

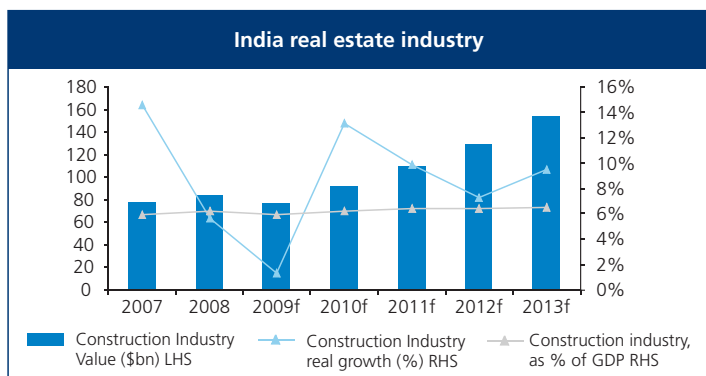
# Real Estate Industry

Strong economic growth to lead real estate sector on the path to recovery

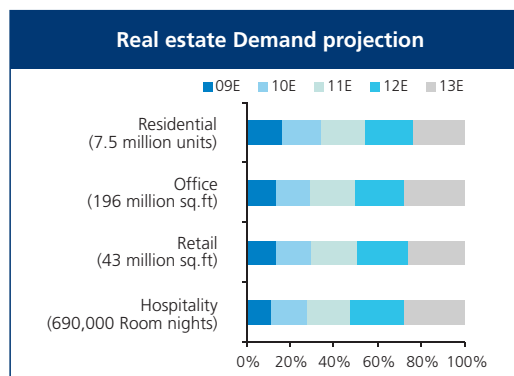
Private estimates put the value of the real estate industry at \$57bn in 2007, rising to \$105bn by 2012 at a CAGR of 13%

The Indian real estate sector experienced a slowdown in 2008-09 as consumer and business confidence fell due to the global economic downturn. Lack of bank liquidity severely impacted ongoing projects. However, strong economic fundamentals and GDP growth of over 7% in the future is expected to lead the sector on the path to recovery.

Real estate demand can be broadly divided into a) residential b) office premises c) retail demand and d) hotels & hospitality demand. As per the BMI India Real Estate Report Q1 2010, the construction industry in India, which was estimated at \$76.5bn in 2009, is expected to increase to \$154.2bn by 2013 at a CAGR of 19%. While BMI's construction industry statistics include estimates for industrial construction, we have used these statistics as a proxy for the real estate sector. An estimate by Singularity Advisors has put the size of the Indian real estate market at \$57bn in 2007 and projected growth to \$105bn by 2012. While the precise composition of the industry value among the four segments are unavailable, industry experts point that approximately 74% share can be attributed to the residential segment.



Source: BMI India Real estate report Q1 2010

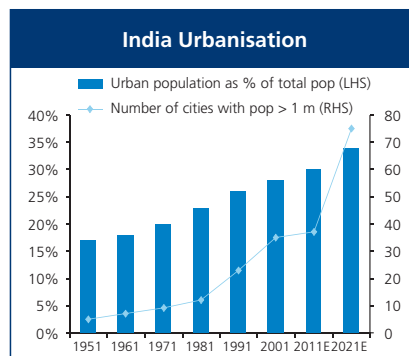
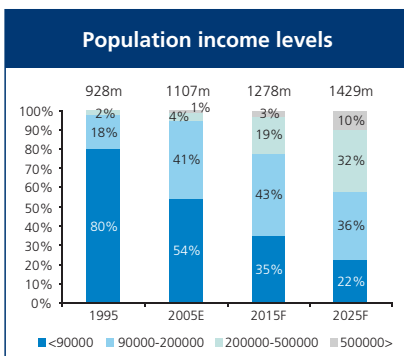
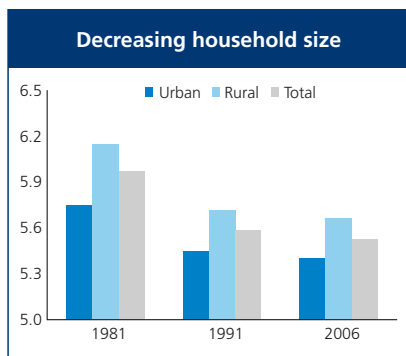


Source: Cushman & Wakefield

According to Cushman & Wakefield, the pan-India commercial office space demand during 2009–2013 stands at approximately 196 million sq.ft, while retail space demand for the same period is estimated at 43 million sq.ft. Demand for hospitality segment is expected to be more than 690,000 room nights, while that of the residential segment to be over 7.5 million units.

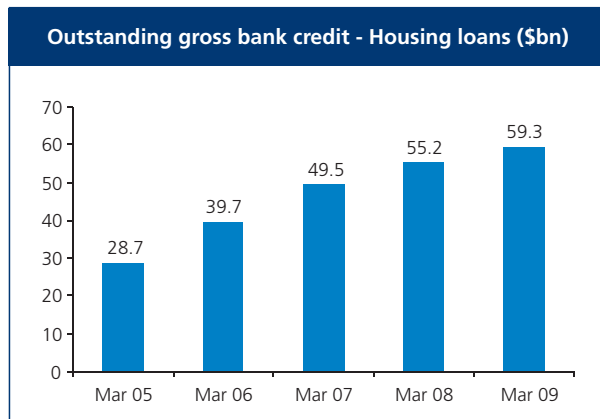
## Growth drivers

- **Favourable demographic trends helping demand:** Smaller family sizes, rising income levels and trends witnessed in greater

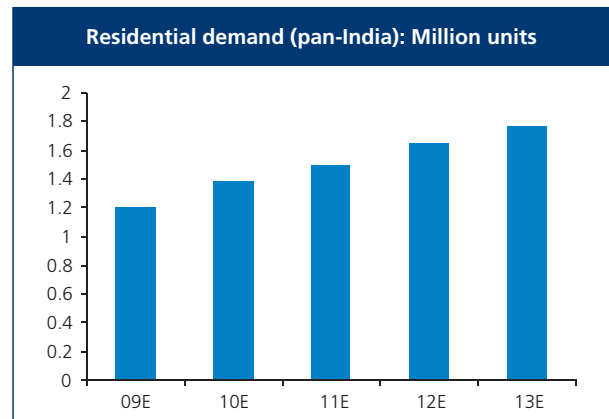


Source: Moody's and ICRA, Mckinsey, Statistical Outline of India

urbanisation has set the pace for residential housing demand. The increase in consumer credit is also expected to aid residential demand. As per RBI the outstanding gross bank credit for personal housing loans touched USD 59.3bn on March 09 growing at a CAGR of 20% between 2005 and 2009.



Source: RBI



Source: Cushman & Wakefield

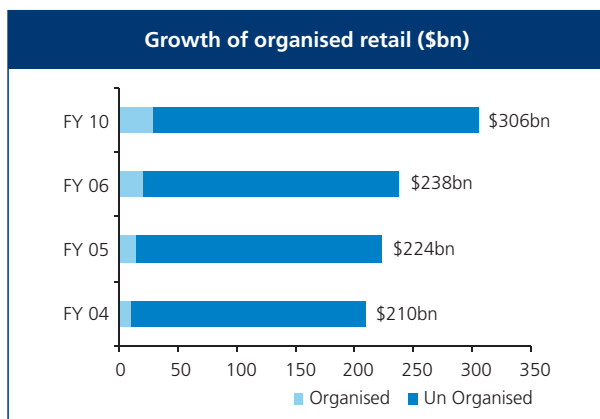
Decreasing household size, increasing income levels and growth in home finance to aid residential real estate growth

Shift towards organised retail and open FDI policies to generate demand for commercial retail space

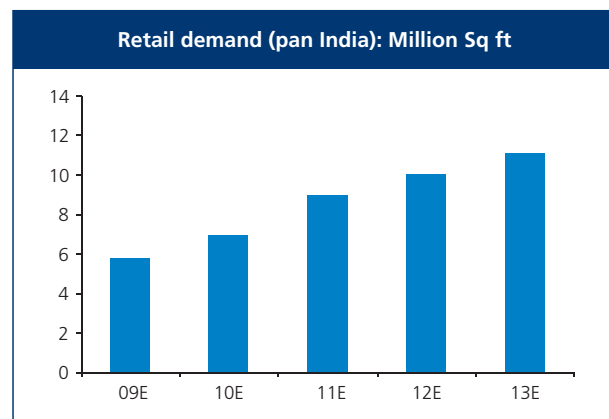
According to Cushman & Wakefield, pan-India residential demand is estimated at 7.5 million units between 09E and 13E, out of which about 60% is expected in the top seven cities (Bangalore, Chennai, Hyderabad, Kolkata, Mumbai, NCR and Pune). The tier 1 cities of Bangalore, Mumbai and NCR alone are expected to account for 43% of the total pan-India demand.

- Growth in organised retail:** The industry was estimated at about USD240bn in 2007-2008 growing at over 6–7% annually. Organised retailing accounts for a small but fast-growing share of the total industry; its share has more than doubled from 2% in FY2003 to 4.4% (USD10.5bn) in FY2006.

Market estimates put the growth of organised retail in the range of 25–30% annually. Moreover, several policy initiatives (51% FDI in single brand retailing and ongoing policy debate to allow 100%) hold a lot of promise for the Indian retail sector. Several national and international corporates have either forayed into the retail segment or firmed up plans to enter the retail segment.



Source: IBEF

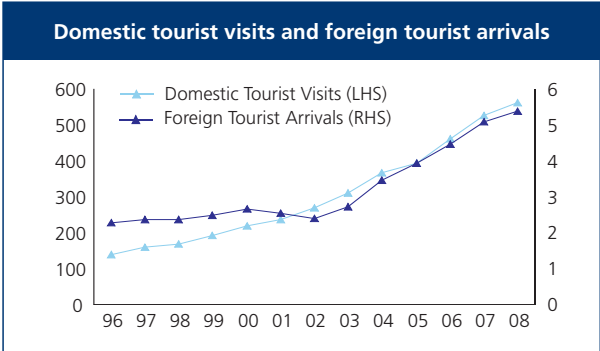


Source: Cushman & Wakefield

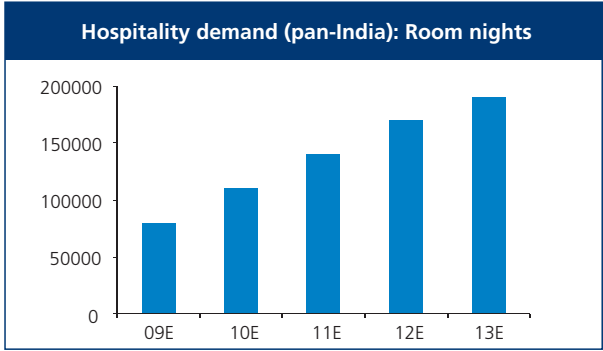
Growth in leisure and business travel expected to create demand for hotel rooms in the hospitality sector

Cumulative retail demand across India is estimated to be 43 million sq.ft. by 2013, out of which demand in the top seven cities is expected to be nearly 34.6 million sq.ft. Demand is expected to be concentrated in tier 1 cities, constituting nearly 46% of the total estimated pan-India demand during the period under consideration.

- Growth in leisure and business travel helps increase demand for hotel rooms:** As per the Ministry of Tourism statistic, domestic tourist visits increased at a CAGR of 12% to 563 million and foreign tourist arrivals rose at a CAGR of 9% to 5.4 million between 2000 and 2008. With India's GDP expected to increase over 7% in the next few years, business travel is likely to register strong growth. According to Cushman & Wakefield, buoyancy in the travel segment is expected to boost the pan-India accommodated demand for the hospitality sector to more than 690,000 room nights by 2013.



Source: Ministry of Tourism

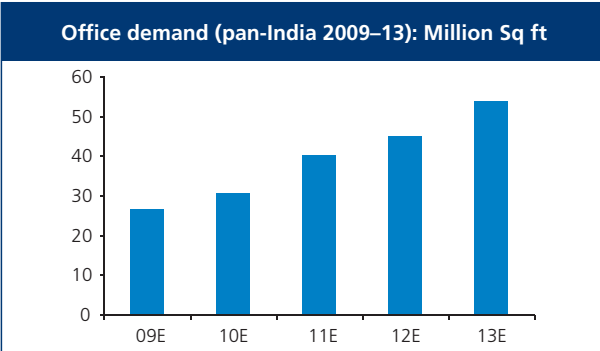


Source: Cushman & Wakefield

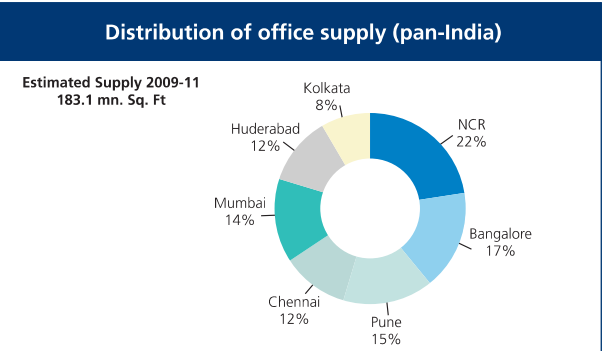
Strong domestic growth from IT/ITES, BFSI, Telecom and Pharma sectors to assist demand for commercial office space

Of the total demand, NCR is expected to constitute 15% of demand owing to Commonwealth Games. Tier 2 and 3 cities are also likely to generate demand for 242,000 room nights by 2013 due to various initiatives taken by the Indian government to promote commercial and tourism activity in these locations.

- Growth in core sectors like IT/ITES driving commercial real estate:** With the economy estimated to grow over 7% in the near future, robust demand for office space is expected from companies, particularly in the IT/ITeS, BFSI, Telecom and Pharma sectors. According to E&Y estimates, in the year 2006 total supply of commercial office space (grade A, non-captive) in National Capital Region (NCR), Mumbai, Hyderabad, Bengaluru, Pune and Chennai together was recorded in the range of 40–45 million sq. ft. The absorption was primarily driven by the IT/ITES industry, which accounted for almost 70–75% of total absorption.



Source: Cushman & Wakefield



Source: Knight Frank

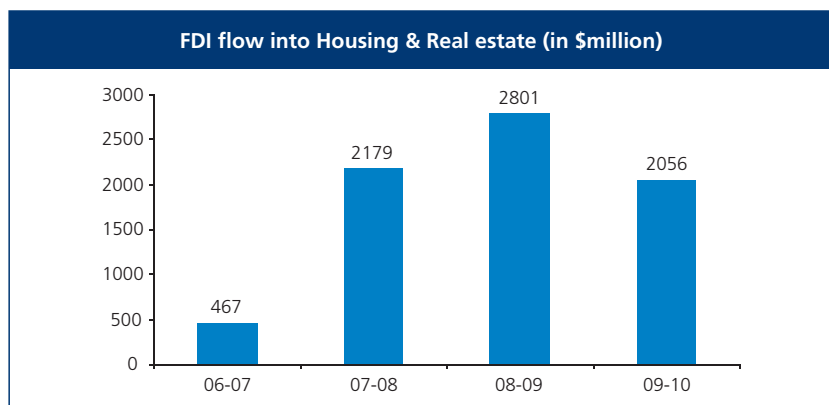
However, with supply expected to exceed demand by a wide margin, we expect instability in office rentals

Government's open FDI policy has led to inflows of USD7.6bn into the Indian real estate sector between April 2000 and October 2009

Archaic laws have spiked land costs

According to Cushman & Wakefield, cumulative office space demand between 2009 and 2011 is estimated at approximately 97 million sq.ft. However, Knight Frank expects cumulative supply of 183 million sq.ft. in the same period. We believe this will lead to instability in rentals during the period.

- **FDI and other supportive government policies:** The government currently allows 100% FDI for townships, housing and construction development projects (including commercial premises, hotels, resorts, hospitals, educational institutions, etc.), subject to certain guidelines. This coupled with buoyant demand for residential and commercial real estate has facilitated strong FDI inflows into the real estate sector. Between April 2000 and October 2009, FDI of \$7.6bn flowed into the Indian real estate sector.



Source: Dept of Industrial Policy & Promotion. \* 09-10 is April 09 to Oct 09

The stimulus package unveiled by the government in the latter half of 2008-2009 benefited the real estate sector as financing through ECBs in residential segment was allowed. This brought more liquidity into the hands of domestic real estate developers.

### Key challenges

- **Archaic laws on land and rent control:** The Urban Land Ceiling Act was enacted in 1976 primarily with the objective of preventing land hoarding by developers. This legislation fixed a ceiling on the vacant urban land that a person or an association in urban agglomerations can acquire and hold with the ceiling limit ranging between 500 to 2,000 sq.m. This limited the supply of land with private developers and led to a spike in land cost. While this Act has been repealed in many states, Andhra Pradesh, Assam, Bihar, Orissa and West Bengal have not adopted the repeal.

The Rent Control Act governs the payment of fair rent to landlords and protects tenants against eviction, but sometimes effectively allows tenants to retain rented property. Various states and Union Territories have formulated their own rent control legislation with regards to regulating chargeable rents, recovery and possession of property, and tenancy rights. These laws act as disincentives towards investment in housing infrastructure.

- **High levies by the government:** Stamp duty needs to be paid on all documents that are registered and the rate varies from state to state. With stamp duty rates of 13% in Delhi, 14.5% in Uttar Pradesh and 12.5% in

India has one of the highest levels of stamp duty

Transparency regarding property titles hampering real estate development

Strong demand in the residential and commercial segments along with progressive action by the government to assist the Real Estate sector

Haryana, India has perhaps one of the highest levels of stamp duty. Some states even have double stamp incidence, first on land and then on its development. In contrast, the maximum rate levied in most developed markets is in the range of 1–2%. The taskforce appointed by the 13th Finance Commission has recommended that the real estate sector should be integrated into the GST framework by subsuming the stamp duty on immovable property levied by the states. While it is currently unclear as to how this will impact the real estate industry, it is widely expected to reduce the property levies.

- **Transparency regarding property titles:** Another important issue in real estate development is that of title to property. In India, the State does not certify a title to housing or land property. Revenue records do not represent documents of title, and ownership is established only by the sequence of earlier transfers. Thus, the fundamental question of title has often led to enormous litigation. The system, as it exists, imposes a responsibility on the part of the purchaser with regard to the inspection of the title. The result is tenuous titles to land and non-transparency in property transactions which hampers large-scale real estate development.

### Outlook

Favourable demographic trends that include decreasing household size, and increasing income levels and urbanisation along with greater access to home finance is expected to aid the growth of residential real estate segment. With an estimated demand of 7.5 million units between 09E and 13E, 60% of which is expected to come from the top seven cities (Bangalore, Chennai, Hyderabad, Kolkata, Mumbai, NCR and Pune), this space is likely to see more action as both domestic and foreign players ramp up their operations helped by rising FDI inflows and interest from private equity funds.

The commercial real estate segment is expected to recover from the slump experienced in 2008-09, led by buoyant demand for space in key sectors such as retail, hospitality and IT/ITES. Industry research indicates that supply would exceed demand in the office space market which can lead to price volatility in the sub-segment. While the challenges of archaic laws and high levies remain, progressive action can be expected from the Union Government in terms of GST and repeal of regressive laws. In this overall context private estimate of industry growth from \$57bn (in 2007) to \$105bn (by 2012) at a CAGR of 13% is achievable.

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