnath cites 45-50% drop in Diwali sales, to cut staff

According to Mr. Pradeep Jain, Chairman of Parsvnath Developers, Diwali sales have dropped by 45-50% and the company plans to cut staff in an effort to cut costs. Mr. Jain also said the company will cut salaries of some executives by 15-20% as part of its exercise to rationalize salary levels. *Business Standard*, Oct. 25

Nagarjuna Constructions puts real estate projects on hold

Nagarjuna Construction has clamped down on future real estate projects due to the current slowdown in the sector and plans to spin off its real estate operations by March 2009 to its subsidiary NCC Urban Infrastructure Ltd. According to Mr. Subba Raju, Vice President-Finance, the company is not launching new real estate projects because of adverse market conditions. *Economic Times*, Oct. 29

DLF eyes Luxottica franchisee

DLF is set to sign a franchisee agreement with Italian group Luxottica to retail its premium and luxury eye-ware brands including Oakley, Ray-Ban, Chanel, Dolce & Gabbana, Donna Karan, Prada, Versace and Polo Ralph Lauren. DLF will open over 100 Sunglass Hut stores over five years, under the franchisee agreement, which is initially valid for seven years, according to a source. The first store is likely to be opened in New Delhi next month. *Economic Times*, Oct. 30

Industry News

Apart from offering incentives to customers, developers are now offering higher commissions to property brokers

Realtors double broker commission

In suburban Borivili in Mumbai, developers are willing to offer up to 2% commission to property brokers compared to the paltry brokerage offered a year ago. Similarly in Thane, even big builders are willing to offer 1.5-2% commissions, while a year ago builders refused to pay any brokerage and brokers' commissions came mainly from buyers. In other suburban Mumbai areas such as Bandra and Khar, the brokerage is as high as 4%. *Business Standard*, Oct. 29

This could further dampen demand for residential real estate

Banks increase margin money for home loans

Banks have started increasing the margin money for home loans following the downturn in realty markets. For instance, SBI now prescribes margin money of 25% for loans up to Rs3m vs. 20% earlier. For loans up to Rs10m, SBI has increased margin money to 30% (vs. 20% earlier) and for loans above Rs10m, to 40% (vs. 25% earlier). *Economic Times*, Oct. 31

With slowdown in sales and banks reluctant to lend, this measure could worsen liquidity for developers

SEBI may limit FMPs' realty sector investments

In an effort to discourage mutual funds' high exposure to the real estate sector, capital market regulator SEBI may impose limits on fund allocation to certain sectors in Fixed Maturity Plans. An assessment of mutual fund portfolios by SEBI shows that some funds have 15-16% exposure to the real estate sector. Some fund houses, especially a few smaller ones, were hit badly when large corporate investors exited in the wake of concerns relating to the quality of paper issued by some real estate companies. *Economic Times*, Oct. 29

Real estate companies may resort to mezzanine financing – in addition to debt some equity is diluted to raise funds

Realtors enter into hybrid deals with private equity investors

Cash-strapped real estate companies are working on new mezzanine structures with PE firms. Mezzanine finance is a structured debt-like instrument consisting of cash income and an equity-linked component. According to private equity fund managers, the net cost of investments is 20-25%. Of this, 15-20% is paid as interest on debt and the remaining 5-10% is as warrants exercisable at close of debt maturity at zero cost. Mezzanine financing blooms when other forms of capital raising become unviable and impossible. *Economic Times*, Oct. 31

Given falling rentals and retailers rethinking expansion plans, mall developers are opting for revenue sharing model to attract tenants

Mall owners opt for revenue sharing model as rentals fall

Mall owners in India, hit by 20-25% falls in retail rentals this year, will move towards revenue sharing models with their tenants. In the current situation retailers are finding it difficult to sustain fixed rental rates and for mall owners too falling rentals have become a cause for worry. Therefore, both parties are now beginning to adopt a mixed rental pattern where the fixed part is decided by the brand of the mall and the variable part by the revenues of the retailers. *Business Line*, Oct. 24

Figure 15. Recent Real Estate Private Equity Transactions

Investor	Company	Month/Year	Invst (US\$m)	Description
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%
Samara Capital	Shriram Land Development	Oct-08	12	NA
Kotak Realty Fund & Sun-Apollo Ventures	SPVs of Janapriya Engineers Syndicate	Oct-08	NA	Kotak Realty Fund has taken 50% stake in Janapriya Projects and Sun-Apollo has taken more than 65% in Janapriya Townships
AIG Global Real Estate	Velankani Group	Oct-08	NA	undisclosed stake in 8.5m sq ft Velankani Tech Park which is a notified IT SEZ in Sriperumbudur, Chennai
Orient Global	HDIL	Oct-08	10	1.2% stake purchased from open market
Orient Global	Indiabulls Real Estate	Oct-08	14	2.2% stake purchased from open market

Source: vccircle, Four-S, Company Reports, News Reports (Economic Times, Financial Express, Business Standard, Business Line, Mint, Indian Realty News), CIR

Figure 16. 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 17. 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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