

EXECUTIVE SUMMARY

Background

Value and Budget Housing Corporation Limited (hereinafter referred to as 'VBHC') is developing a residential project on a plot measuring an area of about 5.95 acres located in Devkhop village, Palghar Taluka, Thane District, Maharashtra, India (hereinafter referred to as the 'Project'). VBHC is developing this residential apartment complex through a Special Purpose Company (SPC)¹ and the project shall consist of 1-BHK Apartments (each with carpet area of 265-412 sq. ft.; super built-up area of 351-544 sq. ft.).

In this regard, VBHC has commissioned Jones Lang LaSalle Property Consultants India Private Limited² (hereinafter referred to as 'Jones Lang LaSalle') to provide an independent, expert assessment of the marketability of the Project being developed by VBHC.

The objective of the market research and assessment is to provide potential buyers of apartment with supplementary information, which may be of assistance in making the investment decision. Notwithstanding the foregoing, this Report should be treated as additional information only and shall not constitute formal advice rendered directly to the prospective purchaser. The readers of this Executive Summary are encouraged to carefully read the 'Disclaimer Statement' (in the Final Report) to understand the purpose and objective of this Report to the prospective buyers.

Profile of Mumbai Metropolitan Region

The Mumbai Metropolitan Region (MMR) consists of Greater Mumbai and its satellite towns. MMR covers an area of 4,355 sq km and a population of 17,702,761 (according to Census 2001). The MMR area falls over four districts of the State of Maharashtra, i.e. Mumbai City, Mumbai Suburban District, part of Thane District and part of Raigad District.

The Mumbai City has spawned from its origin nucleus – Fort, which still remains the seat of the State Government and commercial district for the entire city. The urbanisation path of the city has largely been along the north – south corridor along the suburban railway tracks bounded by the sea to the west and separation from the mainland by a creek. Navi Mumbai was conceptualised and planned as a counter magnet to the present city of Mumbai. What started as a parallel city is now fast developing into an independent self-contained metro city. It has been observed that areas in and around the proposed developments are emerging as growth corridors of Navi Mumbai. Some other Major Urban Centres in Extended suburbs of MMR excluding Thane and Navi Mumbai are Panvel, Karjat, Khopoli, Neral, Pen and Alibaug. MMR comprises 7 municipal corporations, 13 municipal councils and 8 sub-regions. The MMR has various planning authorities established for different areas.

As per the Census of 2011, Mumbai Metropolitan Region (MMR), accounts for ¼th of the population of Maharashtra and 2% of the population of the country, as per Census 2011. The spatial dynamics of MMR has been changing rapidly over the past few decades. The share of population of Greater Mumbai including its suburbs has decreased from 60% in 2001 to 45% in 2011. While the share of extended suburbs and regions in fringe areas have increased significantly in the total MMR population. This indicates that the urban areas in MMR are growing further outwards towards the fringes.

¹ Name of the SPC is VBHC Delhi Projects Pvt Ltd (VBHC-Delhi). VBHC- Delhi has two shareholders, VBHC, which holds the majority stake, and HDFC Portfolio Management Services, which owns the remaining equity.

² Jones Lang LaSalle, the Indian operations of Jones Lang LaSalle (NYSE: JLL), is the only real estate money management and services firm named to FORTUNE magazine's "100 Best Companies to Work For" and Forbes magazine's "400 Best Big Companies". It is the premiere and largest real estate Services Company in India, with an extensive geographic footprint across ten cities (Delhi, Mumbai, Bangalore, Pune, Chennai, Hyderabad, Kolkata, Kochi, Chandigarh and Coimbatore) and staff strength of over 4,000. The company provides investors, developers, local corporates and multinational companies with a comprehensive range of services including research, consultancy, transactions, project and development services, integrated facility management, property management, capital markets, residential, hotels and retail advisory. For further information, please visit www.joneslanglassale.co.in.

Mumbai, which is the major urban centre of MMR, has a large and active private sector, skilled manpower, availability of international sea and air port facilities, corporate headquarters of many multinationals and large industrial houses and many leading research and training institutions. It has an active regional (80% of total turnover of the country) and national stock exchange and leading financial institutions including the head offices of many Central government institutes. Mumbai accounts for 50% of Import and export and 40% of central revenue generated through excise and income tax. Nearly 40% of State Domestic Product (SDP) originates in Mumbai. Mumbai with its port, manufacturing industries (traditional and modern), government, financial institutions, trade and services represents one of the most diversified and vibrant local economies.

The region being a financial hub of India is well connected with all tier II & III cities in the country and also has good connectivity within the region. Mumbai Airport, which is the only major airport in the MMR, is one of the busiest airports in the country. Most of the international airlines have regular flights to and from the city. By 2015, the projected passenger traffic is 82 million pax per annum, of which 40 million will be handled by the existing Mumbai International Airport, and the balance would be handled by the proposed Navi Mumbai Airport. Road communications with hinterlands for the MMR comprise of four National Highways converging at Mumbai and 19 State Highways. The four National Highways provide access to Pune (NH4), Goa (NH17), Gujarat (NH8), Nashik, Indore and Delhi (NH3). MMR is served by two zonal railways, Western and Central. The Western Railway line connects Island city at Churchgate Terminus to the Western Suburbs uptil Virar (60 Km) and further runs northward connecting most parts of Western and Northern India. The Central Railway runs from Chhatrapati Shivaji Terminus (CST) of the Island and serves a large part of Central India. Suburban services extend from Mumbai CST to Kasara to the north east (120 km) and Karjat to the south east (100 km). The Central Railway is also responsible for services on the harbour line, which connects the CST and Western Suburbs and Eastern Suburbs with Navi Mumbai.

Real Estate Macro- Market Review

COMMERCIAL: The cumulative stock of commercial office space across Mumbai stood at 71.65 million sq. ft. as of end 2011 which recorded a growth of 26% from the total stock of 2010 end. Even though the total stock of Commercial office space has been increasing the vacancy too has been seen increasing since the economic downturn. In 2009, the vacancy rate stood at 13.9% and has grown since then to 19.7% in 2011. The rising trend in vacancy rate in Commercial office space market can be attributed to the increasing supply which is not able to match the demand for such. The total supply of commercial office space in Mumbai in 2011 was 14.8 million sq ft recording a substantial increase from the levels of 2010. In 2011, the overall city witnessed a slight upward trend in rentals except the micro market of SBD central. While most of the micro market witnessed good demand, the SBD central micro market witnessed consistent supply, keeping rentals under pressure. The highest average rental was in CBD (Nariman Point) micro market pegged at INR 245 per sq ft per month and the lowest average rental was in Thane and Navi Mumbai micro market pegged at INR 34 per sq ft per month. The commercial sector has been witnessing gradual recovery through the year 2010 and 2011, as witnessed by healthy demand and absorption figures. However, the city may have to face an oversupply situation, with the stock number expected to cross 100 million sq. ft. by end of 2013. As a consequence of the new completions, all micro-markets are expected to witness a rise in vacancy rates. A huge supply in pipeline is expected keep rentals under pressure in the 2012.

RETAIL: The cumulative organized retail stock of Mumbai stood at 17.24 million sq. ft. as of end 2011 which recorded a growth of 26% from the total stock of 2010 end. The increase of total stock in 2008 was the highest, which saw a growth of 67% from the levels of 2007. After the slowdown, retail was the most affected asset class among all, the vacancy dropped at alarming rate. Post slowdown, many developers who were proposing to launch retail mall, not only delayed their projects but some also shelved it. The vacancy rate since the slowdown has been increasing since then at an alarming rate. The rate of vacancy has dropped marginally in 2011 indicating a positive sign since the slowdown. The rental movement for all the micro-markets has followed same trend, rising to peak in 2007, drop till 2009, and stabilising since then. The rentals have moved corresponding to the vacancy rates, and going further as the vacancy rates drops we will see an increase in average rentals in most of the malls in Mumbai. The highest average rental was in Prime South micro market pegged at INR 232 per sq ft per month and the lowest average rental was in Suburbs micro market pegged at INR 98 per sq ft per month.

RESIDENTIAL: This asset class in Mumbai is fuelled by the immigrants to the city looking for better job opportunities. The residential developments in the city range from premium and high end in areas like South Mumbai, Bandra, Powai etc to affordable housing in Boisar, Palghar, Mira Bhayander, Virar, Vasind, Shahapur, Karat etc. Historically, the residential sector growth in Mumbai which had started from South Mumbai spread towards central Mumbai. Due to acute shortage of space within the Municipal limits, increase in demand and improvement in connectivity, the suburbs also started witnessing residential activity. Further, Extended Western Suburbs which had been dormant since a long time also witnessed increased absorption since 2004. Although at present as compared to other residential zones, activities in Vasai, Virar & Palghar, Boisar region is not very significant, but owing to the connectivity, availability of land and future proposed infrastructure development initiatives, these are the upcoming residential destinations in MMR. Increasing level of awareness of the highly educated professionals from the service sector towards larger living space coupled with better environment & good infrastructure would improve demand of weekend/vacation homes towards extended suburbs within easy reach (1-2 hours driving distance) of the city. In almost all the micro markets of Mumbai except for Navi Mumbai and extended suburbs there exists a wide range of per sqft rates as given in the table below.

	Prime south		South Central		Western suburb 1		Western suburb 2		Extended W suburbs		Eastern suburbs		Extended E suburbs**		Navi Mumbai	
Year	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High
2011	40,000	80,000	13,500	40,000	11,000	44,000	8,000	15,000	3,000	6,000	7,000	18,000*	3,000	8,000	3,000	11,500

* Hiranandani gardens: INR 20,000 and above / Sion: INR 12,000 to 14,000

** Hiranandani Estate and Meadows: Higher than the upper range

Source: JLL Market Research, Q2 2012

During 2011, the fresh supply of residential units in Mumbai Region were around 30,000 units which were approximately 21,000 units less than the supply during year 2010. There was an average absorption of around 50% in the new launches of overall Mumbai residential market during the year 2011, which is indication of low interest of buyers as against the year 2010 when the average absorption rate was approximately 66%.

AFFORDABLE HOUSING: Affordable housing is a term used to describe dwelling units whose total housing costs are deemed "affordable" to those that have a median income or less than median income. Although the term is often applied to rental housing that is within the financial means of those in the lower income ranges of a geographical area, the concept is applicable to both renters and purchasers in all income ranges.

It is observed in the real estate market that housing demand is generally governed by the affordability. And affordability is driven by the income level of the households. It has been considered that affordability of a household to buy a dwelling unit is 4 times the annual income. Demand, supply and absorption analysis of housing units in different ticket size ranges in year 2011 in MMR has been carried out to understand the dynamics of demand and supply in various segments of households in MMR.

The analysis indicates that there is a huge unmet demand of housing units in the ticket size range of less than INR 20 lakh. The absorption percentages of these housing units also support the huge demand indicators. Maximum supply is of units in ticket size of more than 1 crore however the absorption percentage in this range is the lowest. Housing units in the ticket size range of 20 lakh to less than 40 lakh available in the fringe areas are not affordable for their target segment, while housing units available in this ticket size range in the suburban Mumbai are comparatively smaller in size; hence the absorption figures are lower. Current supply of affordable housing in MMR is around 12,820 units (unsold units of projects launched in last 3 years). Neral, Karjat, Boisar, Palghar and Shahapur-Vasind are contributing maximum to the total affordable housing supply in MMR.

Project Site Analysis

The subject property is 5.95 acres of vacant land in Devkhoph village, Palghar Taluka, Thane District. The subject property is located 1.8 kms off the old Manor-Palghar Road. The railway station closest to the Subject property is Palghar Station of the Western railway, which is around 5 kms. The subject property is located around 18.5 kms from the National Highway (NH) 8 off the Manor Junction.

As can be seen in the distance map given below, the site is about 8 kms from Palghar town centre and 15 kms from Boisar town centre – which are the nearest urban clusters.



Source: Google Maps

The immediate neighbourhood of the subject site is agriculture lands and few small industrial units. Subject property is located in the eastern side of the railway line in Palghar. Palghar city which has majority of settlement in the western side is now witnessing growth on the eastern side along the Palghar Manor road. St John Institute of Engineering and Technology is a major land mark closest to the Subject property.

The Subject property can be accessed through an internal village road which is off the Manor Palghar Road. At present the access road is not in a good condition and is narrow. But as informed by the client, necessary approval for widening and concretization has been acquired from the local authority as well as PWD, and will be developed once the development scheme is launched.

The Subject property is irregular in shape and does not have direct frontage on an existing public road. Eight blocks of residential apartments is proposed in the subject property development. A School, Shopping complex, Play court and Children's play area are also proposed. The layout has been designed in manner that the whole development can be carried out in phases depending upon the absorption.

Primary catchment spreads to an extent of 10 km distance towards north, northeast and south, covering major settlements of Palghar and Boisar. Of these two, Palghar town in terms spread and population is relatively more developed in the catchment area. In last few years Boisar town has gained popularity with respect to real estate development with the launch of TATA Housing Development Company's first affordable housing project. The primary catchment is not an established real estate market and only the only asset class under development is residential – specifically affordable housing - is in nascent stage, but is expected to pick up steam. In terms of social infrastructure the primary catchment has decent social infrastructure in terms of spread and service. The commercial, retail and hospitality asset class development in the catchment area is negligible and is only limited to activities involved at local scale.

Palghar lies on the Western Line of the Mumbai Suburban Railway which extends up to Dahanu and lies on the Mumbai-Ahmedabad rail route. Though there are no direct suburban rails connecting Palghar to Mumbai, it has interstate shuttle trains (not suburban) which connect Palghar to Virar and Virar to Mumbai. To ease commuters' troubles who commute from Dahanu to Mumbai, Western Railways has committed that the Mumbai Suburban Rail services up to Dahanu Road shall begin before March 2013, as directed in the Union Railway Budget. The Western Railways have already completed the works on conversion from DC to AC traction on the existing services between Virar and Dahanu Road and at present conversion into EMU (Electric Multiple Unit) services on this section is underway. Once this work is completed commute between Palghar and Mumbai shall improve significantly.

SWOT analysis of Subject Property

Strengths	Weaknesses
<ul style="list-style-type: none"> Freehold property with clear title and no disputes, civil or criminal, as indicated by the Client. The subject property is located in Palghar East which is gaining popularity for residential development. There are no significant site encumbrances that have been identified. It has good access to social infrastructure (Educational, Health care etc) 	<ul style="list-style-type: none"> Low visibility as the subject property is located 1.8 kms from the main Manor-Palghar Road. Immediate neighbourhood has very few settlements present.
Opportunities	Threats
<ul style="list-style-type: none"> Demand for 1BHK units in the primary catchment area is good. Low land cost in this corridor strengthens the feasibility to launch a project at affordable rates, and in recent past it has been observed that residential projects with affordable rates have higher absorption rate. 	<ul style="list-style-type: none"> Competition from other newly launched projects which are focusing on affordable category of apartments. It is located in a neighbourhood which has large availability of vacant lands which in future can be developed and create huge supply in the market.

Real Estate Macro- Market Review

Palghar and Boisar over the years have developed primarily as industrial hubs where small and medium scale industries have flourished because of the proximity to Mumbai and being on route of Mumbai – Ahmedabad Highway (NH8). Its proximity to Virar which is the closest and most developed urban centre within MMR has been major influencing factor in the development of this region. Palghar and Boisar have now emerged as residential option for people who work in Vasai-Virar belt. Currently it takes around 90 minutes to commute between Palghar and Borivali using the train. With the expected start of the Virar-Dahanu line, its connectivity will improve. From a demand perspective for residential projects launched in Palghar and Boisar area we see traction not just from investors but also from users - typically retiring couples from Mumbai. Second home seekers from Mumbai (Western Suburbs) and industrial zones of South Gujarat (Vapi, Valsad & Surat) have also started buying into this region.

Since the micro-market is not an established residential market it has not been included in any of the eight residential micro-markets of Mumbai discussed in the earlier chapters. Palghar is close to Virar and Vasai which fall in the Extended Western Suburbs residential micro-market, we predict that in coming years Palghar and Boisar residential development would grow in similar lines to this sub market. Currently Vasai-Virar is an important residential destination in the region for MIG & LIG households. At present the profile of developments and demand drivers in Palghar is significantly different from those seen within Extended Western Suburbs micro market; hence we have taken an influence area which stretches upto 10 kms from the Subject Property. This catchment area covers major towns such as Palghar and Boisar.

In 2009, TATA Housing launched Shubh Griha, the first-of-its-kind pan-Indian brand that would offer smart, value homes to people. Shubh Griha in Boisar was the first property to be launched by the developer. The smart value homes from Shubh Griha were priced between INR 3.9 lakh to INR 6.7 lakh offering 1RK to 1BHK. The same year New Haven by THDC was launched which offered 2 and 3 BHKs. Next year in 2010, Chhaya Niwas was launched by Usha spaces in Boisar which too was an affordable housing project was offering mainly 1 and 2 BHKs. These two projects witnessed good response were completely sold within a year of its launch. These two projects accounted around 2.5 million sq ft of affordable housing space in the market. With the success of this project pegged as affordable housing and directed at buyers looking for their first home (as against a second home), multiple schemes have been launched in the Boisar and Palghar.

As analysed from the inventory of affordable housing project in the primary catchment area, most of the projects comprises majority of 1 BHK and 2 BHK units, which forms almost 82% of the total inventory.. Though these projects are mainly targeting mid and lower income, few developers have also launched spacious 3 BHK units which form a substantial 14% for this market. The typical area of apartment units ranges from 400 – 500 sq ft of SBUA area for 1 BHK units and 500-650 sq ft SBUA for 2 BHK units. With the successful launch of Shubh Griha project by THDC (at Boisar) the region was identified as one of the affordable housing destination close to Mumbai. To tap this opportunity HDIL one of the prominent developers of Mumbai launched its first residential project (Paradise City) in Palghar in last quarter of 2010. This project brought massive supply in the subject property neighbourhood comprising around 4,500 units and a school proposed within its complex. Since then Palghar has witnessed projects from various local developers of moderate scale that has increased the total inventory to total 7,700 units till date. Almost 75% of the stock has been sold, and only 25% (approx. 1,950 units) remains unsold.

The period between 1H 2010 and 2H 2010 saw a little movement in the capital values of residential units in the region. HDIL launched its project at INR 1700 per sq ft of SBUA in 2H 2010 and witnessed good initial response pushing the upper range in 1H 2011 and 2H 2011. The upper limit of the range of the capital value kept rising till date primarily on account of Haware Nakshatra which is currently selling at INR 3100 sq ft of SBUA. Since most of the developers are either local developer or first timer, the competitive pricing prevails and hovers around INR 2,000 per sq ft of SBUA setting the lower range. Like almost all geographies, the residential market in the region also observes significantly discounted Capital values at the time of project launch which increases as the project progresses. This is the reason for the lower end of the capital value range has remained at close to INR 2000 per sq ft SBUA. As of date, the residential units are available in the market starting from INR 2,000 per sq ft of SBUA to INR 3,100 per sq ft of SBUA.

Conclusion and Recommendations

As of today, though the region is not an established residential micro - market of Mumbai but we foresee looking at the growth of affordable housing projects, the residential development in the subject region would grow in similar lines to the Extended Western Suburbs (Vasai- Virar) micro market.

We recommend keeping the sales prices at launch at competitive levels, increasing the prices linked to construction and holding few residential units (say 10-15%) till the construction reaches completion. These 10-15% units can then be sold by developer at much certain premium. As many projects in the neighbourhood are under construction and are moving at very slow pace, the subject property development can achieve a relatively good sales price (and eat into the market share) if a sustained and brisk pace of constructions is maintained.

We believe that over the next 3-4 years this region will see major changes in socio-economic profile. With rising unaffordable levels of residential units in Island city of Mumbai and its suburbs, the region will see increased demand of residential projects. The only challenge in the perceived growth of the area is it's connectivity to various work nodes with MMR. Since this area is located off NH 8 and the rail frequency to Mumbai is low the catchment area or the takers for residential units shall be restricted to the people working in Vasai and Virar to the south. The proposal to extend the services of Western line from Mumbai Central to Dahanu once operational shall resolve this issue.

The retail and other entertainment developments (restaurants, multiplexes etc) in the region are negligible as of today; hence the projects which are offering shopping arena or amenities such as clubhouses are more popular among the buyers. The rising demand for such developments from the future residents may trigger the organized retail development in the region

Proposed residential apartment units on the Project Site have been evaluated with respect to the detailed market assessment carried out within the micro-market pertaining to similar developments. Prevalent price range for conventional as well as affordable housing segment has been considered for determining the 'average benchmark price' for the proposed residential apartment development on the Project Site. The 'average benchmark price' determined above is considered for potential price adjustments for various attributes like location, accessibility, developers' profile, size of the development, product offering, present project status, site attributes, etc. among others, to determine 'achievable pricing' for the proposed residential apartment development on the Project Site. The price adjustments have been carried out in terms of premium and/or discount on attributes of the Project Site with respect to the competing projects in the micro-market.

There are 8 projects under affordable housing segment amounting almost 7,500 units in Palghar. Though the supply is significant the absorption has been exceptional and only around 1,950 units remain unsold within Palghar. But as the other affordable housing projects in destinations which are relatively closer to Mumbai and its suburbs (Vasind, Shahapur, Murbad, Karjat etc) commences, Palghar will face tough competition in the affordable housing segment. Newly launched projects in the subject property neighbourhood are usually sold in the range of INR 2000-2500 per sq ft of SBUA. But as the subject property developer is a popular brand for affordable housing projects, the subject property development can fetch the upper limit of the range at INR 2,450 per sq ft of super built-up area with aggressive sales and marketing strategies.

**Based on the assumptions, trends observed as mentioned above and price adjustments, Jones Lang LaSalle is of the opinion that the achievable pricing for the residential apartment on the Project Site will be
INR 2,450 per sq. ft
(Applied over the saleable / super built-up area).**

This achievable pricing is for a residential apartment product for affordable housing project for apartment development. It may be noted that the above achievable pricing is as on the date of assessment (June, 2012) and the indicated price is only the base price for the unit saleable area of the apartment. Other charges like parking, club membership, deposits payable to civic authorities, etc. are chargeable over and above the base price. Maintenance charges / Society formation are charged at possession as INR 1 or 2 per sq ft of saleable area for 24 months from the possession. Properties which offer clubhouses (which include swimming pools, gymnasiums, Indoor games centre, yoga room etc), school, health care centre and shopping arcades charge around 5% additional on the base price for these facilities. While the projects which are small in size and does not include in school, health care centre and in some cases clubhouse too charge around 2-3% additional on the base price. Hence, in the subject property's case where Clubhouse, a play school and shopping area facilities are proposed the additional charges should be average at around 4-5% over and above the base price.

In the case of year wise price increase, the subject property region has seen average CAGR of around 10%-15% which is high compared to other residential markets of Mumbai. The availability of land parcels in the region, the affordable residential supply in other markets in Sub regions of Mumbai, and existing supply we foresee the CAGR of 10% in the neighbourhood and for the subject property.

Though no notable projects are quoting the rental values, few residential units which are completed but not within a gated community the rental varies from INR 5 per sq ft to INR 7 per sq ft on saleable area. This value translates to rentals in the range of INR 2,500 to INR 5,250 per month for dwelling unit with area in the range of 500 sq ft to 750 sq ft of saleable area. We have taken a small premium from this quoted figure to arrive at the achievable rental value of the proposed apartment development assuming it to be complete as of today. Based on the above mentioned assumptions and the expected yield in the said micro market the following table details the achievable rentals for the proposed development mix.

Achievable Rental Value for the Proposed Apartments on the Project Site

Unit Size (Saleable Area in sq ft)	Rental Value (INR/month)	Capital Value (INR/ sq ft)	Yield	Rental (INR/sqft)
351	2,400	2,450	3.35%	6.84
544	3,600	2,450	3.24%	6.62

Source: JLL Market Research, Q2 2012

There is no rental trend available for the apartments in the micro-market. Considering the fact that the market typically maintains the capital value & rental value gap, average annual increase of 10% (same as capital value) is considered for projecting the rentals for future.