

India: Real Estate

Equity Research

Property tour re-affirms key theme – volumes to drive growth

Property tour offered key insights across three regions

We recently visited Delhi-NCR, Bangalore, and Mumbai as a part of our GS India Property Tour. We visited about 25 sites in various stages of completion, met with management teams and property consultants, and made the following broad industry-wide observations.

Residential absorption, not pricing, will drive growth

As we had highlighted in our November 8, 2010 report, “On firm ground, prefer volume-led growth; Buy HDIL (on CL), INRL,” we believe that property prices in pockets of Delhi-NCR and Mumbai in particular seem to have peaked, and we expect limited further price appreciation. Prices in Bangalore have remained fairly stable, but further appreciation should be held in check by high supply potential. We observed higher price inflation in city-centre properties during our tour. We are forecasting a modest 5% price appreciation in our models, but are forecasting volume growth to be more robust.

Renewed execution focus yielding results

We have seen marked improvement in execution by most real estate developers, and project delays have reduced. In our meetings with various management teams, most developers emphasized their focus on execution, and this increased construction activity was fairly apparent in our site visits as Exhibits 1-14 demonstrate. We observed the largest increase in activity in Unitech projects on a yoy basis.

Sales strategies being influenced by construction cost inflation

Most developers highlighted margin risks being posed by rising material and labor costs. In addition to rising labor costs, availability is also becoming an issue as the faster pace of execution has resulted in greater competition to attract labor. Companies such as DLF, Sobha, and Puravankara indicated the need for gradual selling to protect margins in an inflationary environment. We believe that the availability of skilled labor could be a potential risk factor in the execution progress demonstrated by some companies.

Commercial leasing still low, but green-shoots visible

While commercial vacancy remains high, we believe that leasing could improve in select micro-markets, particularly for retail leasing.

SUMMARY OF RATINGS AND TARGET PRICES

Ticker	Rating	12-mo TP (Rs)	Current Price (Rs)	Potential upside/ (downside)
HDIL.BO	Buy*	360	215	68%
INRL.BO	Buy	248	160	55%
DLF.BO	Neutral	378	321	18%
UNTE.BO	Neutral	87	66	33%
SOBH.BO	Neutral	360	332	9%

* This stock is on our regional Conviction List.

Note: Current prices as of December 2, 2010.

For important disclosures, please go to <http://www.gs.com/research/hedge.html>. For methodology and risks associated with our price targets, please see our previously published research.

Source: Datastream, Goldman Sachs Research estimates.

VALUATION SUMMARY

Ticker	FY12E RNAV	Premium/ Discount to RNAV	FY12E BVPS	Premium/ Discount to BVPS
HDIL.BO	480	-55%	252	-15%
INRL.BO	310	-49%	238	-33%
DLF.BO	378	-15%	171	88%
UNTE.BO	87	-24%	50	31%
SOBH.BO	451	-26%	219	52%

Source: Datastream, Goldman Sachs Research estimates.

RELATED RESEARCH

India: Real Estate: On firm ground, prefer volume-led growth; Buy HDIL (on CL), INRL, November 8, 2010.

India: Real Estate: Feet on the Street: Residential robust, inventory burden for office, November 8, 2010.

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Property tour key takeaways

We recently visited Delhi-NCR, Bangalore, and Mumbai over five days and saw developer sites including Unitech, DLF, Jaypee Infratech, Emaar MGF, Sobha, Prestige Projects, Puravankara, Indiabulls, Lodha Developers, Godrej Properties, and Oberoi. We also met with property consultants.

Residential: Good construction activity across most locations

NCR

- We observed finishing activity across delayed projects in Gurgaon. Unitech has started delivery of The Close, Nirvana County (launched in FY2005), while DLF will start delivery of Park Place (3.8 mn sq. ft.) and Belaire (1.8 mn sq. ft) in three to four quarters (launched at the end of FY2007). PropEquity indicated that the average delay time across its projects is 8.4 months.
- We observed considerable price appreciation of 40+% across various locations in Gurgaon, which is partly driven by its rerating as a preferred destination for business in the North. There was heavy incoming traffic from Delhi in the morning, indicating Gurgaon has become important commercial destination in Gurgaon.
- There has been greater price inflation in city-centric properties such as DLF Magnolias. Secondary pricing has now increased more than 50% to about Rs14,000/sq. ft., indicating some pricing convergence in South Delhi.
- We saw healthy progress in "Unitech Residences," with structures nearing completion within 12 months. Unitech indicated it will deliver this project significantly ahead of schedule. Parking is being provided in a separate building, preventing the need for basement construction, thus saving on time and reducing construction costs.
- DLF indicated that secondary pricing in most micro-markets is now either similar to or higher than primary pricing.
- DLF management stated that the success of affordable housing depends on its ability to lower costs. Management further stated that significant cost pressures are due to higher cement/steel prices and shortage of labor.
- The inflationary environment necessitates the need for gradual selling to protect margins.
- DLF plans to launch a 100-acre gated community with a saleable area of 2.5 mn sq. ft. and all-inclusive pricing of about Rs50,000/sq. yd in our estimate. DLF intends to provide full power back-up and expects gross margin of around 75% with delivery over 18 months.

Bangalore

- Sobha Developers indicated that residential demand recovery started in 4Q2009, and most developers have seen volume as well as pricing growth. Pricing growth is driven by better product mix and about a 10% increase in selling prices.
- Sobha indicated that land prices have started to rise after a gap of three years.
- Sobha management indicated that there currently are limited secondary sales and the speculative market is virtually absent. Low pre-sales also mean that new projects are taking two to four quarters to become cash-flow neutral.

- Various management teams are indicating an increase in construction costs by 15+%, driven primarily by an increase in cement costs.
- Puravankara Projects (PPL) indicated it is trying to mitigate risks by reducing construction costs. For its affordable housing projects, contracts were awarded at Rs928/sq. ft. for Chennai (BL Kashyap, material cost risk borne by PPL) and Rs1,030/sq. ft. for Bangalore (JMC Projects, limited risk of material costs inflation). PPL indicated that not having a basement reduces construction costs by Rs250/sq. ft.
- Most companies indicated a large launch pipeline, including Sobha (12 mn sq. ft.) and Puravankara Projects (8.5 mn sq. ft.). We expect completions in Bangalore to drop sharply after mid-2011, as there have been very few launches since early 2008.
- Nitesh Estates indicated the need to maintain properties, especially for new developers in the market, as good-looking properties help establish a brand name.
- We observed large price increases in Central Bangalore versus moderate price increases in most surrounding locations. Prestige Estates has launched 8,500 sq. ft. apartments in Central Bangalore at a pricing of Rs22,000+/sq. ft. as compared with pricing between Rs3,000 – Rs6,000 / sq.ft. in the surrounding neighbourhoods.

Mumbai

- We observed a desire to extract better pricing than to reduce inventory in most locations.
- We also saw rapid price inflation across most locations, with pricing in Dombivili (40 km from Nariman Point) at Rs3,000+/sq. ft.
- There are a large number of new launches in the US\$2+ mn segment. We saw initial construction progress in sites being developed by DB Realty and Indiabulls Real Estate.
- The HDIL slum rehabilitation site at Kurla has made great progress, and investors liked the quality of showcase apartments.

Commercial: Some new launches indicate continued stabilization

- Commercial remains a low area of focus for most management teams, with limited new activity.
- DLF indicated that the rental scenario is improving in a few locations such as Gurgaon, and that selective rental recovery could in six months.
- Prestige Estates plans to start construction of six towers in city-centric locations and expects rental rates of Rs70/sq. ft.-Rs100/sq. ft.
- Phoenix Mills indicated that the average monthly revenue for its mall is Rs1,700/sq. ft.
- Indiabulls has leased space in Elphinston Towers to Deloitte Consulting and Yes Bank.

Private sector initiatives aiding real estate development

We see some real estate companies now helping infrastructure development, especially if the company has a substantial interest in the development of a particular area in order to increase connectivity and thereby its selling prices.

- DLF plans to invest Rs1.5 bn in a Rs3 bn road that would make the connection between the Delhi-Gurgaon Expressway and Golf Course Road signal-free.
- DLF plans to hold a 30% stake in intra-Gurgaon metro, with DLF's contribution being land.

- BPTP has constructed a small bridge over Yamuna canal, aiding development of the area adjoining the bridge.
- Jaypee Infratech Expressway has opened new development areas between Noida, Greater Noida and Agra.
- Lodha Group plans to increase the frequency of trains between its project near Dombivali and Dobivali station.

Some of the sites we visited

Exhibit 1: DLF – Magnolias
DLF Phase V, Gurgaon



Source: Company data, Goldman Sachs Research.

Exhibit 2: DLF – Belaire
DLF Phase V, Gurgaon



Source: Company data, Goldman Sachs Research.

Exhibit 3: Unitech – Residences
Gurgaon



Source: Company data, Goldman Sachs Research.

Exhibit 4: Unitech – The Close (North)
Gurgaon



Source: Company data, Goldman Sachs Research.

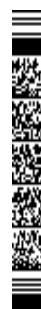


Exhibit 5: Unitech Golf & Country Club (Unitech Grande)
Noida Expressway



Source: Company data, Goldman Sachs Research.

Exhibit 6: Sobha – Chrysanthemum
North Bangalore



Source: Goldman Sachs Research.

Exhibit 7: Sobha – Chrysanthemum
North Bangalore



Source: Company data, Goldman Sachs Research.

Exhibit 8: Phoenix – Market City
Whitefield, Bangalore



Source: Goldman Sachs Research.



Exhibit 9: Prestige Shantiniketan – Office Building
Whitefield, Bangalore



Source: Goldman Sachs Research.

Exhibit 10: Prestige Shantiniketan – Residential Complex
Whitefield, Bangalore



Source: Goldman Sachs Research.

Exhibit 11: DB Realty – Orchid Crown
Prabhadevi, Mumbai



Source: Goldman Sachs Research.

Exhibit 12: DB Realty – Orchid Turf View
Mahalaxmi, Mumbai



Source: Goldman Sachs Research.



Exhibit 13: Indiabulls – One Indiabulls Centre
Lower Parel, Mumbai



Source: Goldman Sachs Research.

Exhibit 14: Indiabulls Sky
Lower Parel, Mumbai



Source: Goldman Sachs Research.



Reg AC

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