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India Notes

India GDP

A strong surprise from the Q3 GDP report, with the 7.9% announcement was 1.6 percentage points higher than the market consensus. The pickup in GDP growth to 7.9% vs. Q2's 6.1% marked the fastest pace of acceleration in the y/y rate since 2005. With the already known about rebound in the manufacturing sector, the upward surprise was therefore driven by better-than expected news re-acceleration of the community and social services output. The Agricultural sector also helped in the positive as the impact of the less rainfall was not as severe as expected.

RICS Report predicts optimisim in India as distress reduces

The latest Global Distressed Property Monitor from RICS shows that distressed properties coming to market are continuing to rise across all but 4 of the 25 countries surveyed although there were some improving signs compared to the previous quarter. The Indian survey revealed positive news as agents expected significantly lower distress to emerge in the coming quarters

More DRHPs queues; Proposed IPO pipeline now totals ~$4bn

As many as 11 realty companies have filed their DRHPs with SEBI (of which three have filed in the last week) looking to garner ~Rs 190bn (US$4.1bn) from the primary markets. With the Dubai debt situation coming to the surface, aggressively priced IPOs may feel the heat. Godrej properties the first of the expected IPO's was oversubscribed on an aggregated basis 4 times as the qualified institutional buyers portion was subscribed 5.5 times, while the retail portion was subscribed 0.36 times

Fear of excess grips the affordable housing segment

Research data highlights that developers who had hurried into this segment, to improve their cash flows at a time when high-end resi segment was suffering, are sitting with >40% unsold stock. Of ~0.1mn units that were launched between Nov08-Oct09, only 57% found buyers.

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Economy & Markets

Macro Economic Policy

The quarterly GDP announcement came as a big positive surprise to all GDP watchers. The Analysts and the markets were looking for a 6.3% year-on-year rise, GDP actually jumped 7.9% (up from 6.1% in April-June).

This is the strongest figure since the January-March quarter of 2008, with a seasonally adjusted quarter-on-quarter rise in GDP of 3.3% (13.9% annualised). This is the biggest rise the Indian economy has seen since the quarterly data began in 1996.

The breakdown of the release showed agricultural GDP rising 0.9% year-on-year, which in turn implies that ex-agricultural GDP was up 9% from 6.9% in the previous quarter. The improvement in ex-agricultural growth was driven both by manufacturing, where growth leapt from 3.4% to 9.2%, as well as services (9.3% from 7.8%). Manufacturing was expected to show strong growth numbers but what came as a big surprise were services. The growth in "community, personal and social services" all but doubled to 12.7% from 6.8%. This is typically related to government spending. Financial services actually saw growth slip to 7.7% from 8.1%, while "trade, hotels, transport and communication" registered 8.5% growth, up modestly from 8.1% previously.

This release will inevitably lead to a raft of upward revisions both to this year's growth forecast as well as those for 2010/11.

Impact of Dubai Debacle on India

India has no significant direct financial exposure to the Dubai markets. However the Middle East flows indirectly impact Indian markets quite significantly as Indians living in the Gulf remitted USD27bn in 2007 Roughly 4.5 million Indians live and work in the Gulf of which 2 million are in the UAE.

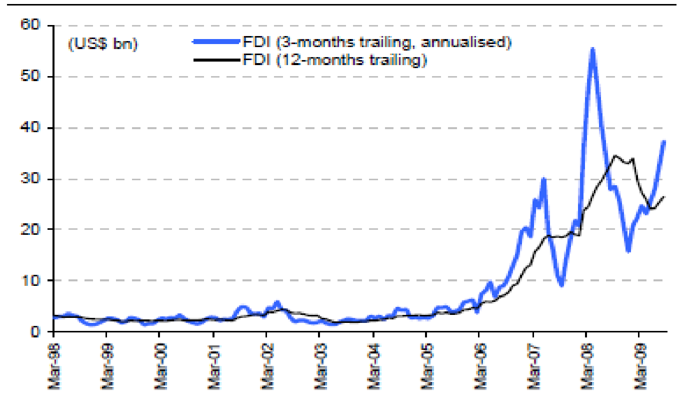
If it is assumed that 1.5 million of those are based in Dubai then in the absolute worst case scenario, where all remittances stopped, about USD 9bn of inflows would be lost (1.5/4.5*USD27bn). This is equivalent to 0.7% of GDP

Analysts and economy watchers are not significantly concerned about the direct and indirect impact however there is a constant watch on the developments in the Dubai markets.

India FDI Flows emerging from the troughs

Along with the improvement in the global sentiment for business investments, FDI inflows to emerging markets and more specifically to India have also started to recover quickly. The trailing three-month sum of Gross FDI inflows into India has shot up to US$9.3 billion (annualized rate of US$37.3 billion) as of August 2009 from the trough of US$3.9 billion (annualized rate of US$15.8 billion) in December 2008.

India: Gross FDI Inflows



Source: Ministry of Commerce and Industry, CEIC, Morgan Stanley Research

If the current trend is maintained in the rest of the calendar year, total FDI in 2009 could reach very close to the high of US$33 billion reached in 2008. If reinvested earnings were to be included (to make the FDI data comparable to that of other countries), the total FDI inflows in 2009 could reach about US$40 billion (3.4% of GDP) compared with US$41.2 billion in 2008.

Asia and India are climbing up the Ranks

According to UNCTAD data, the share of developed economies in global FDI flows has dropped to 57% as of 2008 from 81% as of 2000. On the other hand, the share of developing economies increased to 37% as of 2008 from 18% during the same period. The share of Asia in global FDI flows has increased to 23% as of 2008 from 11% as of 2000 and only 1% as of 1980.

Within Asia, over the last few years India has steadily improved its position in attracting FDI investments. India's share in FDI inflows into Asia has increased to 10.6% in 2008 from 2.4% in 2000. India's share in global FDI flows improved significantly to 2.4% in 2008 from 1.3% in 2007 and 0.3% in 2000. From being ranked 36th in the world on FDI inflows in 2000, India has improved its rank to 20th in 2007. As per the UNCTAD survey, India is third in global ranking after China and the US for potential FDI investments during 2009-2011. Moreover, if FDI flows are measured as a percentage of GDP, India is already receiving more inflows than Brazil, China and US

RICS points at market Recovery in Indian Real estate

The latest Global Distressed Property Monitor from RICS shows that distressed properties coming to market are continuing to rise across all but 4 of the 25 countries surveyed although there were some improving signs compared to the previous quarter. The pace of increase has moderated across the majority of markets compared to Q2 2009. This was generally the case outside of Japan and some Western European markets such as Portugal, France and Switzerland.

For Q3, RICS members and other real estate executives continued to report an increasing volume of distressed commercial listings with the biggest reported pick up in the net balance compared to three months earlier seen in South Africa, US, Portugal and France. At the bottom end of the scale China, Hong Kong and Brazil reported a decline in the number of distressed properties coming to market compared to three months earlier.

Looking ahead, real estate professionals continue to expect a rise in distressed properties hitting the market into Q4 2009, across 19 of the 25 countries surveyed. Russia, US, Spain and Ireland , are expected to see the biggest rise compared to three months earlier, with New Zealand, Italy, Malaysia and Germany next in line. At the other end of the spectrum , agents in Brazil, Hong Kong and India are more optimistic and expect that fewer distressed assets will be listed in Q4.At the other end of the spectrum , agents in Brazil, Hong Kong and India are more optimistic and expect that fewer distressed assets will be listed in Q4.

Real Estate Market Update

Residential- Volumes remain healthy despite price inflation

Mid income residential projects continue to witness healthy demand, while luxury housing too has shown signs of revival with increased number of transactions. New launches/existing projects under the luxury segment have witnessed decent buyer interest. Key high end projects which have witnessed strong activity over the last few weeks include Indiabulls Sky, Primero in Lower parel, Raheja's Viveria in Mumbai, and DLF's SBM Mills/ Magnolias in Gurgaon.

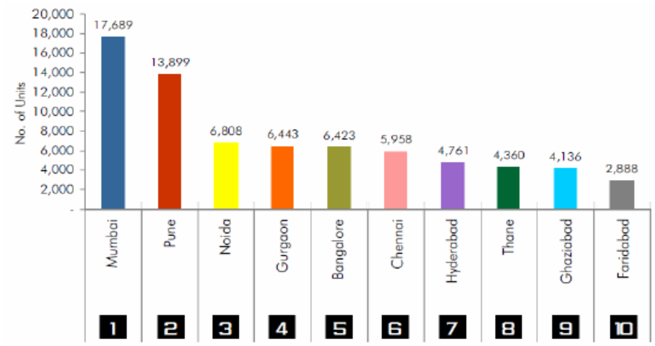
Overall, volume recovery in the residential segment has primarily been driven by improved affordability on the back of aggressive price cuts and reduction in mortgage rate. Prices after witnessing a sharp downward trend (down 25%-35% from peak) have now stopped falling and have shown signs of increase. Residential prices have strengthened by 10-25% over the last quarter driven by healthy demand recovery in selected markets witnessed. Even as prices have touched pre-crisis levels, end buyer interest remains fairly strong.

Inventory Check across key cities (Units priced under Rs3M)

Months	New launch	Cumulative supply	Absorption	Cumulative Absorption	Availability
Nov-09	3,883	3,883	534	534	3,349
Dec-09	5,421	9,304	1,079	1,613	7,691
Jan-09	21,794	31,098	3,775	5,388	25,710
Feb-09	6,668	37,766	3,182	8,570	29,196
Mar-09	12,008	49,774	5,030	13,600	36,174
Apr-09	5,944	55,718	5,179	18,779	36,939
May-09	16,763	72,481	14,008	32,787	39,694
Jun-09	9,459	81,940	7,685	40,472	41,468
Jul-09	6,271	88,211	4,338	44,810	43,401
Aug-09	8,991	97,202	6,318	51,128	46,074
Sep-09	3,926	101,128	3,824	54,952	46,176
Oct-09	4,509	105,637	5,512	60,464	45,173

Source: PropEquity, Business Standard (Cities included Mumbai, Gurgaon, Noida, Thane, Bangalore, Kolkata, Hyderabad and Pune)

Ranking of cities on the basis of total absorption during Jan-Jun09



Office: Leasing activity showing signs of revival

According to most International Property Consultants, demand for office space has shown signs of revival and rentals across markets seem to have bottomed out. A number of companies that had earlier adopted a "wait and watch" approach are now looking to lease space. While the overall sentiment has turned optimistic and there has been an increase in the number of enquiries, transaction closure remains low.

Demand revival so far has primarily been led by domestic corporate (telecom/banks), while IT/ITeS demand still remains subdued. As the global economic recovery takes firmer roots and off shoring demand improves, IT office demand should also start recovering. MNC IT firms like Accenture, IBM etc have witnessed increased deal signings under the off-shoring segment over the last quarter, which is expected to result in increased hiring/leasing activity.

Rentals for office space have already corrected by 30-40% from their peak levels and vacancy rates also remain high at over 10%-15% across key markets. However, even as the leasing activity is expected to pick up as reported enquiries convert into actual pre leases, rents are not expected to improve any time soon given a large near term supply overhang. Investment yields across markets have declined by 30-40bps and the trend is expected to continue on the back of reduced risk aversion. Ascendas India Trust's forward dividend yield has come down from a high of 13% to ~7.5% currently.

Retail- High Street showing signs of recovery

Retail rents have already corrected by 30-40% across key markets as new supply continues to outstrip the absorption levels in most markets. While enquiries have picked up to some extent, actual leasing activity still remains subdued. Retailers are extremely cautious about their expansion plans and are re-evaluating their existing and planned real estate portfolio. Developers who witnessed active pre-leasing early last year in under-construction malls are busy managing rental negotiation and tenant retention Further, due to high vacancy levels in existing/upcoming malls, developers have embarked on an aggressive marketing strategy and are willing to offer space at further discounts.

Demand slowdown coupled with significant supply pipeline is expected to increase the vacancy rates sharply to over 25% by 2009-end. This should continue to exert further downward pressure on rentals and the trend is unlikely to reverse until late 2010. Retailers and developers are looking at revenue share models for leases against a fixed rent structure. Incrementally most large retailers (Pantaloons, Shoppers Stop) seem to be guiding towards improving sales trends in the festive season. While improving retailer sentiment is an encouraging sign, it is still be too early to call for a full recovery in this segment. There is a good chance that high street retail may recover before large format driven by improved consumer spending and domestic demand linkages.

Revenue Share Structure

	Percentage of revenue as rent (%)
Hypermarket	3%-4%
Departmental Stores	7%-8%
Apparel	12%-18%
Footwear	15%-18%
Jewellery	2%-2.5%
Health and Beauty	10%-12%
Food	15%-20%
Entertainment	8%-10%

Source: ET