

Building up India

Outlook for India's real estate markets



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London, June 6, 2006

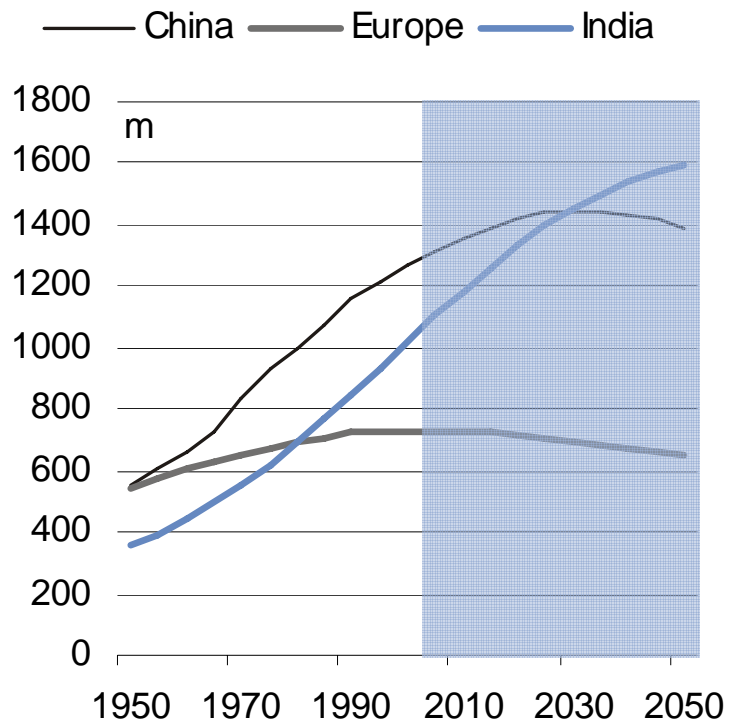
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Strong population growth just a matter of time

Number of inhabitants

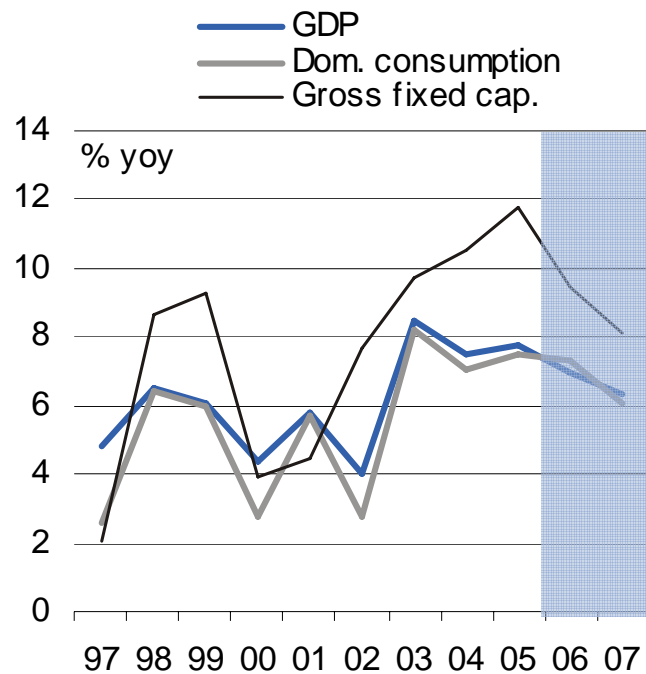


- 1.1 bn people live in India today
- Fertility rate is roughly 3 children per woman
- Life expectancy increasing, infant mortality decreasing
- India will be the world's most populous country from 2030

Source: UN Population Division, medium variant

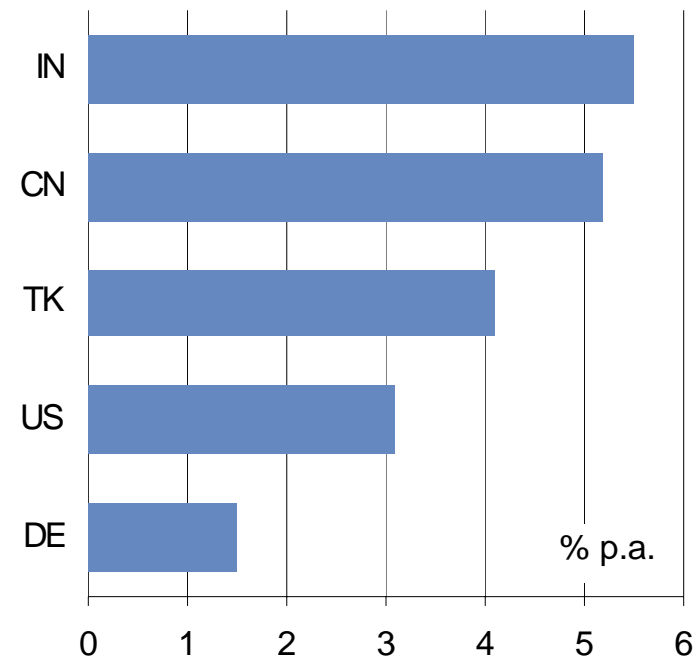
India's economy set to expand further

Fixed capital investment impels growth



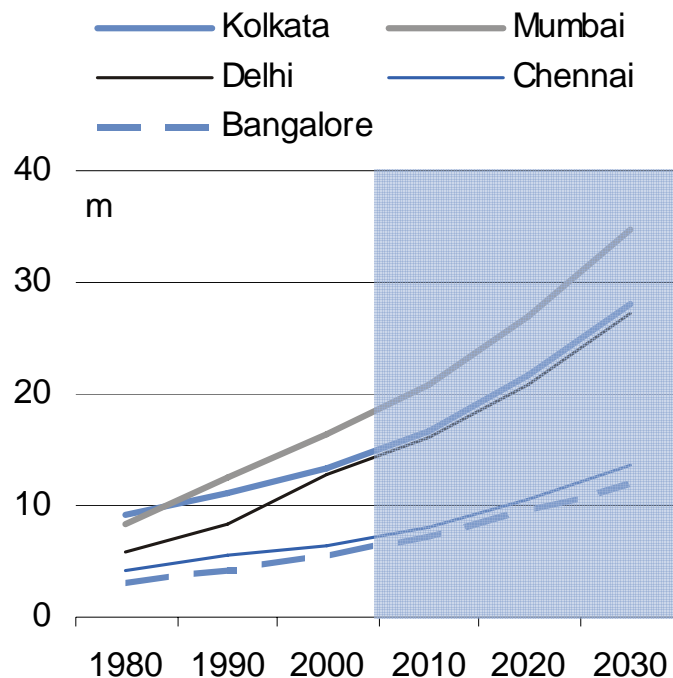
Sources: RBI, DB Research

Long-term growth rates 2006-2020



India's mega-cities continue to grow

Number of inhabitants in major agglomerations



Sources: Census of India, DB Research

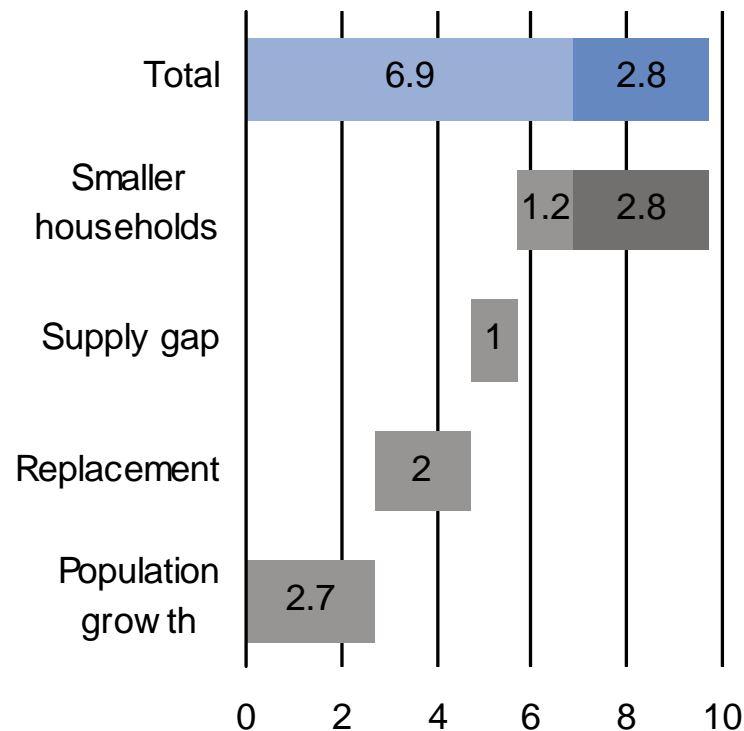
- Only one-quarter of India's population lives in urban areas (China 40%, Eastern Europe two-thirds)
- Urbanisation process still far from over
- Conservative forecast, as no acceleration assumed
- Government plans to foster smaller agglomerations and new cities

India's housing market at a glance

- Last census survey in 2001 reported nearly 200 million households in India, about 40 million more than ten years earlier
- Today, the average Indian household consists of 5.3 persons. In 1970 the average was still over 5.7
- Only 50% of housing units in good condition; 5% considered dilapidated
- Home ownership rate around 67%; 4 pp over 1991 level
- 70% of households have no more than 2 rooms
- Supply gap of 20 to 30 million housing units today

Strong demand for new housing

Million new housing units 2005-2030 p.a.

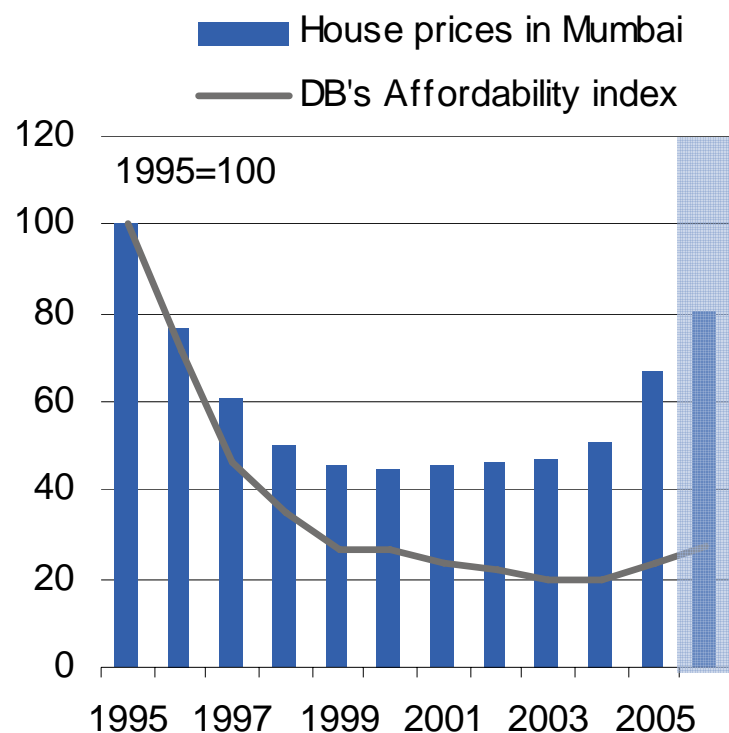


- Overall 7 to 10 million new units are needed per year
- The main drivers are
 - Population growth
 - Replacement demand
 - Existing supply bottleneck
 - Decline of average household size (due to lower fertility, rising incomes and urbanisation)

Source: DB Research

Housing units are still affordable despite rising prices

House prices and DB-affordability index*

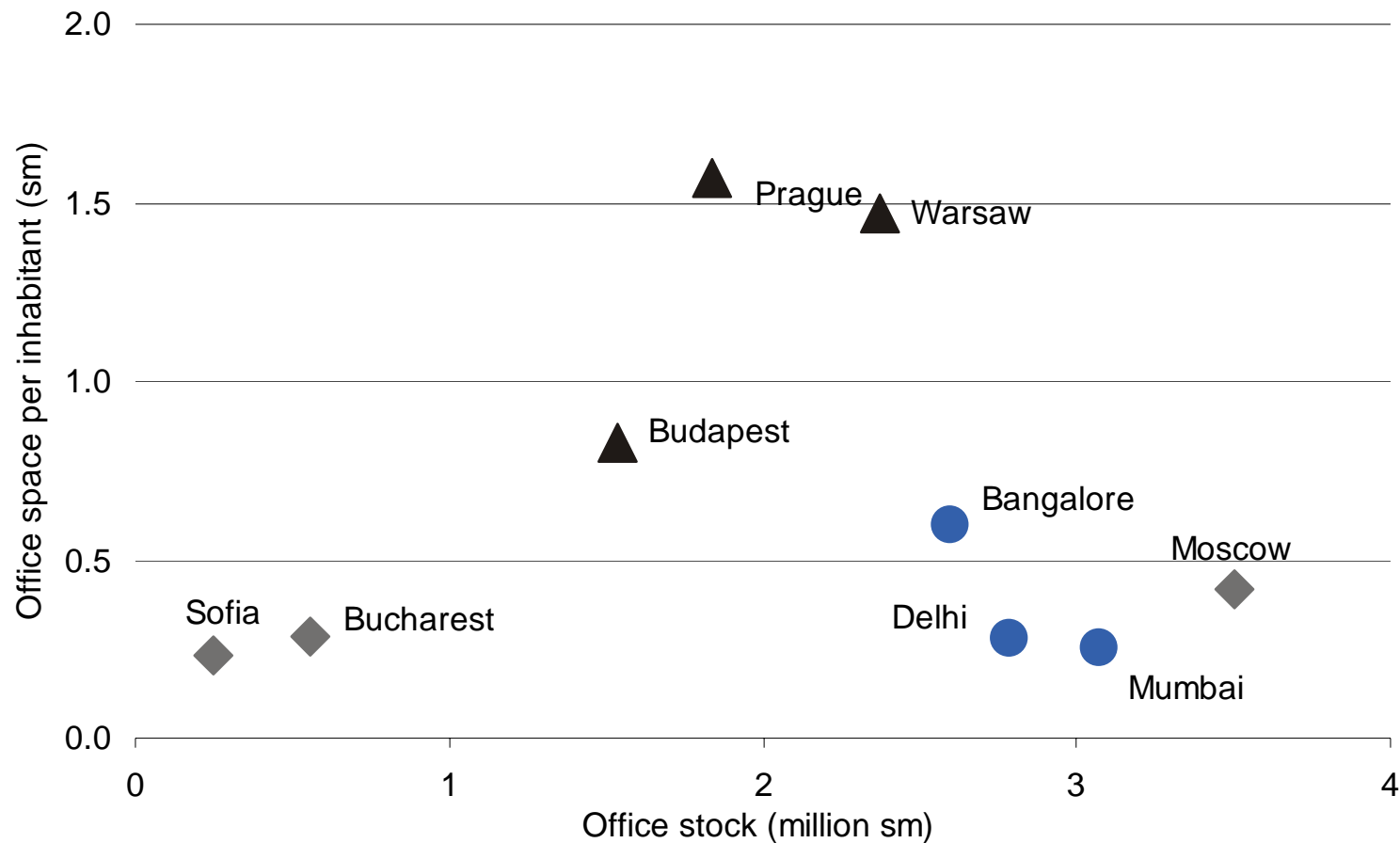


Sources: HDFC, RBI, DB Research

- Housing prices up 40% in Mumbai since 2003
- But still no exaggeration as in the mid-1990s
- Rising incomes and low mortgage rates mean less of a financing burden
- Tax incentives are additional stimulus
- But: interest rate cycle turning upward

* The affordability index is calculated as the average mortgage payment for a 25-year down payment for an average sized flat in Mumbai over per-capita-NDP in Maharashtra

India's office markets are benefiting from offshoring, but still very small



Note: Office stock in Eastern Europe: Only Class A and B-offices

Sources: JLL, Citypopulation, DB Real Estate Research

Outlook: Office markets will become less centralised

- Construction activity to stay buoyant in the coming years. Demand will be driven by IT and ITES companies in particular
- Rents will continue to increase moderately. Still, initial yields are likely to fall further
- Soaring land prices in city centres mean new office space will be mainly in peripheral locations giving rise to new cities with commercial and residential mix (with some important exceptions: Mumbai's mills)
- Tier I cities* will retain major significance. Tier II and III cities increasingly attracting domestic and foreign investors thanks to lower costs (wages and rents).

*Tier I: Delhi, Mumbai, Bangalore

Tier II: Hyderabad, Pune, Chennai; cost advantage over Tier I: 15-20%

Tier III: Among others: Kolkata, Nagpur, Ahmadabad; cost advantage over Tier I: 15-30%

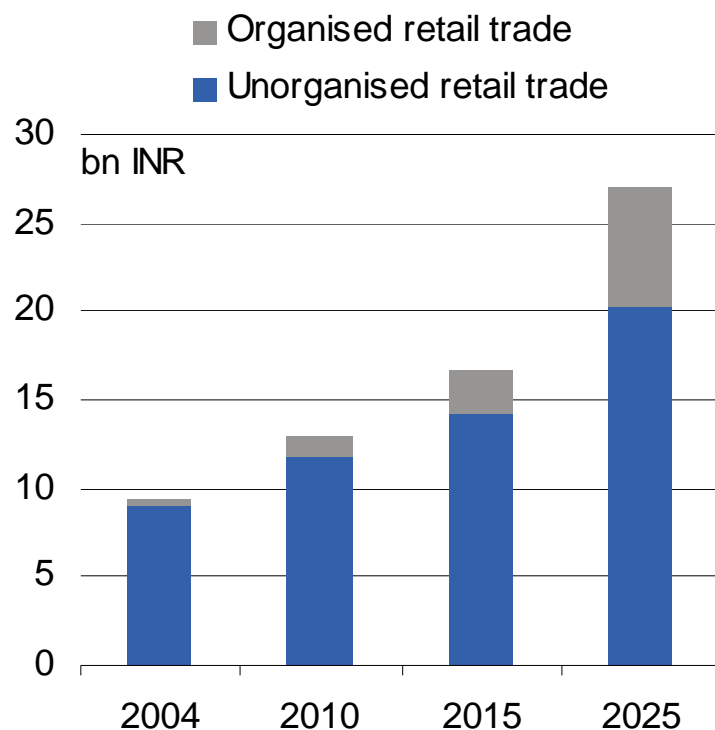
Source: JLL

Retail: Traditional structures are breaking down

- With turnover of USD 250 bn, India is already one of the world's ten largest retail markets
- Strong sales growth of some 10% p.a. is expected for the next few years
- Owner-operated local shops and street markets still dominate retail landscape (80% of all shops are small and family run)
- So far, government has protected traditional retail structures
 - Foreign companies have only been allowed to open cash-and-carry markets or to market products by licensing
 - From the beginning of 2006 the government has allowed direct foreign investment in retailing, with 51% participation (for marketing brands under their own names only)
 - Further opening of the market likely in the next few years, though

Malls and more: New shopping formats will boost organised retail trade

Retail turnover by retail category

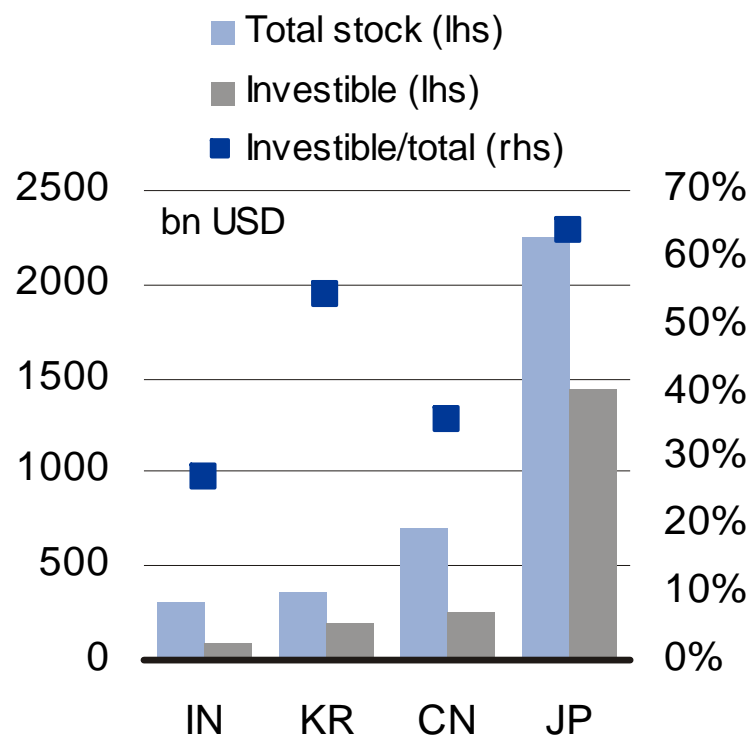


Source: Trent Ltd

- Opening the retail market to foreigners could in fact reinforce the trend
- By end-2008 probably about 220 shopping centres in Tier I and Tier II cities alone
- New shopping centres being built mainly in the periphery (near residential areas)
- Few locations face oversupply
- Infrastructure is bottleneck on development

India's investment market is still underdeveloped

Total property stock and investible stock

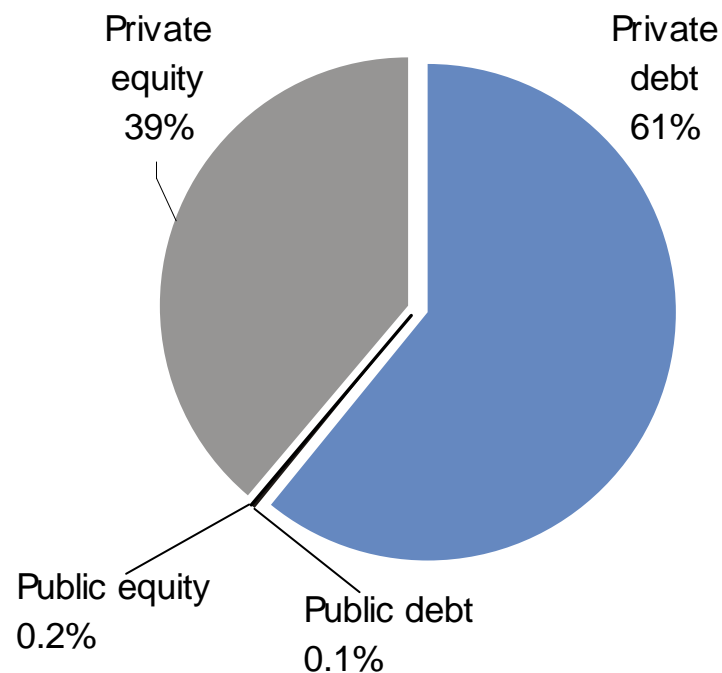


Source: RREEF Research

- Total stock of commercial real estate in India worth an estimated USD 300 bn
- However, merely USD 83 bn generally suitable for investment products (investible stock)
- So investible stock is relatively small
- In fact, only USD 4 bn actually invested professionally so far

India's public capital markets are still underdeveloped

**Total invested stock
USD 4 bn**



Source: RREEF Research

- Emphasis in property financing still on conventional loans. This area has grown fastest of late
- Private equity in particular has expanded significantly over the past few years
- Exchange-traded products (real estate shares or CMBS) still play negligible role
- Introduction of REITs under discussion

Bear risks in mind

- **Liquidity risk:** Investment market still in its infancy. Limited supply rapidly leads to falling returns as demand rises
- **Regulatory risks:** As an example, central bank approval required for real estate investments and profit repatriation
- **Inadequate transparency in property market:** In many cases quality of market data leaves much to be desired. Market transparency rated as low
- **Corruption risk:** In Transparency International's last corruption ranking India ranked 88th of 150 countries
- **Macroeconomic risks:** Interest, inflation and exchange-rate risks

**These risks are unlikely to disappear in the near future.
Nonetheless, the market looks interesting not only for opportunistic investors
– if the risks are assessed properly.**

Outlook for India's real estate markets

- Strong growth potential in all real estate segments. Total stock of commercial real estate likely to grow by USD 66 bn and be worth USD 366 bn by 2010
- Other segments not mentioned here also offer sizeable potential (hotels, leisure, second homes)
- Opening the country to international investors is desirable for increasing transparency and building up expertise. Foreign capital also important as additional source of finance
- India needs a more robust capital market base. Possible boost next year from potential introduction of REITs and/or REMFs
- Development of the infrastructure is a *conditio sine qua non!*

More information on India: www.dbresearch.com

The collage displays six research reports from Deutsche Bank Research, each with a title, date, and a brief summary of its content. The reports are:

- India rising: India Special** (May 18, 2006): Discusses India's economic growth and its potential as a global power.
- German Untapped** (October 12, 2005): Analyzes the untapped potential for German FDI in India.
- Outsourcing Crouching** (October 25, 2005): Examines the outsourcing industry in India and its future prospects.
- India as a global power** (December 16, 2005): Explores India's emergence as a global power and its impact on the world.
- India's public finances: Do they matter?** (January 13, 2006): Discusses the challenges and opportunities of India's public finances.
- Building up India** (May 8, 2006): Provides an outlook for India's real estate markets.

Each report includes contact information for the author and analyst, as well as a small graphic or chart related to the report's theme.

- 1) India rising: A medium-term perspective (2005)
- 2) German FDI to India: Untapped potential (2005)
- 3) Outsourcing to India: Crouching tiger set to pounce (2005)
- 4) India as a global power (2005)
- 5) India's public finances: Do they matter? (2006)
- 6) Building up India: Outlook for India's real estate markets (2006)

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