

India: Real Estate Developers

Mumbai property fair takeaways; Indore market update

Mumbai - price points do not appear affordable

We attended MCHI Property 2008 at Bandra Kurla Complex, Mumbai on April 18. Over 50 developers were marketing properties and a number of financial institutions were also present to discuss loan schemes. Some agents we spoke with did not entertain the idea of a property price correction. However, we felt that the property rates being quoted for Mumbai suburbs were high and likely to be beyond the reach of many upper middle income families. Given the upcoming supply, we believe risks are on the downside for property prices. We believe developers will struggle to achieve volume growth if they do not offer lower ticket sizes.

Indore - lot of development activity but not many people in sight

We visited township sites of leading property developers including Parsvnath (PARV.BO, Neutral), Omaxe, Sahara and DLF (DLF.BO, Neutral) on the AB (Agra-Bombay) Bypass Road in Indore recently. With the exception of some plotted developments, construction work is yet to start on most sites. The sales agents we met flagged that the market is highly investor rather than end user driven. A broker we spoke with indicated that some residential plot prices have fallen by about 20% in the past 3-4 months. Given the upcoming supply and hardly any sign of life in the vicinity at present, we found it difficult to get enthused by what we witnessed.

Sector sentiment likely to remain weak

Feedback on the sector based on our interaction with Asia based investors over the past month has generally been bearish. In the absence of a correction in property prices and interest rate cuts, we believe end user demand will likely continue to languish. Further, we have doubts on the execution capabilities of some developers under our coverage. Unless the FY2008 results season that kicks off at the end of April provides some reassurance on volume growth and execution, we believe property stocks may struggle to perform in the near-term.

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Mumbai: Property 2008 takeaways

Over 50 developers and agents present at MCHI property fair. We visited Property 2008 on April 18, the 12th Real Estate and Housing Finance Exhibition organized by the Maharashtra Chamber of Housing Industry (MCHI) at Bandra Kurla Complex, Mumbai. We visited the stands of a number of private and listed developers including Akruti City, Dosti, HDIL (HDIL.BO, Buy), Hiranandani, Kalpataru, Lodha, Mahindra Lifespace (MALD.BO, Neutral), Mantri, Neelkanth, Oberoi, Rustomjee and Sheth.

Mumbai suburban prices appear high. As prospective buyers, most of the quotes we obtained indicated a cost of Rs6-Rs10 mn for a 2 bedroom, hall and kitchen (2 BHK) apartment. This does not include preferential location charges that can vary from Rs20-Rs70 per floor rise, parking space (about Rs0.3 mn), stamp duty and registration and other infrastructure/maintenance charges. The prices appear high in our view, even without including other charges. With the exception of one developer that was offering a discount, we did not come across any offers such as free parking spaces, to tempt prospective buyers. Most agents we spoke with indicated that prices have appreciated since their projects were launched. Given the number of apartments coming up in suburbs such as Mulund and Thane, we believe property prices may struggle to appreciate in these areas. In fact, we believe developers will need to offer apartments at lower ticket sizes in order to attract buyers and stimulate volumes.

Exhibit 1: Mumbai suburban prices appear high, in our view

Property rates for selected projects on display at MCHI, Property 2008

Company	Location	Type	Area (sq ft)	Base price (Rs/sq ft)	Cost (Rs mn)	Delivery
Hiranandani	Glen Ridge, Powai	4 BHK	2,650	18,000	47.7	-
Rustomjee	La Sonrisa, Matunga (E)	2 BHK	1,170	22,000	25.7	-
Dosti	Flamingos, Parel-Sewri	2 BHK	1,250	14,500	18.1	-
Sheth	Polaris, Goregaon (W)	2.5 BHK	1,245	11,000	13.7	Jun-09
Oberoi	Splendor, Andheri (E)	3 BHK	987	12,500	12.3	2010
Dosti	Acres, New Wadala	2 BHK	950	11,400	10.8	-
Rustomjee	Eianza, Malad (W)	2 BHK	1,100	9,000	9.9	Mar-10
Sheth	Ivy, Malad (E)	2 BHK	1,190	7,900	9.4	May-09
Sheth	Grandeur, Borivali (E)	2 BHK	1,210	7,500	9.1	May-09
Kalpataru	Ghatkopar (W)	2 BHK	1,028	8,200	8.4	Jun-09
Nirmal Lifestyle	Mulund	2 BHK	981	7,200	7.1	2010
Hiranandani	Chennai	3 BHK	1,900	3,400	6.5	2010
Kalpataru	Siddhachal, Thane (W)	2 BHK	1,127	5,500	6.2	2008
Lodha	Luxuria, Thane	2 BHK	1,044	5,859	6.1	2010
Kanakia	Thane (W)	2 BHK	945	6,265	5.9	-
Rustomjee	Thane (W)	2 BHK	1,100	4,770	5.2	2009
Kanakia	Virar (W)	2 BHK	-	-	2.3	-
Dosti	Vasai (W)	2 BHK	-	1,400-1,800	-	-

1. Area is super built up and approximate in some cases

2. Many projects are available in 2.5, 3 and 4 BHK formats; the area and cost will vary accordingly

3. Cost does not include preferential location charges, parking, stamp duty/registration and other infrastructure charges

Source: Goldman Sachs Research.

Affordability appears stretched, in our view. We believe that the affordability ratio (loan repayment/household income) appears high and it would be difficult for end users to buy at current price points in suburban Mumbai. We spoke with some bank representatives that were present at the exhibition and they indicated that it would be possible to take a loan out covering 85%-90% of the property value at an interest rate of 10% and repayment term of up to 20 years. Even if we assume a gross annual household income of Rs1 mn (approximately Rs0.65 mn after tax), which we believe, is the cut-off for upper middle income families, the affordability ratio works out to 91% on a post-tax basis. The representatives we approached for a housing loan evaluated eligibility on a post-tax

basis and were comfortable lending to the extent that the post-tax affordability ratio does not exceed 50%-60%.

Exhibit 2: Affordability appears stretched, in our view

Loan duration (yr)	20				
Loan portion	85%				
	2008E	2009E	2010E	2011E	2012E
Price (Rs/sq ft)	6,000	6,000	6,000	6,000	6,000
% yoy	0%	0%	0%	0%	0%
Size of house (sq ft)	1,000	1,000	1,000	1,000	1,000
Cost of house (Rs mn)	6.00	6.00	6.00	6.00	6.00
Loan portion (Rs mn)	5.10	5.10	5.10	5.10	5.10
Interest rate	10.0%	10.0%	10.0%	10.0%	10.0%
Monthly payment (Rs '000)	49.22	49.22	49.22	49.22	49.22
Annual income (Rs mn)	0.65	0.72	0.81	0.91	1.03
Income per capita yoy%	12.2%	11.2%	12.4%	12.4%	12.4%
Affordability (loan/income)	91%	82%	73%	65%	58%
Cost of house/income ratio	9.2	8.3	7.4	6.6	5.9

Source: Goldman Sachs Research.

Indore: Lot of development activity but not many people in sight

Development activity along AB Bypass Road. We visited township sites of leading property developers including DLF (DLF.BO, Neutral), Parsvnath (PARV.BO, Neutral), Omaxe (NC) and Sahara (private) on the Agra-Bombay (AB) Bypass Road in Indore on April 18. We also saw the location of Indiabulls' Swadeshi Mills site where development is yet to commence. Stocks in our coverage universe that have exposure to Indore include Parsvnath (about 10% of land bank), Indiabulls Real Estate (INRL.BO, Sell) (3%) and DLF (1%).

More of plots and retail than group housing and office. Apart from upcoming retail/commercial complexes within the city, most of the development is in the eastern outskirts of the city on AB Bypass Road. Developers like Parsvnath, Satya, DLF, Omaxe and Sahara seem to be offering a similar product in the area (mixed use township over 80-150 acres). The proportion of plotted developments is much higher than group housing as the market is disposed towards independent houses over flats. There are about half a dozen malls being developed by both local and other developers, some within the city and some in the townships.

Market appears investor rather than end user driven. We believe Indore is a highly investor driven market, especially as far as properties coming up along AB Bypass Road are concerned. The marketing agents we met indicated that over 80% of the properties in this belt are bought by the investors and the end user is likely to take an interest only after the properties are constructed in 2-3 years. Companies like DLF and Parsvnath have put a clause in their agreement that the buyer of a plot will have to start the construction within three years of delivery by the company.

Some plot prices have corrected by about 20% in the past 3-4 months. We spoke with an independent broker who indicated that prices have fallen by roughly 20% in recent months for residential plots offered by local smaller developers. Average prices for plots are now Rs450-Rs700, some Rs100-Rs200 lower than the range 3-4 months ago. Average prices for a group housing project range between Rs1200-Rs1800.

Parsvnath's activities still at a nascent stage. We visited Parsvnath's IT SEZ and township site. Parsvnath is planning to set up an IT SEZ for 40,000 professionals on 80 acres. It is currently negotiating with various IT companies and is expecting to develop the

SEZ in 3-4 years although we did not get any visibility on potential tenants. Parsvnath is also developing a township in 175 acres adjacent to the SEZ with about 2,000 plots/ villas, 1,000 flats and a retail mall (7 acres). Apart from plots, development activities for both the SEZ and township are at a very early stage, in our view.

The sites of Parsvnath and other developers are about 12 km away from the Indore railway station and 17km from the airport on the western side of Indore. The developers are expecting end users to move to the outskirts for better living conditions and amenities over time. Construction work on upgrading the existing highway (NH3, Agra-Dewas-Indore-Mumbai) to six lanes is in progress and should improve connectivity between the city and outskirts such as Dewas where companies including Ranbaxy and Tata are present. However, it may be a while before this will be ready. Based on the current infrastructure and hardly any signs of life on AB Bypass Road, it is difficult to imagine the area evolving into a thriving hub based on present form.

Reg AC

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