

INDIA 2011



INDIAN REAL ESTATE OVERVIEW



A CBRE - AMCHAM INITIATIVE

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FOREWORD

Real Estate business was one of the key drivers of growth before we witnessed the present economic slowdown. Now, with companies trying to consolidate their positions and finding effective means of sustaining growth, the management of real estate has emerged as one of the key challenges for the corporate sector. The largest occupier of office space in the country has been the Information Technology/ Information Technology enabled Services (IT/ ITeS) segment, which primarily serves the US and European markets. The economic slowdown in these markets have resulted in increasing pressures on the margins of companies operating out of India, which in turn has led to the companies looking to cut costs through reducing expenditure on the real estate segment.

However, it is important to note that given the level of integration of real estate with the various sectors of the economy, this segment will continue to play a key role in the economic upswing as and when it reappears.

This very informative report prepared by our member company CB Richard Ellis (CBRE) addresses the salient aspects of the real estate scenario in India. CBRE, as one of the largest players in this sector worldwide, has been responsible for bringing in a lot of discipline and professionalism in the real estate business in India. With the high credibility CBRE enjoys the world over, this report on the Indian real estate scene is a good reflection of where this sector stands today.

A regional overview of the country in consonance with recent events and current dynamics of the office, retail and residential segments and the effect of economic slowdown on these sectors have been incorporated as a part of this report.

Segment specific dynamics for the office, retail and residential sectors in terms of supply, vacancy levels and rental / capital value trends are discussed. City level dynamics being exhibited across the cities of NCR (Delhi, Gurgaon and NOIDA), Bangalore, Chennai and Mumbai have been taken into account.

Market Drivers (both current and expected) for office, retail and residential segments have been commented upon. Future outlook and the expected direction and momentum of growth for office, retail and residential segments in the real estate business are covered in this report. We are confident that not only US multinationals operating in India but all overseas investors operating or planning to enter the country will find the contents of this booklet helpful in making their investment decisions.

**Ajay Singha – Executive Director, American Chamber of Commerce in India
July 2009, New Delhi**

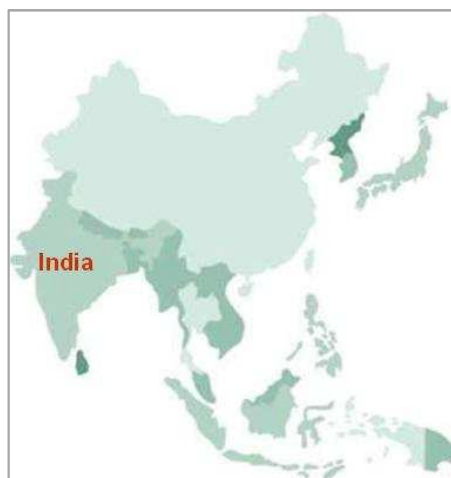


ASIA OVERVIEW

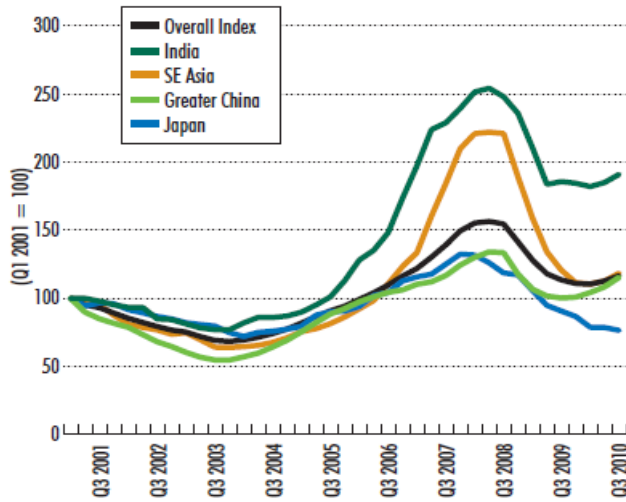
Asian growth rates have settled to a more stable pace by the end of 2010 as rapid industrial activity has been overwhelmed by concerns regarding the sovereign debt crisis and instability in the banking sector affecting a number of advanced economies, also posing a significant challenge to Asia.

In October 2010, the International Monetary Fund's (IMF) World Economic Outlook noted that while expansion in Asia exceeded expectations in the first half of the year, a trend which prompted IMF to upwardly revise its 2010 growth forecast to 9.38%, the rapid pace of economic growth was nevertheless expected to slow gradually to 8.4% in 2011. However, the region is forecasted to grow in excess of 8% till 2015. Although inflation remained generally moderate across other Asian markets, however, rising prices of essential commodities emerged as a concern for some major Asian economies such as China, Singapore and Hong Kong during the third quarter, with the notable exception of Japan.

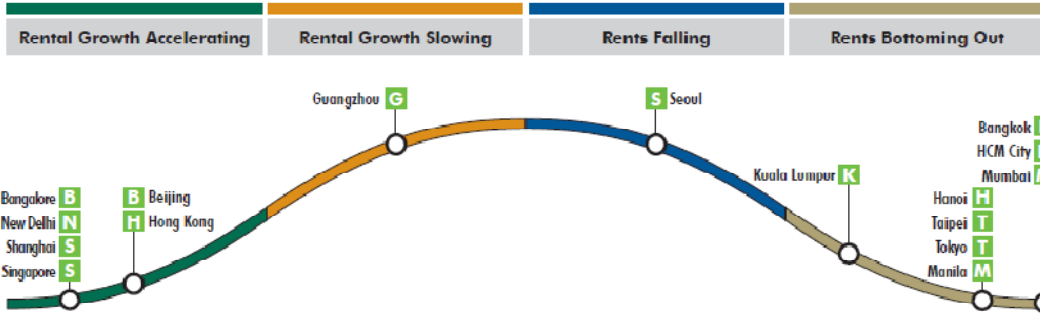
On the global front, India and China and the erstwhile Asian economies such as Indonesia are expected to lead global recovery, even as the advanced economies still suffer from the pangs of recession. The US and the Euro zone have been impacted by the financial market turbulence and debt crisis and still face sluggish industrial growth marred by low productivity levels.



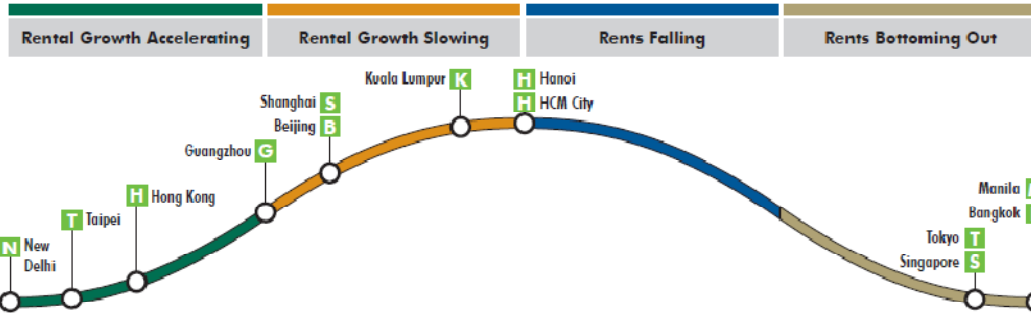
The Asian Dynamics – Trends in Rental dynamics across the region



OFFICE RENTAL CYCLE



RETAIL RENTAL CYCLE



Source: CBRE Research



Real estate investment in Asia continued to be active in the fourth quarter of 2010 as the improved economic environment encouraged multi-nationals to roll out new business start-ups and execute expansionary plans. Despite concerns on a slower global recovery influencing the pace of leasing market expansion, the favourable market fundamentals in Asia still provided support to sustain positive growth. Leasing activity in the prime retail market has also remained positive on the back of strengthening consumer sentiment and the growth in retail sales. The luxury residential property sector has been steady in the last few months of 2010, although growth in some major markets began to lose steam. This was mainly attributable to various tightening measures rolled out in some heated markets such as China, Hong Kong and Singapore.

INDIA REAL ESTATE OVERVIEW

The economy continues to ride the high growth curve, with the Central Statistical Organization (CSO) pinning the GDP growth rate for quarter end September at 8.9%, compared to 8.9% in the previous quarter and 8.6% in quarter ending March. The GDP is expected to rise to more than 9% in 2010-11, largely on the back of accelerating consumption, investments and healthy growth in services, manufacturing and agriculture sectors. As per IMF estimates, the country will grow in excess of 8% in 2011.

The real estate market has managed to withstand the pressures of economic downturn and witnessed a revival in late 2009 and consolidation in 2010. Following a gradual recovery of Indian (and global) economic activity, the real estate market witnessed significant investment interest and transaction activity in 2010. Economic expansion, leading to head count increases, paved way for substantial spatial expansion by corporates across all the major cities. Economic recovery also resulted into residential investment and increase in retail sales. This enhanced absorption levels across the country, thereby putting a halt to the downward movement of demand. Investors came back into the market, looking at attractive valuations and returns, generating activity in the office, residential and land market.

Investor activity continued to pick pace in 2010, with Delhi-NCR and Mumbai witnessing bulk of the investment transactions. The third quarter of 2010 witnessed large land auctions in Mumbai. Indiabulls Infratech won the bid for an 8.37 acres National Textile Corporation (NTC) Bharat Mill land in Central Mumbai for INR 505 crore, as well as for NTC's 2.3 acre Poddar Mill land for INR 474 crore.

Amongst the other major transactions recorded in 2010 include JP Morgan Private Equity investing almost INR 160 Crores into Rohan Lifescapes, a South Mumbai based developer in its proposed 2 million sq ft residential project at Kalachowki in South Central Mumbai.

Gammon Constructions emerged as the highest bidder for a 135 acre plot owned by PAL – PEUGEOT in Dombivili, a suburb close to Mumbai. A key residential apartment sale was witnessed in the last quarter, as Standard Chartered Bank sold a 1,706 sq ft flat in the luxury residential building 'Samudra Mahal' in Worli to an

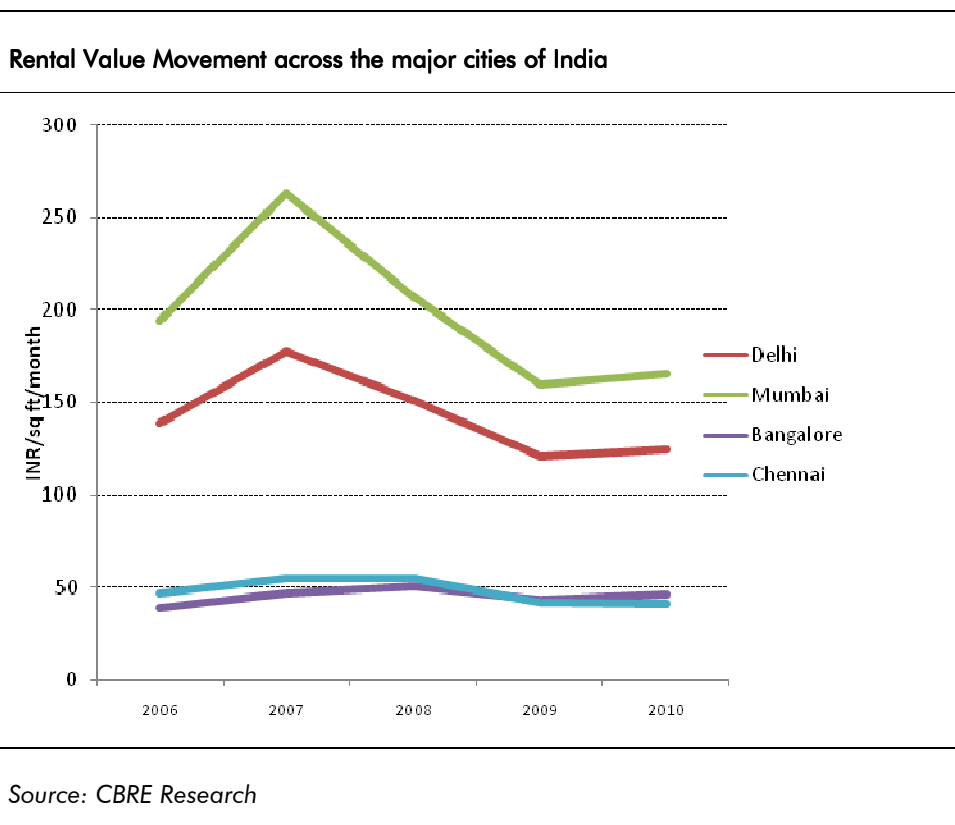


HNI for INR 18 crores (INR 107,000 per sq ft). The transaction is the highest ever recorded in terms of per sq ft rate, overtaking a previous high in the same building in April 2010. In Delhi, Red Fort Capital, an India focused private equity fund, picked up a 24.5% equity stake in Parsvnath Developers to develop a modern commercial complex in the heart of New Delhi CBD. The equity stake translates into approximately INR 1,200 million.

OFFICE MARKET OVERVIEW

The Indian commercial office sector has been dominated by the Information Technology and the Information Technology enabled Services segment - IT/ITeS, which has been the driving force for commercial real estate growth in India. Post the downturn in 2009, there was a renewed impetus on spatial expansion by the IT/ITeS occupiers, as well as those belonging to the new economy sectors such as Telecom, Pharmaceuticals, Biotech and Manufacturing. Demand for office space continued to revive in early 2010 and as the year passed by, transaction sizes and frequency continued to increase. Developers adopted flexibility in pricing and also offered lease incentives like free parking, rental discounts, and hard options, amongst others. This contributed to occupiers pre-committing spaces in numerous under-construction projects as well. While majority of the transactions in the second half of 2009 and early 2010 were dominated by domestic occupiers, predominantly in the non-IT segment, global recovery has paved way for even the cautious global enterprises to start booking spaces.

Healthy pre-commitments and large scale transaction activity contributed to developers launching new projects in suburban locations. NCR (Gurgaon), Bangalore, Hyderabad and Mumbai led the country in spatial absorption, with more than 32 million sq ft being absorbed across the top 7 cities in 2010. The fourth quarter witnessed further compression of vacancy in the Central Business Districts (CBDs) across major cities, as occupiers (largely non-IT) preferred central location for Grade A as well as Grade B spaces. However, vacancy levels increased in suburban destinations (led by Gurgaon, Noida, GST Road, Ambattur, Thane and Navi Mumbai, amongst others) largely due to a huge supply pipeline amidst a gradually recovering demand.



List of key office lease transaction across major cities in 4Q 2010

Micro-Market	Building	Tenant	Area (sq ft)
Noida, NCR	Unitech Infospace SEZ	Steria	250,000
Gurgaon, NCR	DLF Building 5, Cyber city	AkzoNobel	50,000
Gurgaon, NCR	DLF Building 6, Cyber city	I Yogi	48,000
Powai, Mumbai	L & T Infotech Park	JP Morgan	350,000
Thane, Mumbai	iThink	Tata Capital	128,000
Mahalaxmi, Mumbai	Lodha Excelus	HDFC Standard Life Insurance	95,000
Outer Ring Road, Bangalore	Pritech Park	Wipro	135,000

Electronic City, Bangalore	Prestige Alecto	Siemens	120,000
CBD, Bangalore	Vaswani Centropolis	Swiss RE	110,000
Manapakkam, Chennai	DLF IT Park	CTS	200,000
Manapakkam, Chennai	DLF IT Park	Zoho	180,000

Source: CBRE Research

Rising demand levels, positive economic outlook and prospects for strata sale led many debt-ridden developers to launch new projects in the suburban and emerging locations across major cities. This resulted in a huge supply influx in these two cities. The year 2010 witnessed addition of more than 55 million sq ft of office space in the top 7 cities, across IT, commercial and SEZ segments, with the pan India office stock rising to more than 280 million sq ft. It is anticipated that an estimated 55-60 million sq ft is lined up to get operational in the next two years, which is expected to push up vacancy levels in all major cities.

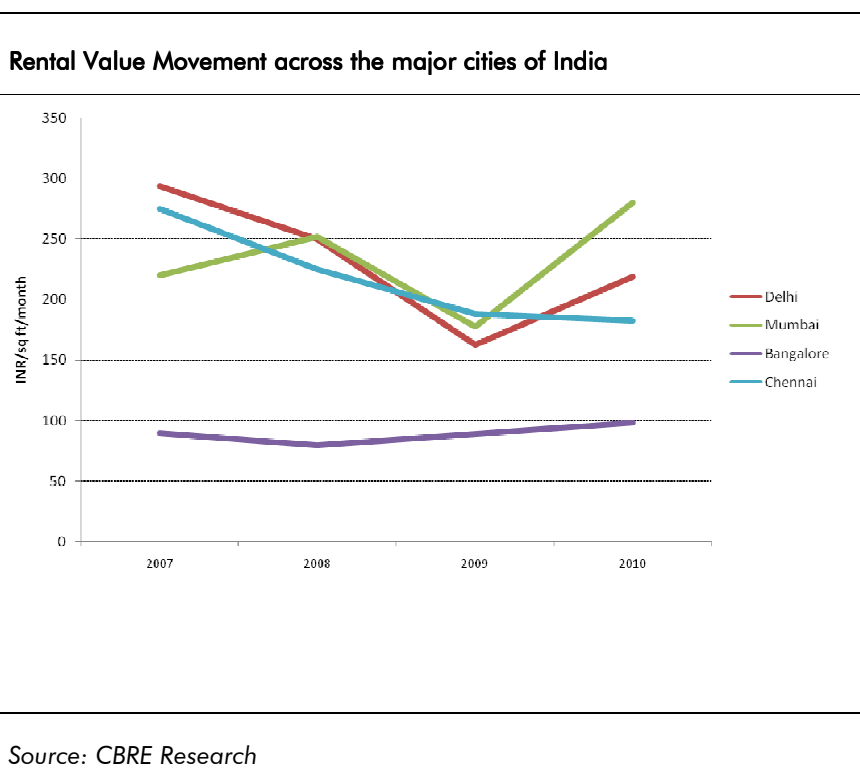
Demand-supply dynamics have dictated indicator movement across the country. While inner city markets such as the CBD and the SBD have witnessed rental recovery due to limited supply, suburbs have largely witnessed rental stagnation owing to a large supply pipeline.

RETAIL MARKET OVERVIEW

The Retail revolution in India has been driven by a growth of consumerism, which has been helped by a consistent expansion of the economy, rapid urbanization levels and favourable demographics. The expanding middle class has also experienced rising income levels, a brand consciousness and the increasing focus towards organised retail.

In 2010, India witnessed the addition of more than 5 million sq ft of organized retail mall space across various primary and secondary locations. This was concentrated largely in NCR, Mumbai, Bangalore and Chennai and was a consequence of the positive sentiments amongst retailers on spatial expansion and enhancing their footprints across the country.

While 2009 can be termed as a 'lost year' for value retailing; consumer confidence enhanced spending levels in 2010. This encouraged sales in large format hypermarket chains, which became the prime anchor tenant for mall developers looking forward to reduced vacancy pressures in their properties. Retailer expansion also led to pre-commitments in under construction properties in prime locations. With their mall developments in advanced stages of construction, developers had to ward off vacancy pressures by providing flexible revenue sharing terms with retailers. This approach helped in easing vacancy pressures in various malls, thereby providing floor earnings to developers. In all the seven cities presented in this review, the retail real estate market appears to be promising with an appreciable increase in enquiries being witnessed from retailers.



List of key retail lease transaction across major cities in 4Q 2010

Micro-Market	Building	Tenant	Area (sq ft)
Gurgaon, NCR	MGF Metropolis	Lifestyle	80,000
Linking Road, Mumbai	DLH	Jack & Jones	14,000
Yashwantpur, Bangalore	Orion Mall	Zara	20,000
Mahadevpura, Bangalore	Market City	Zara	20,000
Chennai	Express Avenue	Lifestyle	75,000
Chennai	Express Avenue	Big Bazaar	70,000

Source: CBRE Research

Moving ahead, transaction activity and size are expected to increase on the back of increase in consumer spending and expanding mid income purchasing power. However, despite this incremental demand, retail mall supply pipeline is huge, especially in leading cities such as NCR, Mumbai, Bangalore, Pune and Chennai. This would ensure that pressures remain on developers to offer rental discounts



and transaction flexibility to avoid higher vacancy levels in a longer term. While the prime destinations will continue to be high in demand and also witness an upward rental movement on account of developer expectations, it would largely be the secondary locations in these cities which will bear the brunt of large supply influx in the next two years.

Despite all the transaction activity and surging consumer expenditure, a major legislation that can propel India's nascent organised retail industry into the big league would be the legislation permitting 100% FDI in organised multi-brand retail. This would allow big organised retail chains to set up presence in India's booming mid income towns and cities. Indian economy faces serious supply-side constraints, particularly in the food-related retail chains. The argument against opening of the retail sector has been that once foreign retailers open up their stores in India, it would amount to unfair competition to small domestic players. However, the sector should be allowed to grow and consolidate by opening it to foreign investors. Indian government is likely to allow FDI in multi-brand retailing in the near term, albeit in a slow and guarded manner to ensure domestic retailers do not face stiff competition. The initiative is a positive step towards bringing the much needed capital to the industry and might witness significant growth of organised retailing in the country.

RESIDENTIAL MARKET OVERVIEW

Residential demand is the mainstay of the Indian real estate sector. The major demand drivers for the residential market include increasing disposable income levels, increase in the number of nuclear families / households, tax savings on home mortgage products as well as real estate being considered a “necessary” investment.

Real estate witnessed its peak during the first three quarters of 2008, with residential prices reaching an all time high, largely led by investor driven market speculation. Majority of the developers maintained focus on the premium segment as it offered better returns. As the downturn unfolded in the second half of 2008, rising economic uncertainty, job cuts and employee layoffs made a huge dent in consumer confidence and spending. This sparked a slowdown in demand for luxury and premium residential projects across the country, with ‘affordable’ emerging as the new buzzword.

Till early 2009, residential projects across leading markets offered large unit sizes, high-end facilities, and premium specifications, amongst others. The basic price came at a premium to the market average, and the ticket size was out of reach for a large segment of aspirant buyers. However, the demand dip led to concerns regarding saleability and returns regarding the premium product amongst investors. This led to many developers re-orienting their development focus to meet the requirements of the masses. This meant reduced unit sizes, bare minimum amenities and basic specifications. This reduced pricing attracted large scale end user interest, from mid income buyers waiting to own a house. As a result, the second half of 2009 saw increased sales momentum, voluminous absorption and huge take offs across all micro-markets. Structural changes in interest rates significantly reduced housing finance rates, thereby adding to the ease of owning a house. This was supplemented with easier and flexible financing options from an increasing number of private players in this field.

While the initial focus on affordable housing has been more of a reaction to the dip in luxury, several developers forayed into this segment in 2010 to cater to the needs of the middle income home buyers. As a fast selling realty product, sale of affordable projects has helped developers to pay off bad loans and cushioned them from the pain in the premium residential and commercial sectors.

However, the second half of 2010 has witnessed numerous developers enhancing their price expectations in certain fast selling residential destinations in the cities of Mumbai and Delhi. There have been increments in capital values in the range of

30-40% in certain premium locations of Mumbai, which has impacted sales and slowed down absorption in the last few months of 2010. The recent rate revisions by the RBI and tighter control on teaser rates will impact the consumers. On the other hand, the bribe for loan scandal might tighten fund inflows for certain leading developers, thereby hindering liquidity and project completions. This might impact prices as developers might be forced to offer discounts to enhance product sales.

CITY LEVEL DYNAMICS

The real estate industry has witnessed revival across the country, with rising valuations and investments. Stakeholders had adopted a wait and watch policy in 2009, went bullish on the industry in 2010, consolidating their position and expanding presence. All of the top metropolitan cities of the country have witnessed increment in demand levels, alongside escalating supply pressures.

THE NATIONAL CAPITAL REGION (DELHI, GURGAON AND NOIDA)

Office Overview

Delhi, the capital of the country, has traditionally been recognized as the commercial centre of North India owing to the presence of corporate head offices, financial institutions, IT and related conglomerates. Additionally, with the saturation of office space in Delhi and the gradual progression of commercial activity towards the southern regions of the city, Gurgaon in Haryana and NOIDA in Uttar Pradesh have emerged as the suburban commercial destinations. These suburban locations are now driving the regional economy and generating employment opportunities for the entire Delhi-NCR (National Capital Region). This has resulted into a consolidation of NCR as a single economic node, driving investment interest and real estate dynamics.

Gurgaon and Noida have developed into hubs of the IT/ITeS industry, with numerous national and global corporates establishing base in the twin suburbs of Delhi. This has driven infrastructure initiatives such as highways, expressways, Metro links with the prime city of Delhi and contributed towards enhancing NCR as a stable real estate investment destination.

The region has been characterized with robust absorption levels over the years, however the economic downturn in 2008 coupled with significant addition in supply resulted in higher vacancy levels of 15-20% by mid 2009. However, in the second half of 2009 as economic recovery spread across key industry sectors, occupiers began renewing their expansion plans across the country. A similar trend was observed in NCR as well, with more of lease negotiations converting into final transactions. Occupiers seeking to leverage the weak market sentiments and developer flexibility started committing to spaces in both existing as well as under-construction properties. This trend continued in 2010 as well with larger transaction volumes and floor sizes being in demand. However, this increment in demand came along with an inflow of substantial supply (mostly in Gurgaon and Noida), which led to a further increment in vacancy levels. While vacancy dipped

to less than 2% in the CBD, it hovered in the range of 25-30% in Gurgaon and Noida.

NCR¹ has witnessed a cumulative supply of more than 45 million² sq ft by Q4 2010. This supply was largely concentrated in areas such as DLF Cybercity, NH-8 and Sohna Road in Gurgaon and Noida-Greater Noida expressway in Noida.

The demand dip in 2009 led to substantial rental correction in the region, with rents dipping by 40-50% across micro-markets from the peak attained in 2008. The rental dip slowed down by the end of 2009 and rental values continued to stabilize by early 2010. By the end of the last quarter, rental values in the CBD have risen by almost 8-10% y-o-y, driven by incremental demand and lowering vacancy levels. However, suburbs have witnessed rental appreciation in only select pockets of Gurgaon like MG Road and Golf Course road, while those in rest of the micro-markets remain stagnant due to an oversupply situation. The rentals for high quality office space within prime areas³ are in the range of INR 250-300/sq ft/month for corporate office space in Delhi, and INR 60-70/sq ft/month and INR 30-35/sq ft/month for IT office space in Gurgaon and NOIDA respectively.

Retail Overview

Economic stagnation in 2008 and 2009 led to a substantial demand decline for retail in the region with lowering consumer spending, declining footfalls in malls as well as high streets and low conversion ratios. This led to many retailers closing their shops in various malls, a trend observed in most parts of Delhi, except South Delhi. However, 2010 paved way for economic recovery and a surge in consumer confidence and spending. This has worked well for FMCG brands that have been in expansion mode across the country. Various anchor hypermarket brands such as Future Group have expanded operations across various mall properties, especially in Saket, Rajouri Garden and Gurgaon properties. Developers have leasing large spaces to anchor brands at reduced rentals to reduce vacancy

¹Supply for NCR reflects office space present within Delhi, Gurgaon and NOIDA

² All supply figures reflect investment grade office space introduced in the identified markets over the last 5 years.

³ Figures for prime areas reflect the rentals which are on the higher spectrum in a market as compared to the average rentals for a city (when considering all locations).

pressures. The vacancy range across mall properties in NCR is in the range of 20-25%.

A slew of international brands have set up shop in the country, and an equal number are evaluating strategies for market entry in the coming quarters. Prominent brands that have launched their flagship stores in the last few months include European labels like Jack & Jones and Vero Moda, American outdoor footwear brand Timberland and Casual Diner Chilis, youth fashion brands like Forever 21, Diesel and Ecko Unlimited along with skincare specialist Kiehls. Besides these, Australian café chain Gloria Jean's, The Collective also made their much hyped debut in the NCR market. Even large format retailers like Lifestyle and Funcity opened their first outlets in South Delhi and others such as Shoppers Stop, Pantaloons and Marks & Spencers strengthened their footprint within the South Delhi micro-market.

With the sustained supply additions witnessed since 2004, the cumulative supply of investment grade mall format retail space in the region has reached approximately 14 million⁴ sq ft as of Q4 2010. Various anchor hypermarket brands such as Big Bazaar, Lifestyle, Bharti Easyday and Shopper Stop committed spaces in new completions.

Rental levels declined by almost 30-35% during the economic slowdown, however, have recovered in the last few quarters, with current rental levels⁵ at INR 300-350/ sq ft/ month across prime retail locations in Delhi and approx INR 200-220/ sq ft/ month across prime locations such as MG Road and Sector 18 in Gurgaon and NOIDA respectively.

Residential Overview

Private-developer apartment supply (Vertical format high density developments) in NCR has been predominantly restricted to Gurgaon and NOIDA due to unavailability of land for development in Delhi. There has been considerable residential activity in the region in the last few years, with substantial supply hitting the market post the downturn in 2009. Many debt laden developers focused on affordable development and mid-income catchments and thereby invested in new suburban locations like Noida Extension and the Golf Course Extension Road.

⁴ All supply figures reflect investment grade retail mall space introduced in the identified markets over the last 7 years.

⁵ All retail rental ranges reflect average quoted rentals for ground floor vanilla retail space.

While registering healthy sales in their initial few launches, developers banking upon the untapped demand in the mid segment housing bracket and low interest rates launched new projects. As a result, the NCR residential market is flush with a large supply pipeline, majority of which is expected to become ready for possession in a two to three year timeframe. The NCR market (mostly Gurgaon and Noida) registered more than 100,000 apartment units being launched into the market in 2010. Targeting mid income echelons in Delhi, Uttar Pradesh, Haryana and the Punjab belt, majority of these projects were mostly in unexplored outskirts of suburbs and catered to the untapped budget housing demand.

There has been significant demand in the affordable segment in the region, with many leading developers witnessing 80-100% absorption within the first few weeks of project launch. By positioning project pricing for mid income and lower mid income segments, developers were able to address the housing gap in the NCR to a certain extent. However, as speculation set in 2010 and investors became dominant over end users, prices started to rise across the region. Post registering healthy sales in the affordable segment, certain developers have started to focus upon premium or luxury residential product type. Anticipating better returns and a resurgence of the premium catchment into the market, many of these developers have launched projects with high end amenities and large unit sizes in suburbs (the likes of IREO Grand Arch and M3M Golf Estate in Golf Course Extension Road in Gurgaon).

In the last one year, capital values have risen by more than 30-35% in Gurgaon and by almost 10-15% in select projects and pockets of Noida. Majority of the new developments in Gurgaon have been in an INR 3,000 – 4,000/sq ft range in Gurgaon, while in a INR 2,500 – 3,500/sq ft range in Noida.

MUMBAI

Office Overview

Mumbai, the capital of the state of Maharashtra is the financial hub and the largest city in India in terms of population. It has the presence of numerous multinational firms across sectors such as Banking and Financial Services, Insurance, IT and Telecom amongst others. Besides this, the city also houses a thriving international port, making it an ideal commercial destination. The city is spread across the Greater Mumbai Region (GMR comprising of South and Central Mumbai, Western and Eastern Suburbs), Navi Mumbai and Thane. The CBD of Nariman Point has been the traditional commercial office destination of the city since the early 80s, however, is facing competition from the rise of the Bandra Kurla Complex (BKC). BKC offers newly developed, Grade A supply to occupiers, whereas other central locations like Lower Parel, Prabhadevi and Worli are also high in demand for corporate office space. Limited land availability in the prime city, improved connectivity and infrastructure initiatives have ensured far flung locations such as Malad, Goregaon, Powai, Thane and Navi Mumbai develop into suburban destinations (predominantly IT/ITeS hubs).

The year 2009 witnessed a demand slowdown, as economic dip put a halt on the expansion plans of most corporates. This led to incrementing vacancy levels in prime city. On the same hand, cost pressures forced many occupiers to pull out of CBD towards cost effective suburbs.

However, by the end of 2009 and beginning of 2010, absorption improved considerably. This was on the back of rental values bottoming out and occupiers leveraging from the prevalent market conditions. Occupier demand has been on the rise, with significant absorption being witnessed in the last two quarters of 2010. This was primarily due to improving market sentiments as well as rental correction which was in the range of 40-50% from the peak achieved in 2008.

The year 2010 witnessed the addition of a total supply of more than 13 million sq ft in Mumbai. Almost 50% of this supply was in the suburban micro markets of Malad and Powai. Other micro-markets of Lower Parel and Worli followed closely behind, accounting for almost 30% of the total supply added in 2010.

The CBD has witnessed slight rental revival due to resurgent demand, while suburbs continue to witness high vacancy pressures. The average vacancy rate was

in the range of 15-18%, with the highest vacancy of 25% being observed in the Malad and Powai due to supply pressures. Rental values in these micro-markets stood in the range of INR 35-40/sq ft/month, compared to the rentals of INR 290-300/sq ft/month in the CBD of Nariman Point. It is anticipated that Nariman Point will witness occupier exodus to BKC and Lower Parel, which might limit rental increments in the CBD.

Retail Overview

Mumbai is India's largest city in terms of population and a key retail destination. Its prominence as a retail destination can be gauged from the fact that the first mall to be opened in the country (Crossroads) was in Mumbai. The city houses some of the most prominent retail brands in the country and malls such as R City Mall, Nirmal Lifestyle, Inorbit Mall and High Street Phoenix have mushroomed over the city.

Post the 2008 crisis and throughout 2009, there was a dip in consumer expenditure and decrease in footfalls. This impacted sales of retailers as buyers were cautious and expenditure was limited to "necessities". As a result, many large projects were stalled and developers curtailed their expansion plans. A large number of retailers shut shops in malls and preferred to be located on high-streets, which were performing comparatively better. However, by the end of 2009, consumer confidence rose on the back of positive economic sentiment and increasing job security. Leasing activity picked momentum in 2010 and retailers displayed interest in Grade-A projects and high street locations.

Mumbai has more than 7 million sq ft of retail mall space in South, Central Mumbai, Western and Eastern Suburbs. It also has close to 4 million sq ft of high street space, concentrated in Linking Road, Colaba Causeway and Kemps Corner. With approximately 3 million sq ft of mall supply expected to enter the market in 2011, a number of prominent national and international brands have already pre-leased space in these malls. These include Infinity Megamall at Malad in the Western suburbs and R-City Centre Phase-II, Ghatkopar, Market City in Kurla and Nirmal Lifestyle Phase- II in the Eastern Suburbs.

Increasing demand and limited supply has led to a significant rise in rental values in malls and high streets across the city. The high streets of Linking road and Colaba witnessed double digit rental value appreciation with rentals on Linking

Road hovering around INR 715-725/sq ft/month and those on Kemps Corner in the range of INR 390-400/sq ft/month. However, the more notable appreciation was witnessed in mall developments, with rental values across all prime mall destinations rising in excess of 50% on a y-o-y basis.

Residential Overview

Mumbai as a residential destination is largely segregated into South and Central Mumbai - catering to the high-end and luxury segment, and Suburban Mumbai – catering to the mid to upper mid end segment. South and Central Mumbai comprise of Worli, Dadar, Prabhadevi, Lower Parel, besides Colaba, Cuffe Parade, Walkeshwar, Peddar Road etc. On the other hand, the suburbs comprise of the Eastern and Western Suburbs, with key markets being Bandra, Khar, Santacruz and Andheri in Western suburbs and Chembur and Ghatkopar in Eastern Suburbs. Thane and Navi Mumbai have also gained prominence as residential destinations with Pokhran road No 1 & 2, Godbunder Road, Kolshet Road being the key micro-markets in Thane and Palm Beach stretch covering Vashi and Nerul and Kharghar in Navi Mumbai.

Post the demand dip in luxury in 2008, developer focus shifted towards mid segment/affordable products in 2009. The second half of 2009 generated substantial end user interest as factors such as price correction, declining interest rates and easy availability of loans fuelled demand.

The fresh supply in the city for residential units in 2010 was almost 15,000 apartment units. More than 40% of this additional supply is in the micro-market of Eastern Suburbs. Upcoming residential projects in areas such as Bandra Kurla Complex, Lower Parel, Wadala, Sewree and Parel promise to increase supply of residential properties over the next three to four years. Large chunks of mill land (Hindustan Mills, Shrinivas Mills, Shree Ram Mills, Crown Mills in Lower Parel and Prabhadevi) are also being made available for residential development.

A demand dip led to steep decline in capital values in 2009, which had bottomed out in various micro-markets by the second half of 2009. However, as demand for affordable picked pace, capital values across all micro-markets witnessed appreciation (with many micro-markets registering a double digit pricing growth). Speculative investments as well as rising developer expectations has resulted in a price stretch, with capital values appreciating in the range of 30-40% in some key

micro-markets. The Western Suburbs displayed the maximum increase in capital values on a y-o-y basis, with the appreciation hovering in the range of 30-35% in different micro-markets. The capital values in Central Mumbai were in the range of INR 23,000-24,000/sq ft while those in the suburbs of Navi Mumbai were in the range of INR 5,500-5,800/sq ft.

BANGALORE

Office Overview

Bangalore is the hi-tech hub of the country, housing leading software, aerospace and defense organizations of the country. MG Road and surrounding areas such as Richmond Road, Residency Road constitute the CBD of Bangalore and majority of the supply in the region comprises of stand-alone and corporate office complexes. Due to saturation in the CBD, there was a spillover of commercial growth towards suburbs like Whitefield and Electronic City. Mid 2000's saw major infrastructure initiatives which led to the development of the Outer Ring Road (ORR) and improved connectivity of South-East region (Sarjapur ORR) and North (Banaswadi).

Since Bangalore has the presence of a large number of IT firms, the slowdown had a huge impact on the office market in the city as IT accounts for 60-70% of office space demand. However, since the beginning of 2010, the segment has been in recovery mode.

Overall absorption for the year 2010 across micro markets has been an approximate 9 million sq ft, which was an increase of almost 40% y-o-y. During the year, ORR saw an overall uptake of almost 2.2 million sq ft of SEZ and STPI space. The Whitefield micro market witnessed absorption of close to 2 million sq ft in 2010 due to the attractive rental offering coupled with non-availability of ready space along the ORR stretch. On the other hand, the North Bangalore micro market did not see any major leasing activity as the market has limited availability of ready to move in space.

The Bangalore market comprises of more than 80 million sq ft of existing office space (inclusive of IT, non-IT and SEZ supply). The new supply has been largely concentrated along the three major micro-markets of Whitefield, Electronic City and ORR.

Most micro-markets witnessed rental value stability on a y-o-y basis. However, rentals in the CBD and EBD witnessed marginal appreciation. On account of an increase in demand, low vacancy levels and absence of any new projects getting commissioned, rental values for second generation space in the CBD were in the range of INR 72-75/sq ft/month and had appreciated by almost 2-3% on a y-o-y basis. Rentals in the EBD hovered in the range of INR 50-55/sq ft/month and had

appreciated by almost 15% y-o-y due to lack of quality space in this micro-market. Despite encouraging transaction activity, rental values remained stable in suburbs, witnessing roadblocks from a huge supply pipeline.

Retail Overview

Retail in Bangalore has witnessed a lull in activity in 2009 primarily due to the after effects of the economic downturn. However, the past year has witnessed a steady increase in the entry of foreign brands into the city - most of them being in the food and beverage and the apparel segment. Additionally, established retailers have also started showcasing interest in properties located close to the Bangalore metro stations as well as New Airport Road due to better footfalls.

The city's mall developments started much later as compared to Delhi or Mumbai, but the growth in supply has been very impressive. The city's first luxury mall - The Collection at UB City became operational in 2009. The high streets of MG Road, Brigade Road, Vittal Mallya Road have also been proactive in enhancing their brand mix. Hypermarkets also witnessed a rapid expansion with retailers taking up large spaces across key markets. These include Hyper CITY, Total, D-Mart and More Megastore.

Large scale absorption was observed in under-construction mall properties (most of which are expected to get operational by 2011) by leading retailers. This had a positive impact on the vacancy levels, which hovered in the range of 5-6%. The major high street destinations such as MG Road, Commercial Street, 100 Feet Road, Indiranagar, 80 Feet Road, Koramangala and Jayanagar 4th Block continued to remain the preferred choice for existing retailers and new entrants. Across major categories, retailers such as Only, Jack & Jones, Celio, Reid & Taylor, Triumph, Guess, Body Shop, continued to expand their footprint in these key micro markets.

The total stock of the city stood at around 3.9 million sq ft by the end of 2010. More than 4 million sq ft of space is expected to enter the market in 2011 and retailers such as ZARA, Debenhams, Blu-O, DLF Home, Cocaberry, IZOD, GANT and Jumbo Electronics have plans of setting up base in the city.

Rental values witnessed an increase in both high street locations as well as mall clusters as established and emerging retailers continued leasing out spaces in key markets. Rental values in the high street of Commercial Street were in the range of

INR 210-220 /sq ft/month, an increase of 4 - 5% y-o-y. The rentals on Brigade Road hovered in the range of INR 225-250/sq ft/month increased by 10 - 12% on a y-o-y basis. In the organized retail segment, the South Bangalore micro market of Koramangala and Jayanagar observed maximum rental increment of almost 13- 15%, in a range of INR 130-140/sq ft/month.

Residential Overview

Bangalore is fifth largest city in terms of population and continues to grow at a rapid pace. The city's population has been increasing driven by the IT boom which has resulted in a large migrant population shifting base to the city. The residential market is divided into five major markets namely Central, North, West, South and East Bangalore. Central Bangalore has limited land availability as a result of which small scale apartment complexes comprising of 8-16 units targeting high-end clients are being developed. While North Bangalore is home to the elite, South Bangalore caters to the HIG and MIG segments. Most of the residential supply is concentrated in East and South-East Bangalore as IT/ITES activity is concentrated in that region.

The halt in recruitment plans of most leading IT/ITeS firms in 2008 and 2009, led to an uncertain job market thereby reducing spending power. Oversupply in micro-markets such as Sarjapur, Outer Ring Road, Whitefield and Marathalli forced apartment owners to offer steep discount to combat weak consumer sentiments. Prices during the slowdown had depreciated by as much as 30-35%.

But by the end of 2009, IT firms were back on the growth track and started revisiting their expansion and hiring plans. This attracted a lot of talent from outside Bangalore, thereby creating a pent up housing demand in the city.

The demand for properties in Central Bangalore has seen a downfall due to congestion and metro construction work. Excess supply in select micro-markets such as Whitefield and ORR has ensured stability in rental and capital values in these micro-markets. The demand for mid-income houses in certain pockets such as Brunton Road and Artillery Road will strengthen in the short to medium term. Absorption trends in the city have been high with negligible un-sold stock in under-construction supply and high absorption levels of more than 80%, at a cumulative stock level (which includes completed and under-construction stock).

The capital values have witnessed an upward trend during the last three quarters of 2010. Capital values range from INR 7,800 -14,000/sq ft in Central Bangalore to INR 2,500 – 3,200/sq ft in East Bangalore.

CHENNAI

Office Overview

The office segment in Chennai witnessed notable improvement in demand for small and medium size office spaces. Occupier interest in SEZ developments have contributed to a significant rise in absorption level in the Suburban Business District (SBD) of Velachery, Perungudi and Mount Poonamallee Road.

The total cumulative supply of commercial office space witnessed in the city has been almost 40 million sq ft till the end of 2010.

Market sentiment does seem rejuvenated in view of the absorption trend and given the existing enquiry levels and demand pipeline, 2011 could witness a further increase in transaction velocity. However, a large supply (especially in the suburban and peripheral markets) requires developers to act with caution on any proposed rental increments.

During 2010, rental values across all micro markets remained stable, except the non CBD micro market of MRC Nagar, Guindy and Taramani which witnessed some level of rationalization in rental values in a range of 1- 2% y-o-y, primarily due to limited activity levels as compared to the immediate suburban micro markets.

Retail Overview

As compared to the last few years, the retail market in Chennai has now observed significant improvement in demand and supply situation. Developers are now complementing this recovery by ensuring quicker delivery of projects. However, various high street locations still face a dearth of quality supply compared to the rising demand in each micro market.

Two shopping malls, namely 'Express Avenue' and 'Ampa Skywalk', both located near the city centre, became a platform for numerous brands to establish their presence for the first time in the city. Footfalls and revenue generation across all formats in these malls has been substantial for various retailers, thus paving the way for a large number of premium and upmarket brands to take up space as well.

Chennai has a total retail stock of more than 1.7 million sq ft by the end of 2010. The market is likely to witness an influx of supply in the coming year which is

expected to stabilize the retail rentals (especially in mall properties) in the long run. The rental values in high street areas such as Nungambakkam, Adyar and Alwarpet were recorded at INR 100 – 150 /sq ft/month, while in the organized segment the rental range varied between INR 150 – 200 /sq ft/month.

Additionally, three large size destination malls namely, Phoenix market city at Velacheri (around 1 million sq ft); Junction mall at OMR (around 600,000 sq ft) and Vijaya Forum Mall at Vadapalani (around 500,000 sq ft) are expected to hit the market before the end of 2012, providing a great platform for both the international and domestic retailers.

Residential Overview

Following the slump in 2009, the residential real estate segment in Chennai has been on the path of recovery. During the later part of the year 2010, despite growing demand, values have remained fairly stable with marginal appreciation for developments in suburban and peripheral locations due to availability of enormous supply in the market. Chennai continued to observe sustained real estate demand, mostly led by a surge in the knowledge sector comprising the IT and BPO led businesses and the industrial activity. Approximately 18,000 dwelling units were introduced into the city in 2010.

Residential activity in Chennai has traditionally been concentrated in the Central zone (Egmore, Nungambakkam, T Nagar, etc) and Eastern zone (Alwarpet, Mylapore, MRC Nagar, etc.) due to proximity to the CBD. However, in line with the IT/ITeS growth and industrial activities in the South and West zones respectively, residential demand has seen a shift from the traditional hubs to suburban and peripheral areas comprising of Mogappair & Ambattur (OMR).

Central and Eastern zones have been characterized by limited land availability and higher capital values primarily catering to the mid to high income groups. Limited supply of new apartments owing to negligible land availability for new/redevelopment activity is expected to result in increase in capital values in these zones.

South Zone is considered as most active residential market in Chennai on account of the demand from housing from the working populace in Old Mahabalipuram Road (OMR) (the designated IT corridor of Chennai), Oragadam, NH-4 and NH-45. Mini-townships such as DLF Garden City, Unitech 'North town', Arun Excello

'Temple greens' etc have evinced significant interest from prospective buyers/investor and are gaining popularity in this micro market.

Vandalur-Kelambakkam Road in South Chennai, Oragadam in West Chennai are some of the notable upcoming investment destinations in Chennai and a number of projects such as Cosmo City by Provident Housing, Park Avenue by Vijayashanthi Builders, Tata Housing 'Crescent Lake Homes', ETA Star 'Globeville', amongst others are some of the notable projects in these regions that have been launched recently.

Residential apartment projects particularly across the budget segment housing have witnessed an increase in transaction velocity primarily during 2010. This has been primarily due to developers launching projects at competitive prices and additionally giving a discount of 10 -15% as launch offer during the initial periods.

The capital values witnessed in the prime residential areas such as Nungambakkam, Anna Nagar, Mylapore, Adayar, etc. range between INR 8,000 – 15,000/sq ft, while peripheral locations such as the OMR has exhibited capital values in the range of INR 2,500 – 3,500/sq ft.

INDIA MARKET OUTLOOK

Stakeholders would have to balance the hike in interest rates, large supply and escalating prices with untapped demand for quality real estate across major cities as well as smaller cities. The following outlook presents a brief understanding of the way markets might behave in the coming short to medium term.

	2010			2011		
	Commercial	Retail	Residential	Commercial	Retail	Residential
Transaction Quantum	↑	↑	↑	↑	↑	↑
Absorption Rate	↑	↑	↑	↑	↑	↔
Price Fluctuation	→	→	↗	↗	↗	↗

Residential Outlook

Amongst the key challenges being faced by the residential segment is the issue of rising prices in major urban areas, as a direct consequence of speculative interest having entered the markets of Delhi and Mumbai. This has impacted sales activity as end users have been moving away from the market.

- India as a residential destination will witness a major challenge in the form of rising prices in major urban locations. This is a direct consequence of speculative interest having entered major markets. This will impact sales activity as end users might be deferred away from the market
- The bribe for loan scam is expected to tighten project funding from banks and financing institutions. Although developers will try to opt for alternative arrangements like PE funds or IPOs, this is still expected to put liquidity pressures on certain developers. This might result into developers promoting reduced price points to encourage sales
- Developers will continue to shift focus from affordable and mid segment product type to premium/luxury/high income housing in a short to medium term. However, demand for premium is expected to remain limited and this product shift might not generate adequate response from buyers especially in non-prime locations like peripheral markets

- Prime locations like South Delhi, South Mumbai will continue to be in high demand, with premium properties witnessing low vacancy levels and a healthy resale market (amidst negligible new supply additions). This would ensure that residential prices in the prime city will continue to command higher premiums and maintain a northward trend in a short to medium term
- Suburban locations and other non-prime residential pockets will witness impact of price hikes and mortgage rate fluctuations on transaction activity. Any further increments in pricing will deter investors and end users alike, resulting into lower sales, thereby increasing vacancy pressures on major suburban and secondary locations like Gurgaon, Thane, Navi Mumbai, Malad, Powai and Goregaon

Office Outlook

- India office market will continue to be dictated by the demand-supply dynamics in different micro-markets of the city, each inching on a different trajectory, whilst being governed by economic growth and corporate expansion plans
- Transaction volumes will continue to increase and so will the absorption rates. Corporate expansion plans will continue to offer opportunities for prime city office stock
- Demand for Grade A office property at prime locations will continue to be high, with new supply additions in key locations like the CBD of Delhi or BKC in Mumbai witnessing healthy absorption. This might lead to further rental appreciation in CBD (prime city) in a short to medium term
- Suburbs like Gurgaon, Noida, Malad, Powai, Thane and Navi Mumbai would witness large supply pipeline, hence, rents might remain largely stable or even witness marginal correction in a short to medium term. However, this rental correction will be largely supply driven and might not be as steep as witnessed post the downturn in 2009

Retail Outlook

- An increase in enquiries from retailers would continue next year as well and the clear focus would be on Grade A mall developments and prime high street locations. Many international brands are evaluating entry into prime

locations in cities like Mumbai and Delhi, a positive impact on demand levels

- Market segmentation can be expected, wherein better performing malls like Select City Walk in Delhi and Palladium and High Street Phoenix in Mumbai will continue to attract demand, owing to their layouts, professional mall management practices and ability to attract shoppers. Other Grade B developments will continue to witness high vacancy levels and pressures from retailers for rental negotiation in the short to medium term
- Supply of quality high street space would be limited, leading to landlords in high street retail destinations like Khan Market, Connaught Place, Linking Road and Colaba to continue to quote high rentals in the short term
- Rental consolidation will be limited to better performing mall properties, while rental negotiation and a combination of minimum guarantee and revenue sharing will continue elsewhere in the short to medium term

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About American Chamber of Commerce In India

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