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Industry View  
In-Line

## India Property

### Ears on the Ground 18 – Commercial – Bad, But Not All That Bad and Improving

**Commercial in Indian Metros** – JLL REIS 2Q10 data, latest company disclosures and reported deals suggest a pick up in commercial leasing in metro cities in India. This appears consistent with conventional wisdom, i.e., recovery in residential segment should be followed by that in commercial.

**To be specific** – Leasing in 1H10 (in top 7 Indian metros) stands at approximately 14msf, or roughly 70% of 2009's full year figure of 19.6msf. 1H10 leasing is 48% of JLL's full year 2010 estimate of 28.7msf (46% yoy growth). DLF and Ishaan reported 1-1.5msf new leasing each in their last reported quarterly results, the highest for several quarters.

**Make no mistake** – We see hardly any bull case scenario for the Indian commercial sector for the next two years, in view of the high stock of vacant commercial assets (42msf) and the coming supply over the next 18 months (70-80msf). Vacancies as of Jun'10 stood at 17.4%.

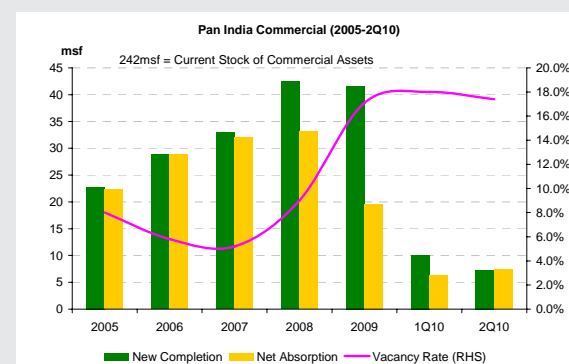
**Then, what's the story** - We believe that the high vacancy level will NOT hurt all developers equally NOR will new (leasing) demand benefit all developers equally. Larger players (DLF, SP, Raheja, UCP etc) with SEZ offerings (rather than STPI) should get higher share of new demand given deep customer relationship (for instance DLF and Raheja have 19-20 msf of rent generating properties on the b/s), strong brand and, likely, better product offering. Rentals, though, should remain flat (down 30-40% from 1Q08 peak), we believe.

**Investment conclusion:** We remain constructive on the Indian Property sector in view of the on-going recovery in the physical property market. A full blown commercial recovery should benefit DLF (5-6msf of near ready stock, 16msf under construction), IBREL (2msf ready stock), UCP (3-4 msf of ready stock), Ishaan etc. We remain Overweight on DLF, IBREL and SDL.

#### Ears on the Ground – Issue Chronology

	Issue Title	Date of Issue
1	Bad to Worse Market Conditions	20-Oct-08
2	First Official Price Cut in the Sector	23-Nov-08
3	Price Softening Becomes More Widespread	7-Dec-08
4	Price Cuts Accelerating, Land Bank Contraction Begins	19-Feb-09
5	Price Cut Party Getting Bigger; New Launch Pickup	6-Mar-09
6	Lo-Behold, Oversupply Coming In Mumbai, Gurgaon	8-Apr-09
7	Price Correction Sets In Central Mumbai, Volumes Modest	10-May-09
8	Vol Trends In New Launch Surge	15-Jun-09
9	Commercial/Retail Demand Remains Subdued	2-Jul-09
10	Mumbai And NCR Update Plus Contours of Recovery	5-Aug-09
11	Volume in Metros – Customers Keep Everyone Guessing	27-Aug-09
12	Tier II/III Cities: New Launch Pickup but Modest Volumes	16-Sep-09
13	Mumbai - Good Recovery but Rentals at Divergence	28-Dec-09
14	Mumbai - New Launches Accelerate, Take Up Slows	29-Mar-10
15	Recovery Getting Entrenched	29-May-10
16	Gurgaon Pricing and Noida Volume Sizzling	21-Jun-10
17	2Q Data: Volumes Soak Price Increases	10-Jul-10
18	Commercial - Bad, But Not All That Bad, and Improving	24-Aug-10

#### Pan India Commercial Demand Supply Trend



Source: JLLM 2Q10 Data; Morgan Stanley Research

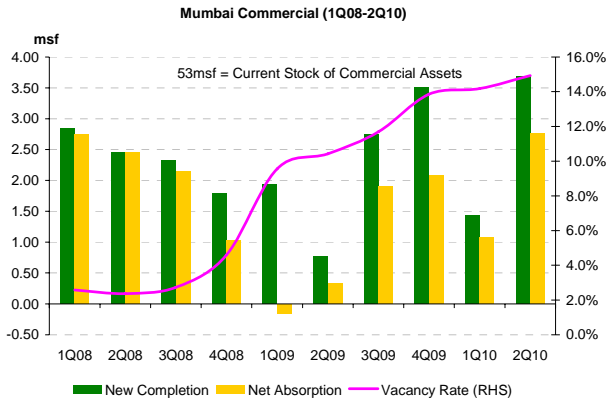
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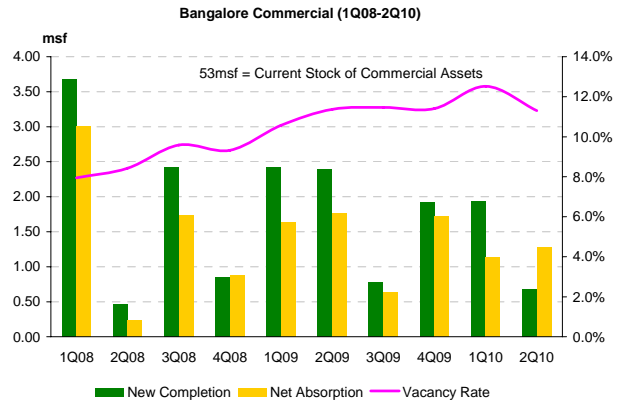
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Exhibit 1  
**Mumbai Commercial Demand Supply Trend**



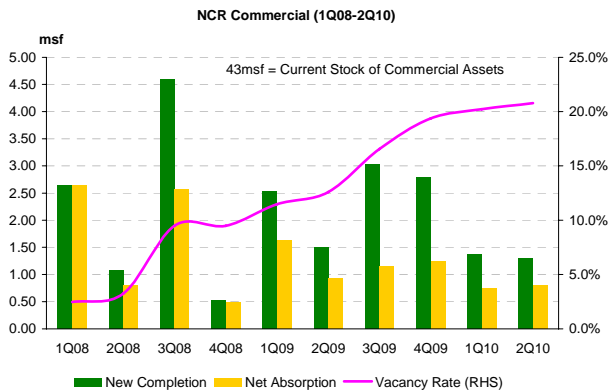
Source: JLLM REIS 2Q Data, Morgan Stanley Research

Exhibit 3  
**Bangalore Commercial Demand Supply Trend**



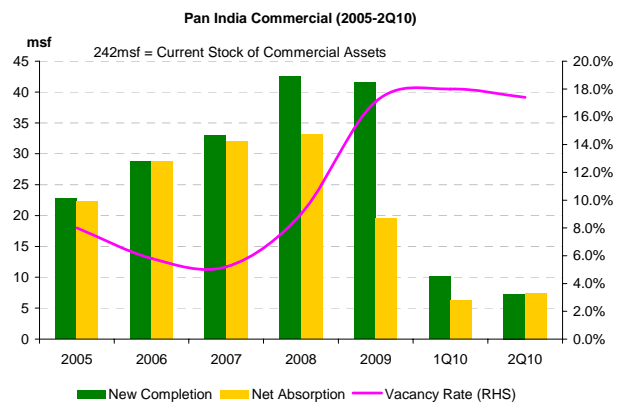
Source: JLLM REIS 2Q Data, Morgan Stanley Research

Exhibit 2  
**NCR Commercial Demand Supply Trend**



Source: JLLM REIS 2Q Data, Morgan Stanley Research

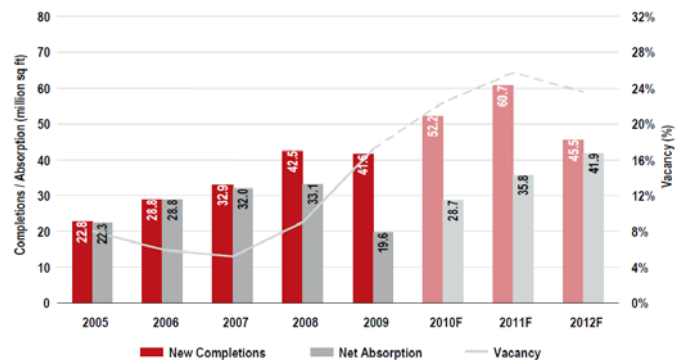
Exhibit 4  
**Pan India Commercial Demand Supply Trend**



Source: JLLM REIS 2Q Data, Morgan Stanley Research

**City-wise market trends** - In terms of vacancies, Hyderabad (10.2%) Bangalore (12.5%) and Mumbai (14.9%) appear to be doing better than pan-India (7 metros) average of 17.4%. Whereas, Kolkata (24%) and NCR (21%) are faring the worst of the seven metro cities. Pune and Chennai appear to be in the middle of the metro pack. In terms of new leasing in 2Q10, Mumbai (2.8 msf), Bangalore (1.3 msf) and Pune (0.9 msf) topped the charts.

Exhibit 5  
**Commercial – Projected Demand Supply Trend**



Source: JLLM REIS State of the Nation 2Q10, Morgan Stanley Research

Exhibit 6

## Recent Commercial Transactions:

Property	Location	Sale / Lease	Buyer/Tenant	Area (msf)
<b>Mumbai / MMR</b>				
Wadia Tower	Pandurang Budhakar Road	Sale	Axis Bank	0.40
Mindspace	Airoli, Navi Mumbai	Lease	L&T Infotech	0.30
Lotus Midtown (Lotus Group)	Kalina	Sale	Edelweiss Broking Ltd	0.24
Nirlon Park	Goregaon	Lease	Citi Group	0.15**
Ruby Corporate Park	Dadar	Lease	Ernst & Young	0.13
Platina (Wadhwa Developers)	BKC	Lease	Regus Group	0.10
Lodha Excelus	Mahalaxmi	Lease	HDFC Life Insurance	0.10
Ackruti Gold	BKC	Sale	J&K Bank	0.07
Platina (Wadhwa Developers)	BKC	Lease	Bain and Company	0.01
Fort House	South Mumbai	Lease	DBS Bank	0.01
<b>Bangalore</b>				
Kalyani Magnum	J P Nagar	Lease	Oracle	0.35
Summit at Brigade Metropolis	Whitefield	Lease	Capgemini	0.25
Pritech Park	Outer Ring Road	Lease	Accenture	0.13
Prestige Dynasty	Ulsoor	Lease	Citrix	0.13
Vrindavan Tech Village	Outer Ring Road	Lease	Nokia	0.13
<b>Others</b>				
WaveRock (Tishman Speyer)	Gachibowli , Hyderabad	Lease	Tata Consultancy Services	0.18
WaveRock (Tishman Speyer)	Gachibowli , Hyderabad	Lease	Accenture	0.07
Salt Lake Electronic Complex	Kolkata	Lease	Telenor	0.04

Source: Morgan Stanley Research; \*\* To be leased in phases

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Exhibit 7

## Real Estate Valuation Parameters: Indian Companies

Prices as of 23/08/2010 India Companies	Price		Mkt Cap									Fwd	% (Dis)/Prem
	(Rs)	(Rs. mn.)	F2010E	F2011E	F2012E	F2010E	F2011E	F2012E	F2010E	F2011E	F2012E	NAV/Share	NAV
DLF#	331	561,586	10.6	15.6	18.6	31.3	21.2	17.8	2.3	2.1	1.9	359	-7.8%
Unitech#	86	205,120	3.6	4.6	5.9	23.6	18.7	14.7	2.0	1.8	1.6	^^	^^
Indiabulls Real Estate Ltd. #	190.60	76,447	(0.4)	2.7	7.9		71.9	24.1	0.7	0.8	0.8	250	-23.8%
Housing Development & Infrastructure Ltd.	296	102,490	20.8	33.3	48.9	14.3	8.9	6.1	1.3	1.2	0.9		
Puravankara Projects Ltd.	120	25,643	7.3	8.0	11.7	16.4	15.0	10.2	1.4	1.4	1.2		
Peninsula Land	68	19,069	10.1	11.4	10.2	6.8	6.0	6.7	1.2	1.0	0.9		
Sobha Developers Ltd.#	381	37,402	13.9	17.1	21.0	27.4	22.3	18.1	2.2	2.0	1.9	445	-14.3%
Parsvnath Developers Ltd.	140	27,867	9.0	15.2		15.7	9.2		1.1	1.0			
Mahindra Lifespace Developers	492	20,086	24.4	34.1		20.2	14.4		1.9	1.7			
Ansal Properties	94	11,611	8.0	10.4		11.8	9.1		0.8	0.7			
Jaypee Infratech Ltd #	82.95	115,212	4.0	7.0	6.8	20.8	11.8	12.2	5.6	5.7	4.8	106	-21.7%
<b>AIM Listed companies</b>	<b>(GBP)</b>	<b>(£mn)</b>											
Unitech Corporate Parks*	31	111										^^	^^
Hirco PLC*	103	79											
Ishaan*	67	97											
<b>Weighted Average</b>						26.5	23.5	15.2	2.3	2.2	1.9		

Source: Company data, Morgan Stanley Research

\*Prices in Pence as on August 23, 2010, Mkt cap in £mn.

# = Morgan Stanley Research estimates; all others are FactSet Consensus; E= estimates,

\*\* DLF, Sobha, IBREL and JIL NAV are for Mar '11

^^ = Under rating restriction

Exhibit 8

## Real Estate Valuation Parameters: Regional Companies

8/24/2010 Company	Share Price	Mkt Cap US\$M	P/E		P/B		RoE		Net D/E	Int. Cov	NAV/ share	Disc to NAV	Fwd NAV	Disc to fwd NAV
			2010E	2011E	2010E	2011E	2010E	2011E	2010	2010				
<b>China Property Stocks</b>														
China Vanke	7.81	12,724	13.0	11.7	2.0	1.7	18% e	17% e	0.4 e	12.8	11.0	-29%	11.3	-31%
COLI.	16.46	17,305	17.1	15.7	2.8	2.5	19% e	18% e	0.4 e	30.1	-		NA	
Country Garden	2.37	4,987	11.4	11.6	1.5	1.4	14% e	13% e	0.6 e	5.3	4.0	-41%	4.3	-45%
Guangzhou R&F	11.70	4,849	8.4	8.7	1.7	1.5	23% e	19% e	1.2 e	10.9	23.0	-49%	23.2	-50%
China Resources Land	16.24	10,522	18.8	17.9	2.2	2.0	11% e	12% e	0.6 e	19.5	-		NA	
Agile Property	9.38	4,519	9.2	9.4	1.8	1.6	23% e	19% e	0.8 e	51.0	18.2	-48%	19.5	-52%
Shanghai Forte Land	2.21	719	3.7	6.1	0.7	0.6	23% e	11% e	0.9 e	26.8	6.1	-63%	6.2	-65%
China Aoyuan	1.20	425	13.0	9.8	0.5	0.5	4% e	5% e	0.7 e	17.8	4.3	-72%	4.4	-73%
<b>Weighted Average</b>			14.4	13.6	2.2	1.9								
<b>HK Property Stocks</b>														
SHK Properties	112.20	37,008	18.7	16.4	1.2	1.2	7% e	8% e	0.2 e	25.2	134.4	-16%	141.74	-21%
Sino Land	14.76	9,236	21.3	24.6	1.1	1.1	5% e	5% e	0.2 e	25.4	18.5	-20%	20.6	-28%
Hysan Development	22.90	3,061	23.2	23.8	0.7	0.7	3% e	3% e	0.1 e	9.5	37.7	-39%	39.5	-42%
Great Eagle Holdings	20.05	1,542	11.6	11.2	0.6	0.6	6% e	6% e	(0.3) e	6.3	33.0	-39%	34.7	-42%
<b>Weighted Average</b>			19.4	18.6	1.3	1.3								

Source: Company data, Morgan Stanley Research, (e)=Morgan Stanley Research estimates

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	Count	% of Total	Count	% of Total IBC	% of Rating Category
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**Industry Coverage:India Property**

<b>Company (Ticker)</b>	<b>Rating (as of)</b>	<b>Price* (08/23/2010)</b>
<b>Sameer Baisiwala, CFA</b>		
DLF Limited (DLF.BO)	O (05/17/2010)	Rs330.85
Indiabulls Real Estate Limited (INRL.BO)	O- (07/01/2010)	Rs190.6
Jaypee Infratech Limited (JYPE.BO)	E- (07/01/2010)	Rs82.95
Sobha Developers Ltd. (SOBH.BO)	O (05/25/2010)	Rs381.4
Unitech Corporate Parks Plc (UCP.L)	++	31p
Unitech Limited (UNTE.BO)	++	Rs85.95

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\* Historical prices are not split adjusted.