THE GERA PUNE RESIDENTIAL REALTY REPORT

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Pune's residential real estate market shows signs of stress on various counts. Stagnant prices, increasing inventory and many buyers sitting on the fence add to the woes of real estate developers at the present time. Regulatory changes that have already been embarked upon as well as those such as the regulatory bill will further add to the challenges for developers.

In many ways these are good times and there is a silver lining in the midst of the doom and gloom. For an industry that had no barriers to entry and where core competence required was "managing the process", these challenging & competitive times lead to the emergence of a better product, more customer centricity, greater focus on delivery track record and hopefully, the exit of the fly by night operators who entered the industry to make a quick buck.

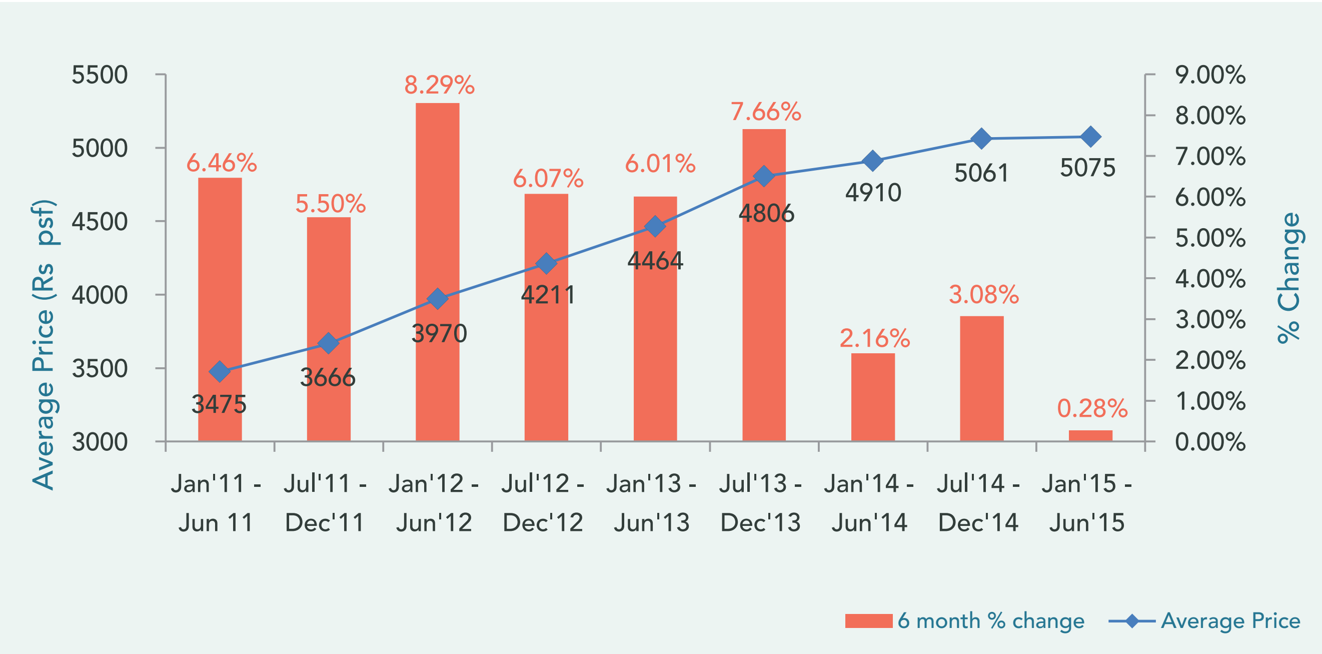
The lead indicator that every future, present and past home buyer looks at is the price of the property. Looking at the 12 month price rise over the past 3 years, we see a slow down in price appreciation from 12.47% for June '12 – June '13 to 10.03% from June '13 – June '14 and now own to 3.33% for June '14 – June '15.

While inflation has abated over the past year, the average inflation rates over the same duration has been closer to an average of 7%. The increases in service tax as well as the approval and development charges that are linked to the ready reckoner have further compressed developer margins and prices in real terms have actually reduced from the developers' perspective.

Many end customers continue to wait for the bubble to burst. Given the cost structure, the real price reduction, high interest and holding costs, it seems the dramatic impact of a bursting bubble has given way to being more akin to a tyre with a slow puncture that continues to deflate without any drama.

Part of the reason why prices continue to be anchored down is the increase in the total supply of projects and number of homes in the market. The total inventory (gross supply i.e. all homes under construction as well as ready projects with over more than 5% unsold inventory) has increased from 245,639 homes over 2761 projects 12 months ago to 280,913 homes across 3067 projects. A

FIG. 1 SIX MONTHLY PRICE MOVEMENTS



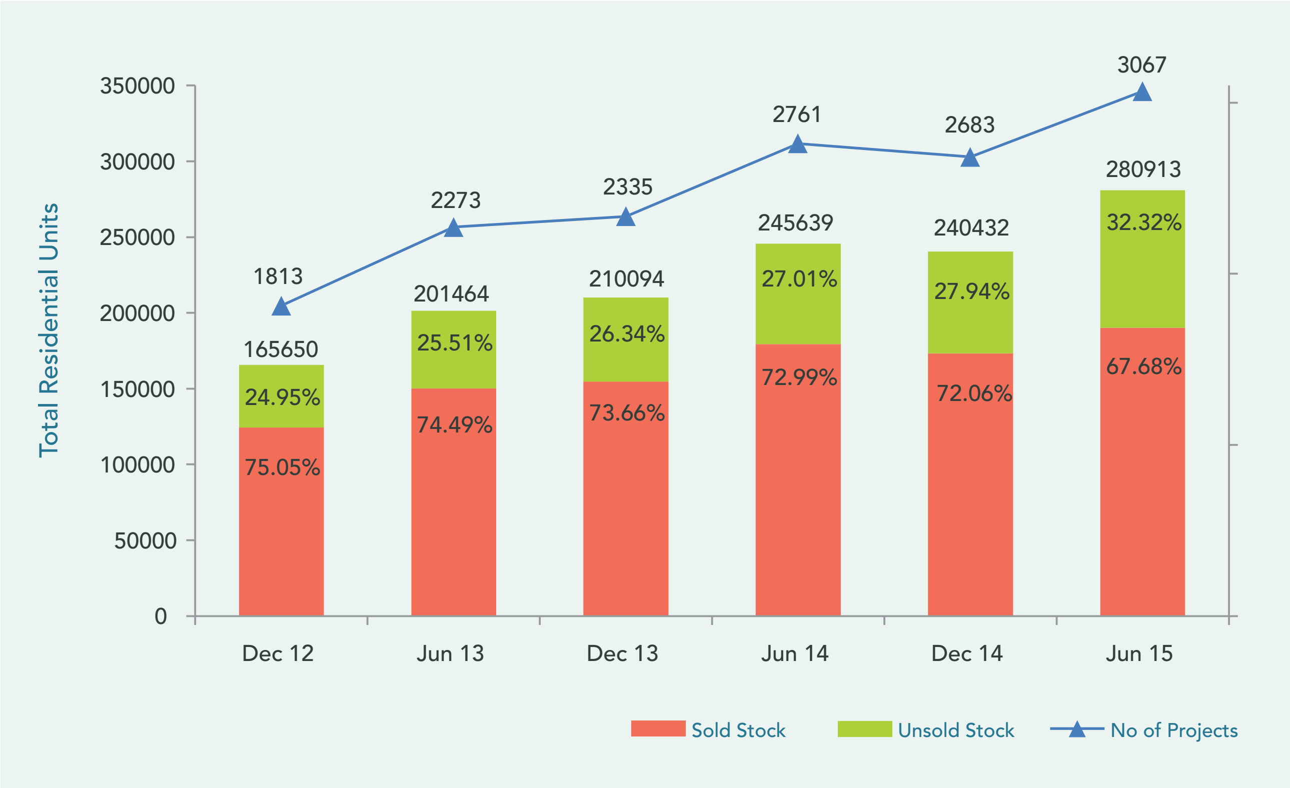
net addition of 35,324 homes across 306 additional projects. This increase of gross inventory of 14.36% is significant. When assessing the prices on a weighted average basis, the overall market has a price reduction of 3.2% over the past 12 months. This however, is due to the increase of supply in areas that are more affordable. Clearly developers are focusing their efforts on the more affordable segment of the market in the outskirts of the city region.

and are recommended to conduct developer as well as project financial due diligence before committing to purchasing homes.

ASSESSMENT OF UNSOLD STOCK BY PRICE RANGE

On assessing the unsold stock by price point over the past 2 years, all price ranges have seen an increase in the

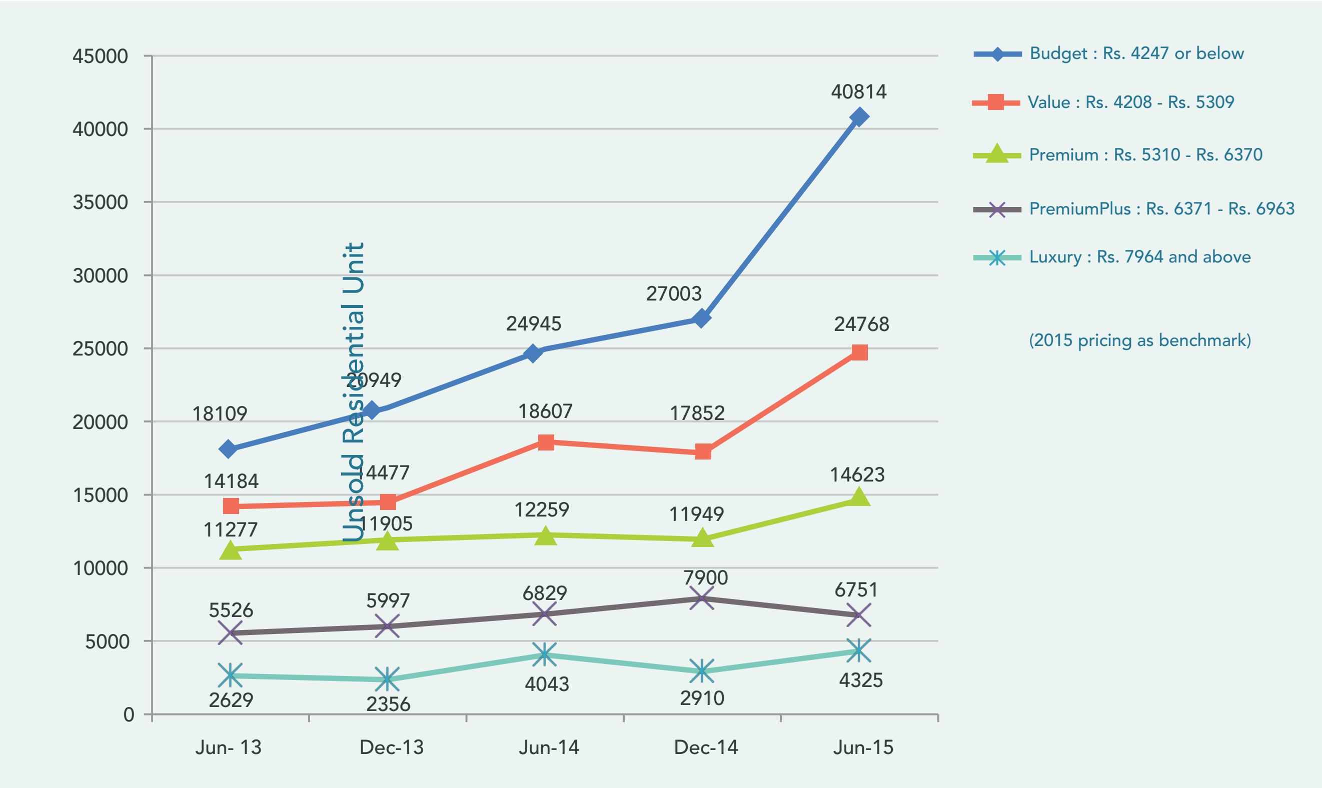
FIG. 2 OVERALL SUPPLY SITUATION



While the gross stock has risen 14.36% in the past 12 months, the unsold stock (inventory with developers for sale) has shown a steep jump from 66,350 homes a year ago up to a record 90,799 homes at present. This 36.85% jump in unsold inventory is where the problem will take place. Clearly there will be some projects and locations that will not find favour amongst home buyers and these projects will find it extremely difficult to achieve financial closure. As a result, there is a potential for some projects being grounded till the market sees a turn around. Home buyers are therefore advised to exercise extreme caution

unsold stock . The surprise though is that the budget category (where prices presently are below Rs 4247psf) has seen an increase of 125% from 18019 unsold units to 40814 unsold units. The next highest increase is the Value category (current prices between Rs 4248 & Rs. 5309 psf) with an increase of 75% from 14184 units to 24768 units. The luxury segment has the next highest increase in unsold inventory at 65% from 2629 units unsold rising to 4325 units. The Premium and Premium plus category have relatively low increases at 30% & 22% respectively.

FIG. 3 UNSOLD STOCK BY SEGMENT

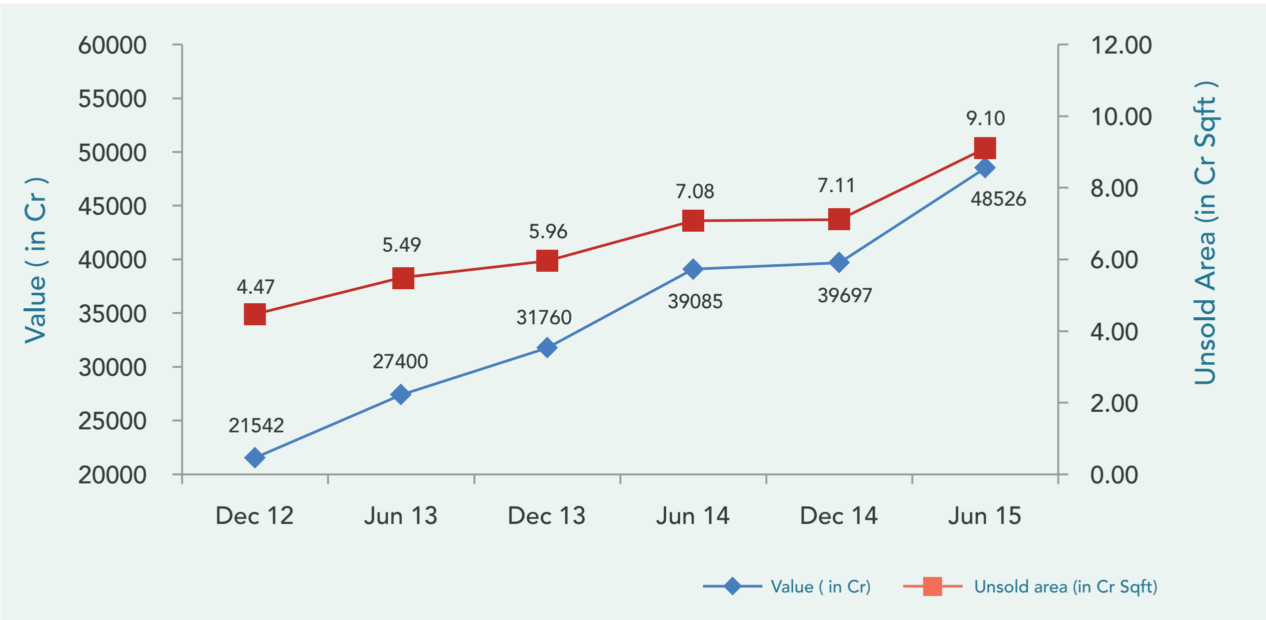


The data indicates that the fact that developers are focusing on the luxury segment is a myth as also the fact that there is unending unmet demand at the budget segment.

UNSOLD INVENTORY VALUE AND SQUARE FEET

The gross value of the unsold inventory stands at Rs. 48,526 crores. This increased inventory provides an opportunity for the state government to garner nearly Rs.3000 crores by way of stamp duty, LBT & VAT. Further, accelerating these home sales means additional supply leading to a boost in the GDP of the state and consequentially enhanced revenues for the state and increased housing for the citizens.

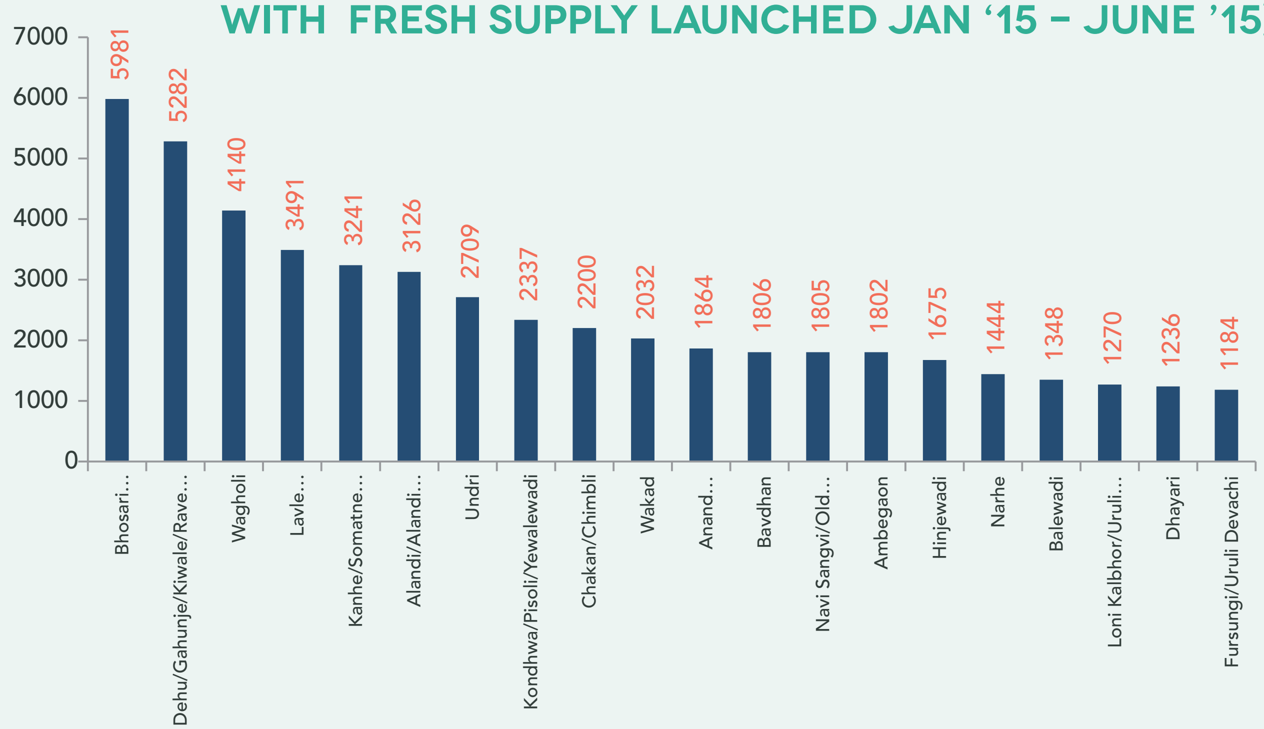
FIG. 4 VALUE OF UNSOLD INVENTORY (IN RS. CR.) & UNSOLD AREA (IN CR. SQFT.)



SUB MARKETS WITH MAXIMUM NEW STOCK ADDED

The following chart indicates those areas where the maximum new stock has been added in the past six months. Most of the incremental stock is added outside the Pune Municipal Corporation limits. This indicates the growth of the city outward. As this trend continues, this will lead to declining revenues by way of development charges and premiums for the PMC.

FIG. 5 NEW UNIT LAUNCHES (TOP 20 MICROMARKETS WITH FRESH SUPPLY LAUNCHED JAN '15 – JUNE '15)

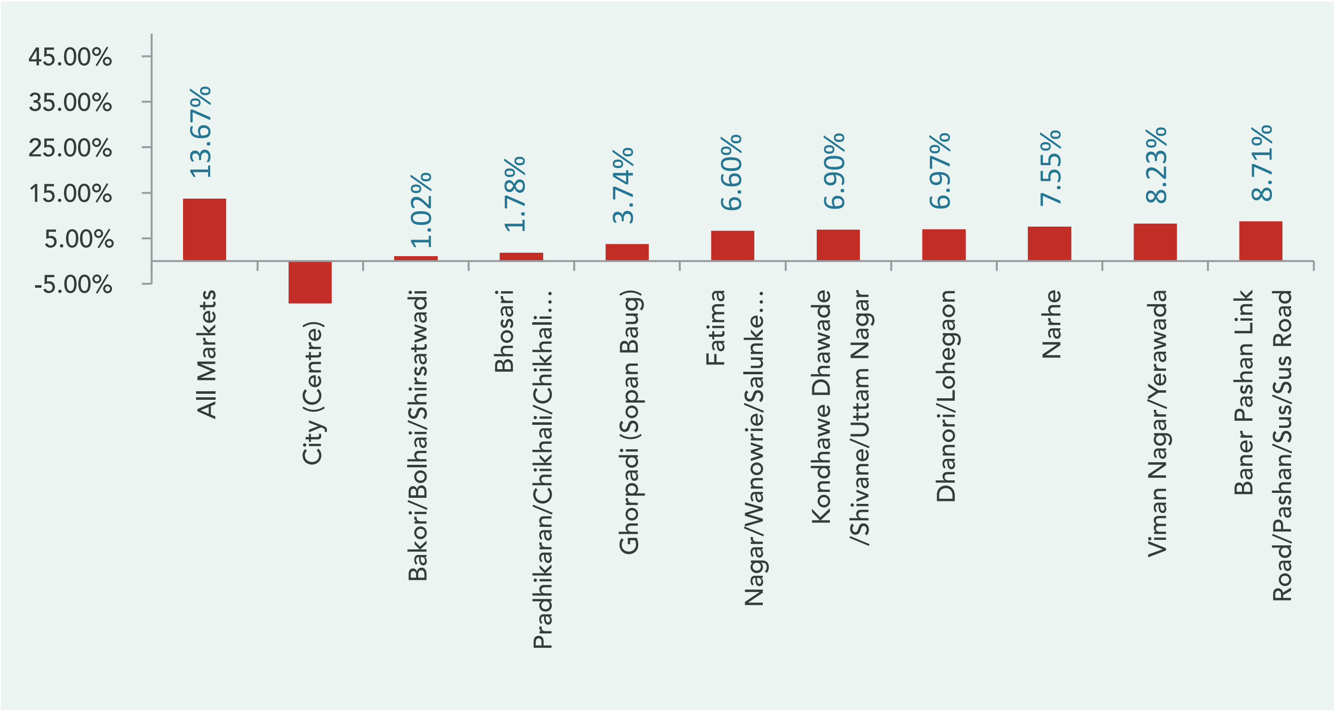


TOP 10 SUB-MARKETS PRICE APPRECIATION OVER 24 MONTHS

LOCATIONS WITH HIGHEST PRICE APPRECIATION IN 24 MONTHS

39.91%	Aranyeshwar / Balaji Nagar / Bibvewadi / Dhankawadi / Padmavati / Sahakar Nagar / Parvati / Satara Road
29.81%	Akurdi / Nigdi / Nigdi Pradhikaran
25.90%	Erandwane / Karve Road / Karvenagar / Kothrud
22.68%	Manjari
20.59%	Fursungi / Uruli Devachi
18.57%	Boat Club Road / Tadiwala Road / Koregaon Park / Kalyani Nagar
18.27%	Market Yard / Lullanagar / Salisbury Park / Mukund Nagar
17.92%	Warje
17.51%	Katraj / Khed Shivapur
17.14%	Chinchwad / Dange Chowk / Thergaon

BOTTOM 10 MICROMARKETS WITH THE LOWEST PRICE GAINS IN THE LAST 2 YEARS



BOTTOM TEN LOWEST GAINERS (OVER 24 MONTHS)

LOCATIONS WITH LOWEST PRICE APPRECIATION IN 24 MONTHS

-9.36%	City (Centre)
1.02%	Bakori / Bolhai / Shirsatwadi
1.78%	Bhosari Pradhikaran / Chikhali / Chikhali Pradhikaran / Moshi / Moshi Pradhikaran
3.74%	Ghorpadi (Sopan Baug)
6.60%	Fatima Nagar / Wanowrie / Salunke Vihar / NIBM Road
6.90%	Kondhawe Dhawade / Shivane/ Uttam Nagar / Kalyani Nagar
6.97%	Dhanori/Lohegaon
7.55%	Narhe
8.23%	Viman Nagar / Yerawada
8.71%	Baner Pashan Link Road / Pashan / Sus / Sus Road

CONCLUSION

While the big picture shows a challenging scenario, the fact is that the market has expanded in terms of supply and at the same time, while sales numbers have dropped, they continue to happen. This impact of increased purchase options for a reduced set of customers has led developers to see a double impact in terms of individual project sales, however, given the fact that sales continue, barring a few stray cases, unless something drastic is done to bring down input costs (cost of land, cost of approvals, time of approvals, material costs), we believe prices will not see any significant correction.

There has been much talk about the Real Estate Regulatory Act at the centre and the Maharashtra Housing Act and the tussle between the centre and the state over the same. Either way, the fact is that there will be additional controls for the sector that will lead to increased costs for the developers and this will eventually be passed on to the customers. This regulatory impact will further push prices up when the time is right.

Timing the market to perfection is next to impossible – those therefore looking to purchase a home would be well advised to go out and strike a deal for their dream home now. Given that all indicators show reduced interest rates in the near future, a floating rate mortgage would be advisable at the present time.

The government has long treated the housing sector as a cash cow to look to ever increasing tax income. Ready reckoner rates have outstripped actual price rises and as such, customers regularly pay higher stamp duty thereby further increasing the burden on home buyers.

Given how much the government relies on stamp duty and VAT from the residential housing sector, it is time the government looked at boosting revenues from the housing sector by focusing on generating volumes at lower tax rates rather than excessively burdening home buyers with increased tax rates. A stamp duty rebate for stamp duty paid between now and 31st December 2015 for example could kick start the home buying cycle and move people who are on the fence to the buying side. Faster sales, increased momentum and a higher GDP growth rate, after all is in the interest of the entire economy including the home buyers who will end up building their equity in their homes sooner rather than paying rent.

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