



MARCH 2013

RESIDENTIAL TRACTION @ GLANCE

Knight Frank

CHENNAI

Market Overview

Chennai's residential property market has been marked by moderate demand during the Calendar Year (CY) 2012. The city has typically been a base for the automobile/ auto ancillary industry and is one of the premier port cities in the country. In addition to these industries, the city's realty market has been driven by a host of other sectors, primarily led by the IT/ITeS sector that has brought in considerable changes in the city's real estate landscape. With improvement in employment stability in this sector compared to the period 2008-2010, when global turmoil had begun to threaten its growth and expansion plans, demand for housing property has now achieved a steady momentum. Known for its conservative approach towards purchasing properties, transactions in Chennai are dominated by end customers rather than by speculative investors, thereby leading the prices to move in accordance with actual sales and ruling out volatility in the market.

WITH IMPROVEMENT IN EMPLOYMENT STABILITY IN THE IT/ITES SECTOR COMPARED TO THE PERIOD 2008-2010, WHEN GLOBAL TURMOIL HAD BEGUN TO THREATEN ITS GROWTH AND EXPANSION PLANS, DEMAND FOR HOUSING PROPERTY HAS NOW ACHIEVED A STEADY MOMENTUM

Table 1: Residential micro-markets in Chennai

	Major Residential Locations
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

The Chennai residential market can be divided based on its geographical pattern into four segments – Chennai Central, North, West and South. It may be noted that being a coastal city, Chennai does not have an eastern market.

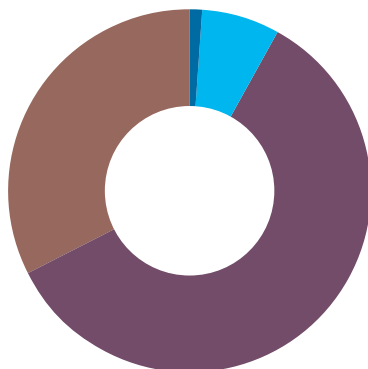
In the last two years, the city has received an impetus to its residential market owing to several proposed infrastructure projects and planned improvement in existing infrastructure facilities in the metropolitan region. It attracts a large influx of job-seekers from across the country, enhancing the cosmopolitan nature of the city and resulting in residential demand mostly in the locations along the Old Mahabalipuram Road (OMR), where most of the companies are located. Also, rise in employment opportunities due to commercial and industrial activities have resulted in an increase in income levels, thence the propensity to purchase residential properties. Other advantages working in favour of the city's residential market include continued support from both the manufacturing and the services industry and a relatively stable government, which ensures a positive environment to home-buyers in all income categories. Besides, the city's real estate has seen considerable

interest from the NRI population as well as HNI customers owing to the relatively affordable pricing of residential properties. Although purchases by these individuals can be termed as investments, they are intended with a long term view. The properties are generally held for an average period of 5-7 years before being off-loaded. This aspect aids in further strengthening the market's end-user character.

Of late, Chennai has been plagued with congestion and traffic woes in most prime residential areas, hence compelling the location-minded home buyer to keep aside reservations and look towards other emerging suburban areas. Factors such as better amenities at cheaper prices and a peaceful, noise-free environment as well as the anticipation for good infrastructure development are primarily responsible for this conscientious decision. This change can also be due to the new cosmopolitan generation born out of increased employment prospects that is interested in better amenities and lifestyle and prefer to be located near the workplaces. This is a new trend, considering the fact that traditionally, residents of Chennai have shown a strong preference to live in the prime locations of Ashok Nagar, Adyar and Anna Nagar where good infrastructure facilities in terms of roads, power and water supply, schools and hospitals are available. Developers have also taken cue from this willingness on the part of the buyers and launched a large number of residential projects in locations along the OMR and GST Road besides other distant locations such as Sriperumbudur, Oragadam and Avadi. However, the fate of these new residential projects still remain to be seen in the forthcoming years as these locations at present have nascent physical and social infrastructure.



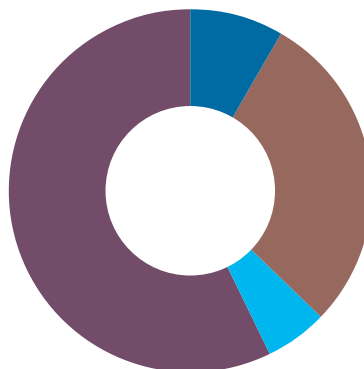
Chart 1. Micro-market Split of Units Launched in 2012



- Central Chennai - 1%
- West Chennai - 32%
- North Chennai - 7%
- South Chennai - 60%

Source: Knight Frank Research

Chart 2. Micro-market Split of Units Launched in 2011



- Central Chennai - 8%
- West Chennai - 29%
- North Chennai - 6%
- South Chennai - 57%

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 2012, accounting for 32% of the launches. This depicts an increase of 10% over the region's share in 2011. Unlike South Chennai, the western region of the city is dominated by the manufacturing sector rather than the IT/ITeS sector, barring the DLF IT SEZ in Manapakkam. The region is expected to benefit immensely from the large number of existing and upcoming manufacturing units along the Sriperumbudur-Oragadam industrial corridor. Oragadam has gained prominence lately for residential development due to its strategic location. Some of the key projects launched in West Chennai include Palmgrove by Godrej Properties in Chembarambakkam, Sidharth Upscale by Sidharth Foundations in Porur, Sukriti by Jain Housing in Mogappair and Casa Grande Futura by Casa Grande Developers in Sriperumbudur.

The northern part of the city accounted for 7% of the total units launched during 2012, an improvement of 17% over the previous year's share. The general perception regarding North Chennai as more of a logistics hub is gradually ebbing away owing to recent infrastructure developments and the launch of key residential projects by prominent developers. Locations such as Tondiarpet, Madhavaram and Perambur are turning a new leaf and increasingly becoming preferred residential destinations. A number of residential projects are underway in these regions. Although the demand for housing is primarily driven by the business community, traders and public sector employees, of late, these locations are also being preferred by investors who are unable to afford a house at the heart of the city. Among the projects launched in 2012, a mention can be made of Orchid Springs Phase II by Alliance Group and Green 101 by Green Tree Homes, both projects being located in Korattur.

AS ON DECEMBER 2012, AN ESTIMATED NUMBER OF NEARLY 77,500 UNITS ARE UNDER CONSTRUCTION IN THE CITY

Launches

Despite the subdued economic conditions, the city witnessed several new project launches. Developers went ahead with their plans and a number of large scale projects were announced during 2012. Approximately 26,000 residential units were launched in Chennai during the period January to December 2012, signifying an increase of almost 73% over the previous year 2011. This reflects the impact of the improved economic conditions since 2011 and the resultant optimism in the Chennai residential market. As on December 2012, an estimated number of nearly 77,500 units are under construction in the city. Amongst the projects launched in 2012, a mention can be made of Bella Vista by Prestige Group at Porur, Stafford by VGN Developers at Thirumullaivoyal, Hill View by Navin Housing at Thirumudivakkam and Today by Akshaya Homes at Thaiyur.

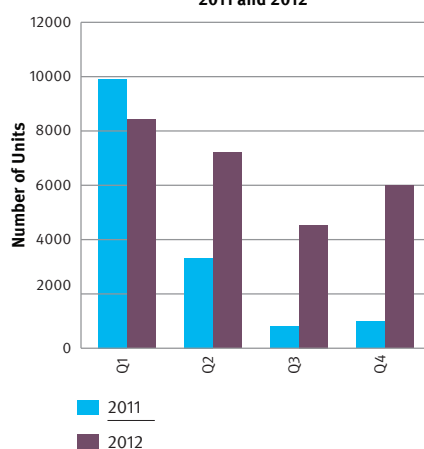
APPROXIMATELY 26,000 RESIDENTIAL UNITS WERE LAUNCHED IN CHENNAI DURING 2012, SIGNIFYING AN INCREASE OF ALMOST 73% OVER THE PREVIOUS YEAR 2011

It has been observed that majority of the residential units launched during 2011 and 2012 are concentrated towards the southern part of the city. Around 60% of the total units launched were accounted for by South Chennai in 2012, depicting an increase of 5% over the previous year's share. South Chennai, along the OMR and GST Road is rapidly developing as a self-sustaining hub with the presence of a large number of IT SEZs, IT Parks and manufacturing units. Nodes such as Perungudi, Sholinganallur and Siruseri on the OMR along with Tambaram and Mahindra World City on GST Road have created enormous employment opportunities in this region. This has inherently led to the development of the residential market in South Chennai. Additionally, the focus of the state government in providing excellent road connectivity along these nodes has further helped in the development of this region. Notable projects launched in this region include Temple Waves by Amarprakash Group at Thirumudivakkam, Navin Starwood Towers by Navin Housing at Medavakkam, Aurum by Pacifica Group at Padur and Olympia Grande by Olympia Group at Pallavaram. The southern region being the hub of the IT/ITeS sector, many of these projects launched in this area are apartment enclaves targeting young IT professionals who can afford apartments in the mid-range.



The central part of Chennai, expectedly, accounted for a minimal percentage of the total number of new launches in the city during 2012. In the previous year, the region had contributed towards 8% of the new launches. This can be attributed to the dearth of suitable plots for development in the region. Thus, while Central Chennai is one of the most sought after residential destinations in the city, demand for residential units has always far exceeded the number of units under construction.

Chart 3. Quarter-wise New Launches in 2011 and 2012



Source: Knight Frank Research

As is evident from the Chart 3, the first quarter of both years contributed the most towards new launches in the city's residential market.

A NUMBER OF FACTORS HAVE LED PRICES TO INCREASE CONSIDERABLY ACROSS THE CITY'S RESIDENTIAL MARKET, ONE OF THEM BEING RISING CONSTRUCTION COSTS DURING 2012 THAT LED TO STEADY PRICE APPRECIATION DESPITE INCREASING PILE UP OF THE PROPORTION OF UNSOLD UNDER CONSTRUCTION UNITS.

Table 2: Select Residential Projects launched during 2012

Project Name	Developer	Location	No. of Units
Abov	Akshaya Homes	Padur	31
Today	Akshaya Homes	Thaiyur	2134
Aurum	Pacifica Companies	Padur	1308
Belvedere	Ceebros	Sholinganallur	192
Esta The One	Arihant Foundations	Mogappair	140
Navin Starwood Towers	Navin Housing	Medavakkam	216
Orchid Springs Phase II	Alliance Group	Korattur	500
Palm Riviera	Amarprakash Developers	Thirumudivakkam	1310
Central Park Heights	Lancor Holdings	Sholinganallur	51
Innova	P dot G Constructions	Kattupakkam	236
Sobha Meritta	Sobha Developers	Pudupakkam	556
Pushkara	MARG Properties	Padur	204

Source: Knight Frank Research

While the market in 2011 could not maintain the enthusiasm shown in the early part of the year owing to the impending uncertainty in the global economy, it managed to sustain a consistent momentum through 2012.

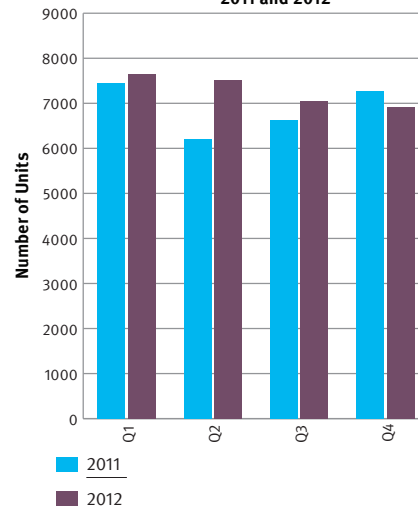
An important trend witnessed in the Chennai residential market is the emergence of preference for living in gated township projects promoting the concept of community living. Till a decade back, Chennai residents had been showing strong preference towards living in plotted developments in suburban residential locations with good connectivity. The apartment projects launched in these locations sold well although they offered constricted amenities. However, as explained earlier, there has been increasing willingness observed on the part of the buyers to shift outwards of the city's prime residential locations. At present, there are a slew of township projects underway in the city along with a few completed integrated township projects which have met with good buyer response. These township projects are envisaged to create a new demand base with the concept of large, well-equipped residential societies in Chennai.

Absorption

Chennai residential market witnessed a steady absorption in both 2011 and 2012.

While 2011 had seen absorption of around 27,500, it improved to approximately 29,000 units in 2012, signifying an increase in market buoyancy by 6%. High absorption was observed in the affordable and mid-end category in locations like OMR that offered an acceptable degree of social infrastructure. However, the surge in new launches in 2012 led the proportion of unsold under construction units to increase alarmingly and hover around the 40% mark, up from its previous level of 31% in 2011. In many cases, developers resorted to giving away freebies and came up with various schemes to attract buyers during the festive season in Q4 2012.

Chart 4. Quarter-wise Absorption in 2011 and 2012



Source: Knight Frank Research



Price

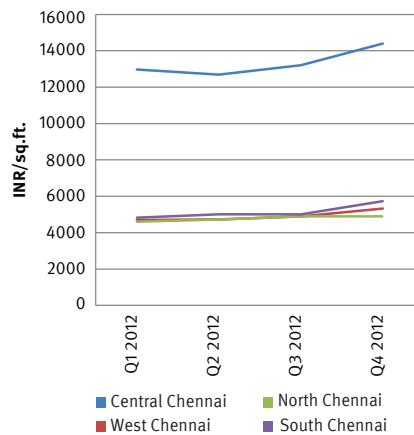
Chennai residential market has generally been characterized by low price volatility. Yet, a number of factors have led prices to increase considerably across the city's residential market, one of them being rising construction costs during 2012 that led to steady price appreciation despite increasing pile up of the proportion of unsold under construction units. Moreover, prices also moved upwards owing to the positive impact of major infrastructure projects, such as the Metro Rail, Phase III of the MRTS from Velachery to St. Thomas Mount, the Outer Ring Road and the Monorail.

Central Chennai saw weighted average prices move up by around 11% in Q4 2012 over the prices in Q1 2012. This can be attributed to 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 the maximum price appreciation during 2012. Price increase in key projects in locations like Velachery and nodes along the OMR that are closer to the city centre, led the weighted average price of South Chennai to appreciate by around 19% in Q4 2012 over the prices in Q1 2012. This price rise has been largely brought about by the proximity of the office projects and IT parks to the southern micro-markets. West Chennai, too, was not left behind and witnessed an appreciation of 9% during 2012 owing to the demand evinced in the newer corridors, including the Poonamallee High Road and the micro-market encompassing

IT HAS BEEN ENVISAGED THAT THE SOUTHERN LOCATIONS OF PALLIKARNAI AND MEDAVAKKAM WILL BE THE NEXT INVESTMENT DESTINATIONS FOR RESIDENTIAL PROPERTY IN THE CITY.

Manapakkam, Porur and Ambattur.

Chart 5. Weighted Average Price Movement in 2012



Source: Knight Frank Research

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

OUTLOOK

Chennai has been a relatively steady residential property market as compared to what has been witnessed in the other metro cities over the last couple of years. While the growth momentum achieved in new launches in 2012 may not be sustained through the new year 2013, developers are expected to continue executing their projects. Affordable housing projects will continue to rule the roost in areas with social infrastructure lag and lower capital values. However, unsold inventory will be major point of contention in these suburban areas.

It has been envisaged that the southern locations of Pallikarnai and Medavakkam will be the next investment destinations for residential property in the city. These locations are well connected by road to all the employment hubs of South Chennai as well as the Chennai International Airport. Additionally, the Vandalur-Velachery Monorail project will further enhance the connectivity of these locations with the city centre in the north and GST Road in the south. We expect these two destinations to witness the maximum amount of price appreciation in Chennai's residential market over the next five years.

On the other hand, other southern markets like the OMR, GST Road and East Coast Road will continue to attract customers owing to the sustained IT industry development in the region. Developers are expected to come up with more project launches in these regions, particularly along the OMR, as the new floor space index permits a greater population density. As a result, large-scale migration to these suburban locations is envisaged in the forthcoming years. Another residential market worth mentioning that will witness price appreciation in the forthcoming months is Oragadam in West Chennai. Its proximity to the industrial corridor will have an impact on the residential prices, leading them to move upwards.

Going forward, factors like improving economic scenario and market sentiments, anticipation of reduction in policy rates by RBI, substantial office space and mall space as well as the ongoing Metro Rail project are expected to positively impact the Chennai residential market in 2013. Chennai will, thus, continue to attract investments from several industries due to its strategic location, availability of skilled manpower and improving infrastructure.