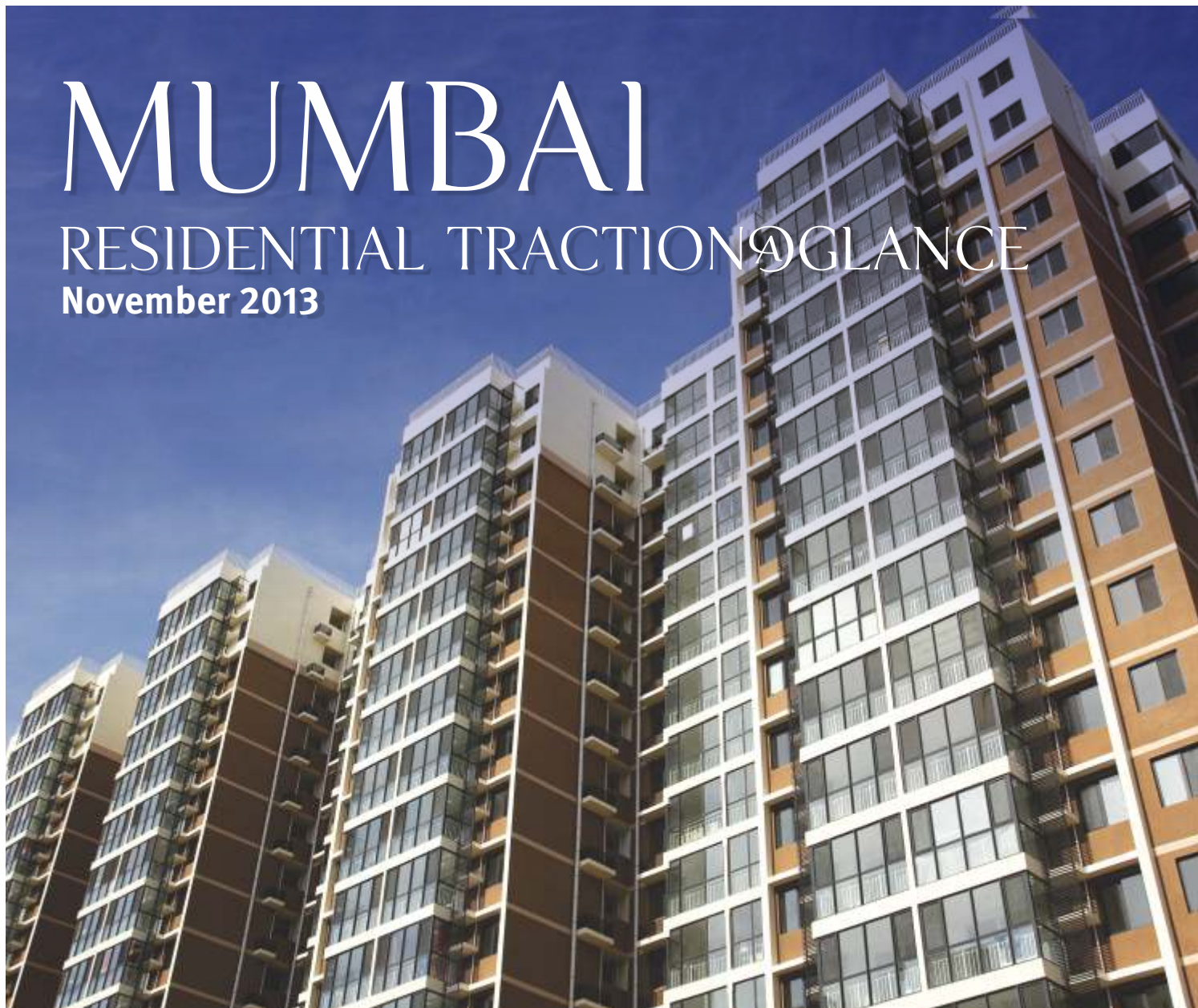


# MUMBAI

## RESIDENTIAL TRACTION@GLANCE

November 2013



The Residential Traction@Glance series analyzes the residential market of a city with regards to new supply, absorption, ticket size split of launched units, unsold stock, price trend, major project launches and future outlook.

### MAIN HIGHLIGHTS OF THE REPORT

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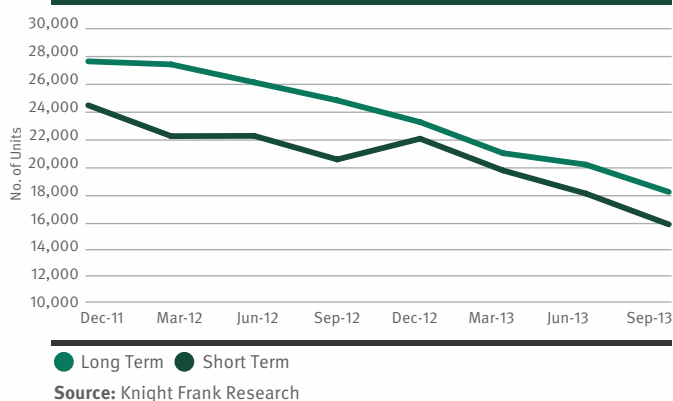
- Mumbai residential market adversely affected in **2013**
- Delays in project deliveries coupled with the economic slowdown impacting demand
- Developers to defer new launches and focus instead on liquidating current inventories

The Indian growth story seems to have slipped off the growth path and the burgeoning real estate sector is no exception. Widely believed to be in the midst of an asset price bubble, the cash strapped Indian real estate landscape today is rife with escalating unsold inventory levels and a highly leveraged developers' fraternity. Loan defaults by major listed developers this year show that stress levels on developers' balance sheets are fast becoming unsustainable.

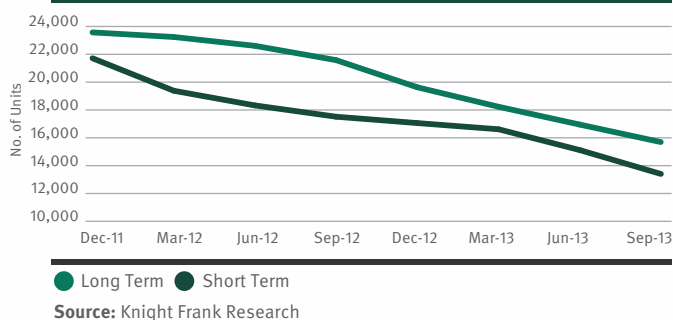
## Market Overview

Blue chip residential markets like Mumbai have also been adversely affected in 2013. Massive delays in project deliveries coupled with the economic slowdown have affected demand as consumers have become cautious and are delaying home buying decisions. This pull-back in demand has in-turn caused developers to defer new launches and focus instead on liquidating current inventories, effectively shrinking the size of the market over the past two years. The past two years have seen launches plummeting over 40% compared to peak levels in 2010. Both long and short term moving averages confirm this trend and recent quarters' data does not suggest even a slight reversal of this trend.

### MOVING AVERAGE TREND OF LAUNCHES



### MOVING AVERAGE TREND OF ABSORPTION



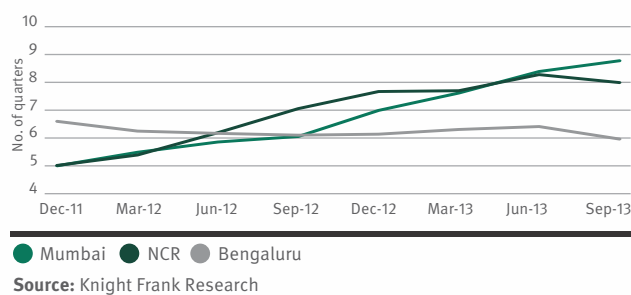
Similarly, residential sales velocity has also shown a similar trend and fallen in line with launches since the end of 2011. Developers, in a bid to encourage sales have started to offer discounts in terms of free stamp duty and registration or waiver of floor charges or car parking charges. Additionally, innovative sales strategies such as rent back and Subvention Schemes that translate into 5-15% discounts are also being employed by developers in a bid to push sales. They have

however, refrained from lowering base rates barring a few exceptions.

The fact that demand has not picked up in recent times should be of great concern to developers as the quarters required to liquidate existing inventory keep increasing. The quarters to sell (QTS) stand at 9 at the end of September 2013, almost twice the 5 quarters as on December 2011; and considerably more than the 6 quarters as on September 2012. QTS refers to the number of quarters required to exhaust the existing unsold inventory in the city. Had developers not put the brakes on project launches during this period, the situation would have been much worse.

A comparison of the movement of Mumbai's QTS with that of other frontline cities clearly depicts the worsening condition of Mumbai's residential market. While the NCR and Bengaluru markets have seen some measure of recovery or strength, the Mumbai residential market is yet to show signs of improvement.

### CITY-WISE QTS



### MICRO-MARKET DEFINITION

Micro-Markets	Locations
Central Mumbai	Dadar, Lower Parel, Mahalakshmi, Worli, Prabhadevi
Central Suburbs	Sion, Chembur, Wadala, Kurla, Ghatkopar, Vikhroli, Bhandup, Mulund
Navi Mumbai	Vashi, Nerul, Belapur, Kharghar, Airoli, Panvel, Ulwe, Sanpada
Peripheral Central Suburbs	Kalyan, Kalwa, Dombivli, Ambernath, Bhiwandi, Mumbra, Karjat
Peripheral Western Suburb	Vasai, Virar, Boisar, Palghar, Bhayandar, Nalasopara
South Mumbai	Malabar Hill, Napean Sea Road, Walkeshwar, Altamount Road, Colaba
Thane	Ghodbunder Road, Pokhran Road, Majiwada, Khopat, Panchpakhadi
Western Suburbs	Bandra, Andheri, Goregaon, Kandivali, Borivali, Santacruz, Vile Parle

Source: Knight Frank Research

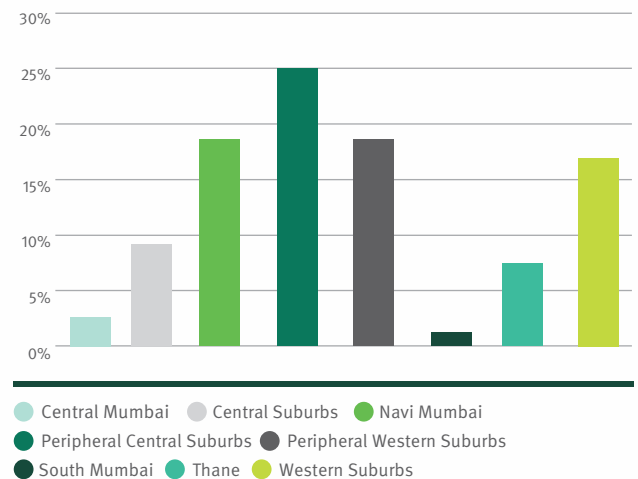
# RESIDENTIAL RESEARCH

NEARLY 290,000 RESIDENTIAL UNITS ARE UNDER CONSTRUCTION IN THE MUMBAI RESIDENTIAL MARKET WHILE UNSOLD INVENTORY LEVELS ARE CLOSE TO 130,000. THE FACT THAT THE UNSOLD INVENTORY LEVEL IN THE MMR IS ALMOST 44% WHILE THAT IN THE NCR IS 26% GIVES A PERSPECTIVE OF THE DIRE SITUATION OF THE MUMBAI RESIDENTIAL MARKET, CONSIDERING THAT THE NCR HAS NEARLY TWICE THE NUMBER OF UNITS UNDER CONSTRUCTION COMPARED TO MUMBAI.

Nearly 290,000 residential units are under construction in the Mumbai residential market while unsold inventory levels are close to 130,000. Unsold inventory constitutes unsold units in ready as well as under construction projects. The fact that the unsold inventory level in the MMR is almost 45% while that in the NCR is 26% gives a perspective of the dire situation of the Mumbai residential market, considering that the NCR has nearly twice the number of units under construction compared to Mumbai.

Over the years the core of the residential market has been steadily shifting northward of the Mumbai Metropolitan Region (MMR) as people are prepared to move further away from the CBDs to find an apartment that fits their budget. This has prompted a flurry of construction activity in the peripheral suburbs to accommodate this demographic shift as an estimated 63% of the total units under construction are now concentrated in Navi Mumbai and the peripheral central and western suburbs.

## MICRO-MARKET SPLIT OF UNDER CONSTRUCTION UNITS AS ON SEPTEMBER - 2013



Source: Knight Frank Research

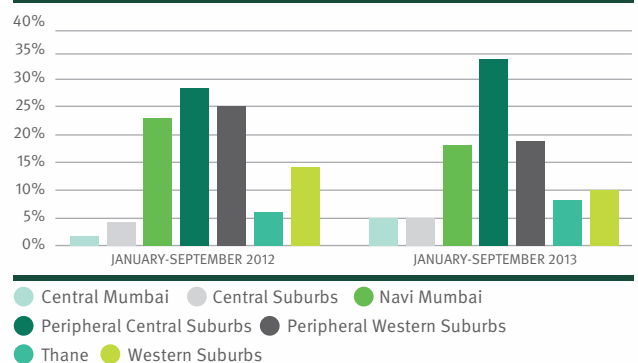
APPROXIMATELY 47,488 UNITS WERE LAUNCHED DURING THE JANUARY – SEPTEMBER 2013 PERIOD THIS YEAR WHICH IS A CONSIDERABLE 28% DROP Y-O-Y. THE DIFFERENCE IS EVEN GREATER AT 42% AND 46% WHEN COMPARED WITH THE SAME PERIOD DURING 2011 AND 2010 RESPECTIVELY.

## Market Activity

The Mumbai residential market has seen a substantial contraction in supply over the past three years and 2013 has been no different. Approximately 47,488 units were launched during the January-September 2013 period this year which is a considerable 28% drop Y-o-Y. The difference is even greater at 42% and 46% when compared with the same period during 2011 and 2010 respectively. It is quite evident that developers are keeping new launches in check in order to bridge the supply and demand gap.

The peripheral central suburbs had claimed a 28% share of units launched in the January-September period last year.

## MICRO-MARKET SPLIT OF LAUNCHED UNITS



\*South Mumbai share less than 1%  
Source: Knight Frank Research

This share has increased as over a third of the unit launches during the analysis period (January-September 2013) took place in the peripheral central suburbs. Locations around the rapidly developing NH3 and those connected on the Central railway line like Dombivali, Ambernath, Badlapur and Kalyan saw substantial development activity. Availability of large land parcels and comparatively reasonable land prices enabled developers to launch projects in the affordable and mid-segment range with a ticket size less than ₹5 million.

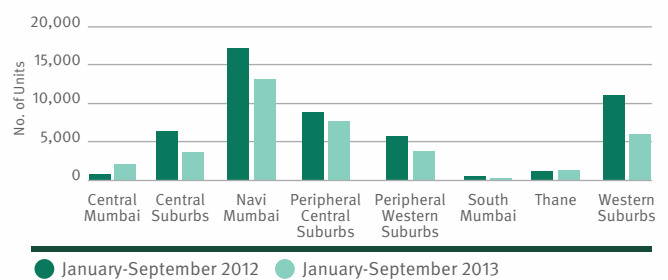
The Navi Mumbai story lost some momentum in the year so far as its share of units launched in the January-September 2013 period dropped to 18% from 22% during the same period last year. Inordinate delays in the execution of major infrastructure projects such as the new international airport and the Mumbai Trans Harbour Link Road coupled with comparatively dearer inventory have caused this lull in market activity. However, recent progress in land acquisition for the airport project is expected to bring the Navi Mumbai story back on track. Ulwe, Taloja and Panvel featured prominently during 2013 as almost 70% of the launches in this micro-market took place in these locations.

The share of the western suburbs in terms of units launched has fallen to 10% in the January-September 2013 period from 14% in 2012. However, the number of units launched has nearly halved in absolute terms. Nearly 60% of the launches in this micro-market have taken place in locations like

Andheri and Vile Parle. Andheri (East) is seeing an increased amount of traction as the metro project comes into fruition and vastly improves its connectivity to and from the suburban railway station, highway and the other dense office and residential clusters in western Mumbai. Similarly, the peripheral western suburbs also experienced a lull in launches during January-September 2013 compared to the previous period as its share fell from 25% to 19%.

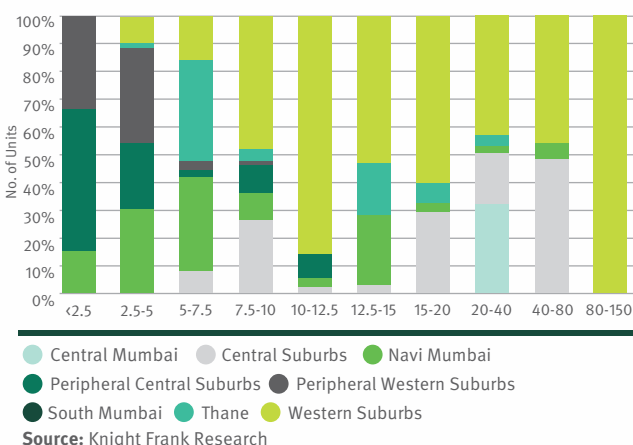
Absorption levels for the January-September 2013 period have dropped to approximately 39,000 units which is a 26% drop Y-o-Y and more than 43% off the 2010 highs. The fact that practically all micro-markets with the exception of Central Mumbai have seen a decline in terms of absolute absorption numbers depicts the current weakness in the Mumbai residential market.

### MICRO-MARKET ABSORPTION LEVELS

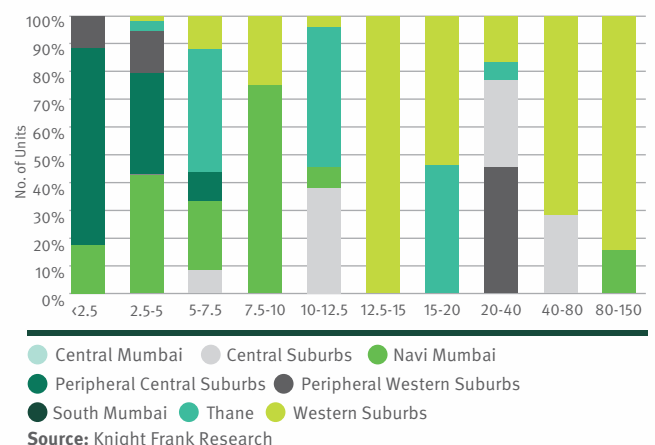


Source: Knight Frank Research

### MICRO-MARKET WISE TICKET SIZE SPLIT OF LAUNCHED UNITS DURING JANUARY-SEPTEMBER 2012



### MICRO-MARKET WISE TICKET SIZE SPLIT OF LAUNCHED UNITS DURING JANUARY-SEPTEMBER 2013



ABSORPTION LEVELS FOR THE JANUARY-SEPTEMBER 2013 PERIOD HAVE DROPPED TO APPROXIMATELY 39,000 UNITS WHICH IS A 26% DROP Y-O-Y AND MORE THAN 43% OFF THE 2010 HIGHS.

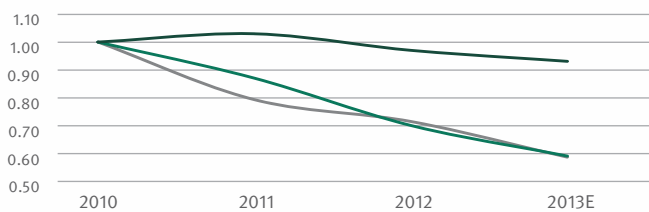
# RESIDENTIAL RESEARCH

As far as the ticket size analysis of launched units is concerned, developers are looking to tap into the largest chunk of buyers seeking apartments priced up to ₹7.5 mn. as an estimated 74% of units under construction today is targeted at this price bracket vis-à-vis 78% in September last year. The fact that the combined share of the peripheral suburbs and Navi Mumbai has reduced from 75% in the January-September 2012 period to 71% for the same period in 2013 has resulted in a proportionate reduction in the number of units launched in the under ₹7.5 mn. category.

## Prices

Prices had stayed steady all through 2011 and the initial part of 2012 in the face of weak demand only due to an even weaker supply scenario. This equilibrium has however shifted in 2013 as the increasing rate of units launched makes it harder for the market to maintain the same price levels.

### INDEX OF REAL ESTATE INDICATORS



● Launches ● Absorption ● Prices

Source: Knight Frank Research

Having said that, prices have been moving in a narrow range with a downward bias in the past four quarters as the market slowly adjusts to the increasing launches. As prices in premium micro-markets tend to be much more volatile compared to the peripheral suburban micro-markets, prices in some South and Central Mumbai locations like Parel, Lower Parel and Mahalaxmi, have declined close to 10% over the previous three quarters while prices in Navi Mumbai, Thane and the peripheral suburbs of Central & Western Mumbai have either been stable or have trended marginally upward. This can be explained by the lower ticket sizes of apartments on offer in these micro-markets which find more takers than their premium counterparts. However, certain locations like Lower Parel, Mahalakshmi and Dadar have benefited from giving discounts to buyers as is evident from the higher absorption numbers recorded this year.

Developers in a bid to liquidate their higher priced inventory have been more open to negotiation especially in the premium segment, reducing prices upto a maximum of 25% in favour of a sizeable up-front payment. We have also observed

Navi Mumbai experienced a significant concentration of launches in ticket sizes below ₹10 mn. in the January-September 2013 period as bulk of these occurred in lower priced locations like Ulwe, Taloja and Panvel. Significantly, both Navi Mumbai and Thane saw a steep increase in the share of units launched in the ₹7.5 mn - 10 mn and ₹10 mn. – 12.5 mn. respectively.

If one analyses the unsold inventory levels across ticket sizes in the Mumbai market, it is observed that they are as high as 52% for units launched in the ₹20 mn. and above price bracket vis-a-vis 44% for the overall Mumbai market.

the number of cancellations increasing over the past few quarters. This is symptomatic of a wary investors' segment which is fast losing faith in the current scenario where developers are hard pressed to even service their debt obligations.

### RESIDENTIAL PRICES IN Q3 2013 & Q3 2012

Location	Price (Q3 2013) in ₹/sq.ft	Price (Q3 2012) in ₹/sq.ft
Cuffe Parade	35000-71000	34000-73000
Malabar Hill	60000-76000	60000-76000
Napean Sea Road	47000-74000	50000-75000
Mahalaxmi	22000-42000	20000-44000
Worli	27000-49000	25000-55000
Lower Parel	21000-38000	22000-39500
Prabhadevi	26000-45000	20000-45000
Dadar	20000-31000	20500-32000
Bandra	23500-45000	26000-46000
Andheri	14000-18500	14500-19000
Goregoan	11500-15500	12000-16500
Kandivali	11000-13000	11000-13000
Borivali	11600-13500	11600-13500
Mira Road	6000-7400	6000-7400
Virar	4500-5500	4500-5500
Naigaon East	3800-4100	3500-3750
Vasai	5000-6000	4500-5500
Chembur	9500-16500	9000-15000
Bhandup	9750-13000	9750-13000
Mulund	11500-14000	11500-14000
Thane	6800-12500	6800-13000
Dombivali	5000-6000	5000-6000
Kalyan	4500-5500	4400-5200
Ambarnath	2750-3800	2500-3600
Vashi	8500-15750	8500-16500
Airoli	6500-7600	6500-7600
Kopar Khairane	6000-7500	6000-7500
Kharghar	5800-9000	6000-9500
Panvel	3600-6400	3500-6500

Source: Knight Frank Research

# RESIDENTIAL RESEARCH

## Outlook

The fact that real estate prices are showing signs of weakening suggests that the long standing stalemate between buyers and builders is finally turning in the buyers' favour. The increase in inventories coupled with weakening absorption levels would put further pressure on prices. Liquidity constraints and the increase in construction cost will continue to pose a challenge for developers leading to a further slowdown in project launches.

While the economic slowdown and weakened buyer sentiments have discouraged sales, we believe that certain locations in Navi Mumbai and the central suburbs will continue to interest end users and investors alike as attractive price points coupled with significant infrastructure developments like the upcoming airport, metro corridor, Eastern Freeway and the Santacruz Chembur Link Road increase their connectivity and hence enhance their attractiveness as residential destinations.

The rise in interest costs for the realty sector and decline in net profits during 2013 compared to the previous period will compel developers to lighten inventory load and deleverage their balance sheets. Demand however, is likely to remain subdued over the initial part of 2014 as the market continues to bottom out against the backdrop of a sluggish economy. Hence, a more pronounced price correction from current levels is likely in the medium term. We believe that market sentiment will begin to improve in the latter half of 2014 as the country's economic fundamentals ease and elections play out.

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