Indian Real Estate
H2 2016 Round-up

Demonetization –Short term pain for long term gain

500 and 1,000 rupee notes are no longer legal tender from midnight, 8th November 2016. RBI issues 2,000 rupee notes and new notes of 500 rupees for circulation from 10th November 2016

Impact on the Macro Indicators

Parallel Economy - a) Remove black money from the economy, b) Temporarily stall circulation of counterfeit currency & c) Curb funding for anti-social elements like smuggling & terrorism

Money Supply - 86.4% of bank notes value were in 500 and 1000 rupee notes amounting to USD 210 bn equivalent to 10% of GDP a) money supply will reduce in short run until new 500 and 2000 Rupees notes get widely circulated in market, b) The money that does not re-enter the system will decrease permanently in short run, c) Reduced money to be taken as reserve which can be used to add to the government finances

Inflation - As demand contracts in the short term, it could lead to lower prices in the economy leading to lower inflation. This is particularly applicable to discretionary consumption, real estate

Interest Rates - RBI projected to reduce interest rates in the next cycle by about 50 basis points. The reduction in bank rate will put pressure on the banks to reduce home loan and construction financing rates

GDP - GDP formation in short run can be impacted due to reduction in consumption demand. In longer term, as a portion of black economy moves to white economy it will have a positive rub off effect on the GDP

Economic Activities - Could face short term disruptions in some economic activities till the new notes are spread widely in circulation

Banks - Enhanced liquidity position which in turn can be used for further lending

Impact on Real Estate

Land – Minimal impact on land transaction via joint ventures or joint development. Slow down in direct land deals in terms of transaction volume with prices falling in short to medium term. Land demand to pick up once the price stabilizes in long run

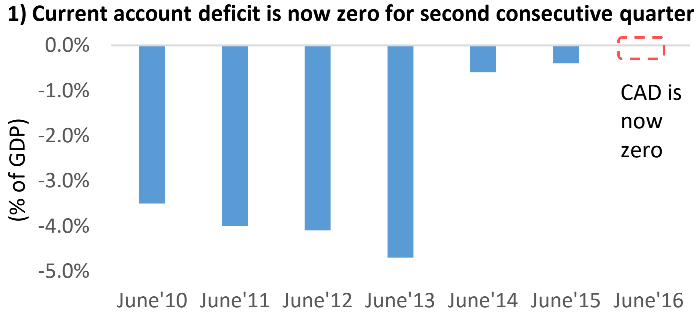
Residential demand - a) Primary sale in short run will be subdued as buyers will prefer secondary distressed property. Delta between primary and secondary markets would increase as black money is utilized mostly during secondary sale of residential units b) Home prices to reduce in luxury segment due to paucity of money and infusion of secondary market units on sale at lower rates. In affordable segment, we expect both transaction volumes and prices to be less impacted c) In long run, demand would pick up on account of lower interest rates & improved execution timeline

Commercial demand - Limited impact on commercial leasing transaction given that cash components do not play a significant role there a) Commercial strata sale volume will come down in short run, b) Increased rental in low vacancy micro – markets in Bangalore, Pune and Hyderabad due to slow down in strata sale where developer would take more time on constructing new commercial buildings c) Long run demand supply to stabilize once the under construction office spaces are built

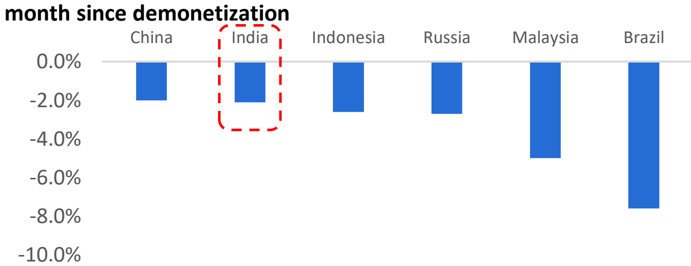
Medium to Long term - More industry friendly regulation (RERA coupled with demonetization) to ensure entry of more foreign entities (developers and funds) in the Indian market and more liquidity for established Indian developers. Economy and sector more aligned to global compliance standards with high levels of corporate governance making it easier for foreign entities to invest, monitor and exit their investments in India. Increased tax collection, transparency coupled with reduced interest rates and low inflation to provide for macro stability that will set apart India from other emerging markets economies.

Other Macro Highlights

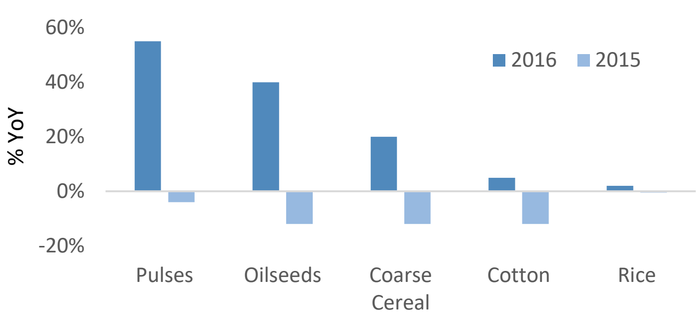
1) Current account deficit is now zero for second consecutive quarter



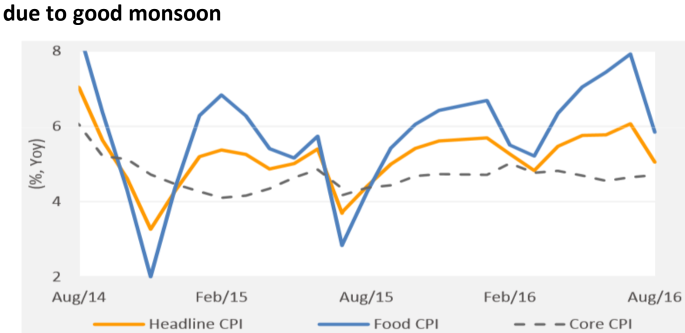
2) Rupee better performing currency in emerging market vs USD in 1 month since demonetization



3) Good monsoon – resulted in bumper agri output



4) Resulting in Inflation coming down driven by increased food supply due to good monsoon

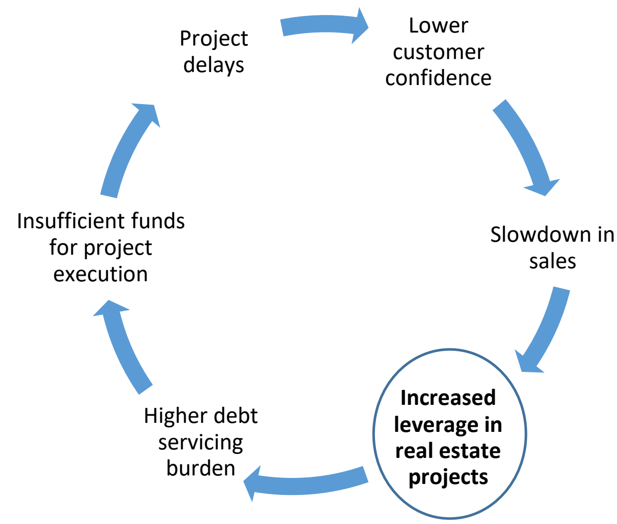


Source: CMIE, Economic Times, Reserve Bank of India (RBI)

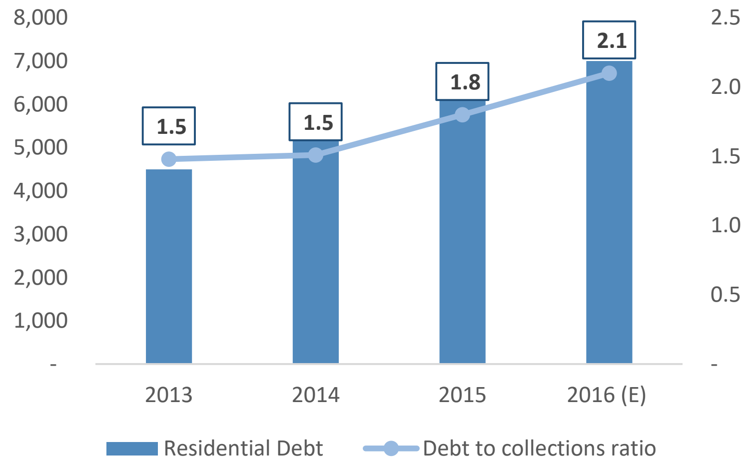
Indian Residential Real Estate Sector Update

Residential Segment Trends

1 Market slowdown and debt structures - Impact on projects

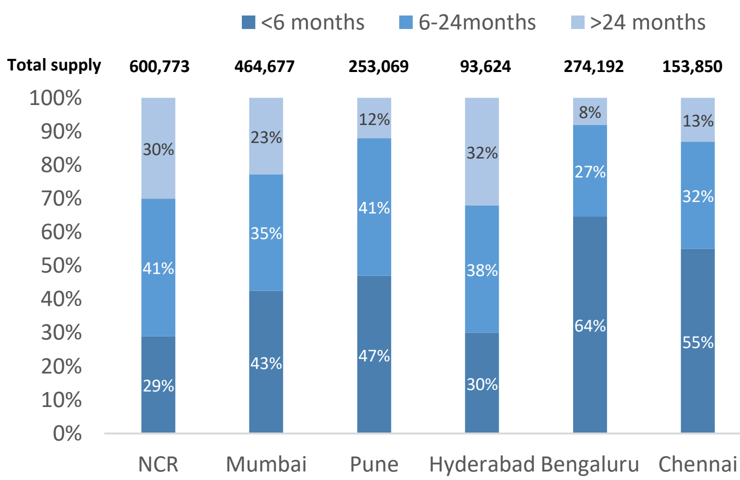


2 Developer debt has increased substantially ₹ Bn



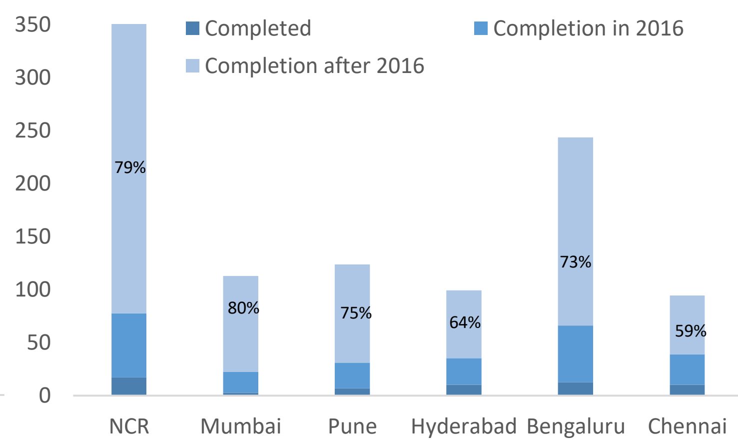
Source: CRISIL report on Real Estate sector, 2015; Note: Analysis done on top 25 Indian real estate developers

3 Leading to delayed projects: Projects delay across the main markets



Source: Liases foras and Rising Straits research

4 Demand exists for completed and near to completion projects: Unsold inventory breakdown by completion status (MSF)



Source: Propequity and Rising Straits research

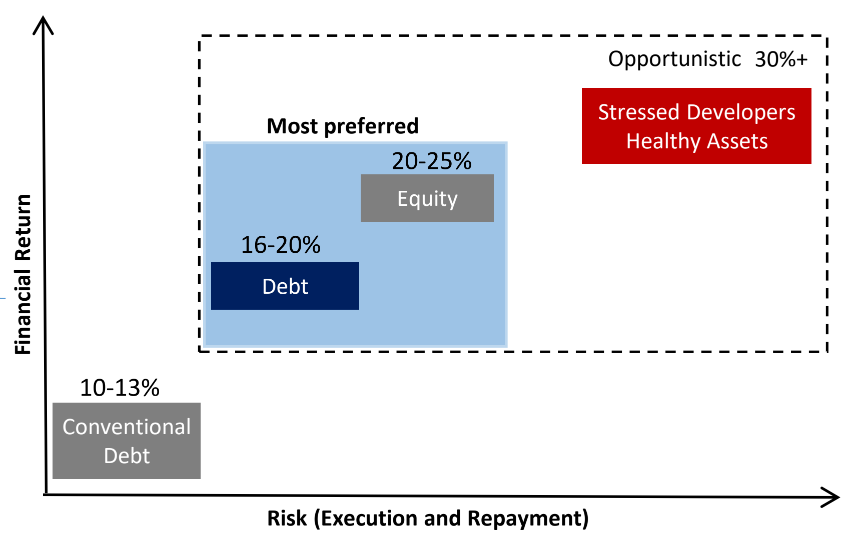
Residential Segment: Capital for Completion

Project Criteria for investment

- No Land Risk
- Key approvals in place
- Construction underway
- Project launched with significant sales and collection achieved

Factors determining Debt vs Equity

- Product Mix
- Pricing
- Future capital surplus
- Competitive landscape
- Developer alignment

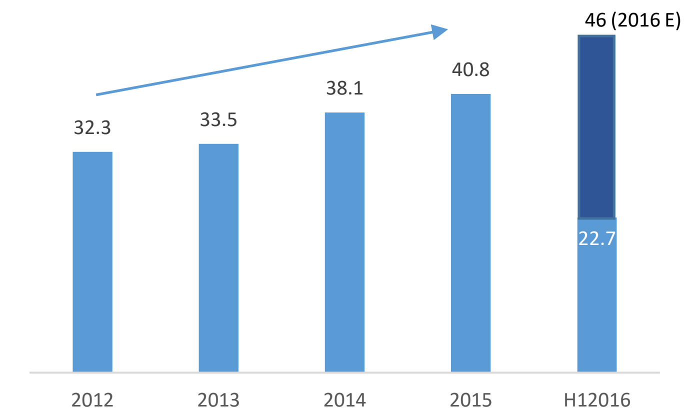


RISING STRAITS Capital

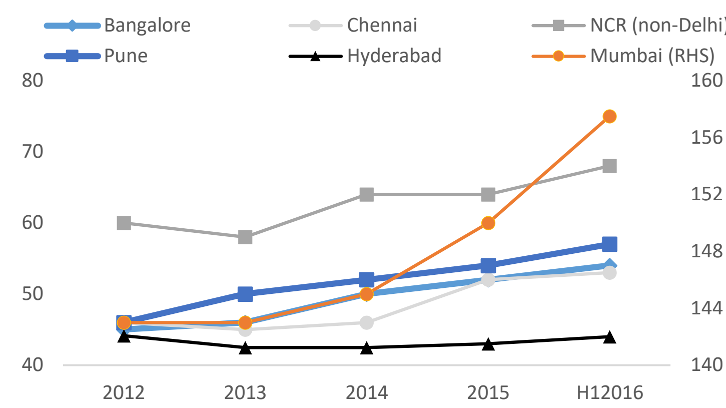
Indian Office Real Estate Sector Update

Office Segment Trends

Increasing annual absorption (mn sqft): H12016 22.7 mn sqft

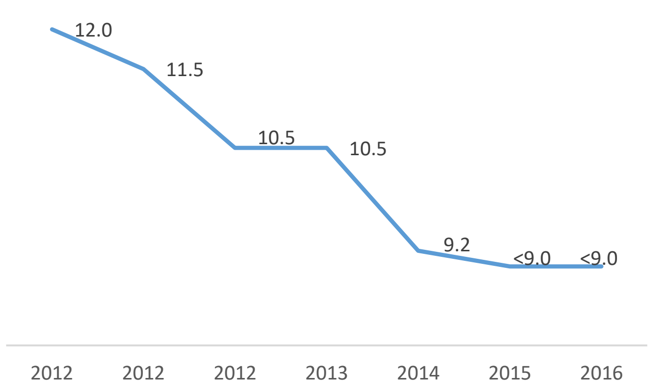


Average rental (INR/sqft) going up based on Q2 2016



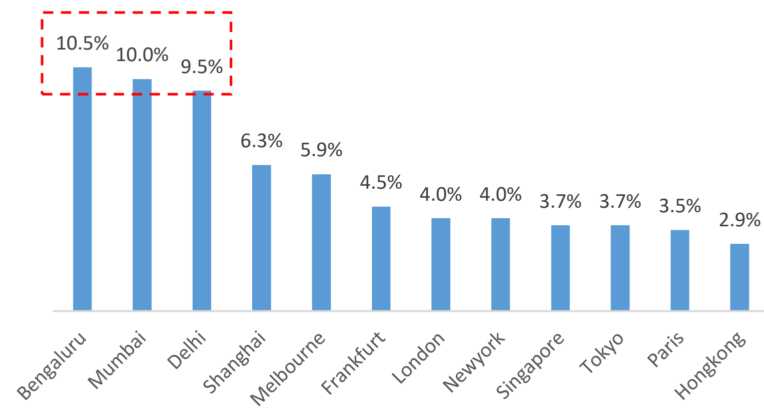
Source: Data from Knightfrank, Jones Land LaSalle REIS and Colliers International

Falling Cap Rate – Provide good exit returns



Source: Market Knowledge based on key transactions

Prime Yields in 2015
Indian cities are giving the highest yields



Source: Knight Frank Research, Newmark Grubb Knight Frank Research, Sumitomo Mitsui Trust Research Institute

Office Strategy – Equity investments in brownfield "build-to-core"

Example of Quantitative methodology for deal assessment – Inter / Intra cities

	Rental growth yoy	Vacancy (%)	Grade A stock (M SF)	Infra rank (social + physical)	Rating
CBD	-2%	8%	3.5	8	4.5
Micromarket 1	11%	3%	17.7	7	7.4
Micromarket 2	11%	5%	43.7	7	8.0
Micromarket 3	4%	11%	21.3	6	6.3
Micromarket 4	1%	20%	8.5	4	4.1

Fund the gap in equity component for financial closure
Target yield to cost 13-15%, Target returns – 20% +, 2x +