

# CBRE Global In-Sights: The India Outlook

Presentation by:

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**Global Chief Economist**

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All Global In-Sight presentations are recorded  
and available at [www.cbre.com/research](http://www.cbre.com/research)



## Anshuman Magazine

Mr. Magazine is based in New Delhi, and is the Chairman & Managing Director, CB Richard Ellis, South Asia. He was instrumental in setting up the India operations for CBRE, 14 years ago. Anshuman is considered one of the pioneers of Real Estate Consultancy in India. Under his guidance the company has completed over 850 Consulting & valuation assignments undertaken in 85 cities in the Indian sub continent, transacted more than 30 million sq.ft. of space, has a portfolio of approximately 60 million sq.ft. of space under Properties & Facilities Management and has provided project Management services for over 41 million sq.ft. He continues to be a key advisor to several large international financial institutions and Private Equity funds for their investments in the Indian Real Estate Market.

Today CBRE has a presence in over 50 locations and experience of executing projects in over 70 cities in India, with a strength of over 1400 employees.

Anshuman is also a member of the Asia Pacific Strategic Group within CB Richard Ellis.



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## Rami Kaushal

Mr. Kaushal is based in New Delhi, and is currently heading the Consulting and Valuation Team at CB Richard Ellis South Asia . He is responsible for the team's activities in the Indian subcontinent and has over ten years of experience in advising clients across an array of real estate projects and sectors. In the past he has successfully advised various local governments on asset disinvestments, optimal utilization of non performing assets etc.

Over the last few years he has worked very closely with various institutional and private investors on various facets of real estate investments such as assistance in raising funds, identification of investment opportunities, pre investment due diligence and so on.



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## Andrew Ness

Andrew Ness is Head of CBRE Research for Asia. Andrew has direct oversight over CBRE's research operations in the Asian region, and in ensuring that research is deployed to support the Company's business throughout Asia with respect to promoting business development, managing of client relationships and raising corporate media exposure.



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## Raymond Torto, PhD, CRE

Ray Torto is CBRE's Global Chief Economist. He directs CBRE's worldwide team of commercial real estate market analysts and serves as the firm's primary spokesperson on macro economic issues and the global commercial real estate market.

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## Agenda



- **Indian property market in the context of Asia**
- **Macro economics scenario**
- **Real Estate Landscape**
- **Real Estate Investment**
- **Recent Major Deals**

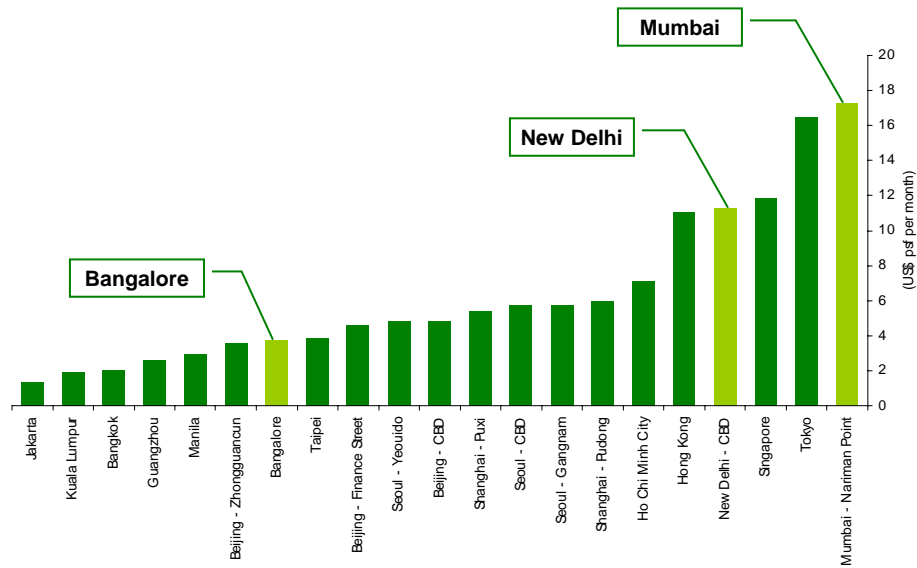
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## Section 1

# Indian property market in the context of Asia

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## Asian Office Rental Levels (Q2 2008)



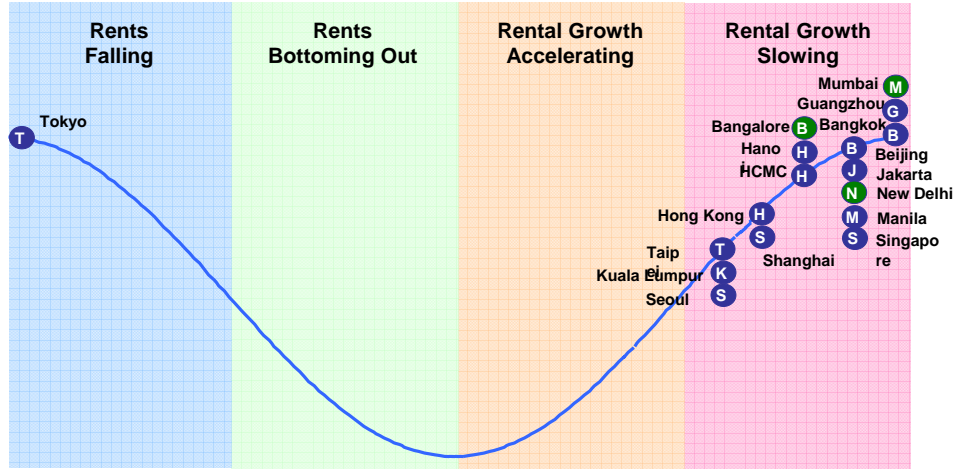
Note: Total occupancy cost on net floor area basis, including all occupation expenses.

Source: CBRE Research

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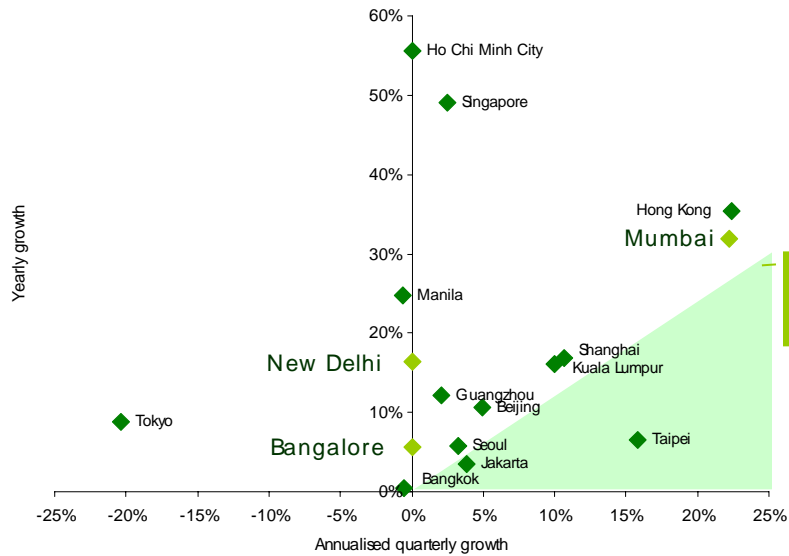
# Asia - Office Rental Trends Overview

Office Rental Cycle as at Q2 2008

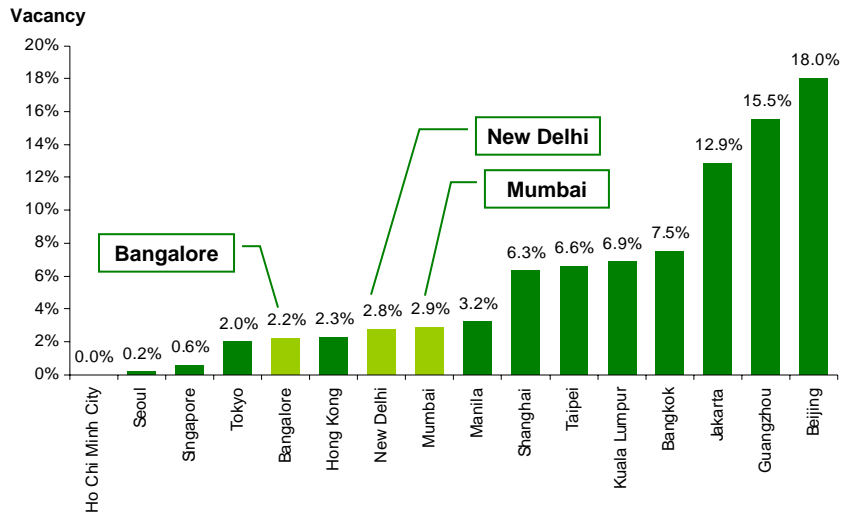


NB. The markets do not necessarily move along the curve in the same direction or at the same speed

## Yearly rental growth vs Annualised quarterly growth (Q2 08)



## Office Vacancies Largely Remain Low (Q2 2008)



Source: CBRE Research

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## Section 2

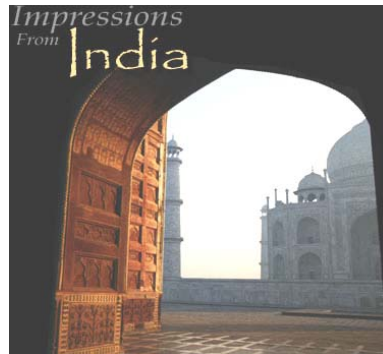
### Macro Economic Scenario

Continued optimism...

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## India - A Bird's Eye View

- 4<sup>th</sup> largest economy as per PPP terms
- Joined the elite club of 12 countries with a trillion dollar economy
- 220 of the Fortune 500 companies present in India
- 300 million strong 'Middle Class' fueling future growth
- 50% below the age of 25 years, median age 24 years
- US\$ 27 Billion foreign remittance in 2007 (highest in Asia) – *World Bank*
- Second most attractive Foreign Direct Investment (FDI) location globally – *A. T Kearney*
- Accounts 65-70 % of the global offshoring pie - *Gartner*

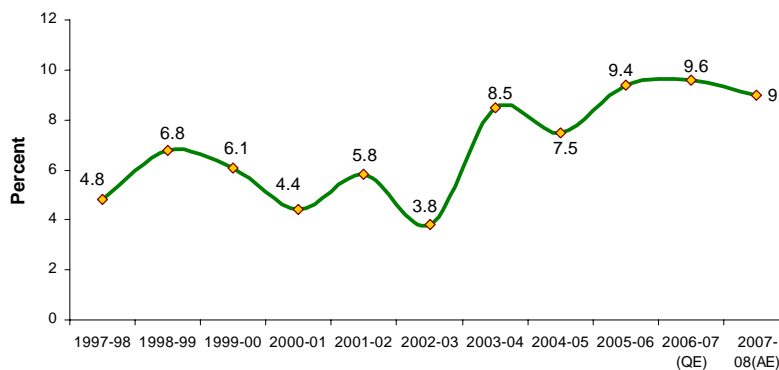


### QUICK FACTS

- Land area – 3.16 million sq.kms.
- Capital – New Delhi
- Political System – Bicameral Parliament
- Population – 1.1 bn (2007 estimate)
- Literacy rate – 65% (2001 Census)

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## Bouyant Economic Growth



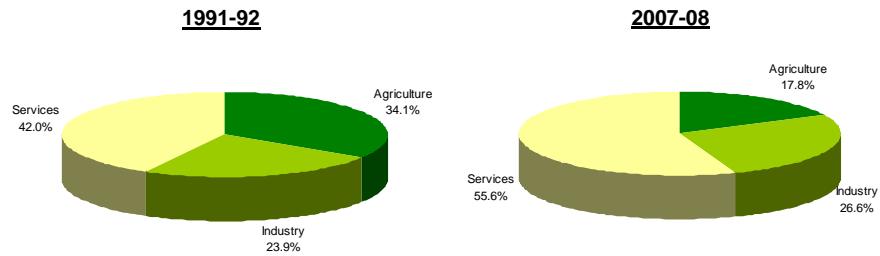
Source: Central Statistical Organisation

QE - Quick Estimates AE - Advance Estimates

- The economy has clocked above 8.5% average growth rate for the last 5 years
- Fastest GDP growth in 2006-07 (in the last 18 years, at constant prices)
- Second fastest growing economy, after China in 2006-07
- *Recent moderation – a cyclical downturn...?*

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## Change in GDP composition



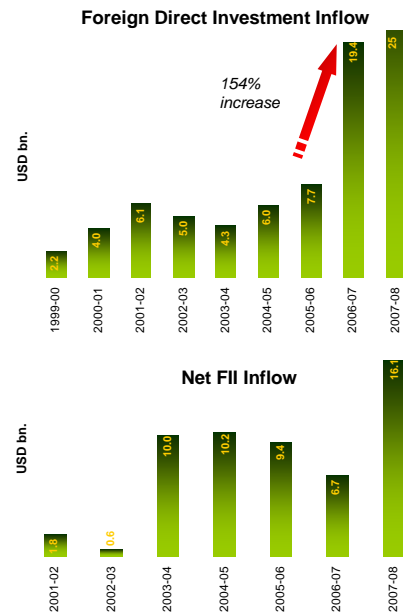
Source: Reserve Bank of India, Economic Survey of India 2006-07

- Rapid transformation from a primary, agriculture-based economy
- Booming services and industry sector providing future growth impetus

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## Attractive investment destination

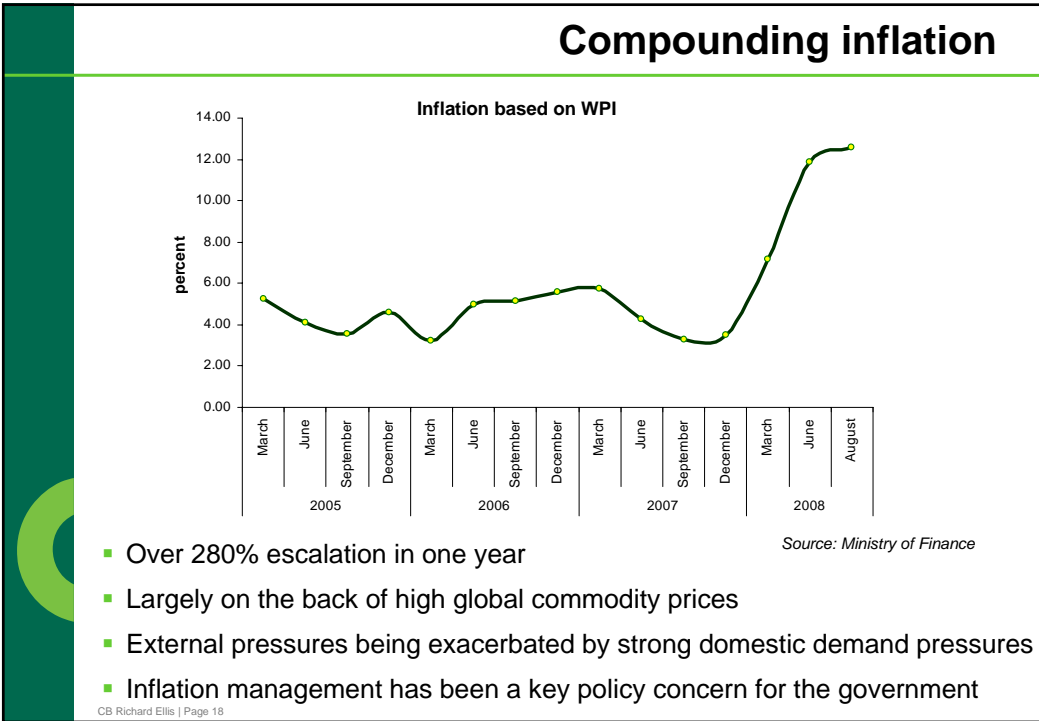
- Improved performance on PE ratio and ROE has pulled large investments into the country
- Large FII activity inflow had led to an upsurge in the Sensex
- *Influx of hot money...?*



Source: Reserve Bank of India, DIPP

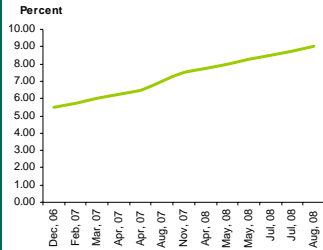
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However, some plaguing concerns...

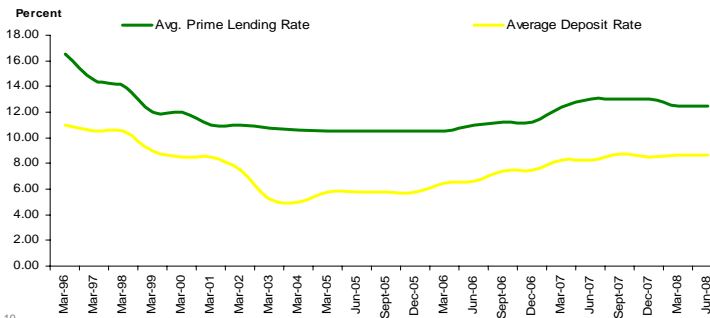


## Tightening monetary measures

### Cash Reserve Ratio



- During the current FY, CRR increased by 150 basis points and repo rate by 100 basis points to reach 9%
- Tight monetary policy stance to continue till double-digit inflation is quelled
- Increase in interest rates foreseen to impact investment momentum and corporate cash flows



Source: Ministry of Finance

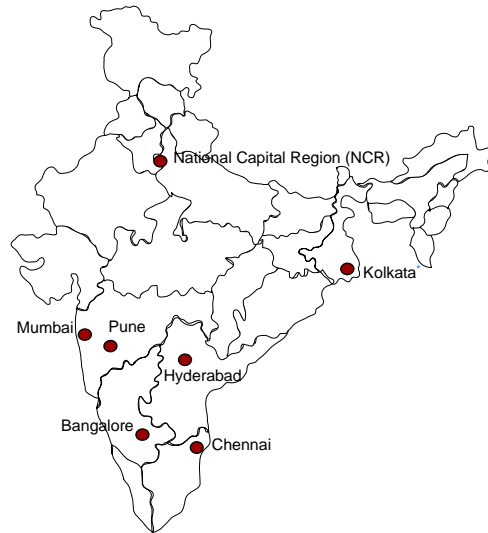
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## Section 3

### Real Estate Landscape

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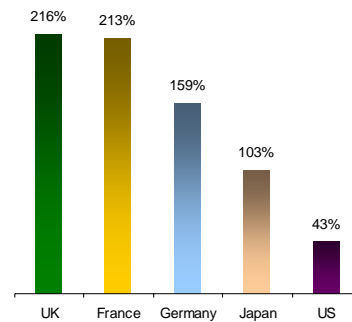
## Key Economic & Real Estate Centers



### Increasing urbanisation

- India to add 131m people to its urban population over 2007-2020, urbanization reaching 34.3% from 29.2% in 2007

### Addition to urban India population as % of current population of some countries

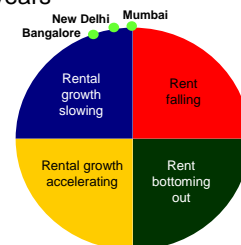


Source: UN Population Division

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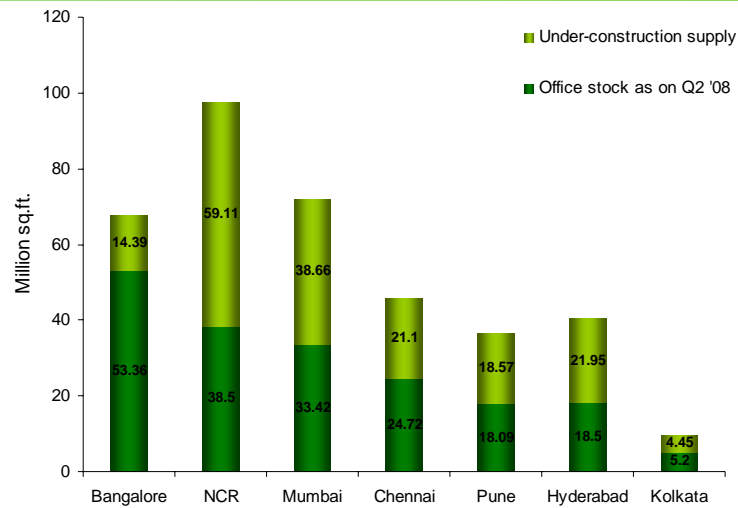
## Office Market Overview

- Close to 30% y-o-y growth in absorption over the last 3 years
- Over 75% of the demand emanating from IT/ITeS industry.
- Cumulative demand projection by 2011-12 ~ 250 million sft.
  - However, subdued demand over the last two quarters
- Rentals and prices appreciated by as much as 40% in last 2 years
  - Stable values since last two quarters
  - Rentals and capital values currently under pressure
- Improvement in supply conditions in the last 12 months
  - Substantial Grade A additions
  - Growth of office stock within Special Economic Zones (SEZs)
- Emergence of alternative locations (tier II-III cities)



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## Office Stock and Supply

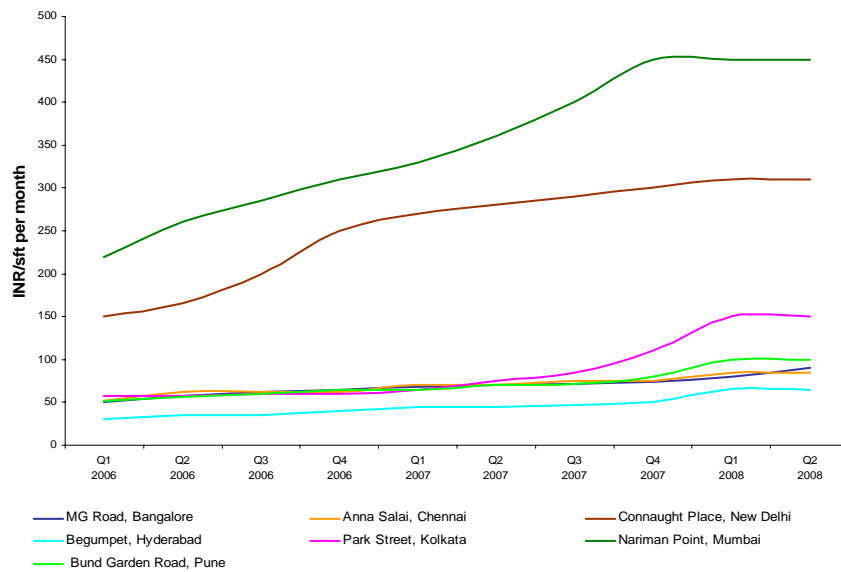


Source: CBRE Research

- Current office space stock (7 cities) ~ 190 million sq.ft.
- Addition to the stock (next 3 years) ~ 178 million sq.ft. (including SEZ supply)

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## Prime Office Rentals



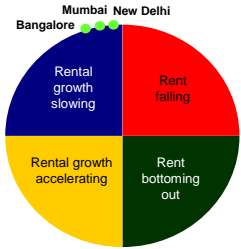
Note: The above values are quoted rentals for office premises in prime locations

Source: CBRE Research

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# Retail Market Overview

- Consumer spending increased by over 75% in last 4 years
- Retail market currently valued at \$ 511 bn – to grow to \$ 833 bn in next 5 years
- Organised retail currently 5% of the total; 12% by 2013
- Restructuring and new business models
- Luxury retail gaining critical mass
- Retail action moving into smaller, less competitive cities
- FDI in Retail only allowed since 2005
  - 51% allowed under the automatic route for single brand retail
  - 100% allowed for wholesale cash-and-carry retail

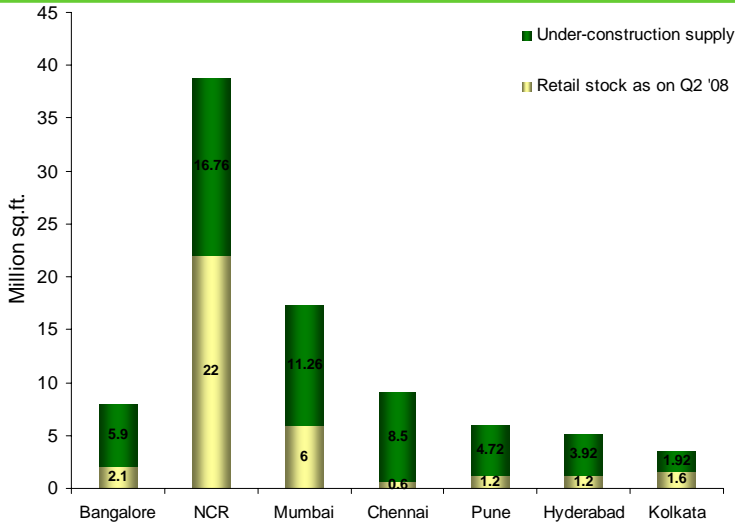


**Challenges for the International Retailer**

- Restrictive regulations
- Soaring real estate costs
- Competition from the domestic retailers

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# Retail Stock and Supply

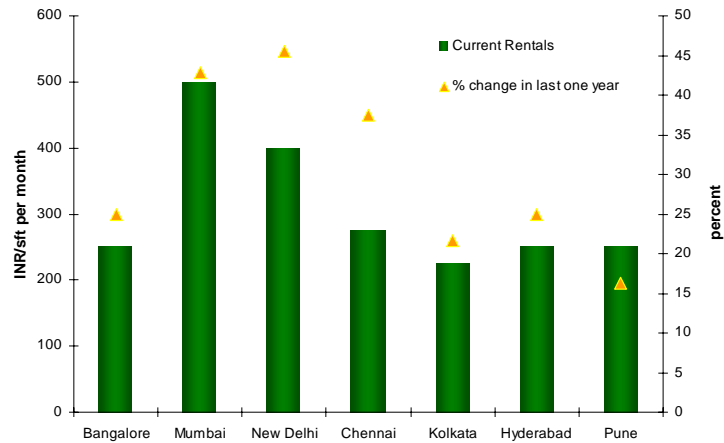


Source: CBRE Research

- Current retail space stock (7 cities) ~ 35 million sq.ft.
- Addition to the stock (next 3 years) ~ 52 million sq.ft

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## Prime Retail Rentals



*Note: The above are quoted rentals for 'last rented' space in malls in prime locations*

Source: CBRE Research

- Rental values under pressure on account of incremental supply, subdued demand
  - *Some locations have witnessed a decline between the last 2 quarters*
- Well planned malls in key locations unlikely to witness change in values or demand

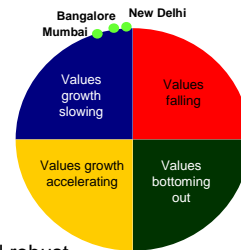
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## Residential Market Overview

- Accounting for almost 80% of current real estate development (by area) across India

### Key drivers

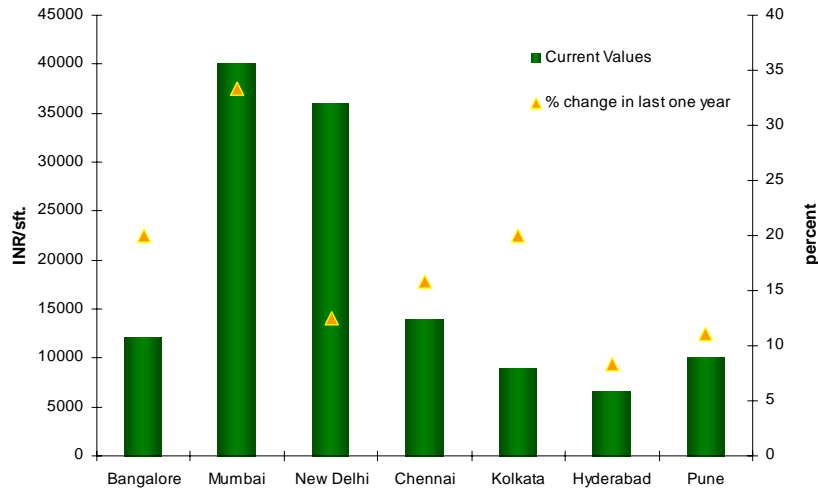
- Rapid urbanization
- Increase in number of households
- Rising disposable incomes, improving affordability
- Increasing availability of housing finance



- Marked drop in sales for premium housing; Mid-segment demand still robust
- Hardening of mortgage rates and high values have led to a slowdown in transaction volumes
- Demand sentiments muted – buyers have adopted a 'Wait-and-watch' stance
- Slowdown in offtake, rising construction costs and inflationary pressures have impacted developer's topline
- Enhanced product offering

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## Prime Residential Values



*Note: The above are quoted values for residential space in prime locations*

Source: CBRE Research

- Values have appreciated by as high as 150% in last 2 years
- However, stabilization or minimal appreciation since the last two quarters

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## Recent Thrust Areas

### Free Trade and Warehousing Zones (FTWZs) & Logistics

- Key growth areas due to economic growth underway
- Low entry barriers for logistics sector - high interest from foreign entities
- Indian logistics players reorganizing operations

### Special Economic Zones (SEZs)

- Sector specific (particularly IT/ITeS) on the radar of foreign investors
- Action witnessed across key office locations

### Healthcare

- Indian healthcare segment growing at a CAGR of 16%
- ~ 90% of the future investment requirement to come from the private sector
- Emerging segments – Health cities, Hospotels, Medical tourism

### Infrastructure

- ~\$500 bn required for upgradation
- Opportunity in Greenfield Airports and Mass Rapid Transport Systems
- Revamping of road networks and advent of expressways
- Increased private sector participation

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## Real Estate Investment

## Foreign Direct Investment Guidelines

- FDI allowed up to 100% under the automatic route in townships, housing, built-up infrastructure and construction-development projects

Includes, but is not restricted to

- *Commercial premises, Special Economic Zones (SEZ), Industrial Parks*
- *Hotels, resorts*
- *Hospitals, educational institutions, recreational facilities, city/regional level infrastructure*

### Development conditions

- Minimum 10 hectares/ 25 acres area to be developed for serviced housing plots
- Other construction-development projects, minimum built-up area of 50,000 sq mts prescribed
- Combination project - any one condition to suffice
- At least 50% of project to be developed within 5 years from date of statutory clearances

### Investment conditions

- Minimum capitalization of \$10 million (wholly owned subsidiary) and \$5 million (joint venture with Indian partner)
- Infusion of funds within 6 months of commencement of business
- Original investment cannot be repatriated prior to 3 years from completion of minimum capitalization - early exit permitted with prior Government approval

## Investment Routes

### Equity Partnerships (Entity Level)

- Vipul - Wachovia
- I-Venture and Tishman Speyer
- Keppel and Puravankara
- Emaar and MGF group
- Oberoi Constructions & Morgan Stanley Real Estate

### Independent Developments

- IJM Group developing townships across Andhra Pradesh

### Public-Private Partnerships

- Saleem-Ciputra Group – structured land sale with WB for township development

### Joint Venture (JV Projects)

- IREO and Panchshil Group
- DLF and Nakheel
- GE Real Estate and Ascendas for development of IT Parks
- Unitech and Lehman & Deutsche Bank

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## Macro issues impacting real estate

- High Interest and inflation rates
- Reserve Bank of India (RBI) measures to check speculation
  - Increased risk weightage on banks' exposure to the commercial real estate
  - Provisioning requirement raised from 1% to 2%
  - Mandatory for commercial banks to advance loans only if all building approvals and sanctions have been obtained
- Developers facing severe liquidity issues
  - Debt funding is both expensive and difficult to source
  - Preference for equity funding over past 6-12 months
- Ban on External Commercial Borrowing (ECB) for the real estate sector (intergrated townships)
  - Likely to be lifted shortly
- Real Estate Mutual Funds guidelines have been approved ~ most financial institutions in the process of setting up REMFs

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## Key Challenges

- Land title and ownership issues
- Complex entity structures
- High transaction costs
- Entry Valuations
- Delay in project completions
- Limited exit options
- Governance issues
- Lack of information – low transparency



*Picture courtesy : www.reuters.com*

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## Looking ahead

- Sector to continue to have long-term perspective and benefits
- Rationalization/ correction in values in the medium term
- Technology sector to continue to fuel office space demand
- Budget/ Mid-segment housing projects to become the new mantra
- Further relaxation of the FDI norms for retail to open avenues for foreign chains
- Persistent foreign interest – investors, developers, funds, etc.
- REMFs & REITs to bring in institutionalization of the sector

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## Recent Major Deals

## Notable Transactions 1H 2008

### Commercial Land, Noida, National Capital Region (NCR)

Transaction Details  
 Seller: Noida Development Authority  
 Buyer: Business Park Town Planners

Transaction date: March 2008  
 Sales price: US\$1246.26 M  
 Unit Rate: NA

**Auction, largest land deal**



Seawoods Railway Station, Navi Mumbai

Transaction Details  
 Seller: City and Industrial Development Corporation of Maharashtra (CIDCO)  
 Buyer: Larsen & Toubro

Transaction date: Feb 2008  
 Sales price: US \$449.40 M  
 Unit Rate: NA

**Integrated Commercial Complex at a railway station**

### Hindustan Composite, Vikhroli, Mumbai

Transaction Details  
 Seller: Hindustan Composite  
 Buyer: K Raheja Universal

Transaction date: May 2008  
 Sales price: US \$151.34  
 Unit Rate: NA

**Industrial plot with a good frontage**

## CBRE India – Market leader !!

- Year of Establishment: 1994 (The first Real Estate Consulting firm to set up operations in India)
- Presence in Cities: 50+ (Full offices in 7 cities)
- No. of full-time employees: 1300 +

