

RESIDENTIAL  
RESEARCH



# RESIDENTIAL TRACTION @ GLANCE

Chennai  
August 2013

# MARKET OVERVIEW

Chennai's residential property market has long been characterized by the conservative stance adopted by its buyers. While the city witnessed a moderate demand during 2012, the first half of 2013 (H1 2013) was largely marked by a pronounced slump in the residential market.

Although Chennai is typically known as a base for the automobile/auto ancillary industry and is one of the premier port cities in the country, its residential demand has been driven primarily by the IT/ITeS sector since its advent into the city in the early 2000s. Of late, with the global and domestic economic turmoil threatening the sector's growth and expansion plans, demand for housing property has cooled down significantly. Besides, transactions in Chennai are dominated by end customers than by speculative investors. Hence, residential prices in the city have moved in accordance with actual sales, thereby ruling out volatility in the market.

## New launches

Chennai witnessed the launch of 13,000 units during H1 2013. This depicts a decline of almost 19% as compared to its corresponding period in 2012. While Q1 2013 (January-March) saw a number of new launches, the momentum was lost in the ensuing months and only a handful residential projects were launched till June. This has been presented in Chart 1, illustrating the fact that while there was not much significant difference between the first quarters of both 2012 and 2013, the number of new launches in Q2 2013 fell by 36% when compared to Q2 2012. Some of the new launches have been enumerated in Table 1.

As is evident from Chart 2, the southern part of Chennai witnessed the maximum number of residential units launched in the city. The

## Residential Micro-markets in Chennai

Central	Nungambakkam, Boat Club, Poes Garden, Egmore, Kilpauk, T Nagar
West	Vadapalani, Ashok Nagar, Sriperumbudur, Koyambedu, Ayyappakkam, Ambattur, Mogappair, Porur, Poonamallee
North	Purusawalkam, Ayanavaram, Perambur, Tondiarpet, Kolathur
South	Old Mahabalipuram Road (OMR), GST Road, Velachery

Source: Knight Frank Research

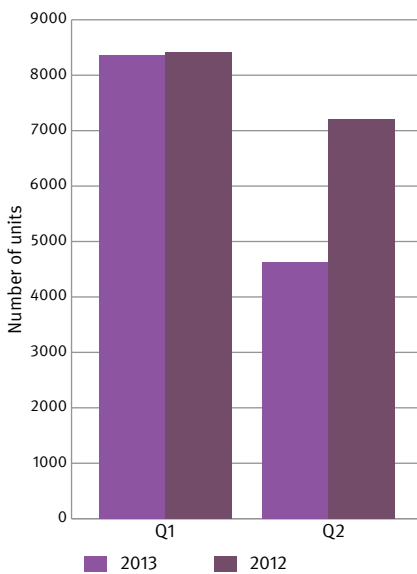
region accounted for a whopping 72% of the total units launched during H1 2013. Interest for residential properties is prominent in locations along the Old Mahabalipuram Road (OMR) and GST Road, where most companies are located. The presence of IT SEZs, IT Parks and industrial estates along these stretches created enormous employment opportunities in this region, leading South Chennai to develop rapidly as a self-sustaining hub. Additionally, the focus of the state government in providing excellent road connectivity has further helped the region. Notable projects launched in this region during H1 2013 include PBEL City by PBEL in Kelambakkam and Aqualily Apartments (C2) by Mahindra Lifespaces in Chengalpattu.

**Chennai witnessed the launch of 13,000 units during the first half of 2013 (H1 2013), depicting a decline of almost 19% as compared to its corresponding period in 2012.**

**The city observed a sharp decline in absorption during H1 2013. The period saw the absorption of 10,500 units as against 15,200 units in H1 2012, signifying a substantial decrease of 31%.**

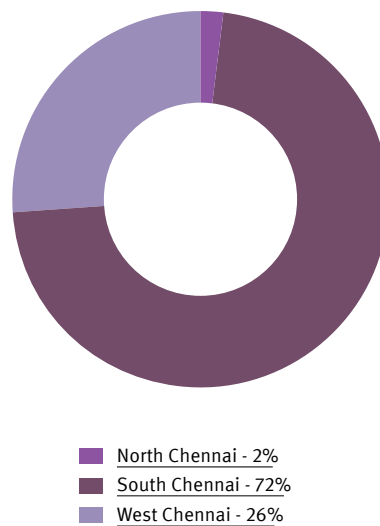
**GST Road had lost out to OMR, despite having the necessary infrastructure to serve as a new residential hub. Presently, with OMR grappling with various infrastructure issues, GST Road has regained home buyers and developers interest.**

**Chart 1. Quarter-wise new launches in H1 2012 and H1 2013**

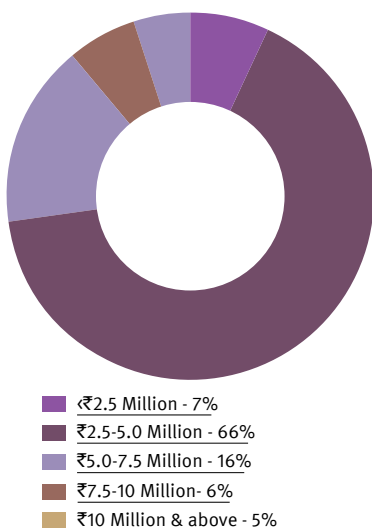


Source: Knight Frank Research

**Chart 2. Micro-market split of units launched in H1 2013**

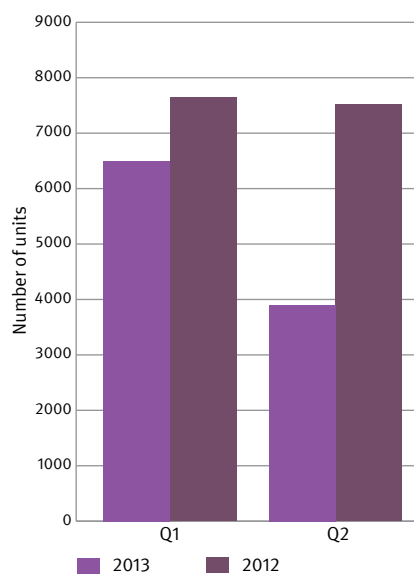


**Chart 3. Ticket size split of units launched in H1 2013**



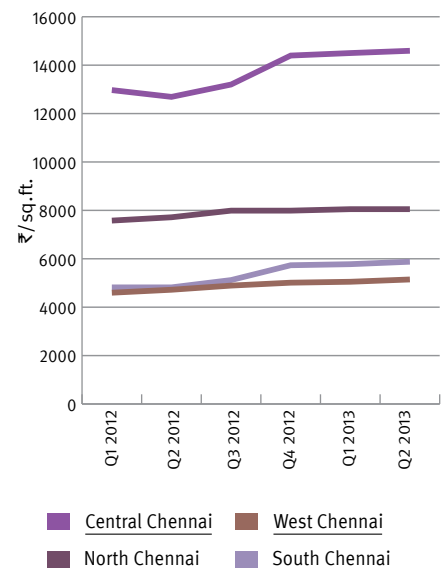
Source: Knight Frank Research

**Chart 4. Quarter-wise absorption in H1 2012 and H1 2013**



Source: Knight Frank Research

**Chart 5. Weighted average price movement**



\*\* Prices are weighted average prices of under construction residential units and do not take into account the secondary market.

Source: Knight Frank Research

The southern micro-market is followed by West Chennai as the region that witnessed the second highest number of new residential units launched during H1 2013, accounting for 26% of the launches. Hitherto known as an industrial area, the western region has come up fast as on the IT/ITeS sector radar with the establishment of an IT SEZ in Manapakkam and other commercial projects in locations like Porur and Ambattur. The region is expected to benefit immensely from the large number of existing and upcoming manufacturing units along the Sriperumbur-Oragadam industrial corridor. Some of the key projects launched in West Chennai in H1 2013 include VGN Temple Town by VGN Developers in Thiruverkadu and Compact Homes (Vasanthaa) by Arun Excello Builders in Padappai.

The northern part of the city accounted for a minimal 2% of the total units launched during H1 2013. Although locations such as Tondiarpet, Madhavaram and Perambur are gradually becoming preferred residential destinations, the general perception about North Chennai as a logistics hub will take some more time to fade out completely.

The central part of Chennai did not witness many new launches during the first half of 2013. Apart from the project TVH Quadrant launched in late 2012, no key projects were reported to have been launched in the recent months. This can be attributed to the dearth of suitable plots for development in the region. However, a few major land deals were transacted in the recent months in central locations like Nungambakkam and Egmore, that may result in the development of residential projects.

Chennai, being an end-user driven market, is marked by low price volatility. Prices had shot up exponentially during the pre-slowdown period in 2008, alarming buyers, who eventually postponed their purchasing decisions owing to unaffordable prices and adverse economic situation in the later months. This had led to an unsold inventory pile-up in the market in select locations of the city.

Presently, a major chunk of new launches in the market have been observed in the ₹2.5-5.0 million category. However, this does not seem to help the buyers much as most of these projects are located on the outskirts of the city, caught up by social infrastructure bottlenecks. On the other hand, there exists a steady demand for luxury properties in Chennai, priced upwards of ₹10 million. This has resulted in 5% of the total units launched in H1 2013 cater to this category in order to meet the demand.

### Absorption

The Chennai residential market observed a sharp decline in absorption during the first half of 2013. H1 2013 saw the absorption of 10,500 units as against 15,200 units in H1 2012, signifying a substantial decrease of 31%. Surge in new launches in 2012 led the proportion of unsold under construction units to increase alarmingly. Besides, unfavourable economic conditions also

**Table 1. Select residential projects launched in Chennai during H1 2013**

Project Name	Developer	Location	No. of Units	Price (₹/ sq.ft.)
Meadowville II	SARE Group	Singaperumal Koil	470	3290-3450
PBEL City	PBEL	Kelambakkam	400	2825-2899
Padmalaya	Real Value Promoters	Pudupakkam	1070	3199
Natwest Aspire	Natwest Constructions	Sriperumbudur	300	2700
Aqualily Apts C2	Mahindra Lifespaces	Chengalpattu	112	3700
Compact Homes (Vasanthaa)	Arun Excello Foundations	Padappai	430	2400-2600

Source: Knight Frank Research

played a major role in postponing buyers' decisions notwithstanding the inherent demand for dwelling units. Flagging of absorption has been predominantly observed in the suburbs, especially on the OMR, and can be attributed to a glut in supply and a steep hike in prices, despite undeveloped transport and social infrastructure in the region.

### Price

Although Chennai has been quite steady in terms of pricing, yet a number of factors, viz. rising construction costs as well as major infrastructure projects, such as the Chennai Metro, Phase III of the Mass Rapid Transit System (MRTS), the Outer Ring Road and the monorail, have led prices to increase in a few select residential markets.

Central Chennai saw weighted average prices move up by around 12% in Q2 2013 over the prices in Q2 2012. This can be attributed to the limited number of units under construction and healthy demand from expatriates. While prices remained largely consistent in the northern part of the city, South Chennai witnessed maximum price appreciation during H1 2013. Price increase in key projects in locations like Velachery led the weighted average price of South Chennai to appreciate by around 20% in Q2 2013 over the prices in Q2 2012. This

price rise has been brought about largely by the office projects and IT parks providing impetus to the southern residential micro-markets. West Chennai, too, witnessed an appreciation of 10% owing to the demand evinced in the newer corridors, including the Poonamallee High Road and the micro-market of Manapakkam - Porur - Maduravoil - Ambattur.

### Spotlight: GST Road

The GST Road residential market should have been an early success story, had it not been overshadowed by OMR with the advent of the IT/ITeS sector there. GST Road had the necessary infrastructure like hotels and education institutes to serve as a new residential hub, but the lure of the IT/ITeS sector drove the developers to OMR instead. Presently, with OMR grappling with various infrastructure issues, GST Road has regained home buyers and developers interest.

**Flagging of absorption has been predominantly seen in the suburbs, especially on the OMR, owing to a glut in supply and a steep hike in prices.**

**Table 2. Select residential projects launched along GST Road during H1 2013**

Project Name	Developer	Location	No. of Units	Price (₹/ sq.ft.)
Shankari Sanjeevani	Shriram Properties	Guduvancheri	134	3100
Iris Court III	Mahindra Lifespaces	Chengalpattu	133	3450-3350
Artha Meadows	Artha Property	Singaperumal Koil	200	3000
Brooksdale	Appaswamy Real Estate	Pallavaram	121	3950
Serenity	Aakam Constructions	Singaperumal Koil	64	3200

Source: Knight Frank Research

Typically, it has been one of the most important corridors of Chennai, connecting the city with its airport as well as other prominent southern cities. Unlike its competitor OMR, GST Road has already established nodes along its stretch with substantial population density. This stretch came into prominence in 2005 with the launch of the 1,550-acre Mahindra World City, the country's first integrated business city. It houses state-of-the-art office projects, occupied by companies such as BMW, Braun, Infosys, Wipro and Capgemini, as well as residential blocks with various lifestyle amenities. Operational SEZ in the area, viz. Sriram Gateway in Perungalathur has a number of prominent MNCs while Tambaram, housing the Madra Export Processing Zone, and Maraimalai Nagar are the key industrial hubs of the region, providing employment opportunities to the resident populace. Further, factors like availability of land parcels, proximity to the airport as well as OMR and Oragadam through connecting roads, improved connectivity through MRTS and rail connectivity through Tambaram have also led to the growth here.

In recent years, GST Road has witnessed the launch of several projects. Major projects in the micro-market are Akshaya Metropolis and Akshaya Belvedere by Akshaya Homes, Olympia Grande by Olympia Group, Lancor Lumina by Lancor Holdings and Natwest Aura by Natwest Developers. Another important township project, the 150-acre Sheltrex near Mahindra World City, has been promoted as a technology integrated project owing to the association of IBM as its consulting partner. Its cost effective design has found a number of takers in the city. Some of the projects launched during H1 2013 have been enumerated in Table 2.

On the price front, the residential projects charge capital values in the range of ₹2800-4500/sq.ft. while some projects have prices as high as ₹6,000 in Pallavaram. The appreciation witnessed in the region has been around 15-20% during the past one year.

## Outlook

Chennai has been a cautious residential property market, marked by a discernible slump, during H1 2013. On the demand front, affordable housing projects will continue to rule the roost on the OMR and GST Road with sustained IT industry development in the region, yet challenged by the social infrastructure lag. Unsold inventory will be a major bone of contention in these suburban areas. However, absorption is expected to pick up in the second half of 2013, with the festive period goading the potential buyers. Nedungundram, ensconced between OMR and GST Road, is anticipated to be a key upcoming market in the near future. Demand from the NRIs is also expected to increase due to the falling rupee value against the dollar.

Meanwhile, several infrastructure initiatives have been announced indicating good news for the city's residential market. Approval of new bridges connecting the East Coast Road and OMR at Neelankarai, Palavakkam and Kottivakkam is expected to impact the residential capital values. Slight upward bias in prices is also envisaged in locations like Sholinganallur, Porur and select nodes along GST Road like Pallavaram. Also, the establishment of the TIDCO-Ascendas SEZ at Tiruvallur and the proposed new airport at Sriperumpudur in 2015 will drive interest towards West Chennai. Besides, work on the Chennai Metro is on full swing and prices are expected to appreciate along its nodes once it starts operation.

Thus, growth in the Chennai residential market would be determined largely by consumers opting for properties in areas adjoining transport links leading to economic hubs. The upcoming MRTS and the bus terminus in Vandalur on completion shall also lend substantial impetus to the city's property market.

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