



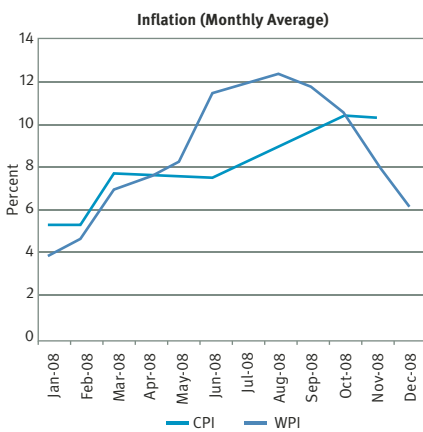
JANUARY 2009

ECONOMY @ GLANCE

Knight Frank

Economic Outlook

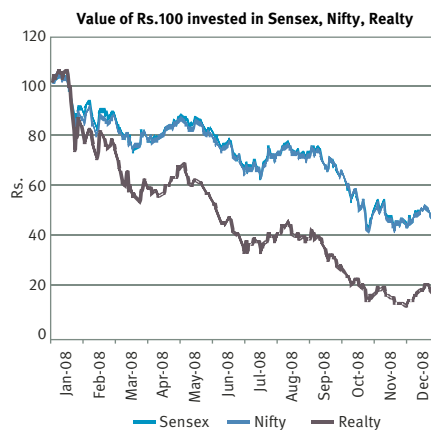
2008 was a year of extremes, swinging from exaggerated euphoria to unwarranted pessimism. Equities, Commodities and Realty, the most favoured asset classes, touched their peak, only for the former two to crash in dramatic fashion during the latter half of the year.



Source: Government of India

In less than five months, inflation dropped sharply from a high of 12.91% (revised) in the first week of August '08 to 5.91% in the last week of December '08. This has brought some relief to the government and provided leeway to the Reserve Bank of India (RBI) to cut interest rates to stimulate consumer spending. The past year proved to be a bloodbath for the equity markets, with the Sensex, Nifty and Realty losing about 52%, 52% and 82% respectively. During the year, Foreign Institutional Investors (FIIs) remained net sellers of a massive Rs.530 bn. worth of equities, whereas Mutual Funds (MFs) were net buyers of Rs.141 bn. In the debt securities market, FIIs and MFs both remained net buyers of Rs.118 bn. and Rs.486 bn. respectively. However, in December,

government initiatives, coupled with the net buying by FIIs and MFs, improved sentiments in the equity markets with the Sensex and Nifty gaining about 6% and 7% respectively. The Realty index also gained 46% in December.

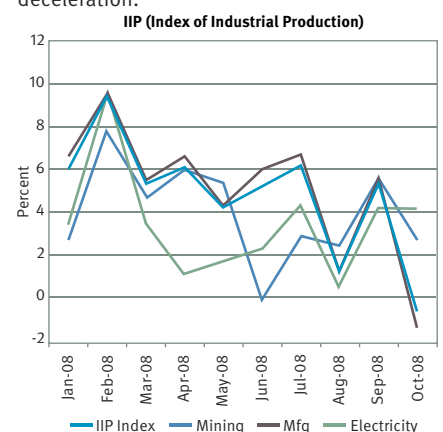


Source: Bombay Stock Exchange, National Stock Exchange

Exports, which contribute about 16% to the GDP, declined by 12.1% in Oct '08 and 9.9% in Nov '08 as compared to the corresponding months the previous year. The forecast is bleak, with exports expected to fall short of the FY '09 target of USD 200 bn. The Baltic Dry Index, a proxy for world trade flows, has fallen by over 90% till December. On the domestic front, the Manufacturing sector experienced negative growth of 1.2% resulting in an Index of Industrial Production (IIP) decline by 0.4% in October '08 compared to the same period last year.

While India is not expected to face a technical recession, the slowdown in growth has alerted policy makers. The National Council of Applied Economic Research (NCAER) Business Confidence Index fell to a five year low during Q3 2008. Production cuts and reduced work shifts, mainly in the

Automobiles and Metals industries, employee layoffs and hiring freezes have adversely impacted consumption and dented economic growth, which declined to 7.6% during Q4 2008 as compared to 9.3% for the same period last year. As a result, the focus of the government has now shifted from decoupling of the Indian economy from the developed economies to reviving slowing growth. December '08 highlighted the desperation of the government. Petrol and Diesel prices were reduced by Rs.5 and Rs.2 per litre respectively. Further, the RBI implemented a series of rate cuts from September 08 till the first week of 2009 that reduced the Repo, Reverse Repo and Cash Reserve Ratio (CRR) by 350 bps, 200 bps and 400 bps respectively. However, it is pertinent to note that monetary measures work well to restrain an accelerating economy but are not as efficient in stimulating growth during deceleration.



Source: Government of India

The biggest indication of the government's concern was the unveiling of two economic stimulus packages within a month. The first one aimed at enhancing liquidity and reducing the cost of funds for producers and product prices for consumers.

India Research

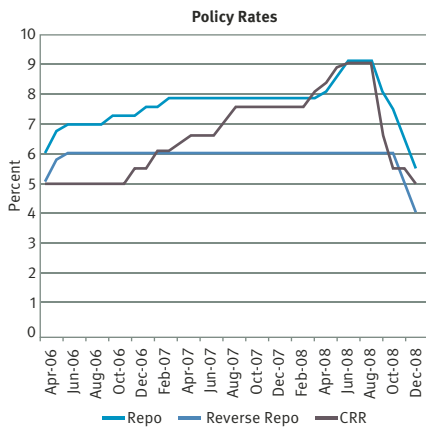
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The Rs.300 bn. package announced a convat rate cut by 400 bps, refinance of Rs.40 bn. to the National Housing Bank, designation of Housing Finance Company loans up to Rs.2 Mn. under priority sector lending and a Rs.100 bn. fund raising initiative by the India Infrastructure Finance Co.Ltd. through the issuance of tax free bonds. The second package, announced on 2nd January '09 focused on further reducing the cost of funds and ensuring the uninterrupted flow of credit to productive sectors of the economy. However, besides the policy rate cuts and opening up of the External Commercial Borrowings window for integrated township projects, none of the other measures contained in the second package will directly impact the real estate market.

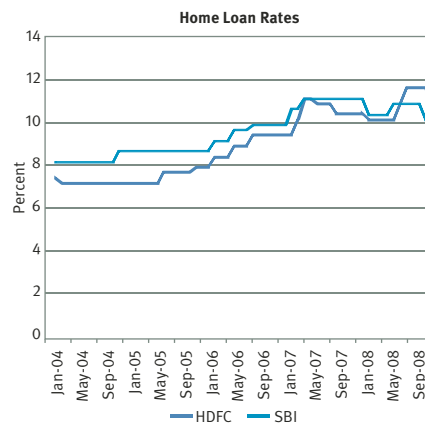


Source: Reserve Bank of India

Even while the government is demonstrating flexibility to control the economic situation, the fact remains that cutting interest rates in itself is not sufficient to stimulate demand in weak economic conditions such as those prevailing today. Demand for housing is dependent mainly on the affordability, which in turn is determined by property prices and interest rates. The RBI does not have control over prices and therefore has focused on reducing the interest rates.

However, while key policy rates like Repo and Reverse Repo were cut by 350 bps and 200 bps respectively in the last four months, the reduction in home loan rates did not match this quantum of cuts. Even now, for a Rs.2 Mn. loan with a 20 year tenure, interest rates have come down marginally by about 150-200 bps to 9.25% in the last few months, remaining well above the 7.25% witnessed in

the 2004-05 period. With inflation falling below 6%, prospective buyers are anticipating a further fall in interest rates to these levels, and are hence reluctant to purchase. Similarly, property prices, even after some correction in the last two quarters, remain beyond the affordability of a large chunk of prospective buyers. Further, property rates, which more than doubled in the last 2-3 years, have now started to taper, making lenders more prudent. Therefore, the increased liquidity with banks on account of the CRR and Statutory Liquidity Ratio (SLR) cuts may not translate into higher lending to the household and corporate sectors. In these uncertain economic conditions, instead of compromising on their asset quality, banks would prefer to subscribe to sovereign bonds. The confidence among the lenders and borrowers has to return if the property market is to see a revival in demand.



Source: HDFC, SBI

Residential Outlook

On the whole, Q4 2008 residential prices across India declined marginally. However, a closer look at each of the micro-markets surveyed across the country reveals that while rates in some micro-markets have declined markedly relative to Q3 2008, other micro-markets during the same time period exhibited greater resistance to the downward pressure on residential prices. The decisive factor currently influencing residential prices is the developers' ability to hold their prices in the face of more prudent demand and a crippling lack of financing options. For the best part of Q4 2008, most developers across the country sought to stave off price decreases by offering incentives such as free

registration and parking and extra amenities. However, the pressure exerted by highly leveraged balance sheets and drying cash flows has started to tell on the industry. Consequently, a considerable number of developers are officially and unofficially offering lower rates. This trend can be expected to continue in the forthcoming quarters as reluctance on the demand side and a lack of financing options for developers will continue to weigh down residential prices across the country.

The following tables list the top 7 residential micro-markets in Mumbai & NCR in terms of price decline during Q4 2008 relative to Q3 2008.

Mumbai	Q3 2008 - Q4 2008 Price Decline
Parel, Sewri and Byculla	29%
Goregaon to Borivili	28%
Ghatkopar East	27%
Mulund	26%
Sion/Chembur	19%
Bhandup	14%
Andheri	5%

Source: Knight Frank Research

NCR	Q3 2008 - Q4 2008 Price Decline
Greater Noida	11%
Gurgaon	13%
New Friends Colony	11%
Greater Kailash I & II	2%
Ghaziabad	2%
Noida	1%
Chanakyapuri	1%

Source: Knight Frank Research

Office Outlook

Office micro-markets across the country have witnessed declining rentals during Q4 2008. On a macro level, this decline in office rentals is far greater than that in residential values analysed across the same cities. This can be attributed primarily to the fact that given the need for consumers across the board to curb spending during these tough economic times, it is far easier to re-negotiate leases down to lower rates than it is to force down capital values. While developers of residential property attempted to hold onto prices in the hope that market conditions will improve, those leasing out office space would much rather maintain occupancy at the cost of lowering rental rates.



Absorption rates, which will decline in 2009 as a result of decreased demand from various business sectors, especially the IT/BPO sector, may not be sufficient to absorb the massive supply of office space in the pipeline. Hence, office rentals can be expected to decline further over the short term.

The following tables list the top 7 office micro-markets in Mumbai & NCR in terms of rental decline during Q4 2008 relative to Q3 2008.

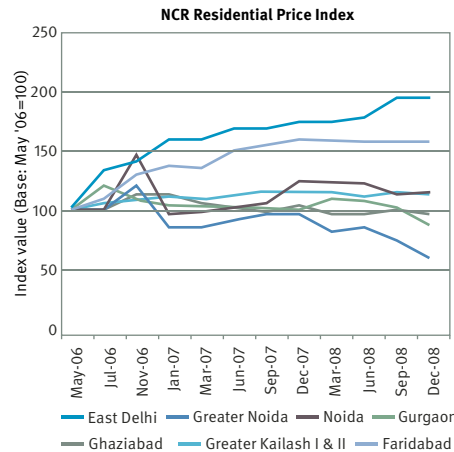
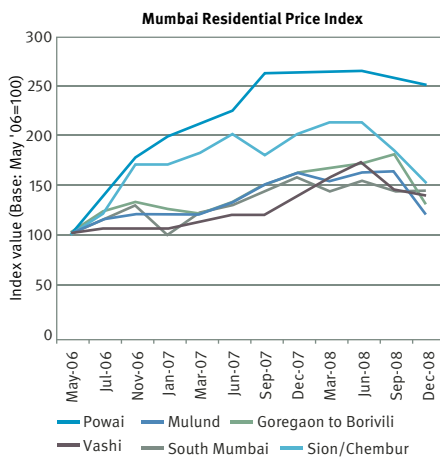
Mumbai	Q3 2008 - Q4 2008 Rental Decline
BKC/CST Road	35%
Navi Mumbai	32%
Lower Parel	29%
Malad	21%
Andheri	20%
Fort/Ballard Estate /Churchgate	11%
Worli - Prabhadevi	9%

Source: Knight Frank Research

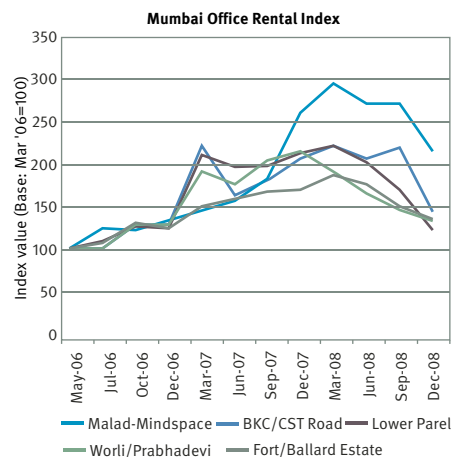
NCR	Q3 2008 - Q4 2008 Rental Decline
Gurgaon	16%
Bhikaji Cama Place	15%
Noida	7%
Connaught Place	6%
Okhla Industrial Area	5%
Nehru Place	1%
Mohan Cooperative Area	1%

Source: Knight Frank Research

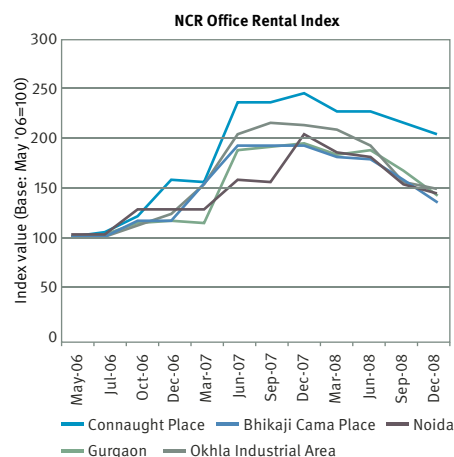
The following graphs show the trend in property prices and office rentals in the form of an index with the base period as May 2006.



Source: Knight Frank Research



Source: Knight Frank Research



Source: Knight Frank Research

Select Real Estate News

December 7, 2008- Government unveils first of two economic stimulus packages to be released within a month.

December 8, 2008- To stimulate development at BKC, the Mumbai Metropolitan Region Development Authority (MMRDA) announced permission for builders to upgrade their FSI to 4 for 20% of their commercial plot's market value.

December 11, 2008- The Maharashtra Housing and Area Development Authority (MHADA) announced plans to redevelop all 56 of its old colonies across Mumbai city at FSI ranging between 2.5 to 4.

December 15, 2008- PSU Banks announce interest rate cuts such that all loans of Rs.500,000 and below will be priced at 8.50%, and all loans between Rs.500,000 and Rs.2 mn. to be priced at 9.25%. Rate cuts were accompanied by provision for free loan insurance cover, waiver of pre-payment penalty and lower margins. This package will be valid up to June 30, 2009.

December 19, 2008- HDFC announces 50-150 bps. cut in floating home loan rates.

December 31, 2008- HFCs such as Dewan Housing Finance announce plans to slash interest rates on loans up to Rs.2 mn. GIC Housing Finance confirms interest rate cut of 100-150 bps for loans up to Rs.2 mn.

January 2, 2009- Government unveils second economic stimulus package, with the highlight for the real estate sector being the opening of External Commercial Borrowings window for development of integrated townships.

THE DECISIVE FACTOR CURRENTLY INFLUENCING RESIDENTIAL PRICES IS THE DEVELOPERS' ABILITY TO HOLD THEIR PRICES IN THE FACE OF MORE PRUDENT DEMAND AND A CRIPPLING LACK OF FINANCING OPTIONS.