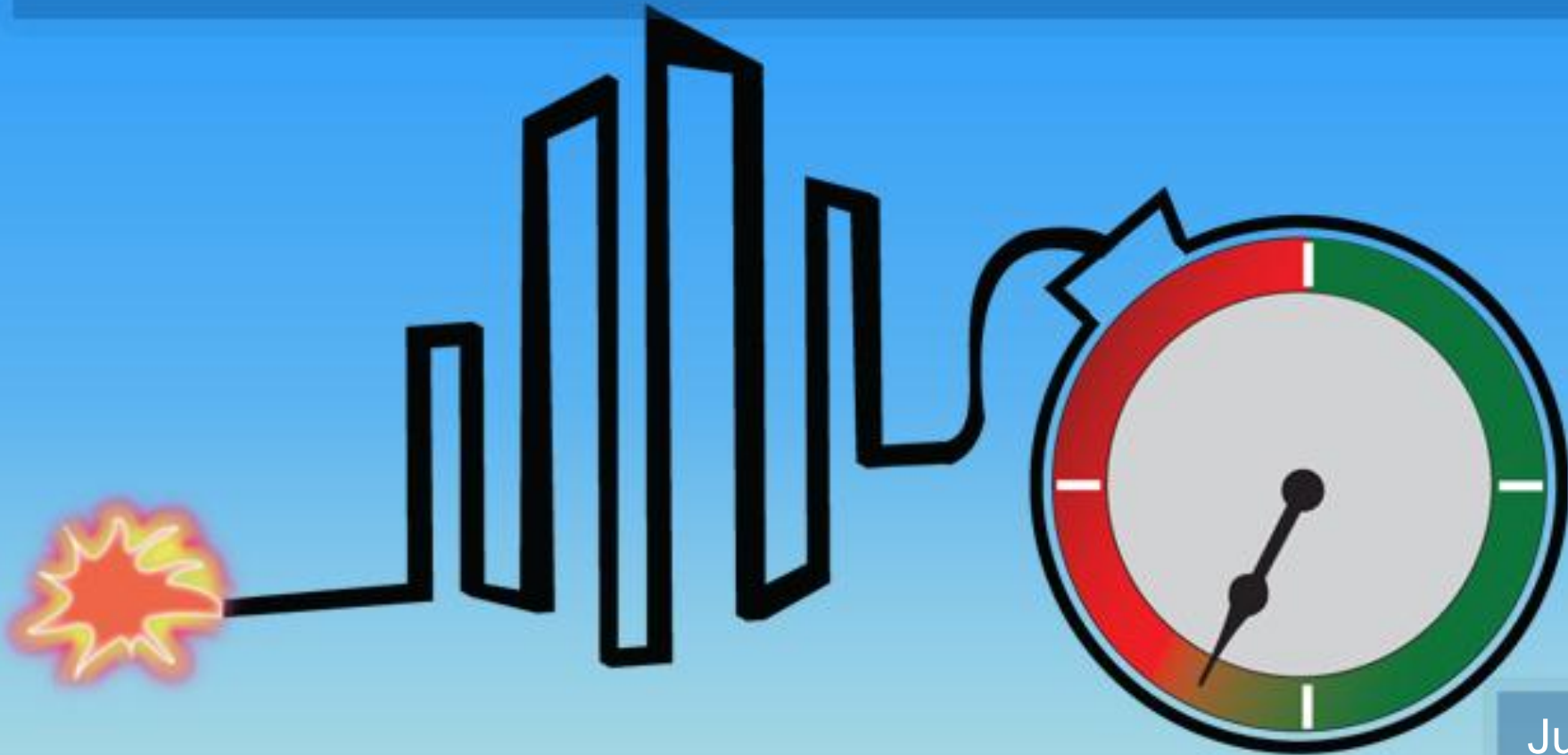


Timely Project Execution: A Key Challenge



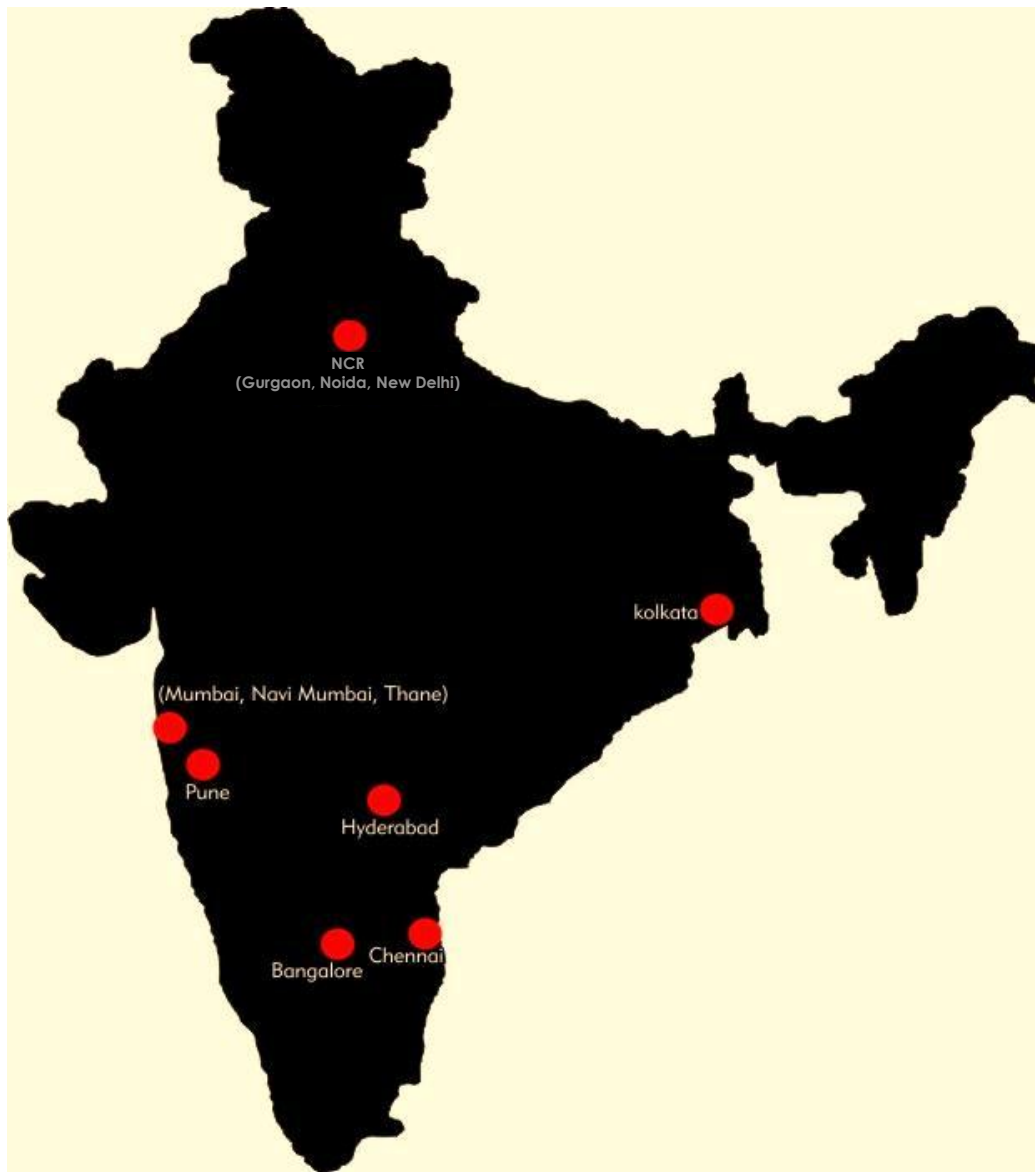
RELEVANCE OF STUDY

To receive timely possession of apartments has been reduced to a distant dream for most home buyers. It is a sad state of affairs, with even projects promoted by the biggest names in the industry witnessing delivery delays much beyond committed timelines

- ✓ Besides great inconvenience to buyers, execution delays in projects result in cost overruns and a dilution of customer confidence, thereby multiplying the challenges for the developer.
- ✓ The past year can be regarded as a good phase for the residential real estate markets with absorption levels scripting a recovery after the Lehman crisis in late 2008. This recovery, though initially driven by affordable projects also witnessed healthy participation from the mid and premium residential segments more recently.
- ✓ The last 2 years have witnessed many developers selling a large volume of units, much larger than what they have sold and executed in the past.
- ✓ This brings one back to the fundamental question of execution capabilities: do the players have what it will take to successfully execute on time and to the committed specifications the units that they have sold over the last 2 years. Especially when a majority of the delivery commitments are in the affordable segment with relatively thinner margins and in an environment of escalating input costs.

This report aims to understand the significance of the execution challenge the industry is confronted with and to comment upon how project delivery will pan out in the coming 2-3 years.

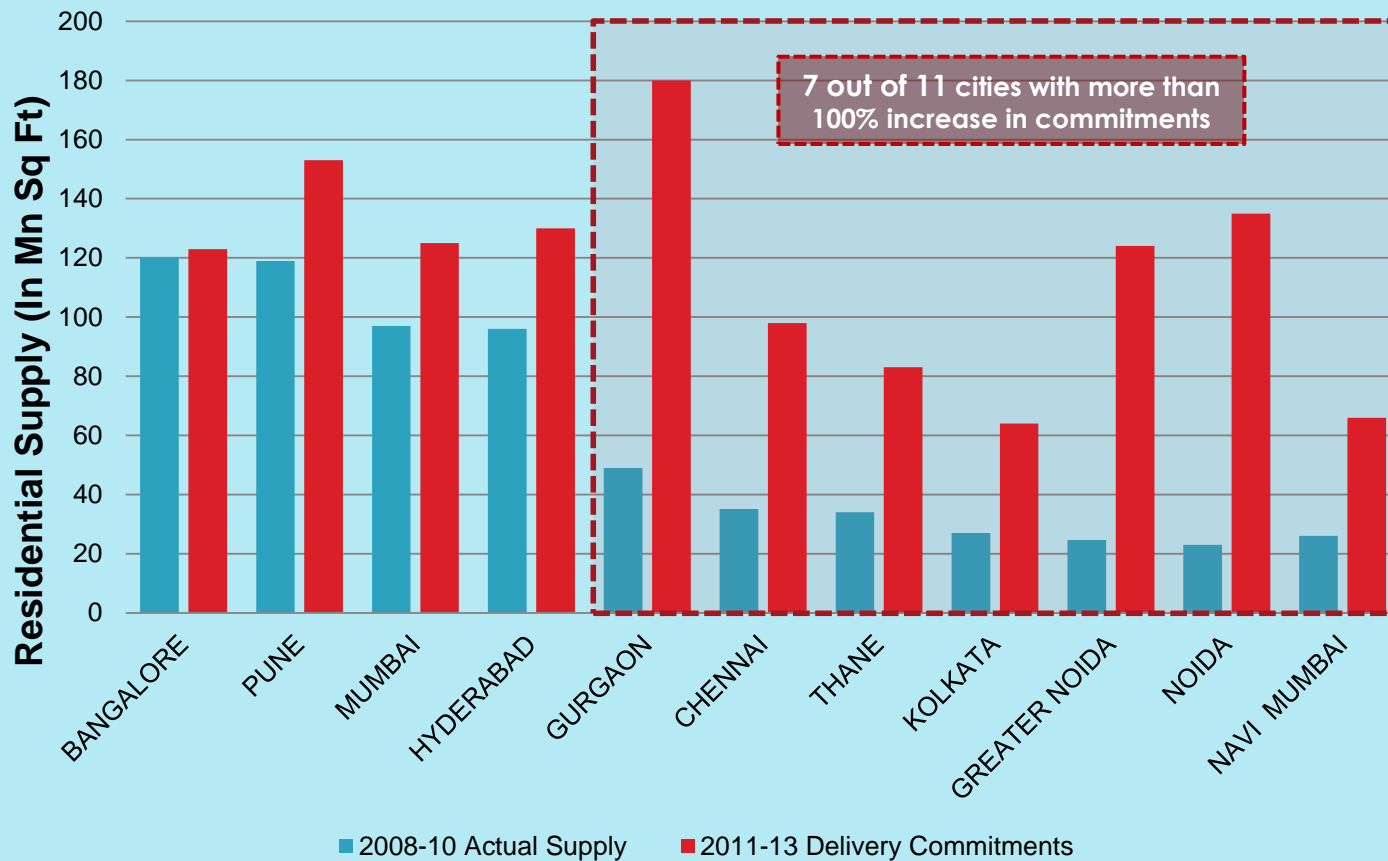
INTRODUCTION



- This report analyses the primary residential real estate market in the Prime cities in India: North, West, South and East Zone.
- For the scope of the study, the following cities in four zones were considered:
 - **North (NCR):** Gurgaon, Noida, Greater Noida.
 - **West (MMR):** Mumbai, Navi Mumbai, Thane, Pune
 - **South:** Bangalore, Chennai, Hyderabad
 - **East :** Kolkata
- Data points covering 10,000+ projects executed by over 1,500 developers across the 11 cities have been studied to arrive at the trends contained in the following slides.
- Residential Price Segments are defined as:
 - **Affordable** : Units under INR 30,00,000.
 - **Mid – End** : Units between INR 31,00,001 to INR 75,00,000.
 - **Luxury** : Units above INR 75,00,000.

DELIVERY COMMITMENTS

Actual Residential Supply 2008-10 Vs. Commitments for 2011-13



Supply in Million Sq.Ft.

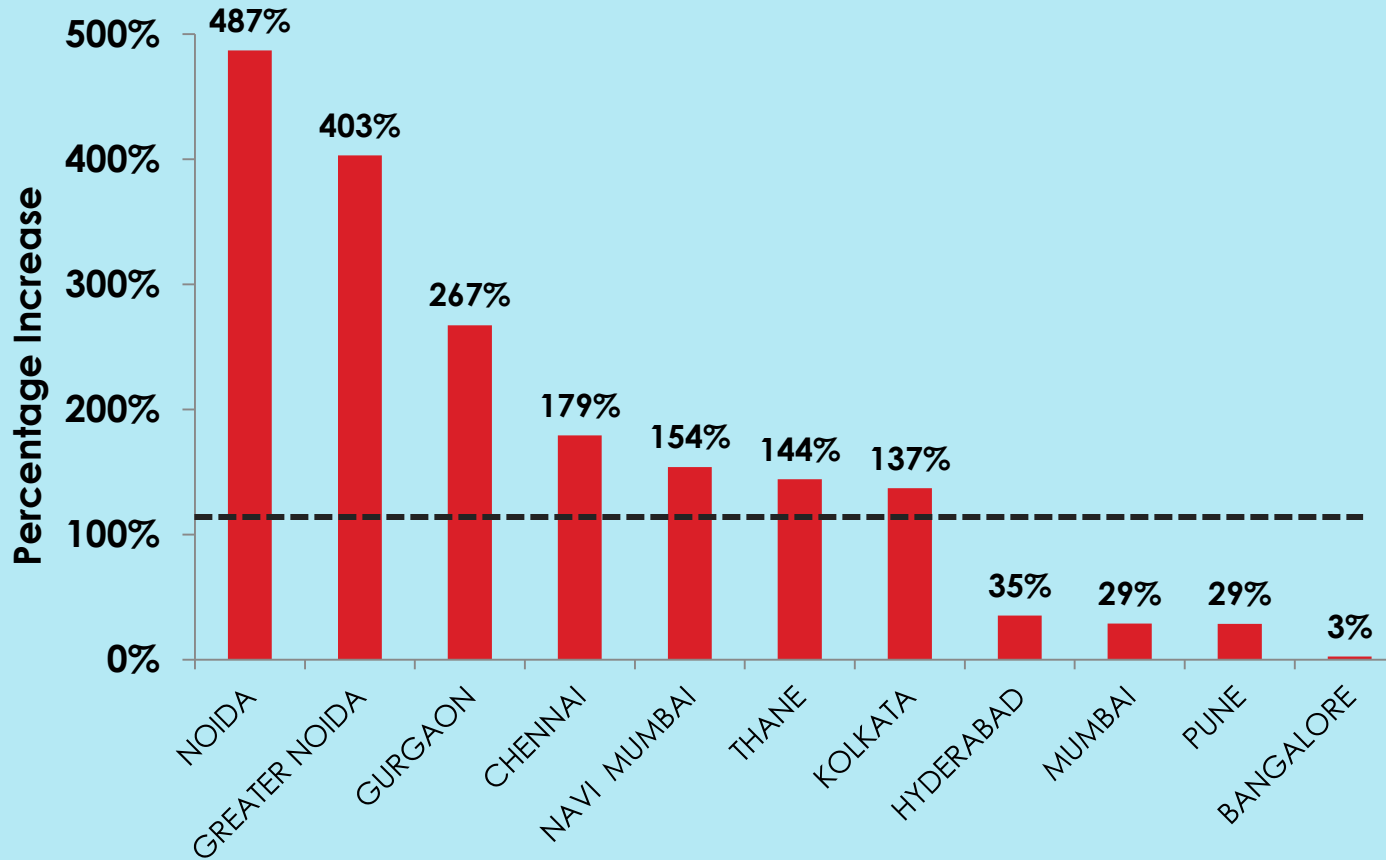
CITY	2008 to 2010	2011 to 2013
BANGALORE	120	123
PUNE	119	153
MUMBAI	97	125
HYDERABAD	96	130
GURGAON	49	180
CHENNAI	35	98
THANE	34	83
KOLKATA	27	64
GR. NOIDA	25	124
NOIDA	23	135
NAVI MUMBAI	26	66

“ **630** Million Sq.Ft., additional amount of residential space committed for delivery during 2011-13 over the amount of space actually delivered during 2008-10 across the 11 largest Indian cities in terms of real estate activity ”

Source : PropEquity Research, 2011.

INCREASING COMMITMENTS

Increase in Delivery Commitments: 2011-13 over 2008-10



Percentage Increase in Supply (Million Sq.Ft.)

RANK	CITY	% INCREASE
1	NOIDA	487
2	GR. NOIDA	403
3	GURGAON	267
4	CHENNAI	179
5	NAVI MUMBAI	154
6	THANE	144
7	KOLKATA	137
8	HYDERABAD	35
9	MUMBAI	29
10	PUNE	29
11	BANGALORE	3
AVERAGE INCREASE		170%

“

170%

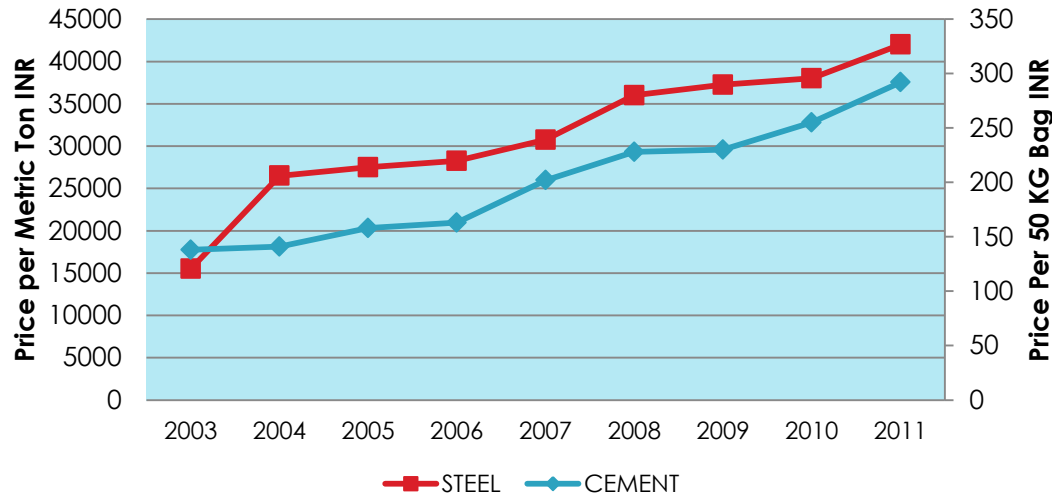
The average increase in committed delivery (of residential space) for the next 3 years over the actual delivery observed in the last 3 years

”

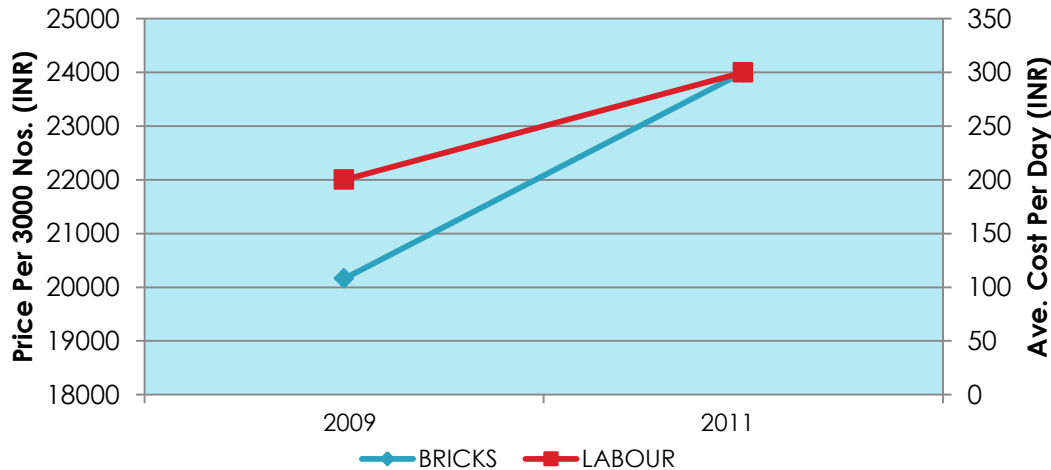
Source : PropEquity database, 2011.

CONSTRUCTION COSTS

CEMENT & STEEL



BRICKS & LABOUR



“Price escalation in material cost, is an unanticipated as well as inescapable problem, enforcing developers to withdraw interest from projects and has become another important reason for project execution delays.”

- ✓ Approx. 73% expenses in any construction project comprise of material and labor cost
- ✓ Of this 73%, three key components - cement, steel and bricks along with the labor cost comes up to 72%
- ✓ Thus, increase in any of these costs of materials, may have significant effects on the construction cost.

✓ Increase in the cost of these 4 components from year 2009 to year 2011, is as follows :

- **Cement** – Increased from INR 202 to INR 275 per bag – **27% hike**
- **Steel** – Increased from INR 30750 to INR 38600 per ton – **13% hike**
- **Bricks** - Increased from INR 12500 to INR 24000 per 3000 nos. – **31 % hike**
- **Labour** - Increased from INR 250 to INR 325 per day – **50 % hike**

Source : Cement Dealers, CMIE; Indian Steel Market watch, July, 2010; EMKAY Research, Market Research and Survey

CONSTRUCTION COSTS

Break Up Of Cost Of Construction

Type of Expense	% Cost	
Materials	53	73%
Labour	20	
Finance	8	27%
Enabling Expenses	5.5	
Surplus	5	
Construction Equipment	4.5	
Admin Expenses	4	
Total	100 %	

Source : Construction Industry Development Council Survey, India

Break Up Of Cost Of Materials

Material	% Share	
Cement	18	72%
Labour	27	
Iron and steel	10	
Bricks	17	
Timber	13	28%
Sand	7	
Aggregate	8	
Total	100 %	

Source : Building Materials & Technology Promotion Council (BMTPC), India, Market Research and Survey

Assume, the cost of construction per unit in year 2009 to be INR 100, the price escalation increases the cost by 18% for year 2011.

Scenario 1 : Year 2009

Items Of Expense	% Share	Cost (INR)
1. Material And Labour	73%	73
Cement	18%	13
Labour	27%	20
Steel	10%	7
Bricks	17%	12
Timber, Sand, Aggregate	28%	20
2. Other Expenses	27%	27
Total Cost Of Construction In 2009		100

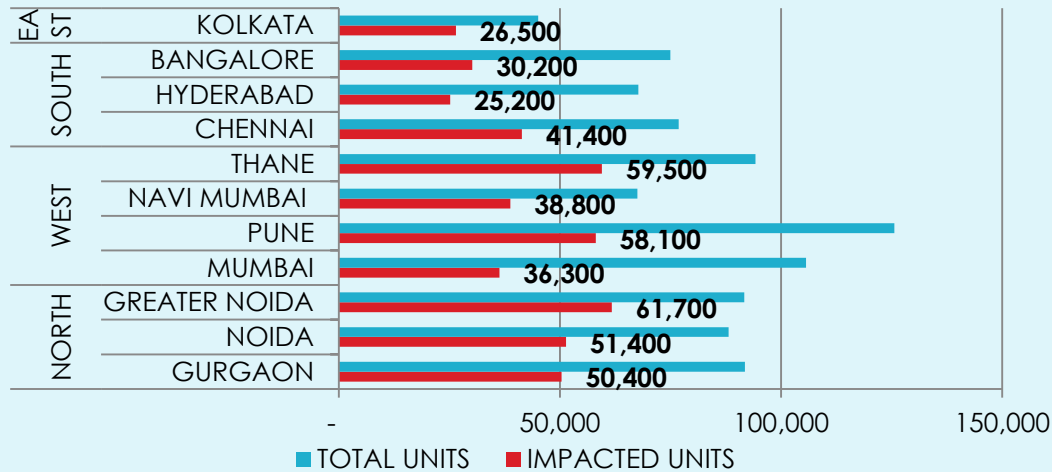
Scenario 2 : Year 2011

Items Of Expense	2009 Cost	2011 Increase	Cost (INR)
Cement	13	27%	17
Labour	20	50%	30
Steel	7	13%	8
Bricks	12	31%	16
Timber, Sand, Aggregate	20	Assumed	20
Other Expenses	27	Constant	27
Total Cost Of Construction In 2011			118

“ **18%** increase in cost of construction in year 2011 as compared to year 2009, on account of price escalation of construction materials...” ”

IMPACT ON EXECUTION

City Wise Estimate of Units that may face Execution Delays during 2011-2013



In view of increased project delivery commitments and construction cost escalation, a significant number of projects scheduled for delivery during 2011-13 are expected to face construction delays

Estimated Residential Units that may be impacted:

The impact of the above mentioned 2 factors would have different intensity on different housing segments – Affordable, Mid and Luxury. **The following is an assumption of the intensity on each of the 3 segments (depending on the percentage increase in delivery commitments):**

Increase in Delivery Commitment	Percentage of units that may get Impacted		
	Affordable	Mid	Luxury
<100 %	60%	40%	10%
100 - 200%	70%	50%	20%
>200%	80%	60%	30%

The above assumption is based on trends observed in the past and taking into consideration the price-sensitivity of each segment

ZONE	CITY	IMPACTED UNITS		
		AFFORDABLE	MID	LUXURY
NORTH	GURGAON	10,200	33,000	7,200
	NOIDA	6,200	42,200	3,000
	GREATER NOIDA	30,300	30,500	900
WEST	MUMBAI	20,200	11,800	4,300
	PUNE	32,600	24,500	1,000
	NAVI MUMBAI	23,100	14,700	1,000
	THANE	47,700	10,900	900
SOUTH	CHENNAI	19,400	20,300	1,700
	HYDERABAD	9,200	14,400	1,600
	BANGALORE	12,400	16,500	1,300
EAST	KOLKATA	16,100	9,900	500
TOTAL		227,460	228,778	23,300

“480k Residential units are likely to face execution delays during the period 2011-13”

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