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**Economy Overview**

- WPI-based inflation rose to 6.1% in August 2013, up from 5.8% in July 2013, dragged by massive rise in price of food articles. The rise in inflation is also on account of the pass-through of fuel price increase, sharp depreciation of the rupee (which fell by 11.5% during August 2013) and rising international commodity price.
- Food inflation increased to 18.18% in August 2013, up from 11.91% in July 2013. During August 2013, the price of onions shot up by 245% YoY and that of other vegetables increased by 77% YoY. Further, prices of eggs, meat and fish were up by around 19% YoY.
- CPI based inflation stood at 9.5% in August 2013, which was slightly lower than July 2013.
- Non-food manufacturing inflation (core inflation) fell to 1.9% in August 2013, down from 2.4% in July 2013. The fall in core inflation is essentially owing to weak demand, despite the pass-through of the sharp increase in input cost into final product. In some products like metals, alloys and cement, prices are lower on a YoY basis indicating a deflationary trend that may discourage more investment.
- The latest inflation figure is more worrisome because it comes on the back of a sharp slowdown in GDP growth figures and private consumption demand which is also seriously slowing.
- The latest IIP (Index of Industrial Production) print of 2.6% provided some cheer in corporate and policy circles. It is likely to be seen as a bit of an aberration and not any conclusive indication of the beginning of a sustainable recovery.
- Indian service companies witnessed a sizable slump in over four years in September 2013. The HSBC Services PMI (Purchasing Managers' Index), slipped from 47.6 in August 2013 to 44.6 in September 2013, its weakest since April 2009. Activity at Indian services companies shrank at the fastest pace in more than four years last month, suggesting the slowdown in the economy and pointing towards a slower GDP growth during 2QFY14.
- According to the Union Finance Minister, P Chidambaram, the current account deficit (CAD) will be contained below USD 70 Bn during FY14. Further, the economy is likely to achieve a growth of 6-7% by next year.
- During the monetary policy in September 2013, the Reserve Bank of India (RBI) increased repo and reverse-repo rate by 25bps after keeping it constant for the last three months. The repo rate increased by 25bps to 7.5%, from the previous rate of 7.25% while the reverse repo rate was raised to 6.5%. The RBI also reduced the minimum daily maintenance of the cash reserve ratio (CRR) from 99% to 95% while keeping the cash reserve ratio (CRR) unchanged at 4%. The RBI had also reduced its Marginal Standing Facility (MSF) by 75bps from 10.25% to 9.50%. On 7 October 2013, the RBI further slashed the MSF rate by 50bps to 9% which is aimed towards improving liquidity in the system.
- This RE industry is negative about the repo rate increase by the RBI as it may dampen the buyer sentiments and affect the sales volumes. Housing demand generally goes up during the festive season and developers' major part of sales take place during this period. Further, the hike in repo rate would lead to increase in developers' finance cost and thereby affect their profit margin. On the other hand, few industry experts are of the view that despite the slowdown, there will be good demand as home buyers would be worried about interest rates moving further north and in turn further increasing property prices.
- The upward revision in repo rate by the RBI is likely to increase pressure on real estate developers to offer discounts in the upcoming festive season as they struggle to clear their inventory at a time when demand is tepid and interest rates are rising. Few developers are gifting gold coins with each booking while others are working on special (discounted) rates and even paying up stamp duty and waiving some charges.
- The Supreme Court has upheld the earlier Bombay High Court verdict that asked builders to pay 5% value-added tax (VAT) for sale of under-construction houses between 2006 and 2010 in Maharashtra. The Supreme Court had clubbed all 26 appeals under consideration on this issue together. Of these appeals, 14 were from Karnataka and 12 from Maharashtra. The verdict will mean that developers in states such as Maharashtra, Uttar Pradesh and Karnataka where VAT has been levied on such transactions will have to pay the charges.

**Residential Market Key Trends**

**City Top 7 Cities : Residential Market Key Trends**

**Mumbai**

Mumbai's residential RE market witnessed few new project launches in September 2013, mainly in areas such as Thane, Navi Mumbai and Worli. Both sales transactions and residential prices were flat on a MoM basis. Developers are holding back on their new launches mainly owing to cautious market sentiments, a case in point being that of Shapoorji Pallonji developers, wherein their new project launch has been deferred mainly owing to cautious market sentiments.

However, there was good traction in the re-sale residential market in September 2013, mainly in areas such as Koparkhane and Sanpada region in New Mumbai.

Post the RBI directive to discourage subvention schemes; RE developers are resorting to new innovative schemes to boost sales transactions. For instance, key developers such as Runwal (for their Elegante project at Andheri West) and Mayfair are offering schemes under which the home buyers are required to make an upfront payment of 20-25% at the time of booking and remaining amount is based on construction-linked payment after a moratorium period of two years. Further, developers are offering discounts in the range of 5-12% across projects at the time of concluding sales transactions. On the other hand, many developers are resorting to freebies and gifts to boost sales. While Lodha developers has offered discount of INR 2 Lac on spot booking for its 'Lodha Elite' project in Dombivli.

During September 2013, Mumbai's residential RE market witnessed the costliest apartment deal in the country, a sea-facing duplex in a Malabar Hill building was sold for INR 57 Cr. or around INR 1.35 Lac/sq.ft. The duplex in 'Darshan Apartments' on Mount Pleasant Road was sold to the Bulchandani, a prominent business family with interests in software, aluminium and real estate. The Bulchandani own three other duplexes in the same complex.

Largely backed by depreciation in rupee, enquiries from NRIs have been strong over the past couple of months. A case in point is that of Lodha Group's recently launched 'The Park' in Worli. This project witnessed an unprecedented interest with over 450 bookings worth over INR 25 Bn being received on the first day of the applications being accepted. Of the total bookings, INR 6.3 Bn (25% of the total bookings on the first day) were from NRIs across geographies like the USA and UAE.

**Delhi NCR**

The month of September continued to remain sluggish, in tune with the overall market sentiments and the onset of 'Shraad' period, considered inauspicious by many buyers. Although, there is a visible pipeline, developers are deferring new project launches while gauging the right time and clearing the pending approvals. New launches were witnessed in the New Gurgaon belt by the Assotech Limited and the Lotus Green Developers (recently founded by one of the promoters and the vice chairman of 'The 3C Group'), wherein private equity firm Red Ford Capital has lately invested approximately INR 365 Cr. in the form of unsecured non-convertible debentures (NCDs). Noida and its peripheral locations also witnessed a few launches, essentially by category B and C developers. The number of units launched across NCR has witnessed a sizable dip both on YoY basis and MoM basis.

Absorption number has also dropped in both the primary and secondary markets of NCR; and buyers are largely deferring their investment decisions in anticipation of better deals in the next couple of months around the festive occasion of Diwali. Certain parts of NCR, especially the highly speculative Dwarka Expressway belt, have witnessed downward revision of prices in the secondary markets. However, essentially only stressful sales are happening in the resale markets and investors are holding on to their investments. Capital values in the primary markets of NCR have remained stable on MoM basis.

Developers had been offering 'subvention' or '20:80' schemes, which entailed upfront disbursement to the developer, with no link to the stages of construction. Such schemes exposed banks and buyers to high risk. Hence, RBI had advised banks to link the housing loans closely with the construction stage, discouraging such upfront disbursement. However, as the structure of such schemes had attracted buyers, developers are seen to be offering innovative payment plans, with essentially the similar payment structure for the buyers, but instead of upfront disbursement bank would offer funds to developer in tranches. Developers in NCR are also seen to be offering PLPs (possession linked plans), which involve around 15-30% payment in the beginning and remaining 70-85% of amount during possession.

Going forward, we expect new launches and absorption to pick-up during late October and November, owing to the auspicious occasion of Diwali.

**Bangalore**

On an overall basis, Bangalore's residential RE market was stagnant; however, there was good momentum in the INR 50 – 75 Lac/unit segment largely backed by the demand from the end-user segment. Enquiries from NRIs continued to be robust with an increase in enquiries in the high-end/premium housing segment. However, home buyers are holding on to their purchases as they anticipate a further correction in residential RE prices. There were no new key launches during September 2013, mainly on account of the Pitru-paksha period (for this year from 18 September to 4 October 2013) which is considered as inauspicious by most individuals. Many developers have started offering increased fees to channel partners.

The Karnataka Government is drawing up a INR 2,100 Cr. project with loan assistance from the Asian Development Bank, to develop and upgrade eight city clusters around Bangalore to woo investment and ease the load on the State capital. As per the Urban Development Minister Vinay Kumar Sorake, the city clusters proposed to be developed are Nelamangala, Magadi, Anekal, Bidadi, Dabaspet, Harohalli, Devanahalli and Hoskote.

Southern conglomerate Shriram Group is poised to sell an 18% stake in its unlisted company Shriram Properties to a real estate fund of Tata Group for INR 600 Cr. The Tata fund is conducting due diligence ahead of the proposed investment, which is likely to close in the next 60 days. Shriram Group, which holds a 60% stake in the real estate developer, will bring its stake down to 42% after the deal. TPG (17%) and Starwood Capital and Walton Street Capital (together with 23%) own the remaining shares in Shriram Properties, which has delivered over 8.5 Mn. sq.ft. of built-up space and another 12.5 Mn. sq.ft. to be investors over the next 18 months. Shriram, which is planning an initial public offer to provide exits to these developers in the next 36 months, also has a pipeline of 46 Mn. sq.ft. Shriram is one of the few developers with zero debt and healthy cash reserves of INR 400 Cr. While the core markets of Shriram Properties are the southern metros, it also has a large project planned in Kolkata.

Industrial technology major Ingersoll Rand is working on a new 'Nano-like' concept for dwellings which will be small, affordable and sustainable. The average size of these homes would be around 250 sq.ft. and will be priced at INR 2 Lac/unit.

**Chennai**

The Chennai residential real estate largely remained subdued, which is in tune with the overall real estate trend in India. While various developers are deferring the new launches, few project launches were seen by category-A developers in the month of September 2013. Absorption remained stable on MoM basis; maximum demand falls in the mid-segment price band of INR 35 – 50 Lacs.

The average capital values have witnessed a slight correction over the span of last six months, as is reflected through the latest NHB Residex. Yet, the primary markets have either remained stable or have witnessed a slight uptrend during the past six months. Prices have essentially remained stable on MoM basis during the month of September 2013.

**Hyderabad**

Hyderabad's residential RE market was lack luster during September 2013 with no new major project launched and sluggish sales volumes. Historically, the period of Pitru-paksha (for this year from 18 September to 4 October 2013) sees low RE activity both in terms of new project launches and sales transactions. Further, most developers held on to new project launches mainly owing to low buyer confidence in the market. Key property exhibitions conducted by INADU and TV9 saw a muted response with lower walk-ins and sales transactions compared to previous exhibitions. While the enquiries from NRIs continued to be strong, the conversions remained low. We expect a pickup in new project launches and increase in sales transactions going forward particularly with the beginning of the festive season with Navratri in October 2013.

Hyderabad has been a centre of initiatives, especially for home buyers. The city is converting land records—one of the severe pain areas while authenticating ownership rights—into digital form. As per C Shekar Reddy, president, CREDAI-Andhra Pradesh, the property registration procedure would also be online. The city administration provided digital tablets to tehsildars of 16 mandals which would be used to update land records.

In a bid to bring in transparency, avoid delays and check corruption, the Greater Hyderabad Municipal Corporation (GHMC) has decided to integrate online building approvals with occupancy certificates and property tax assessment. As per GHMC officials, once the online application and approval system for building application starts, building permissions would be cleared in 15 days at circle and zonal-level (for buildings up to ground and four floors) and high-rise applications would be cleared in 30 days at the head office-level. Speedy approval process has been an industry demand for some time now.

SMR Holdings, a flagship company of SMR Builders, has announced the first phase of its gated community project, 'SMR Vinay Harmony Country', at Bandlaguda, Rajendra Nagar, near Andhra Pradesh Police Academy junction in Hyderabad. The project will be spread over 40 acres, with the first phase being built over five acres. In the first phase, about 8 Lac sq.ft. area will be constructed, while the second phase would comprise about 17 Lac sq.ft. area. The first phase will have two high-rise towers offering 407 apartments, comprising of 1BHK, 2BHK and 3BHK units ranging from 500 sq.ft./unit to 2,050 sq.ft. and priced at INR 3,000/sq.ft.

**Pune**

Pune's residential RE market witnessed subdued activity with no new major launches during September 2013 except the new phases of some ongoing projects. Sales transactions remained muted mainly owing to the Pitru-paksha period (for this year from 18 September to 4 October 2013) and lower buyer sentiments. With a view to boost sales and offload their unsold inventory, most developers have started offering discounts to home buyers. Further, few developers are offering schemes wherein the stamp duty is borne by the developer. With the onset of the festive season with Navratri in October, RE activity is likely to gain momentum with an increase in new project launches and sales transactions. Further, sales volumes are likely to be aided by the NRI demand going forward.

**Kolkata**

Kolkata real estate markets did not witness any significant activity during the month of September 2013, essentially because of the inauspicious time marked in the Bengali calendar (from August 18 to September 17, 2013) and the overall market slow-down. Last week of the month saw some new residential launches mostly by category-B developers in locations such as Rajarhat and Howrah-Mumbai Road, offering units in the price range of INR 2,200 – 4,500/sq.ft. A couple of residential projects were also launched in Narendrapur and Tollygunge at the approximate price points of INR 6,500/sq.ft. by Aadya Group and Start Light Group respectively. Prices remained largely stable on MoM basis during the month; however slight uptrend of approximately INR 100-150/sq.ft. is expected around the festival of Diwali. Residential absorption remained subdued, while focus was mainly seen in old Rajarhat, western peripheral Howrah-Mumbai belt and southern peripheral Narendrapur – Baraipur belt.

Recently, focus on the Howrah-Mumbai Road (NH-6) is noticeable where various developers will likely launch projects in near future. Various new launches are also expected in the Rajarhat region during second half of October.

Going forward, the absorption may pick-up around the festive occasion of Diwali, when developers are expected to offer attractive schemes on existing and new units.

Source : Secondary Market Source, ICICI PSGS Channel Sources

**Key Residential Project Launches**

	Project	Developer	Location	Capital Value (INR/sq.ft.)
Mumbai	The Park **	Lodha Developers	Worli	24,471
	Unhatched	Wadhwa Developers	Kolshet Road, Thane	8,750
	Seth Avalon	Seth Developers	Eastern Exp. Highway	10,250
	Raj Tattva	Rajesh Builders	Kapurbawdi	9,999
Delhi NCR	Assotech Breeze	Assotech Limited	Sector 88B, New Gurgaon	6,250
	Megapolis	Lotus Green	Sector 89, New Gurgaon	1.1Cr/unit approx.
	Unhatched	Supertech	Sector 68, Noida	6,500
	Edenia	Wave Infotech	Sector 32, Noida	8,250
Chennai	Elixir Windz	Elixir World	Sector 150, Noida Expressway	4,495
	Upgrade	Optima	Avadi	2,670
Bangalore	Sky Villas	Vijay Shanthi	Perungudi	9,600
	Adarsh Lakefront	Adarsh Developers	OMR	5,700
Hyderabad	SMR Vinay HarmonyCountry	SMR Holdings*	Bandlaguda	3,000
	Life Republic Phase 3	Kolte Patil Developers	Hinjewadi	4,900
Pune	Shubhyog	KohinoorGroup	Shirwal, Asawali	4,250
	Langston	Kolte Patil Developers	Kharadi	5,700
Kolkata	Gurukul Grande	Gurukul Homes	Rajarhat	3,400
	Taal Chaya	Pasari Group	Rajarhat	4,500
	Tolly Exotica	Aadya Group	Tollygunge	6,500
	DNP Heights	Star Light Group	Narendrapur	6,500
	Cosmic Oxford	Cosmic Group	Howrah	2,200

Note : \*\* Indicates the launch prices, the current price stand at ₹ 28,971  
\* Flagship company of SMR Builders

Source : Secondary Market Source, ICICI PSGS Channel Sources

**Quarterly Commercial Roundup**

**City Top 6 Cities : Quarterly Commercial Roundup**

**Mumbai**

Mumbai Commercial Real Estate markets witnessed a few new launches during this quarter such as 'Zillion' by Kanakia Spaces at Kurla and 'Green Span' by BK Birla Group at Lower Parel; with an expected completion by 2014. Demand for office spaces witnessed a slight dip during the quarter, while occupiers remained cautious and deferred their expansion plans. Rental values for Grade A commercial properties remained essentially stable on QoQ basis in most of the locations; however Bandra Kurla Complex (BKC) witnessed a marginal increase in rental values.

**Delhi NCR**

While the Delhi city remained quiet in terms of commercial project launches, a few new launches were seen in the Gurgaon and Noida regions. Some of the projects launched during the quarter include 'Spaze.' by Spaze Group in sector 114; 'Magnum Tower' by Welldone Group at sector 58 and 'One on One' by Vatika Ltd. at 32 Milestones, NH8. Absorption in the Gurgaon region remained stable and was primarily driven by IT/TeS sectors in locations such as DLF Cyber City, Sohna Road and MG Road. Rental values remained stable on QoQ basis while a marginal uptrend was noticed in DLF Cyber City and certain Grade A commercial properties in Noida.

**Bangalore**

A number of projects/parts of projects were completed during the quarter, contributing approximately 0.6 million sq.ft. to the existing Grade A inventory in the Bangalore commercial markets. Absorption remained stable in the market; and most of the demand was generated by small and mid-size enterprises for expansion. Outer Ring Road and Whitefield continued to be the preferred occupier destinations. Amidst healthy absorption, rental values witnessed a marginal uptrend on QoQ basis.

**Chennai**

The majority of the commercial Grade A supply remained concentrated along the OMR IT Corridor. No major supply was added or launched during this quarter. Lease absorption remained stable on QoQ basis with maximum activity observed in locations such as OMR, RK Salai and Dr MGR Road. It was also noticeable that many occupiers were looking for relocations rather than expansions. Rental and capital values remained largely stable on QoQ basis.

**Pune**

The major chunk of available commercial office space supply remained concentrated in locations such as Hinjewadi, Kharadi, Airport Road and Kalyani Nagar. No significant new launches were witnessed during the quarter, except for 'Nyati Corporate' by Nyati Group at Yerwada, which is expected to get completed in 2014. Pune region remained moderate in terms of number of lease transactions; however a few large floor plate deals were signed during the quarter. Micro-markets such as Kharadi, Hinjewadi and Balewadi remained preferred destinations for IT/TeS occupiers. While essentially stable, a marginal uptrend was witnessed in the rental values at select micro-markets.

**Kolkata**

The Kolkata CRE markets did not witness any major new launches or supply completion during the quarter. While absorption largely remained moderate, most of this demand was generated by domestic corporations seeking expansion in locations such as Sector V, Salt Lake and Rajarhat. During the quarter the average rental values remained stable in most of the micro-markets; essentially because of higher vacancy levels vis-à-vis slow off take.

Source : Secondary Market Source, ICICI PSGS Channel Sources

**Key Commercial Market Transactions**

	Customer/Occupier	Building/Location	Area Leased/Purchased (sq.ft.)	Type of Transaction
Mumbai	Cognizant	MindSpace SEZ, Navi Mumbai	230,000	Lease
	Prim Logistics	MUST, Andheri East	5,600	Lease
	DHFL	Rudramjee Rcade, Dahisar	11,000	Lease
	Apple Inc	FIFC, BKC	10,000	Lease
Delhi NCR	HSBC	Nesco, Goregaon	172,000	Lease
	Kotak Bank	Ambadeep, connaught Place, Delhi	35,000	Lease
	Samsung Data Systems	M6 Plaza, Jasola	22,700	Lease
	Huawei	Spaze I Tech Park, Sohna Road	70,000	Lease
	Reliance 4G	RK Square, Cyber City	80,000	Lease
Chennai	Samsung Engineering	Individual Building, Sector 126 Noida	500,000	Lease
	Haldiram	C31, Sector 62, Noida	50,000	Lease
	Daksh IBM	Prince Infocity	34,000	Lease
Bangalore	Siemens	SP Infocity, OMR	44,000	Lease
	Ford	RMZ Millenia I, Dr MGR Road	44,000	Lease
	Akamai	Salarpuria Softzone, ORR	70,000	Lease
	Amazon	Brigade WTC, Malleshwaram	256,000	Lease
Pune	Henrywell	RMZ Ecoworld, ORR	500,000	Lease
	HP	Kalyani Platina, Whitefield	180,000	Lease
	Cummins	Panchshil, Balewadi	345,000	Lease
	Amdocs	Magarpatta, Hadapsar	44,000	Lease
Kolkata	Barclays	EON, Kharadi	40,000	Lease
	Posco	WTC, Kharadi	30,000	Lease
	Reliance NetGeo	Crystal Globosyn, sector V, Salt Lake	60,000	Lease
	Asian Paints	Srijan Techpark, sector V salt lake	6,500	Lease

Source : Secondary Market Source, ICICI PSGS Channel Sources

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