



OCTOBER 2012

RESIDENTIAL TRACTION @ GLANCE

Knight Frank

Pune Metropolitan Region

Market Overview

The city of Pune has witnessed an enormous change over the last decade. Approximately 150 km. east of Mumbai, it is the second largest city in the state of Maharashtra and the 8th largest urban agglomeration in India. Pune boasts a strong presence of the engineering and automobile sectors. Economic activity in the city was triggered by the presence of corporate giants like Bajaj, TELCO, Fiat, General Motors and Bharat Forge, and over the years has helped consolidate Pune's position as the 'Detroit of India'.

Over the past few years, Pune has also emerged as a major IT destination. Infosys, Wipro, TCS and Syntel have their bases here and have been expanding operations at a brisk pace. Its proximity to India's financial capital Mumbai has also helped to accelerate real estate activity in the region. The Mumbai-Pune expressway, that connects both the destinations, has made Pune a much sought after location for even out of town investors.

In recent years, real estate development across the city has geared up to keep pace with changes in demand. The past few years have witnessed an increased residential demand that spread across all income categories and various locations, specifically toward the eastern and western periphery.

North Pune has evolved as an industrial area with various Auto & Auto Ancillary and Engineering industries dominant here. Pimpri and Chinchwad in the north are host to some of India's leading auto companies' manufacturing plants such as Bajaj Auto, Tata Motors, Force Motors and Daimler Chrysler. Additionally, engineering majors like Thermax, Forbes-Marshall, Thyssen Krupp and Alfa Laval also have their manufacturing

Table 1: Residential micro-markets

Market	Major Residential Locations
North	Pimpri, Chinchwad, Nigdi, Moshi, Dighi
Central	Bund Garden Road, Koregaon Park, Deccan, Model Colony, Kothrud, Swargate
South	Warje, Katraj, Kondhwa, NIBM Road, Undri
East	Kalyani Nagar, Yerwada, Viman Nagar, Kharadi, Wagholi Road, Hadapsar
West	Aundh, Baner, Pashan, Bavdhan, Wakad, Hinjewadi, Ravet

base here. North Pune has always been a self-sufficient zone with the residential market thriving on the employment generated by the manufacturing sector. Pimpri, Chinchwad, Nigdi and Moshi are some of the prominent residential destinations here.

Central Pune is the oldest part of Pune and also its commercial heart with various corporate offices located in the Central Business District (CBD) areas of Bund Garden Road, M.G Road, Deccan and Shivaji Nagar. The best physical and social infrastructure, presence of organized retail, excellent connectivity with various parts of the city and limited availability of vacant land have ensured its standing as the most premium micro-market of the city. Destinations such as Koregaon Park, D.P Road, Model Colony and Kothrud are among the primary residential areas here and command the highest residential prices in Pune.

Over the years South Pune has developed as a cheaper alternate residential zone compared to Central Pune. People preferring to reside in proximity to the city centre but unable to afford a house there, favour this micro-market. However, the absence of any significant employment opportunities has restricted the growth of this micro-market as

compared to others. Katraj, Kondhwa, NIBM Road and Warje are some of the major residential destinations here.

Large number of IT/ITeS offices, robust physical and social infrastructure, established organized retail market, presence of the Pune airport and good connectivity with the city centre have resulted in East Pune emerging as the most preferred residential zone over the last decade. The growth of Magarpatta City as a successful self-sustaining integrated township and setting up of EON IT Park have further boosted the residential market here. However, the emergence of Hinjewadi in West Pune as an alternate IT/ITeS destination has given corporates an alternative that rivals the best options this eastern micro-market has on offer. A lot of blue chip IT/ITeS companies prefer Hinjewadi over East Pune due to the availability of vast vacant land on which built-to-suit (BTS) offices can be constructed for captive use. Although East Pune continues to attract small and mid-sized IT/ITeS companies, most of the larger players are setting up campuses in West Pune.

The rapid evolution of Hinjewadi as an IT/ITeS destination has led to an unprecedented growth of the western part of the city in the last ten years. Residential locations in close proximity to Hinjewadi such as Aundh, Baner, Pashan and Wakad have immensely benefited from the large number of IT/ITeS jobs created here. Availability of large tracts of vacant land at affordable prices and excellent road connectivity with the city centre have set this micro-market on a steep growth trajectory.

Market Activity

The IT/ITeS sector's emergence in tandem with the setting up of various manufacturing units in Pune over the last decade has resulted in the city's real estate market

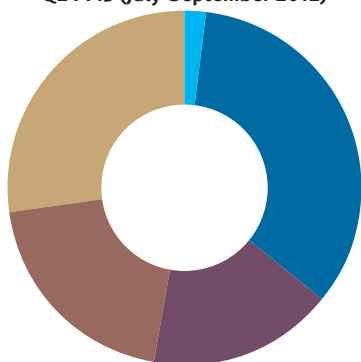


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expanding in all four directions. The growing IT/ITeS sector will continue to fuel the residential markets as it is the largest employer and has the highest paying jobs in Pune. Since 2009, the city has witnessed the launch of close to 130,000 units, approximately 21% of which remain unsold. The market has experienced an increasing rate of project launches during this period that the absorption levels have not kept pace with and have resulted in vacancy levels trending up from 12% in 2009 to the current 21%. Close to 40,500 units were launched during the four quarters ending September 2012.

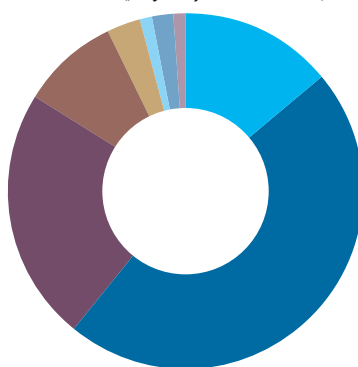
It has been observed that the Pune home buyer shows a marked appetite for product priced within a budget of INR. 5 mn.as was seen in the case of Xrbia at Hinjewadi whose inventory flew off the shelves mere days after its launch. The fact that 61% of the under construction inventory is targeted at this segment augurs well for the market. Also significant is the fact that a little over 83% of the under construction inventory is priced under INR. 7.5 mn.

Micro-market split of under construction inventory as on Q2 FY13 (July-September 2012)



Source: eyestate

Ticket size split of under construction inventory as on Q2 FY13 (July-September 2012)



Source: eyestate

Supply

Almost 70% of the upcoming supply in the Pune market is expected to be ready for possession by Q4 FY13 as bulk of the projects were launched/ re-launched towards the end of 2009 and early 2010. 61% of the upcoming supply falls in the east and west micro-markets. Hadapsar, Wagholi and Kharadi account for 65% of the under construction inventory in the east while Hinjewadi, Bavdhan and Pimple Saudagar claim over 62% of the units under construction in the west. Just Wagholi in the east and Hinjewadi in the west constitute nearly 20% of all units coming online till the end of FY 2014. Similarly, Chakan in the north and Kondhwa to the south will see the largest share of units

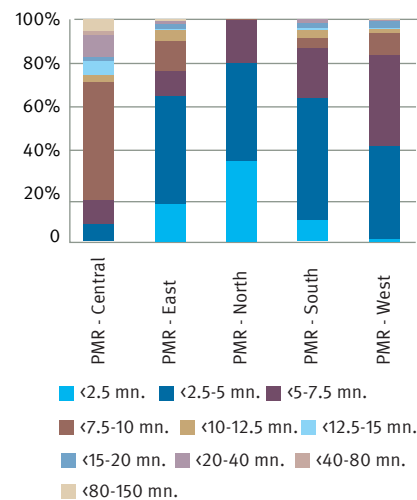
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attain completion in these micro-markets during the same period.

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It is interesting to see the ticket size wise split of upcoming supply across micro-markets in Pune. The chart shows that the eastern and western locations have a wide variety of products that cater to home buyers across almost all ticket sizes. The western micro-market however, has a significantly bigger share of units priced in the INR. 5.0 - 7.5 mn. ticket size. Over half of the inventory in the north and south micro-markets is priced under INR. 5.0 mn.

Micro-market split of under construction inventory across ticket-sizes as on Q2 FY13 (July-September 2012)



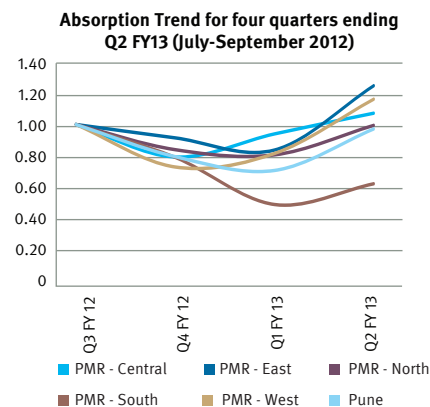
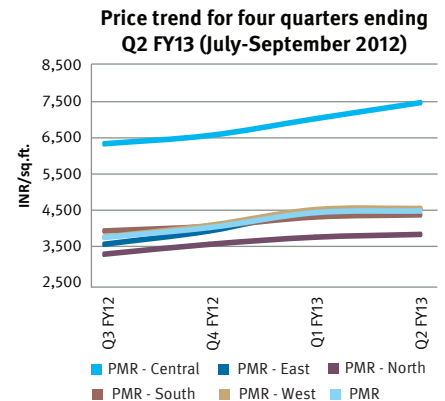
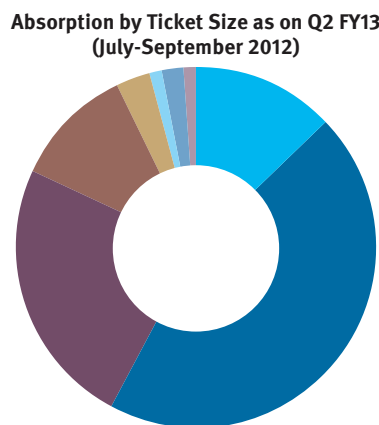
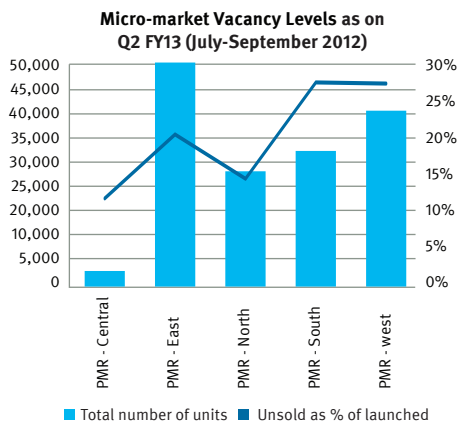
Source: eyestate

As bulk of the inventory in Pune is within affordable levels, market vacancy levels are relatively healthy at 21% compared to markets like Mumbai and NCR where vacancies range significantly over 30% levels.

Absorption

The Pune residential market experienced a significant uptrend in absorption in the quarter ending September 2012 (Q2 FY 13) after two subdued preceding quarters.

58% of the units absorbed so far have been in the affordable and mid segment housing with



- <2.5 Million - 5%
- 2.5-5 Million - 34%
- 5-7.5 Million - 31%
- 7.5-10 Million - 24%
- 10-12.5 Million - 1%
- 12.5-15 Million - 3%
- 15-20 Million - 5%
- 20-40 Million - 5%

Source: eyestate

a ticket size less INR. 5.0mn. Based on the average sales velocity over the preceding four quarters, the unsold inventory in the Pune markets will take approximately four quarters to be fully absorbed.

Price

Prices have moved in a narrow range in the four quarters ending Q2 FY13. The Pune

market is largely end user driven and as such not subject to much volatility. However, in recent years investors especially from Mumbai have been buying in the Pune market despite the fact that exit options are not available without transfer charges before possession in most cases.

Outlook

The market shows a marked uptrend as sales have picked up in Q2 FY13 just stepping into the festive season. We expect the uptrend in absorption levels and prices to sustain for the remainder of this financial year. We conducted a “quarters to sell analysis”

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

which assesses market health by comparing construction and sales timelines using the long term sales average and project specific completion periods. The analysis shows us that absorption levels would be adequate enough to liquidate inventories in line with their completion dates, thereby indicating favourable market health.

The core of the residential market is definitely moving to the eastern and western periphery of Pune where the IT/ITeS and manufacturing hubs are concentrated. The ample availability of land in these peripheral locations ensures that the residential product coming up is well within the affordability criteria of their catchments. With the walk to work concept popular among the IT/ITeS workforce and development of the Outer Ring Road along with allied social infrastructure, the attractiveness of locations like Wagholi and Hinjewadi as residential destinations will only increase in the long run.

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