

ICREI

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Economy Snapshot

GDP Growth Rate	6.10
Inflation Rate	1.51
Exchange Rate	47.05
Lending Rate	11-12%
SENSEX	15405
OIL (NYMEX)	78

Source: Economic Times, RBI, Business Standard

REID: Real Estate and Infrastructure Digest

Volume 1, Issue 3

ECONOMY

Food inflation is the key policy worry: PM's advisory panel

New Delhi, 21 October 09: The prime minister's Economic Advisory council in its Economic Outlook 2009-10 has termed food price inflation the key policy concern for the Government. The economic outlook estimates the GDP growth at 6.5 per cent this fiscal —higher than the Reserve Bank of India's projection of 6 per cent. The Council expects both industry and services sectors to grow at 8.2 per cent in the current financial year but fears agricultural growth is likely to decline 2 per cent because of the poor monsoon.

Council expects the Wholesale Price Inflation rate to rise to around 6 per cent by



Dr C. Rangarajan, Chairman, Prime Minister's Economic Advisory Council, addressing a press conference after releasing the 'Economic Outlook 2009-10', with members (from left) Mr Govinda Rao, Director-General of the National Institute of Public Finance and Policy, and Mr Saumitra Chaudhuri, Research Coordinator of ICRA, in the Capital

March-end, up from the current levels of 0.92 per cent. The Council also emphasised the need for getting back on the path of fiscal correction to curb inflation.

On the monetary policy, Dr Rangarajan said he expected the central bank to continue its accommodative monetary stance till the end of the current financial year unless inflationary pressures become very high. On the fiscal side, the Council said the "Government finances have come under severe strain since 2008-09" and that the current high fiscal deficit of the Central and the State governments needed to be phased out starting next year. The fiscal deficit of the Central Government is projected to touch 6.8 per cent of GDP this fiscal, compared with 6.2 per cent last financial year.

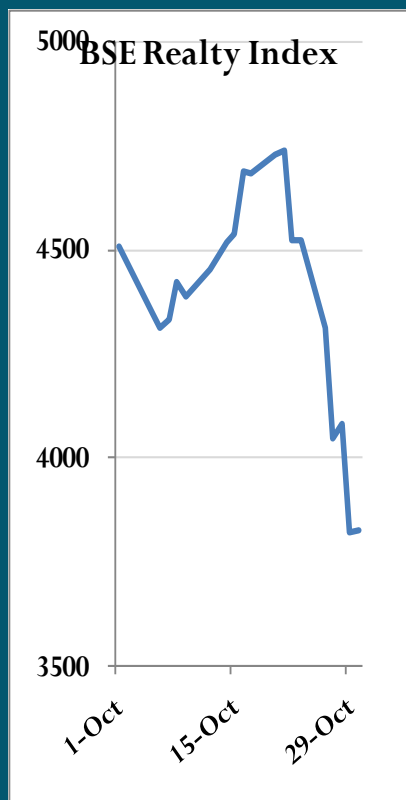
Source : The Hindu Business Line

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“Quote Unquote”

“Demand might be robust ... I will increase prices very soon, in single digits (percentage) within this year.”

Rohtas Goel, Chairman
Omaxe Ltd.



Source : The Economic Times

Commercial Real Estate:

Realty firms hit the capital markets for Fund Raising

Mumbai, 10 October 09; With the turnaround in the stock markets, realty firms are eyeing towards raising funds through the IPO route. Around six realty firms which includes Emaar MGF, Sahara Prime City, Ambience Ltd, DB Realty and Kumar Urban Development and Mumbai based Lodha Group have filed draft prospectus with SEBI to raise equity through IPO. Together, these firms are hoping to raise about RS 11600 crore through the IPO.

Nearly a quarter of the Rs 11,600 crore funding that five real-estate companies plan to raise through IPOs will be used to pre-pay debt. Emaar MGF Land, Ambience Ltd, Lodha Developers and Kumar Urban Development have earmarked a part of the IPO proceeds for loan repayment. Sahara Prime City plans to invest the proceeds only in construction and development of projects, as well as general corporate purposes.



Emaar MGF filed the Draft Red Herring Prospectus (DRHP) with SEBI to raise up to Rs 3,850 crore, which is much lower than what it had planned to raise last year. The company planned to generate over Rs 7,000 crore last year through an IPO, but withdrew it due to poor market response, even after revising the price band downward after the offer. Of the total amount, Rs 1,770 crore will go into repaying or pre-paying loans, Rs 199.5 crore of the IPO money will be used to fund Emaar MGF Construction (a special purpose vehicle). Another Rs 820 crore would go into redeeming preference shares and Rs 276.8 crore would be invested in development and to pay licence renewal charges. The rest of the IPO money would be spent on general corporate purposes, including acquisition and brand building.

Lodha developers and Sahara prime city are both hoping to generate around Rs 3000 crore and Ambience Ltd is looking towards raising around 1300 crore through the IPO. Lodha will utilise about 20 per cent of the funds raised for retiring debts and the rest for developing various projects and expansion.

Source : The Business Standard

Investors Eagerly Awaiting SEBI's Real Estate Investment Trust

Mumbai, 06 October 09: Private equity investors in real estate projects eagerly await SEBI's Real Estate Investment Trust (REIT) Regulations so that they can avail an exit option once their investments mature. Currently, with the absence of REIT regulations, PE investors are unable to unlock the investments made in realty projects in the last four to five years.

Almost \$3 billion to \$4 billion worth of investments, majority of which came through the FDI route, are awaiting exit through options like REIT or real estate mutual funds (REMF). Also the issue of valuation of realty by accredited valuers is not sorted, since SEBI has not issued a list of real estate valuers. Though SEBI had issued

REIT regulations almost two years ago in December 2007, it has not yet made up its mind on the final regulations.

There have been several attempts of fund raising activity through REITs in the past which show the demand for REIT like products. India Bulls had raised money by listing its REIT in Singapore through Indiabulls Properties Investment Trust in June last year. DLF and Unitech also had plans to list REIT overseas but so far they have not taken off. ING Mutual Fund has a REIT-based global real estate fund where Indian retail investors can invest, but it is just a feeder fund for the Luxembourg-based fund which operates like a REIT.



Sebi Building Mumbai.

Financial institutions such as IL&FS and India REIT Fund Advisors Ltd have come up with portfolio management service based products which are similar to REIT and HDFC and Kotak Group have PMS-based realty funds for HNI and institutional investors.

REITs have become a preferred vehicle for investment in properties around the world. Global market for REIT is estimated at over \$450 billion with Asia alone accounting for a \$70-billion market share. There is currently 45 million square feet of real estate stock in major Indian cities which is lucrative enough for REMFs or REITs," Mr Pritam Chivukula, Principal-Real Estate, Brahma Capital Advisory Services Pvt Ltd, said.

Source: The Hindu Business Line

Infrastructure:

States may get free hand in mine allocation

Kolkata, 20 October 09: The Centre is planning to introduce sweeping changes in mine allocations, giving states unbridled power in deciding on the beneficiary for all minerals, except coal and atomic minerals. According to the new Mines and Minerals (Development & Regulation) Bill, being finalised by the government and likely to be placed in the winter session of Parliament, the central government approval would not be required for mine allocation, which includes iron ore.

India has approximately 23.59 billion tonnes of iron ore scattered over Jharkhand, Orissa, Chhattisgarh, Karnataka and Goa. The move would affect steel companies, as iron ore is a major input material.

Some of the companies like Tata Steel (Chhattisgarh), JSW Steel (Jharkhand) and Essar Steel (Chhattisgarh) bagged prospecting licences for iron ore over the past year.

But enormous delay in mine allocation had prompted them and others to scout for resources overseas.

But there are less fortunate projects that have been awaiting mine allocation for the past four-five years. South Korean steel major Posco signed a memorandum of understanding (MoU) with the Orissa government in 2005, but is yet to bag the mines. Tata Steel signed an MoU with the Orissa government for its Kalinganagar project in 2004, but had not been allocated mines.

As of now, the state government grants the lease after prior approval from the central government. The new Act would also have the provision for auctioning the lease.

Source: The Business Standard

Govt okays stake sale in power firms

New Delhi, 20 October 09: The government's disinvestment programme made a re-start with the Cabinet Committee on Economic Affairs (CCEA) approving the part-sale of its stake in two power companies — NTPC and Satluj Jal Vidyut Nigam (SJVN) — but postponing a decision on the overall disinvestment policy.

The 5 per cent disinvestment in NTPC and 10 per cent in SJVN, announced by Commerce and Industry Minister Anand Sharma today, is likely to fetch the government around Rs 10,000 crore this year. After this round of disinvestment, the government's stake in the Bombay Stock Exchange-listed NTPC Limited will fall to 84.50 per cent. At current valuation, the government may be able to raise around Rs 8,600 crore by selling 5 per cent stake in NTPC, the country's largest thermal power generator with over 30,000 Mw of annual capacity and a market capitalisation of Rs 1,72,000 crore.

SJVN, which is a 75:25 unlisted joint venture between the Centre and the Himachal Pradesh government, has a paid-up capital of Rs 4,108.81 crore and focuses on hydro power projects. The issue would be priced at Rs 30 to Rs 35 a share and could fetch the government Rs 1,000 crore to Rs 1,200 crore.

Source: Business Standard

Housing:

Revival in Housing demand

New Delhi, 20 October 09; According to a survey conducted by FICCI, the residential sector will lead the revival of India's realty industry as it will see a surge in demand by 30 percent by 2009-end. 'Although the real estate sector has started showing some signs of revival, a majority of the industry experts expect the residential segment to recover by the end of 2009 with a 25-30 percent renewal in demand,' said the survey report by the Federation of Indian Chambers of Commerce and Industry (FICCI).

The housing market is heading towards a revival with demand picking up in this sector owing to cut in the interest rates on housing loans and increased focus on low-cost apartments. Housing demands, which was hit due to global economic recession, has shown improvement since April.

Unitech Ltd, the country's second-largest realty firm recently announced that it had sold properties worth about Rs 4,000 crore since March this year. Out of 10.11 million sq ft sold, 80 percent was accounted by the housing segment. Real estate developers Parsavnath also announced that out of the 42 million sq ft construction area (mostly residential) the company has already sold 35 million sq feet. The company expects a realization of Rs 8150 crore from the sales receivable over the next 24-30 months. BPTP also sold properties worth Rs 1,600 crore during the first half of the current fiscal from its three housing projects in Faridabad in the national capital region. BPTP has sold nearly 7,000 units in these three projects, part of a 1,900 acre integrated township 'BPTP Parklands'. Other real estate developers, including DLF, Jaypee Greens, have also reported robust sales in their housing projects.

Source: Economic Times, Business Standard

Home loan disbursements set to increase

New Delhi, 12 October 09; With demand for real estate picking up, housing finance providers are gearing up for larger disbursement targets this year. Public sector lender, Central Bank of India, expects its home loan segment to grow by 25 per cent in the current fiscal, which would widen its portfolio size to Rs 10,000-crore. "We are looking at a home loan growth of about 25 per cent this year. Approximately, it (the home loan portfolio) is Rs 8,000-crore. After the 25 per cent growth, it will be another Rs 2,000-crore," Central Bank of India's Chairman and Managing Director, S Sridhar said.

General Insurance Corporation of India (GIC) Housing Finance is also targeting a disbursement of Rs 750 crore housing loans this year, owing to a pickup in housing demand.

HDFC, the country's leading home loan providers also expects the disbursements to increase by about 20% this year.

With developers concentrating on affordable housing, housing finance providers are lowering interest rates to capture this segment. The festival season saw a fall in home loan rates below the level of 8% offered by GIC and Development Credit Bank. DCB, which recently entered the segment, is charging 7.95% for loans up to Rs 5 crore at fixed interest rate for the first year and floating rates from second year onwards. Some banks such as Central Bank of India and Punjab National Bank have waived off processing fees and documentation charges on certain loans to make housing finance cheaper.

Source: Economic Times, Business Standard

International Economy: US Budget Deficit Hits a Record \$ 1400 billion

Washington, 20 October 09, The US budget deficit hit a record \$1,400bn in the last fiscal year as the government tried to spend its way out of recession, slightly less than expected but still more than three times that of 2008.

The Obama administration has argued that the deficit was the price the country had to pay to pull the recession-ravaged economy back from the brink, but it promised to take measures to bring it back down.

Government spending rose 18.2 per cent from 2008, in part because of Tarp and the \$787bn fiscal stimulus package.

Outlays for benefits such as food stamps and unemployment insurance were also pushed higher by the recession. At the same time, tax revenues slumped 16.6 per cent as incomes and corporate profits declined.

President Barack Obama has come under sustained fire from some Democrats as well as Republicans over the size of the budget deficit, which the White House expects to hit \$1,500bn this year before eventually receding below \$1,000bn in 2012.

Source: The Financial Times

China Growth Underlines Massive Rebound

Beijing, 22 October 09, China's recovery accelerated in the third quarter as a result of the government's massive lending and investment programme, with the economy growing at 8.9 per cent compared with the same period last year.

Third-quarter expansion was faster than the 7.9 per cent growth rate in the second quarter and brings the growth rate in the first nine months of the year to 7.7 per cent. However, growth in nominal terms, before taking into account price changes, was 4.7 per cent in the first nine months, meaning deflation was responsible for a big part of the headline increase in GDP.

China has put together a huge stimulus programme to try and revive the economy, which, including loans by state banks, could be larger than 15 per cent of GDP this year.

Fixed-asset investment in urban areas, the main driver of economic growth in recent years, increased by 33.3 per cent in the first three quarters, up from 33 per cent in the January-August period. Infrastructure spending rose 52.6 per cent in the first nine months and social spending was 72.9 per cent higher.

Retail sales rose 15.5 percent in the 12 months to September, slightly up on August's reading of 15.4 percent, while urban incomes increased 10.5 per cent in real terms, year-on-year, and rural incomes were up 9.2 per cent. The statistics bureau said a "bumper grain harvest" was expected and pork output was rising, which could help to limit future food price rises. Estimates by private-sector economists for the expansion from the second to the third quarter ranged from 10-15 per cent.

Source: The Financial Times

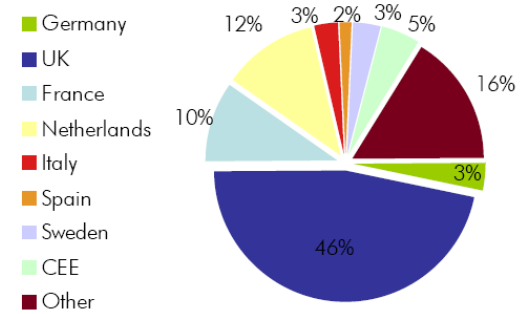
International Real Estate:

CBRE: European industrial investment set to rise

London, 15 October 09, Investment turnover in Europe’s industrial and logistics real estate sector could be set to rise after €2.5bn of deals were completed in the first half of 2009. CB Richard Ellis’ latest ‘EMEA Industrial & Logistics MarketView report’ reveals that the sector maintained its 10% share of the wider investment market, amid evidence of stabilising yields and increasing liquidity. The report showed the rise in industrial and logistics yields across Europe slowed to 10 basis points in the second quarter of 2009, as investment turnover picked up.

The resulting increased stability reflects a narrowing gap between vendors’ and purchasers’ pricing aspirations, which should boost liquidity in the sector. Rents in core European industrial markets have so far held firm, with the EU -15 industrial rent index 5.4% lower in the year to mid-2009 - a contraction that has eased slightly in Q3 to around 4.5%. On the occupier side, the need to control costs to protect margins and a desire to maximise the efficiency of occupied space continue to be key concerns for occupiers.

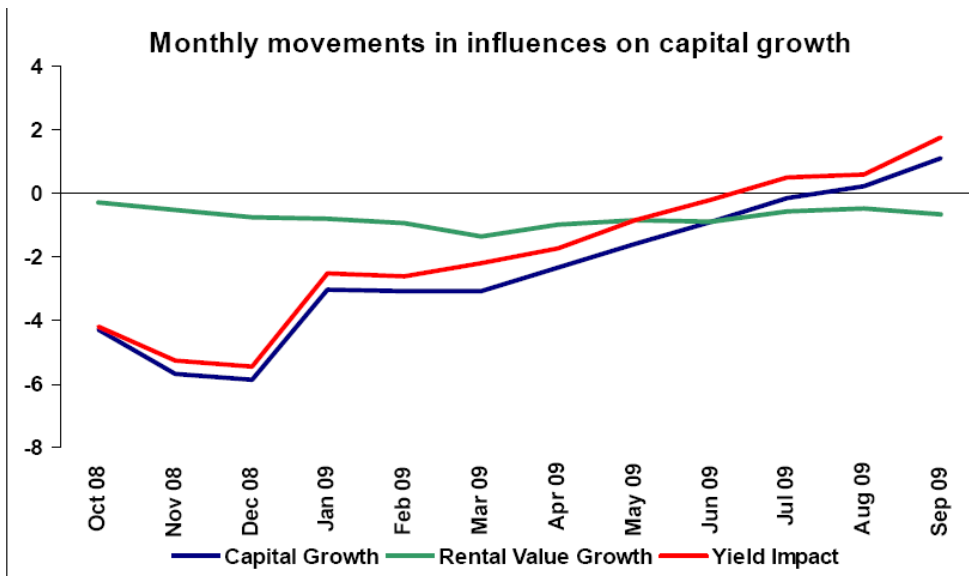
Industrial Investment by Market, H1 2009



Source: EGI, CBRE

IPD: largest monthly capital growth for three years

London, 14 October 09, The UK commercial property market delivered the largest monthly capital growth since June 2006 – climbing 1.1% in September. IPD UK monthly index figures show that while the monthly capital growth was the largest in more than three years, it was contained by continued falling rents.



Rental values fell 0.64% in the month, after easing slightly in August to a 0.5% fall. IPD said all three sectors delivered positive capital growth – the first time since May 2007. The retail sector saw the biggest rise at 1.4%, followed by industrial at 1.1% and offices at 0.8%. It was the first positive capital growth for the offices sector since July 2007. All-property initial yields compressed for the

fourth month to 7.7%. In the 12 months to September, capital values have fallen 25.3%.

Source: EGI, IPD

REITS Gear Up In Germany:

Berlin, 15 October 09, Plans by Germany's new center-right coalition to overhaul regulations for real-estate investment trusts are expected to unleash a round of REIT listings that could include some of Germany's biggest publicly traded property firms.

Negotiators for the center-right coalition of Angela Merkel's Christian Democrats and the pro-business Free Democrats have agreed to scrap rules that forbid German REITs from owning residential property and to extend tax benefits aimed at encouraging institutional and corporate property owners to sell assets to REITs by



The new Centre Right Coalition

granting a 50% exemption on capital-gains tax owed on such transactions.

The changes are part of draft agreements in coalition talks that followed elections and aren't binding until passed into law. "We've agreed to take a new look at the REIT law and to eliminate bureaucratic hurdles and that includes allowing REITs to own residential property and extending the exit-tax exemption," said Leo Dautzenberg, an official with the Christian Democrats on the financial-policy negotiating team.

Only two German REITs exist, Alstria Office Reit AG and Fair Value Reit AG, with a combined market capitalization of €481 million (\$711 million) and combined property assets of €2 billion. A

revision of the REIT law to include residential REITs could open the door for offerings by a number of big property companies such as Gagfah SA, Deutsche Wohnen AG and Colonia Real Estate AG.

The German property market appears to be improving, an encouraging sign for REIT listings. Investment in German commercial property is rising and prices have steadied.

REIT candidates also are under pressure to convert soon. There are 10 listed pre-REITs, or companies in the process of becoming a REIT. Under German rules they must convert to a REIT and list within three years. For most, the time to decide runs out next year.

REIT Revival?

German property firms in the starting blocks

<p>Listed REITs</p> <ul style="list-style-type: none"> ■ Alstria Office Reit AG ■ Fair Value Reit AG <p>Listed Pre-REITs</p> <ul style="list-style-type: none"> ■ CR Capital Real Estate AG ■ Hamborner AG <p>REIT Candidates</p> <ul style="list-style-type: none"> ■ German Acorn Real Estate GmbH ■ German One GmbH & Co. Property Holding KG ■ Polis Immobilien 	<p>Firms Registered as Pre-REITs</p> <ul style="list-style-type: none"> ■ Boetzelen Real Estate ■ DR Commercial 1 ■ GIG Grundbesitz Immobilien ■ IVG Immobilien-Management Holding ■ Prime Office ■ TAG Gewerbeimmobilien ■ Vivico Real Estate ■ ZIAG Immobilien <p><small>Sources: the companies; WSJ reporting; M. Ehrlich/Archiv GAGFAH (photo)</small></p>
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Gagfah apartment complex in Wiesbaden, Germany

All eyes are on potential REIT listings of residential-property companies. The existing law excludes REITs from owning residential property in Germany built before 2007. REITs could own new housing or any housing abroad, but the law locked them out of the privatization of municipal

housing companies, which sold blocks of public housing to private-equity investors.

Source: The Wall Street Journal

Interview:

“If you have a good location, you will not go wrong.”

Mr. Pranav Dholakia is an alumnus of the Indian School of Business -2002 Batch. He has been in the real estate industry for the past seven years with Ashok Primal Group's Peninsula. He is currently the General Manager at the Peninsula Realty Fund- a real estate venture capital fund.



The Peninsula Realty Fund (PRF) was launched by Peninsula Land Ltd in 2006 targeting reputed institutional investors, non-resident individuals, including NRIs, and foreign corporates. The company so far, has floated two funds; - Indigo, Rs 250-crore domestic fund and Rs 1,400-crore Paramount Offshore Fund.

Pranav Spoke to Puneet Kataria and Sonia Khatri from the Real Estate Club about his views on the investment opportunities in Indian Real Estate. Here are the excerpts:

- *What is your assessment of the investment opportunities in real estate?*

There is a lot of opportunity in the next three to five years in prime residential development. This may be because in mega cities there is dearth of high quality residential complexes and if you step out of big cities high end developments are nonexistent due to the demand supply gap.

In the medium term, there is a gap in the development of offices to some extent. Warehousing, Old age homes, education infrastructure look like promising avenues in India. There are hardly any investment avenues in retail at present.

- *What were you thinking when the realty market went down?*

We realized that market was over heated. I deal in acquisition of lands. Growth in valuation of land was much higher. We were happy that the recession took place, corrected the prices and brought some sanity to market. I also think it's a cycle and it won't last for long. I had joined when the boom had not yet started and prices were very flat.

If you have a good location, you will not go wrong. Also focusing on the land value makes the investment safe as land always has genuine demand. This is a very good time to buy. Hence we are targeting prime properties in the cities instead of investing in large properties which are away from the cities.

Interview:



Crossroads is the first ever full fledged shopping mall in Mumbai, and perhaps in India was opened in 1999 by the Piramal Group.

- *Aren't real estate developers looking towards PE players for a bailout in a distressed environment encouraging funds to indulge in price shopping?*

With government stimuli package, large developers have been able to come out of distress. However we have to see if this is a temporary remedy or not.

As far as price shopping is concerned, I don't see developers offering discount projects. Funds are also not looking at price shopping, rather focusing on value picks in terms of good quality land rather than cheap land deals. In fact, Peninsula Realty fund as a part of its strategy, does not invest with third party developers as active partners. We buy land ourselves and develop it. We have limited exposure to working with third party developers.

- *What is your outlook for the future?*

With the announcement of elections, the outlook looked bright in the first quarter. However, lately, there seems to be some stagnation with a number of deals falling apart. We hope that this is just a temporary instability. In the last few months, developers have increased their prices by 10-15%, because of which investors have developed second thoughts on whether they want to buy. End users are looking at options wherein they are offered low frill apartments at cheaper cost. This demand will stay. In 2010, I think it is going to be a neutral cycle. RBI's tighter monetary policy will hurt the end user sentiment a little, but not much.

Interview:

- *What will be your investment strategy for the next two quarters? Would you like to prefer to sit on the sidelines and wait and watch?*

We are looking at investing in Mumbai, Pune, Goa, Hyderabad and Bangalore. We would be investing in premium location residential projects. Affordable housing is not an option considering the high prices of land, costs of approvals and high prices of cement and steel. Unless it is a small apartment, India does not really have affordable housing. The government needs to assist in this regard by providing free land and single window clearance.

- *What is your key differentiator in terms of offering?*

We are one of the very few developers backed fund offering investment in western and southern India. We buy land on our own and develop it; so the value appreciation ends up as an entire benefit to investor.

Peninsular Land limited is promoter of this fund and invests in each of its funds. Hence, there is an alignment of interest which in turn is our USP.

- *Have you exited any of your investments?*

None. We are a very new fund. Our fund was launched in 2007. In mid 2008, we had no investment. We focus on the residential segment; we are looking at exiting from investments in apartments. Every investment has different time period, on average 3-5 years.

- *How are your realty projects coming along? How does the deal pipeline look like?*

We are looking very actively at properties in big southern cities. Markets have stabilized now. When markets fell, all funds looked for investing in low deals. With market stabilizing, sentiments have stabilized too. Funds are looking at investing in value based asset classes and locations. We have a very robust pipeline and we look forward to full deployment of our fund by March.

- *What is your opinion on REITS? Do you think there is demand?*

Things have to go a long way before they become popular. There was a rush during its initiation in 2005. But we need a lot of clarity on its tax structure. Unless there is a tax benefit offered on an investment, I don't think it makes a lot of sense.

Also, there has to be a development in accounting standards; real estate is the least transparent industry and business practices need to be made more transparent.

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