

18/11/2011

Indu Centre for Real Estate & Infrastructure

Volume 3, Issue 1

Inside this issue:

Addressing the India Infrastructure Shortcoming **1**

By Ar. Mrudula Gummuluri (PGP2012)

Wind Power Achieves Grid Parity in India **2**

By Vamsi Duraibabu (PGP2012)

Mass Housing—A Project Management Perspective **4**

By Subrahmanyam Kota Venkatesa (PGP2012)

Banks risk tripping over loans to power distributors **6**

Source: Livemint

Soaring Indian Realty Ambitions Belie Rocky Foundations **7**

Source: CNBC

Argentine real estate: ditching the dollar? **11**

Source: FT

Europe Seen Ripe for Distressed Property Loan Sales by Banks **11**

Source: Bloomberg Businessweek

Addressing the India Infrastructure Shortcoming

The government's acknowledgement that poor infrastructure is a major stumbling block for sustaining a 9% GDP growth, endorses the oft-repeated infrastructure deficit in the country and the massive improvement needed to cater to future spiralling demand.

The government through its budgetary grants and through Public Private Participation (PPP) has been making efforts to bridge this gap. Measures have been taken for meeting the power supply demand, bridging the communication requirement, improving the road network, increasing the number of ports and the capacity of the existing ones, improvement of airports and urban transportation. This is an encouraging start and lot more traction is expected in infrastructure development.

The pace and magnitude of infrastructure development would only improve through private partnership which would ensure that Projects get completed with minimal government funding on time with appropriate risk sharing between the various stakeholders. Formats like BOT,

BOOT, BLT etc. would help the government leverage their budgetary resources and undertake massive infrastructure development. The communications sector, power sector, road sector, ports sector, real estate sector and urban transportation sector already have private participation through concession or licensing agreements based on model concession agreements.

There is enough contractual capacity in the country for taking up the requisite amount of infrastructure development. India does have a framework in place for many of the infrastructure sectors wherein model concession agreements have been formulated which are acceptable to the lenders, the developers, the government and shareholders. Need of the hour is to formulate a transparent and stable policy which would allow the private developers to work with a long term vision.

The road sector has been a classic example of successful private participation leading to a fast paced growth in this sector. Having entrusted the private sector with develop-

ing world class infrastructure in the country, the government can now focus on social needs and governance. This leads to enhanced business environment and enthusiasm amongst the private sector for participating in the infrastruc-



More such projects need to undertaken by the Government in collaboration with the Private sector to make projects more viable

ture growth story. This is evident from the large number of companies foraying into this sector.

Focusing on this sector a little more, government funding may not be adequate enough to undertake development of roads and highways through cash contracts on a pan-India basis. Major arterial roads like the National & State Highways, where revenue from toll collection is substantial, can be carried out on a BOT basis and areas in the hinterland can be executed on a cash contract basis thereby benefitting small and medium



The Bandra-Worli sea link

“More has to be done on transportation side as well including aviation, ports, roads, rail system and logistics.”

Continued....

players also in this sector who are unable to compete with the bigger players in the PPP based model. In the road and highways sector, the government funds the capital required for making a project viable for private sector participation. This funding is capped at 40% of the estimated project cost. In some cases the private players also offer premium for highly viable projects.

India has an established Banking system, which has shown appetite for the large amounts of debt required for Infrastructure Projects. The government has also set up institutions like IFCI & IIFCL, which have also de-

vised products to help the developers get access to long term funds. The government sponsored stimulus package has lead to a robust growth in the sector even during recession when they had lent large amounts during the recession period for this sector.

As per the estimates, the target spending on infrastructure in the 12th five year Plan is expected to be twice (at USD 1 trillion) as that made in the 11th five year plan. Traditionally India has spent in the range of 4-5% of their GDP on infrastructure, which is targeted to be doubled in the 12th five year plan.

More has to be done on trans-

portation side as well including aviation, ports, roads, rail system and logistics. A decade of unhindered growth, supported by a conducive environment could enhance the infrastructure in India to much better levels.

Wind Power Achieves Grid Parity in India

Exxon Mobil has predicted that renewable sources of power such as Wind will approach grid parity with Natural Gas (NG) based combined cycle power plants (NG-CCPP) and will be cheaper than thermal based power plants with carbon sequestration by 2025. In India, Wind Power has already reached grid parity and this has been primarily due to the advances in wind turbine technology and reliability as well as the high fuel costs and lower than desired plant load factor

(PLF) achieved by NG based power plants.

For Thermal - NG based combined cycle power plant, the largest component of COE is the Variable or Fuel Cost. Despite the lower capital expenditure of ~ 4.0 crore / MW and high power density, the high NG fuel cost (upwards of \$8 / MMBTU) has increased the Cost of Electricity to ~ 4.0 INR / kWh.

The largest component of the

cost of Electricity of Wind Power is the Fixed Cost, namely the cost of the Wind Turbine Generator (WTG), Development of the Wind Farm and the associated financial cost. In recent years, increased scale and localization of WTG production as well as competition between the major global WTG manufacturers has lowered the capital expenditure to ~ 6 crore / MW.

In addition, the modern Wind Turbines are designed using



Efficiency of solar panels is on the rise with new and emerging technologies

“To catch the reader's attention, place an interesting sentence or quote from the story here.”

Continued....

grid friendly technologies such as Enhanced Reactive Power, Voltage Ride Thru and Power Factor Control. The recent advances in micro-siting and wind farm development through the use of sophisticated 3D modeling of the topography and atmospheric weather patterns has significantly increased the Capacity factor (CUF) and thereby lowering the Cost of Electricity. The favorable policy towards renewable energy in India has resulted in attractive Wind Power Feed-in-Tariff and Renewable Purchase Obligations (RPO) and this has drawn the interest of Independent Power producers (IPP). A total wind power capacity of ~ 13300 MW out of a total potential of ~ 48000 MW has been established up to February, 2011, mainly in Tamil Nadu, Gujarat, Maharashtra, Andhra Pradesh, Karnataka and Rajasthan. This renewed momentum in new capacity addition of Wind Power is expected to continue into the near future.

Exhibit 1 provides the comparison of the levelized Cost of Electricity (COE) between Renewable Power from Wind and Thermal Power from NG-CCPP

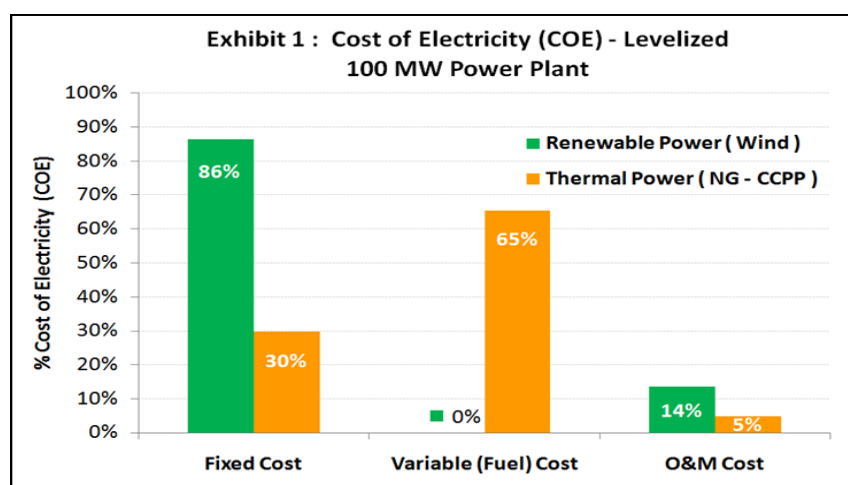
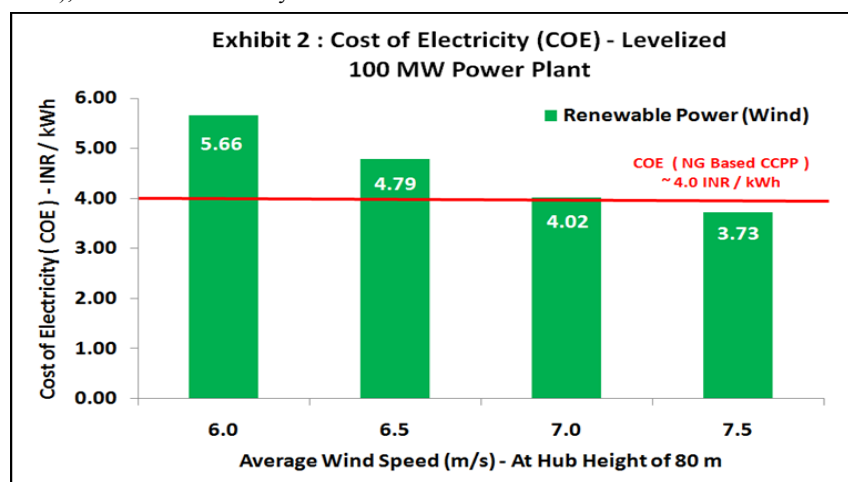


Exhibit 2 shows the Cost of Electricity (COE) for a typical Wind Farm with modern WTG's such as the GE 1.6 XLE or VESTAS 1.8 MW at varying wind speeds. For a wind farm location with an average wind speed of 7.0 m/s (at the WTG - Hub height of 80 m), the Cost of Electricity is ~ 4.0 INR / kWh.





Mass Housing projects may lack Project Management expertise

The SASP (Short Activity Shortest path) rule is a simple additive combination of the resource-unconstrained critical path time and the duration of the activity.

Mass Housing: A Project Management Perspective

Housing is an inevitable and perhaps the most crucial constituent of any disaster rehabilitation scheme. Tsunami that hit the Coromandel Coast on 26th Dec 2004 destroyed about 157393 dwelling units. In the Nagapattinam district of TamilNadu, alone there were about 130 Non-Governmental Organizations (NGOs) working on Mass housing schemes of different types and scales. I did a specific case study on the South Indian Federation for Fishermen Societies (SIFFS) working in Tarangambadi, Nagapattinam District. SIFFS is handling a 2000 house rehabilitation programme for the fishermen folk of the Tarangambadi and Chinnankudi villages of Nagapattinam district.

Most of the houses are concrete constructions. Some NGOs gave turnkey contracts to big construction firms whilst most used the local labour in the Nagapattinam district and surrounding locations. Since most of the NGOs were doing this, there is a general shortage of labour. Over that SIFFS had a very unique approach to housing. The Architect Mr. Benny Kuriakose, had a vision of customizing the individual houses as well as the entire plan of the village based upon preferences of the people from the village.

I joined this project as a Project Management Intern in May 2006. The project was plagued by several issues. There was a 60-80% delay in housing construction from one cluster to another. Below were a few problems that I observed:

- ◆ Local contractors with very uncommitted labourers were doing the work. Hence no prior planning was done at any level.
- ◆ Shortage of skilled labour and involvement of unskilled workers in jobs that require skill, resulted in poor quality of work as well as delayed construction.
- ◆ Acute shortage of labour as lot of construction work is going on simultaneously in Nagapattinam district at various locations.
- ◆ Financial imbalance encountered by the contractors amidst the project resulting in contractors abandoning work, leaving unfinished houses.
- ◆ Lack of resource planning. Example: Shortage of form-work for roof concreting.

Under the guidance of my project guide Prof. Ashwin Mahalingam, IIT-Madras, I thought of addressing the monitoring, planning and personnel management problems that inhibited progress of this project. Most of the above problems could have been solved if the flow of

information in terms of labour and materials was clear across the engineers and contractors. This vast amount of construction involved about 50 labour contractors and 10 site engineers monitoring their work. There is no system of documentation available with the engineers to take of snapshot of work and plan at least one day ahead. There was no simple tool for them to get a snapshot of the existing situation and plan ahead.

Resource constrained planning is the main concern in multi project scheduling. Heuristic rules used are very problem specific, as resource constraints are common to a variety of projects. A good scheduling rule should be simple, unambiguous, easily understandable, and easily executable by the one who uses it.

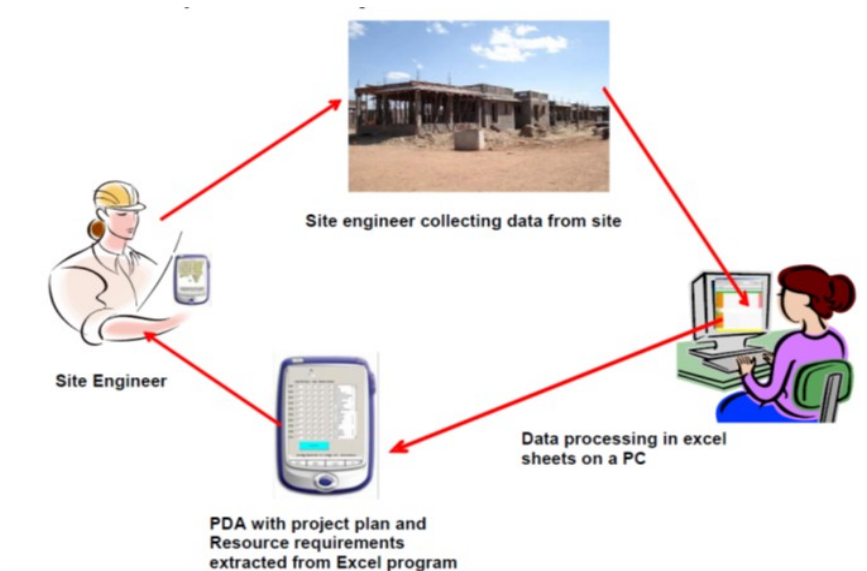
A heuristic rule called as the Short Activity Shortest path (SASP) is suggested to improve the project planning. The SASP rule is a simple additive combination of the resource-unconstrained critical path time and the duration of the activity. Based upon this rule we developed applications to track the progress of housing. We went to the extent of developing a PDA based device for monitoring



Mass Housing projects may lack Project Management expertise

“The results of this project motivated the use of information technology and mobile devices for several construction projects.”

Continued....



the project. Below is a pictorial description.

However due to cost constraints the PDA proposal was not implemented, rather the NGO agreed to track the progress of houses in track sheets and then update them to a daily excel database which will tell them how much material and resources are required for the next few days till the completion of a house. We prepared an excel

sheet for the two approaches of construction, that this particular NGO had and simulations were run to see the resource requirements and the project plans. Tracking the progress on a daily basis and updating this simple excel sheet helped visualize the resource requirements in a better manner and improve pace of the project.

The results of this project motivated the use of informa-

tion technology and mobile devices for several construction projects. In fact similar technologies were tried out in regular construction projects as well to improve the real time monitoring and project resource planning.



Power Distribution sector has proved to be a bane for banks

“India’s top two lenders, State Bank of India (SBI) and ICICI Bank, have the highest exposure to the power sector, with more than Rs30,000 crore of loans each.”

NATIONAL

Banks risk tripping over loans to power distributors

Indian banks are staring at the prospect of restructuring loans to loss-making state electricity boards in order to stave off defaults.

State-run Punjab National Bank (PNB) gave fresh long-term loans to pay off short-term debt to help a financially troubled distributor in the September quarter, its chairman K.R. Kamath said, kicking off what could become a trend.

Indian Overseas Bank (IOB), another government-controlled lender, may be next.

“Some of the state electricity boards are asking for loan restructuring. We’re seeing how that can be worked,” M. Narendra, chairman and managing director of Indian Overseas Bank, which has lent more than 91 billion rupees (\$1.8 billion) to the sector, told recently.

India’s top two lenders, State Bank of India (SBI) and ICICI Bank, have the highest exposure to the power sector, with more than Rs30,000 crore of loans each. “I really expect banks to come to us in the March quarter when the stress goes beyond manageable proportions,” said an executive at a state lender on assignment to

the Corporate Debt Restructuring Cell, a voluntary body that works with banks and borrowers to restructure problem loans.

“Right now banks are trying to resolve cases at individual level. They are shell-shocked now. The writing was on the wall for a long time but they didn’t see it,” he added.

Ratings agency CRISIL last month raised concerns about the health of power sector lenders including Power Finance Corp and Rural Electrification Corp as well as banks, pegging potential risk at Rs56,000 crore unless the government implements reforms in the sector.

Power Shortage

Losses at state electricity distributors, which depend on state support and borrowings from financial institutions to meet revenue shortfalls, doubled in the two years from April 2008 to \$12.9 billion, according to a Power Finance Corp report.

Banks and others say India needs to raise power tariffs, but that is difficult in a country where farmers, a crucial voting bloc, receive power for free or at a steep discount.

Much-needed generating capacity in a country that suf-

fers frequent blackouts and a peak power deficit of 12%, meanwhile, has been delayed by difficulties in securing land and coal, deterring banks from lending to the sector.

Distributors on average raised prices by 12% over the two years through March 2010 even as costs rose 21%, state-run Power Finance Corp said in its report.

Over the past decade, India has implemented reforms that separate power generation, transmission and distribution, thereby ensuring distribution losses do not hurt growth in other segments of the industry.

It has also invested in electric meters and other infrastructure, but still has a long way to check transmission and commercial losses of over 27% in the year ended March 2010. Early in the previous decade, losses were 40-45%. With state governments reluctant to lend more to close the revenue gap for distributors, utilities have stepped up bank borrowing at a time when interest rates have risen steadily.

“The key problem is inefficiency. Raising tariff will not solve the problem,” said Kuljit Singh, a partner in the infrastructure practice at E&Y. Such



Banks are now wary of extending further credit to the sector

“Punjab National Bank, the No.2 state lender, restructured loans worth 40 billion rupees in the September quarter, nearly half of which was to the electricity board in Tamil Nadu state”

Continued....

losses cannot be curbed without shifting distribution to private firms, he said.

For now, private sector participation in power distribution is minimal and limited to a few cities.

New Delhi recently set up a panel to recommend ways to improve the financial condition of power distributors.

Keeping Wary Eye

Punjab National Bank, the No.2 state lender, restructured loans worth 40 billion rupees in the September quarter, nearly half of which was to the electricity board in Tamil Nadu state, according to a Standard Chartered report.

The bank's restructured loans now account for 7.8% of its total gross loans, highest in the Indian industry, according to the report.

Private sector banks I C I C I , A x i s Bank and IndusInd Bank played down any danger and said their loans to the power sector were performing and safe. “We have had no slippages, we are not overly worried,” ICICI Chief Executive Chanda Kochhar told reporters recently.

Several banks, however, have said they will remain cautious.

J.P. Dua, chairman and man-

aging director of Allahabad Bank, which has loans to electricity boards including in Uttar Pradesh, West Bengal, and Delhi, does not expect defaults or restructurings but is steering clear of the sector for now.

“Last six months, we have not sanctioned a single loan to power sector. We don't want to get into it till things get sorted out like coal issues, land clearances and all the other issues,” Dua told investors on a call on Wednesday.

Source: Livemint

Soaring Indian Realty Ambitions Belle Rocky Foundations

When even the man who is building the world's tallest residential tower speaks of an Indian real-estate slowdown that could last for years, it is clear the foundations of a once-soaring industry are starting to shake.

Behind gleaming white gates, Abhishek Lodha's 117-storey World One - where luxury apartments start at \$1.5 million and rise past \$15 million - will boast private swimming pools at cloud

level and a 1,000-foot-high open-air garden.

But the promised 60-km view across India's financial hub of Mumbai will look down at a distressed real-estate industry crippled by high interest rates, rising costs and a sales crash that has left developers struggling with mounting piles of debt.

"We're certainly seeing a reduced rate of growth," the U.S.-educated managing di-

rector of Lodha Developers told Reuters.

"Real estate, instead of growing at around 15 percent, will probably grow at 9-10 percent for the next couple of years."

From the top of cranes that tower over the World One plot, where a thousand labourers dodge trucks to work on the colossal foundations of the half-kilometre-high tower, the view of a neighboring site



Realtors now have to get rid of excess capacity

“Approaching the World One site along a pot-holed road beneath an overpass where homeless people squat amid the stench of refuse, it is hard to picture the gleaming Italian marble and concierge service that Lodha has promised.”

Continued....

provides a picture of the fall-out.

DLF, India's largest developer, had planned a luxury tower to rival the Giorgio Armani-designed apartments of Lodha's record-breaking skyscraper next door.

But that dream looks set to disappear with the sale of the plot as the firm scrambles to reduce its debt of \$4.67 billion.

"India has two types of real-estate companies: heavily over-leveraged and reasonably leveraged," said Niranjana Hiranandani, one of India's leading real-estate developers.

Hiranandani's son, also a developer, built the world's current tallest residential block, the 395 metre, 90-floor-high 23 Marina tower in Dubai that was completed in June.

"The companies that are heavily over-leveraged are certainly in danger," he said.

The numbers are all moving in the wrong direction for developers in Asia's third-largest economy. Debt levels are rising as sales volumes and profits fall. Banks are shutting their doors to the industry just when it needs cash the most. Prices are stagnant and expected to fall.

"The marketplace is not fool-

ish," said Lodha. "A price correction will happen naturally."

When the ground was broken at Lodha's dusty site in 2009, builders had been gorging on credit and splurging on land for bigger and bolder plans in the midst of a realty boom that started around four years before.

Since then, India's growth has tempered and interest rates have risen 12 times, hurting sales and pushing up the price of debt.

Steel and cement prices are up about 30 percent over the past year, while labour costs have risen due to scarcity of trained workers.

"Are there going to be months where companies might have to delay paying their interest? Yes," warned Lodha.

Fire Sales

Approaching the World One site along a pot-holed road beneath an overpass where homeless people squat amid the stench of refuse, it is hard to picture the gleaming Italian marble and concierge service that Lodha has promised.

The metamorphosis of a former cotton mill into billions of dollars worth of luxury

apartments in a city where 60 percent of the population live in slums is testament to the economic rise of India that had made developers the toast of investors.

In early 2008, DLF, with a market capitalisation that peaked at over 2 trillion rupees (\$40.6 billion), announced a fiscal year profit of over \$1.5 billion - an annual increase of over 300 percent - thanks to an insatiable appetite for property.

But times have changed.

With a market capitalisation that has shrivelled to \$8 billion, the firm has turned to selling the family silver. Aman resorts, the luxury hotel chain it bought in 2007, is on the block as part of plans to sell \$650 million of assets by March. It is expected to announce the sale of the prime 17.5 acre plot adjacent to the World One site in December, two sources with knowledge of the matter told Reuters. The company said it would not comment on market speculation regarding the land, which it purchased in 2005 for just over \$140 million.

Unitech, the No. 2 listed developer, has said it will off-load 7 billion rupees (\$142 million) of assets annually in coming years to service its



Companies are facing a funding drought and might resort to distress sale

India's developers held \$24.4 billion of outstanding credit at the end of June, up 23 percent from a year ago.

Continued....

\$1.1 billion debt.

India's developers held \$24.4 billion of outstanding credit at the end of June, up 23 percent from a year ago. Profits of major listed firms fell 19.5 percent in the same period and property sales in Mumbai slumped 33 percent.

"Developers will be very, very keen to sell off as much of their stock as possible this fiscal year," said Kaustav Roy, executive director of property consultantsushman & Wakefield.

"And if they fail, in March the banks will be looking to close their accounts, and might end up having to foreclose some of their stock," he said.

Costly Credit

World One will start to rise above ground level from its 5-metre thick concrete foundations next month. While it must still negotiate an oft-tangled regulatory process to get permission to climb above 90 storeys, it should meet its end-2014 deadline.

More than 40 percent of World One's apartments have been sold, but Lodha's 32-year-old MD says business had been held back by a sales crunch that began in January. "Our overall general assess-

ment is that sales are slowing," says Lodha. "But we have plenty of time."

Lodha's father, Mangal Prabhath Lodha — India's 50th-richest man according to Forbes — heads the family business. His son is confident that the company can weather the slowdown, given a relatively comfortable \$410 million of debt.

Lodha recently issued \$160 million of non-convertible debentures to meet a 25.1 billion rupee (\$513 million) repayment to Deutsche Bank.

The developer had already restructured the loan in January.

In July, it issued a 2.5-year bond at an interest rate of 17 percent, compared with its average cost of debt of 14 percent.

"Recent fundraising has been more costly," said the younger Lodha. "We don't think we can raise cash at expensive levels."

Lodha, which sold a 10 percent stake in World One for \$100 million to India's top mortgage lender Housing Development Finance Corp in August 2010, at least managed to secure funding before the tap ran dry for the industry.

Central Bank of India and the country's largest lender, State Bank of India, both of which have loans to Lodha, will not make further loans to the sector, senior executives at the banks told Reuters.

Funding Drought

Real estate, which has garnered a growing slice of India's foreign direct investment (FDI) pie over the past few years, from 8.9 percent in 2007-08 to 11 percent in 2009-10, accounts for just 6 percent of the FDI this financial year, according to Ernst & Young.

India's realty index has fallen more than 36 percent since January, more than double the 17 percent slide in the benchmark Sensex, pouring cold water on the roughly \$6 billion worth of planned initial public offering from developers.

Lodha's planned \$570 million IPO has been stuck on the shelf for nearly two years.

More than \$370 million in hoped-for IPO proceeds had been earmarked for construction costs, with another \$61 million set to repay loans. That money has had to come from elsewhere.

Private-equity investors, which have poured \$10.2 bn,



Rising land, construction and labour costs have further taken a toll

"The current market sentiments and excess debt levels at high interest rates, against seriously impacted volumes, should bring about an immediate 10-20 percent price correction,"

Continued....

billion into developers since 2006, are set to withdraw around \$5 billion in the next few years, forcing top developers including Lodha, Shriram Properties, DLF, Phoenix Mills and Unitech to buy back their investments, a Nomura report said in May.

Lodha counts ICICI Bank and JP Morgan as equity investors.

Feeling the heat from rising land, construction and labour

costs, many cash-strapped developers have refrained from dropping prices, despite a growing supply of unsold properties.

But they may not be able to hold out much longer.

"The current market sentiments and excess debt levels at high interest rates, against seriously impacted volumes, should bring about an immediate 10-20 percent price correction," said Sanjay Dutt, CEO, business , at property

consultants Jones Lang La-Salle India.

"That means taking a cut in profit or accepting a loss on some projects ... We are likely to see some developers default on their debt," Dutt said.

Source: CNBC.com

Toon Corner



INTERNATIONAL

Argentine real estate: ditching the dollar?



Buying real estate in Pesos

"The current market sentiments and excess debt levels at high interest rates, against seriously impacted volumes, should bring about an immediate 10-20 percent price correction,"

A strange thing has started to happen in Argentina's real estate market: since new foreign exchange controls were introduced this week, some people have started to buy property... in pesos.

For decades, the norm has been to buy real estate in dollars – which tells you a lot about popular faith in a currency that has changed repeatedly over the years, been rocked by economic crises and hyperinflation, and which even spent a decade believing itself to be as powerful as the greenback (the 1:1 regime in the 1990s).

But according to *Ambito Financiero* business newspaper, there is a catch: sellers may be persuaded to take pesos, but it won't be at the official rate. It quoted Jorge Toselli of JT Inmobiliaria as saying, "You can usually convince sellers but with the parallel dollar rate, that is 15 to 20 per cent more than the price set by the central bank."

The official peso rate is currently 4.27 to the dollar, but on the unofficial parallel market, the rate is 4.68 and investors on Wednesday paid 5.07 pesos per dollar for the so-called *contado con liquidación* operation, where stocks or bonds are bought locally in pesos and sold abroad, netting dollars. Many Argentines expect the official peso rate to tumble against the dollar – and that has fuelled capital flight. *Econométrica*, a consultancy, reckoned in a new report it was as much as \$3.8bn in October.

But some observers say it will be hard to change the Argentine dollar fixation when it comes to buying property, which is largely seen as an investment – especially in the wake of the 2001-02 economic crisis in which Argentina defaulted on \$100bn and devalued brutally.

"I don't think you can *'pesify'* this market – it's been in dollars for more than

50 years," Germán Gómez, a director of *Reorte Inmobiliario*, an online real estate portal, told *beyondbricks*. "And even if a seller accepts pesos, he has no guarantee that when he wants to buy, the other seller will accept them."

He reckons that the immediate impact of the foreign exchange controls will be to ensure that, at least for a while, the number of property transactions falls as people wait to see what happens with the currency.

The government says the new controls are designed to root out illegal transactions and will not affect legal purchases, but many Argentines have railed at the notion of a Big Brother tax authority which decides how much people can save (since dollars, not pesos, are the preferred currency of savings).

Source: FT

Europe Seen Ripe for Distressed Property Loan Sales by Banks

European banks will be forced to sell more distressed commercial property loans in the coming year, as more borrowers default, said panelists at the Bloomberg Commercial Real Estate Summit.

"There's going to be a feeding frenzy soon" for European loans, said Robert Blumenthal, a managing director at Deutsche Bank Securities Inc. "Someone's going to have to take those loans out at a significant discount" and

inject "huge amounts of equity" to recapitalize the assets, Blumenthal told the conference in New York recently.

Mortgage investors Colony Financial Inc. and Starwood



Real Estate Loan default is a major area of concern for European Financial institutions

"The current market sentiments and excess debt levels at high interest rates, against seriously impacted volumes, should bring about an immediate 10-20 percent price correction,"

Continued....

the firms seeking transactions overseas on expectations that delinquencies will rise and banks will dispose of more bad debt and make fewer loans in a weakening economy. European lenders have 151.4 billion euros (\$204.8 billion) of commercial real estate loans in default, compared with \$121 billion at U.S. banks, according to New York-based data provider Trepp LLC. Banks in the U.K. have the largest share of those loans, with 64 billion euros in delinquent debt.

'They're Very Concerned'

Europe's fiscal crisis has roiled credit markets since July, causing gyrations in the value of securities tied to shopping malls, skyscrapers and hotels and leading to a pullback in loan originations. Issuance of commercial mortgage-backed securities in the U.S. has totaled about \$26 billion this year. While that's up from \$11.5 billion in 2010, it's a fraction of the record of more than \$200 billion in 2007 when commercial real estate peaked, according to data compiled by Bloomberg.

"The Street's not really taking risk, they're very concerned," Steven Schwartz, managing director of loan acquisitions for Torchlight Investors, said at the Bloomberg conference. "The

first quarter's going to be grim."

In the U.S., it's still difficult to get financing for commercial buildings outside of fully leased, prime properties in major coastal cities such as New York, Washington and San Francisco, the panelists said. They said the slowdown in sales of CMBS probably will continue in 2012, keeping CMBS sales to about \$30 billion, or about the same as this year.

Because the CMBS market isn't coming back fast enough to help borrowers refinance debt coming due, there will be a "huge increase" in U.S. hotel foreclosures next year, said Robert Sonnenblick, a hotel developer.

Replacement Debt

About \$21.7 billion in CMBS loans on 232 hotels are coming due in the next 12 months and need to be refinanced, according to Realpoint, a securities ratings firm now owned by Morningstar Inc. At best, a third of that will be refinanced, with many properties being taken over by lenders, Sonnenblick said.

Private-equity firms and real estate companies over the past six months have been staffing up in London in anticipation of bidding for dis-

tressed debt in Europe, said Glenn Rufrano, president and chief executive officer of brokerage Cushman & Wakefield Inc.

"They're expecting in 2012 the one area of the world that will break in terms of opportunities" is the European region, he said. European banks need outside capital to solve the crisis, "whether it's pure finance or it's buying distressed loans. That's where I see 2012. That's where we want to be" providing services to loan buyers, Rufrano said.

REIT Inquiries

In August, JPMorgan Chase & Co., Wells Fargo & Co. and Lone Star Funds won the bidding for Anglo Irish Bank Corp.'s \$9.65 billion portfolio of U.S. real estate loans. The sale followed a similar disposal by Allied Irish Banks Plc earlier this year.

While real estate capital markets have improved from the credit freeze in 2008, U.S. executives are still concerned about access to financing, Deutsche Bank's Blumenthal said.

He said he received calls over a two-week period during the past month from officers at every investment-grade real estate investment trust wanting to extend their unsecured



Market has still not seen a full rebound

"The current market sentiments and excess debt levels at high interest rates, against seriously impacted volumes, should bring about an immediate 10-20 percent price correction,"

Continued....

Third-Quarter Slowdown

The U.S. commercial real estate market slowed in the third quarter as the sputtering economy and a pullback in debt financing limited deals. A total of \$49.8 billion of commercial property changed hands in the period, down from \$58.5 billion in the previous three months, according to Real Capital Analytics Inc. in New York. The 15 percent decline is the second-biggest since the first quarter of 2009, the real estate research firm's data show.

Dune Real Estate Partners LP expects investment opportunities in the U.S. next year, said CEO Daniel Neidich.

Neidich told the conference. Next year will continue "along those lines," he said. One hindrance to European investing for dollar-based investors is the challenge of hedging currency risk, he said.

Most investors are focusing on major coastal cities such as New York, Washington and San Francisco, according to Leslie Wohlman Himmel, managing partner at Himmel & Meringoff Properties, a New York investment firm that owns and operates more than 2 million square feet (186,000 square meters) of office and retail space.

Chasing Yield

"The flow from special servicers and banks has increased," Neidich told the conference. Next year will continue "along those lines," he said. One hindrance to European investing for dollar-based investors is the challenge of hedging currency risk, he said.

chasing yield in the suburban markets," she said.

Unlisted REITs are likely to be among the most active investors next year, according to Rufrano of Cushman & Wakefield.

Another popular strategy remains buying junior debt to get a claim on the underlying property if the mortgage borrower defaults, Deutsche Bank's Blumenthal said. "Most of the inquiries are to get at an asset through the mortgage with the objective to loan to own or recap," or get paid off at par, he said.

Source: Bloomberg Businessweek

UK INVESTMENT AGENTS LEAGUE TABLE TOP 20 (1 JAN 2011 - 9 NOV 2011)

Company	Total Value (£m)	No of Trans
1. Jones Lang LaSalle	5,703	177
2. CB Richard Ellis	4,601	143
3. Savills	3,174	106
4. Knight Frank LLP	2,519	101
5. Strutt & Parker	1,413	54
6. DTZ	1,365	72
7. Cushman & Wakefield	1,338	74
8. King Sturge t/a JLL	1,212	96
9. Franc Warwick	1,112	27
10. Morgan Williams	1,057	32
11. BNP Paribas Real Estate UK	1,029	47
12. Colliers International	875	58
13. Dowley Turner	670	11
14. GVA	666	59
15. GM Real Estate	598	12
16. Lambert Smith Hampton	481	43
17. Farebrother	446	2
18. Drivers Jonas Deloitte	445	38
19. Michael Elliott LLP	416	19
20. Allsop & Co	326	28

Figures subject to rounding and future revision

Source: Propertysdata.com



Indu Centre for Real Estate & Infrastructure

Indian School of Business
Gachibowli
Hyderabad-500 032
India

The Indian School of Business evolved from the need for a world class business school in Asia. Our founders- some of the best minds from the corporate and academic worlds-visualized the leadership needs of emerging Asian economies. They recognized that the rapidly changing business landscape would require young leaders with an understanding of evolving economies, but also with a global perspective. The ISB is committed to its role in creating such leaders through its innovative programmes, outstanding faculty and thought leadership. Funded entirely by private corporations, foundations and individuals from around the world, who believe in its vision, the ISB was conceived as a not -for-profit organization.



<http://www.isb.edu/ICREI/>

Please write back to us with suggestions/feedback on:
icrei@isb.edu

Editorial Team:

Dr V Chandrasekar

Professor-Entrepreneurship

Executive Advisor

Indu Centre for Real Estate and Infrastructure

Indian School of Business

Hyderabad

V_Chandrasekar@isb.edu

Sidhartha Patnaik

Editor, ICREI Newsletter

Indu Centre for Real Estate and Infrastructure

Indian School of Business

Hyderabad

vikky.sid@gmail.com

Neeraj Vimal Prasad

Research Associate & Editor , ICREI Newsletter

Indu Centre for Real Estate and Infrastructure

Indian School of Business

Hyderabad

Neeraj_Prasad@isb.edu



**Indu Centre for Real Estate & Infrastructure
Indian School of Business**