

The retail sector in India is witnessing unparalleled growth. Unmatched demographics, rising income levels, shifting lifestyles and changing aspirations of the burgeoning middle-class has unleashed a retail revolution in the country. Fresh retail geographies are emerging, innovative formats are being introduced and retailers are tapping new customer segments with prolific product offerings.

According to AT Kearney, consumer spending in India has increased by an impressive 75% in the last four years and will quadruple in the next twenty years. The Indian retail market which is currently valued at \$511bn, is projected to grow to \$833 bn in the next five years. Organised retail that currently accounts for less than 5% of the total retail market is expected to grow with a CAGR of 40% to swell to \$107 bn by 2013. So compelling is the opportunity and potential presented by the retail sector in the country that apart from expansive market penetration plans of Indian retailers, a multitude of international brands and retailers have either already established themselves in the market or are aggressively securing a presence through joint-ventures, franchisee and other arrangements.

A prerequisite of modern retailing is the availability of quality space in key locations to support the roll-out plans of retailers. Till some time back, the considerable gap that existed between supply and demand of Grade A retail space in India had led to spiraling of mall rentals. However, over the last two quarters a contrasting picture has come to the forefront. Completion of many pending mall projects at a time when expansion plans of retailers has been put on hold in view of the subdued global economic scenario has impacted the

retail rentals. While the mall rentals in some of the micro-markets of the cities remained stable, certain pockets of Delhi and Gurgaon in NCR and Bangalore registered a decline between the first and the second quarter of this year. The above, combined with the fact that consumer spending has suffered a setback due to compounding inflation and that close to 100 million sq.ft. of mall space is in pipeline, has led to talks of retail space surplus being created in the country. The fear is not unfounded. The situation of over-supply and saturation resulting in subsequent correction of rentals may occur in certain pockets and micro-markets in the short to medium term. But on the whole there is significant demand to cater to and well planned malls in established locations are not likely to witness change in demand or values.

As we move ahead, some distinctive trends are likely to emerge on the Indian retail scenario. Domestic retailers and mall developers will be moving into the smaller towns and cities with alacrity in order to respond to the growing consumers markets there and to capture the rising demand for branded products. As the existing formats make way for the modern ones and the national footprint of the retailers expands, efficient supply chains will be set up and consolidation of the logistics function will take place. Last but not the least, the market for luxury retail will gain critical mass and this segment will witness substantial growth in the next few years. However, to enable this sector to realize its full potential Foreign Direct Investments (FDI) restrictions in retail will have to be relaxed further and retail rentals will need to undergo some degree of rationalization.

NATIONAL CAPITAL REGION

MARKET SUMMARY

The NCR, one of the most preferred retail destinations of the country also has the highest stock of Grade A retail space which currently stands at ~22 million sq.ft. Although the satellite towns of Gurgaon and Noida continue to be the destination for large-sized developments, the South Delhi mall clusters of Saket District Center and Vasant Kunj are gaining increasing prominence. Over the last few quarters, this cluster has fulfilled the organized retail space requirement of South Delhi populace. Select Citywalk at Saket District Center (operational in late 2007) is the first turnover-based mall model in NCR and was adjudged the 'Shopping Center of the Year'.

The success of organized retail in the region and its future growth prospects has led to developers experimenting with the format, size and product mix of the upcoming projects. Integrated and mixed-use developments have become the order of the day. While DLF Place, Saket District Centre and Ambi Mall, Gurgaon incorporate mall, multiplex, hotel and office space, Select Citywalk, Saket District Centre includes service apartments together with a mall and a multiplex and The Great India Place, Noida has an Amusement Park in addition to a mall and a multiplex.

Also, Quasi Developments comprising retail component on the lower floors and office on the upper floors are common in IT Parks in Gurgaon. The retail component here is dedicated to service the captive workforce and includes amenities like banks, ATMs and beauty salons in addition to a variety of F&B formats like cafés, casual and fine dining restaurants. In the eastern micro-market of Greater Noida there is increasing focus on township and destination developments which include retail as a part of their product-mix.

RETAIL SPACE

Approximately 1.8 million sq.ft. of organized retail space was added to the NCR market in the first half of 2008. Amongst the major mall completions, notable one was the 800,000 sq.ft. Ambi Mall on NH-8, Gurgaon that houses brands like Debenhams, FCUK, Gant, Sisley, BMW, Guess, etc. Also adding to the mall stock of south Delhi was the MGF Metropolitan (250,000 sq.ft.) at Saket District Center.

The South Delhi mall cluster stretching from Saket to Vasant Kunj has been in the limelight for sometime now and with the completion of malls like DLF Place (Courtyard), Saket and DLF Place (Promenade), Vasant Kunj in the next two quarters, it will continue to be the center of retail leasing activity. Also, India's first luxury mall - DLF Emporio is coming up at Vasant Kunj and brands like Louis Vuitton, Cartier, Gucci, Tiffany & Co., Christain Dior, Chopard, etc. have already signed up for space in this development. In the satellite towns, only one notable mall, MGF Metropolis on MG Road Gurgaon will be operational in this year. In all, close to 2 million sq. ft. will be added to the retail space stock in NCR by end-2008

Notwithstanding the amenities, organised retail shopping environment and zoning advantages offered by malls, high streets like Khan Market, Greater Kailash, Connaught Place and South Extension continue to be the first preference for brands and retailers to open their flagship stores.

Some of the reported transactions in NCR were:

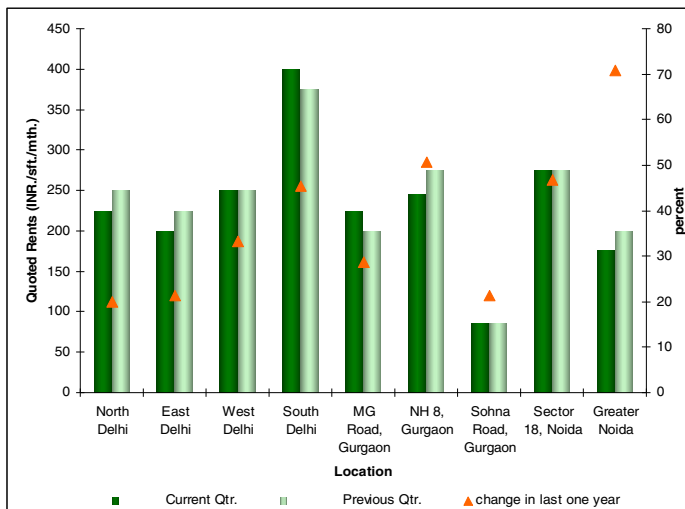
Brand	Area (sft.)	Mall/ High street	Micro-market/ Location
The Noodle House	4,000	MGF Metropolitan Mall	Saket District Centre
Sanchos	4,500	South Extension-II	South Delhi
Sisley	3,000	Ambi Mall	Gurgaon
Sugar & Spice/Le Marche	2,200	Select Citywalk Mall	Saket District Centre

RENTAL MOVEMENT

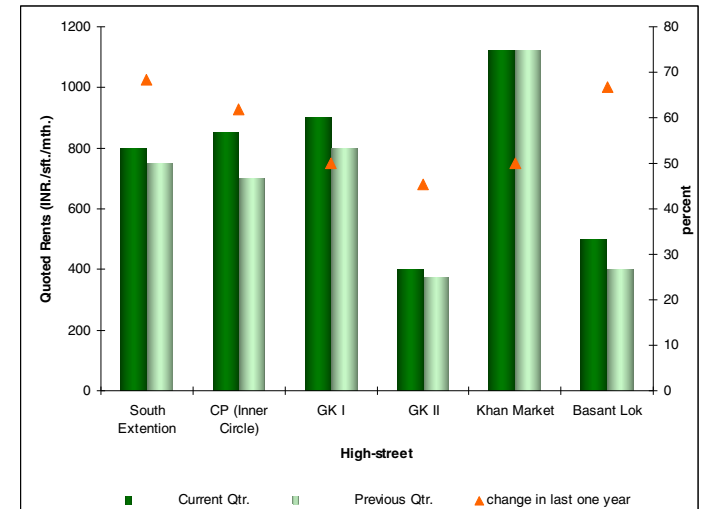
In the last one year, mall space rentals across locations in NCR have witnessed an increase ranging between 30% to 50%. However, in the current quarter some locations like North and East Delhi, NH-8, Gurgaon and Greater Noida witnessed a slight decline as compared to previous quarter values. The primary reason for this is the relaxation in demand for retail space at prevailing rentals and the financial viability of the retailers in the recently operational malls. Also, at present the demand and leasing has been concentrated in South Delhi and in prime locations of Gurgaon and Noida like MG Road and Sector-18 respectively.

The prime high streets have been witnessing steady demand which has led to a further increase in rental values. However, the

MALL RENTAL VALUES : NCR



HIGH STREET RENTAL VALUES : NCR



increase between the first two quarters has been very marginal as compared to the increase in the last one year.

OUTLOOK

Established retail locations like MG Road, Gurgaon, South Delhi and other prime high streets will continue to witness buoyant demand. Malls and stores in these locations will continue to report high conversions and sales. As such, the rentals in these locations are envisaged to remain stable in the short to medium term. However, the supply may take over demand in these locations in the long run and this will lead to a slight correction in values. With substantial future supply, developers are using parameters like development size, tenancy mix, use of efficient mall management service providers, etc. to achieve product differentiation.

Values in Noida, Greater Noida and Gurgaon (except for MG Road) are likely to witness a decline on account of slowing demand and unwillingness on the part of the retailers to look beyond established locations under the current economic and market scenario. Mall rentals on MG Road, Gurgaon are expected to remain stable on account of increasing attractiveness due to proposed metro connectivity. Large format stores that operate on lower margins are going slow with their rollout plans as the high rentals impact their profits. At the same time, vanilla stores are willing to sign up at the prevailing rentals. However, this is true only for selective locations or micro-markets.

MUMBAI

MARKET SUMMARY

The retail sector in Mumbai is still on a growth path with a total stock of ~6 million sq.ft. of organized retail space operational in the city. The overwhelming acceptance of the organized retail formats and increase in retail activity has had an impact on the average mall size which has substantially increased over the last few years. From being mere shopping centers, the malls have evolved into integrated destinations offering F&B and entertainment services as well. Also, a number of mixed-use developments incorporating retail space on the lower floors and offices on the upper has found ready takers especially in commercial growth vectors of the city. As observed in the other Indian cities, the organized retail growth in Mumbai has followed the spread of commercial activity across all major micro-markets.

In the last few years, the retail sector in Mumbai has undergone a considerable shift and more far-reaching changes are foreseen in the near future. Hypermarkets like Shoprite, Hypercity, Le Marche and Star Bazaar as well as discount stores like Big Bazaar and Subhiksha have been successful formats and registered high footfalls and conversion rates. This has led to the mushrooming of such stores in high population density neighbourhoods. Apart from being present in malls, foreign retailers and brands are actively seeking exclusive stores and store-in-store models to establish their presence in the city.

RETAIL SPACE

Two new malls – Megamall at Oshiwara and Oberoi Mall at Gurgaon became operational this year. Megamall mall has an impressive list of brands that include Sisley, Watch it!, Play Life, Fitness First among others. Future Retail opened its 6th “Central”

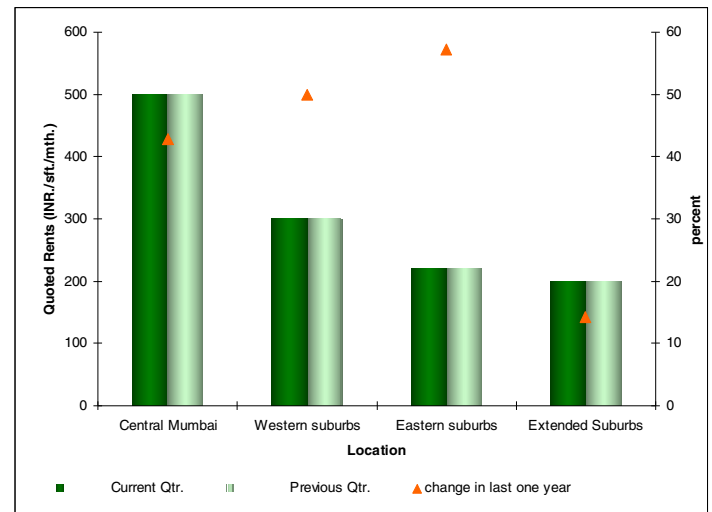
mall format store at Oberoi Mall. About three more malls across Mumbai are expected to be completed by year-end and this will add nearly 2 million sq.ft. to the retail space stock in the city. The quantum of the supply that is lined up will provide retailers substantial choice for space across Mumbai and will help resolve the Grade A space constraint issue for retail occupiers.

Leasing activity on the prime high streets of Linking Road and Juhu-Tara Road has been active due to international brands and retailers scouting for space for their standalone/flagship stores. Also, in the recent quarters ground floor space of the new commercial buildings in Hiranandani Powai and Andheri (E) has been leased by Banks, F&B and apparel brands.

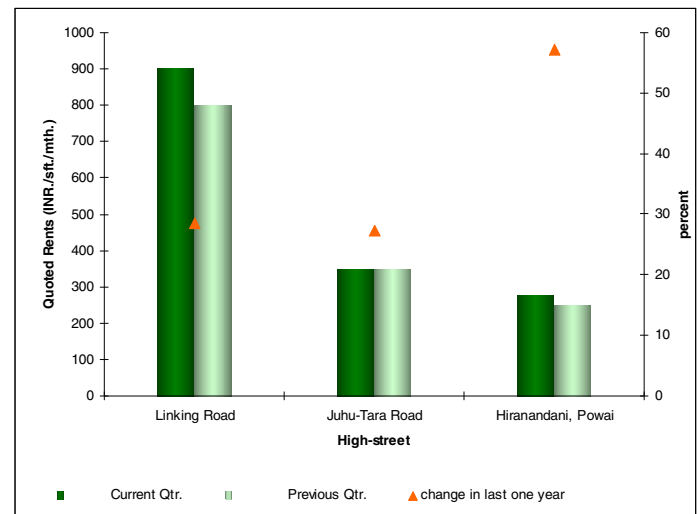
Some of the reported transactions in Mumbai were:

Brand	Area (sft.)	Mall/ High street	Micro-market/ location
Bose	1,107	Linking Road	Western Suburbs
BHS	4,600	High Street Phoenix	Central Mumbai
Yellow Chilli	3,060	Hiranandani, Powai	Eastern Suburbs
Wills Lifestyle	2,400	High Street Phoenix	Central Mumbai

MALL RENTAL VALUES : MUMBAI



HIGH STREET RENTAL VALUES : MUMBAI



RENTAL MOVEMENT

On account of limited Grade-A space and demand-supply mismatch, mall space rentals had witnessed steep appreciation in the last 3 years. However, with augmented supply and increased competition, the rental values in malls have stabilized in the last two quarters.

Conversely to what has been the case with the mall space rentals, prime high street rentals continued to move upwards across almost all major locations. Space constraint and necessity on the part of the retailers to be present in key retail pockets and high-end catchment areas has kept the upward movement of the high streets intact.

OUTLOOK

Even though Mumbai retail segment has witnessed substantial demand, it has been relatively lower in new locations as compared to that in established destinations. 'Tried and tested' locations are a safe haven for the retailers and they have been observed to be somewhat diffident in testing new waters. The trend is likely to continue and the emerging retail destinations like those of extended suburbs will take sometime to establish their foothold. This scenario coupled with the supply that is lined up will keep the rental values under pressure. However, going forward, the market rentals are expected to remain stable in the short to medium term.

It has been observed that while the new brands or the market entrants are willing to take-up space on the prevailing rentals, the expansion plans of the retailers who do have a presence in the city has been put on the hold. This has been because there is a general market sentiment amongst the retail occupiers that the retail rentals which have increased manifold in the last few quarters will come down in the near future.

BANGALORE

MARKET SUMMARY

Presence of IT professionals and significant influx of migrant population has provided Bangalore with the requisite base for retail expansion. Even though the city has only a handful of operational malls currently (totaling to ~2.1 million sq.ft.), more than 30 malls are under various stages of planning and construction. Many of the upcoming malls will be a part of mixed-use developments that would include residential, office and hotel components. Developers are carrying out extensive catchment studies and paying considerable attention to tenant mix so as to enhance the positioning of their malls.

Of late, Bangalore has been witnessing shortage of organized retail space as no new mall space was delivered in the market in this year. However, notwithstanding this fact, transactions and rentals have reportedly registered a decline. Also, the anticipated over-supply situation has led to developers re-examining their retail strategy and this has resulted in deferring of projects and delay in launch of under-construction malls.

RETAIL SPACE

No new mall, except for UB City's The Collection on Vittal Mallya Road, was added to the retail space stock in Bangalore in H1

2008. The Collection is a 110,000 sq.ft. luxury mall and brands like Louis Vuitton, Canali, Tiffany's, Ermenegildo Zegna, Alfred Dunhill, Fendi, etc. are present here. Over the next two quarters, 5 new malls (totaling to ~1.5 million sq.ft.) will be ready for occupation across various micro-markets in Bangalore. These include the Grand Mall & Towers by IDEB on Outer Ring Road and Forum Retail Park, India's first factory outlet mall by Prestige Constructions at Whitefield. Forum Retail Park will have the Star India Bazaar Hypermarket occupying 40,000 sq.ft. The new retail projects announced this year include the 1 million sq.ft. development by SJR Group and a G:Corp project both on Bannerghatta Road.

Due to the shortage of mall space in locations with good catchment, established high streets like Brigade Road, Vittal Mallya Road, Lavelle Road and 100 Feet Road, Indiranagar remain to be the preferred locations for retailers. Together with this, new high streets have emerged within the growing residential localities due to the spread of migrant population. High streets like BEL Road, Kamanahalli Main Road, 27th Main Road, HSR Layout and Nandidurg Road have witnessed keen brand interest due to the catchment, space availability and low rentals.

Some of the reported transactions in Bangalore were:

Brand	Area (Sft.)	Mall/ High Street	Micro Market/ Location
Sherwin Williams	2,650	Outer Ring Road	Banaswadi
Fitness First	21,000	Eva Mall	CBD
Indian Terrain	2,200	Brigade Road	CBD
Reebok	2,500	Lavelle Road	CBD
Crossword	6,000	Garuda Mall	CBD
Baby Shop	3,000	100 ft. Road, Indiranagar	East

RENTAL MOVEMENT

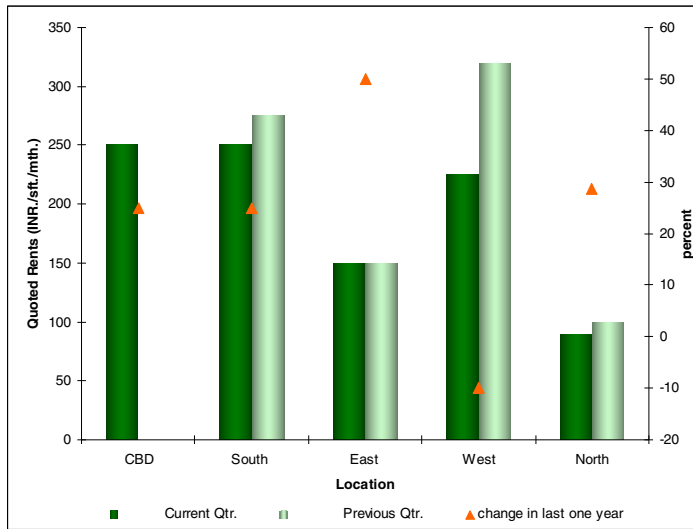
Mall space rentals in Bangalore that had increased considerably in the last few years, have witnessed some degree of correction in the last quarter. High rentals which were being quoted had deterred retailers from leasing space and despite the lack of fresh supply, a correction in mall rentals was observed. In West Bangalore, the presence of four malls within a radius of half a kilometer has finally led to a downward revision and rationalization of retail rentals. This has reversed the trend when the single operational mall was commanding a premium. On the high streets, except for Vittal Mallya Road, the retail rentals have by and large remained stagnant.

OUTLOOK

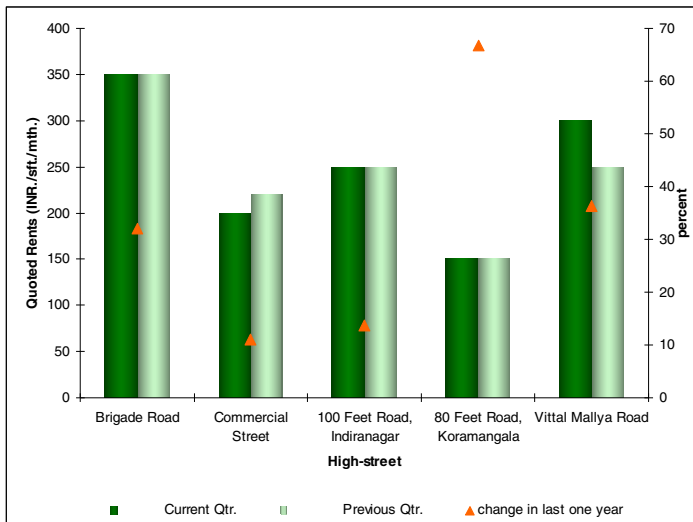
Going forward, the substantial mall supply line-up will provide the brands and retailers a wide array to choice in terms of location, developer, design, etc. to choose from. In order to mitigate risks arising out of a probable over-supply situation, the developers are looking at other established retail markets for ideas to differentiate their product offering. Also, to attract retailers, developers are moving towards the revenue share model which will enable retailers to share sales related risks.

With regards to retail space rentals, the upcoming supply will continue to put commercial values under pressure. In micro-markets where there is excess mall space lined up for future, rentals may further undergo some degree of correction.

MALL RENTAL VALUES : BANGALORE



HIGH STREET RENTAL VALUES : BANGALORE



CHENNAI

MARKET SUMMARY

Chennai has predominantly been a traditional retail hub, with quasi retail outlets operational in and around T Nagar, Purasawalkkam and Parrys micro-markets. The only organized retail format existing till 2006 was Spencer Plaza on Mount Road and Alsa Mall (a shopping complex) in Egmore. A new mall – 250,000 sq.ft. Chennai Citi-Centre opened in the second half of 2006. As of now, just these three malls constitute the organized retail space in Chennai. Also, the upper floors of these malls are dedicated for office spaces.

The mass population of Chennai was not very forthcoming in accepting mall format shopping destinations and preferred the traditional high streets of T Nagar, Pondy Bazaar, etc. With the growth of Chennai as an eminent business hub, this mindset has undergone some amount of transition over the last few years. This growth of the city economy and the migration from other cities has encouraged a number of developers to plan as well as

develop various mall projects in the city. Despite the fact that mall development in Chennai is still in its initial phase, the future looks bright as the retail development and leasing is picking up momentum.

RETAIL SPACE

A speciality mall - Prashant Gold Tower, located in T Nagar and admeasuring 170,000 sq.ft. is the only mall which became operational this year. It is a specialty mall catering only to jewelry and gold and has Joyalukkas as its major tenant. The malls slated for completion this year include Coromandel Plaza (~300,000 sq.ft.) located on the Old Mahabalipuram Road and 400,000 sq.ft. Matrix Mall situated in Vadapalani. A major tenant at Coromandel Plaza is Shringar Cinemas which has leased about 50,000 sq.ft. of space.

In the absence of organized retail space, key highstreets in Chennai like Nungambakkam, Anna Salai, Cathedral Road, R K Salai, TTK Road, Adyar, Purasawalkkam, T Nagar and Anna Nagar continue to witness high demand. Non-availability of space in established locations and the presence of good catchment areas has led to retail transactions taking place in new locations like Velachery and Nelson Manickam Road.

Some of the reported transactions in Chennai were:

Brand	Area (sft.)	Mall/ High-street	Micro-market location
Lee/ Wrangler	1,800	Anna Nagar	Off CBD
Levis	2,500	Adyar	Off CBD
Adidas	1,200	Spurtank Road	Off CBD
Peter England	1,800	Nelson Manickam Rd.	Off CBD
Peter England	3,100	Velachery	Off CBD

RENTAL MOVEMENT

Though the rentals in malls as well as high-streets have increased over the last year values, there has not been any appreciation over the previous quarter values. This slowdown in rentals has been on account of the fastidious retailers who are showing interest in selective projects and in few key locations. The rentals in the Anna Nagar, T Nagar, Numgambakkam and Adyar will continue to command a premium due to limited supply.

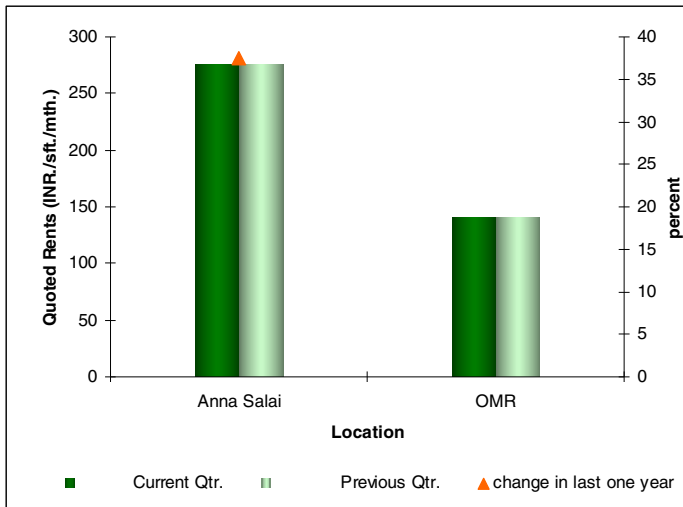
OUTLOOK

By 2010, there would be an estimated six to eight malls adding up to over 3.2 million sq.ft. of organised mall space stock in Chennai. The notable ones which are in pipeline include Express Avenue (800,000 sq.ft.) in Anna Salai which will be completed by Q2 2009, Forum Mall (450,000 sq.ft.) in Vadapalani which will be operational by Q4 2009. High street retail destinations like Khader Nawaz Khan Road, T Nagar and Adyar will continue to find favor amongst the retailers. As such the rentals in these locations will continue to remain strong owing to the short supply.

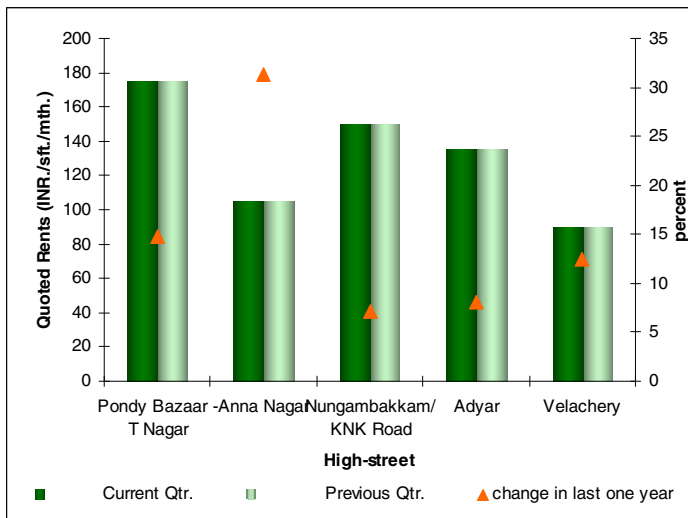
In Chennai, micro-markets in close proximity to dense residential catchments have seen a positive retail sector growth - locations like Anna Nagar and Adyar would fall under this category.

Moving ahead, locations like Nelson Manickam Road and Velachery will witness spill-over retail demand and consequent growth in retail space. Emerging high-streets are expected to witness marginal increase in rentals in the short term.

MALL RENTAL VALUES : CHENNAI



HIGH STREET RENTAL VALUES : CHENNAI



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Notes

The rentals provided are average values for vanilla tenants.

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