RESEARCH

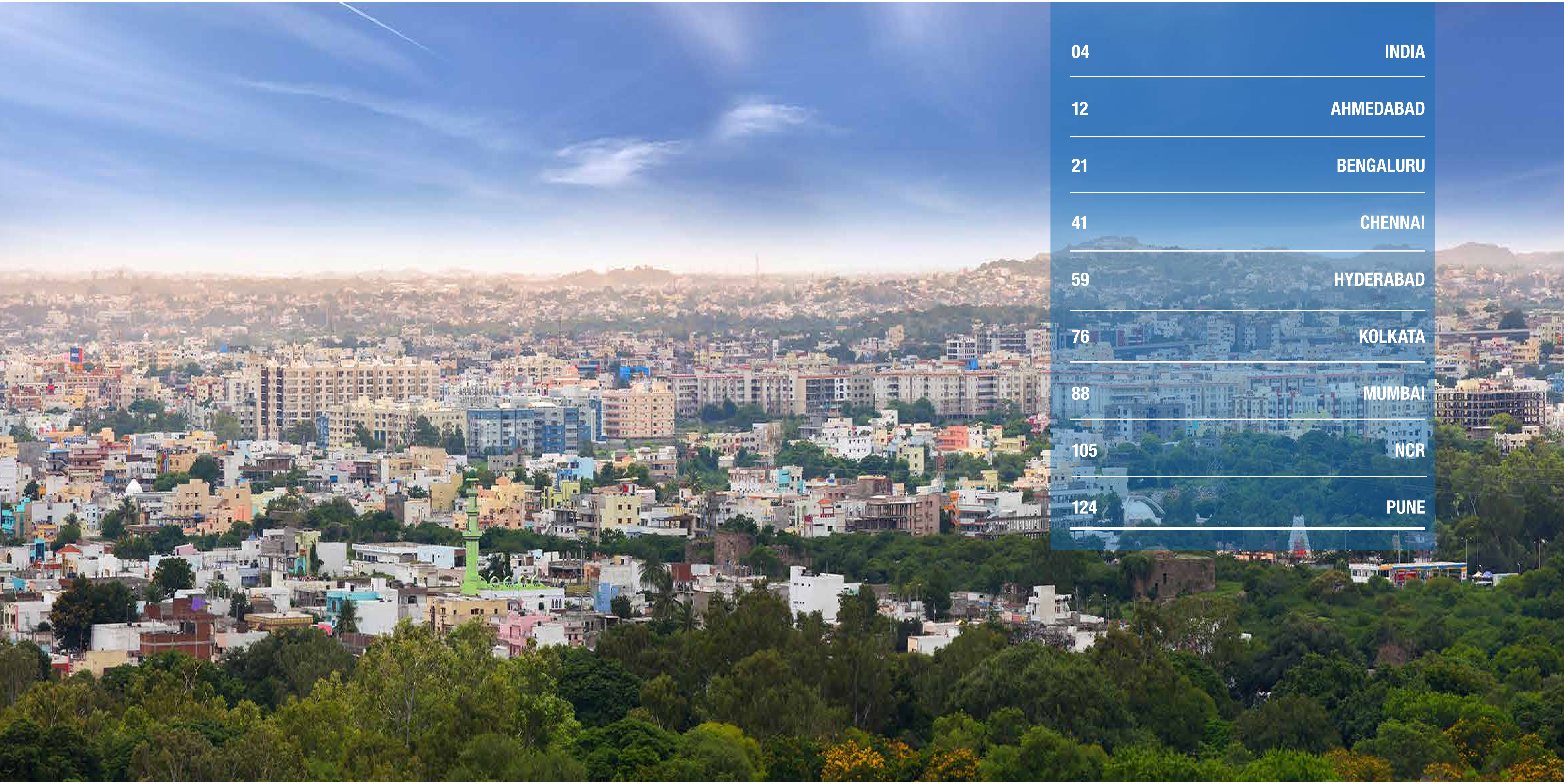
INDIA REAL ESTATE

RESIDENTIAL AND OFFICE

JULY - DECEMBER 2015

AHMEDABAD | BENGALURU | CHENNAI | HYDERABAD | KOLKATA | MUMBAI | NCR | PUNE

CONTENT



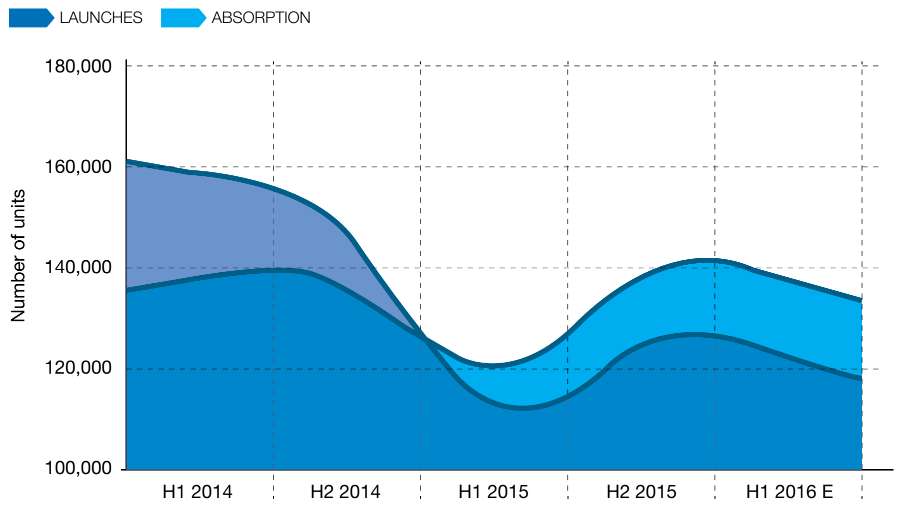
Hetal Bachkaniwala
Vice President - Research

INDIA

RESIDENTIAL MARKET

RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

FIGURE 1
HALF-YEARLY LAUNCHES AND ABSORPTION TRENDS (TOP EIGHT CITIES)



Source: Knight Frank Research

Note: The top eight cities are Mumbai, NCR, Bengaluru, Pune, Chennai, Hyderabad, Kolkata and Ahmedabad

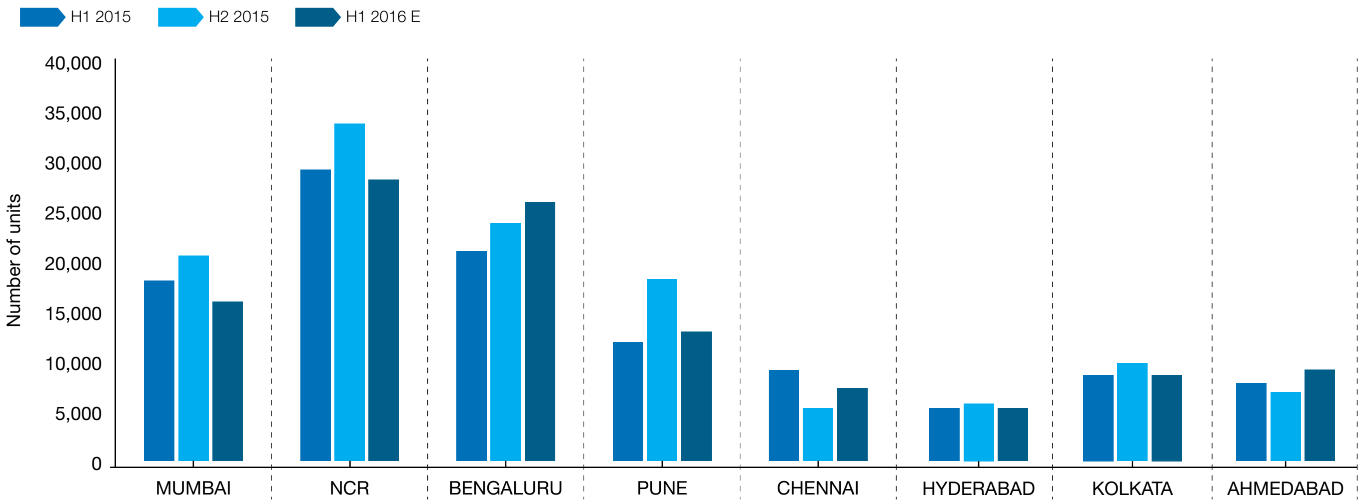
- 2015 ended with the lowest number of new launches and sales volumes across the top eight cities of India since 2010. While the sales volume during the year was similar to that in 2014, new launches fell sharply, by 22%.
- However, H2 2015 witnessed a marginal recovery in both launches and absorption as compared to H1 2015. The festive season seems to have aided the market in gradually recovering from one of the worst periods in the Indian residential market.
- New launches and the sales volume have recovered from their low of 113,500 units and 121,050 units, respectively, in H1 2015 to 126,860 units and 140,210 units, respectively, in H2 2015.
- Bengaluru witnessed the sharpest drop in new launches, at 26% in H2 2015, compared to the same period in the preceding year. This was followed by NCR and Mumbai at 24% and 23%, respectively.
- However, cities such as Pune, Hyderabad and Ahmedabad have bucked the trend with a growth of 9%, 11% and 50%, respectively, in H2 2015 compared to H2 2014. The sharp rise in Ahmedabad's new launches could be attributed to the low base in H2 2014, when new launches had come to a complete standstill on the back of poor demand.
- Going forward, Mumbai and NCR will continue to witness fewer new launches in H1 2016. However, new launches in Bengaluru are projected to jump by more than 21%, as the steady sales volume has encouraged developers to push new projects in the coming months.

2015 ended with the lowest number of new launches and sales volumes across the top eight cities of India since 2010. While the sales volume during the year was similar to that in 2014, new launches fell sharply, by 22%

CITY-WISE SPLIT OF RESIDENTIAL LAUNCHES

FIGURE 2

HALF-YEARLY NEW LAUNCHES (TOP EIGHT CITIES)

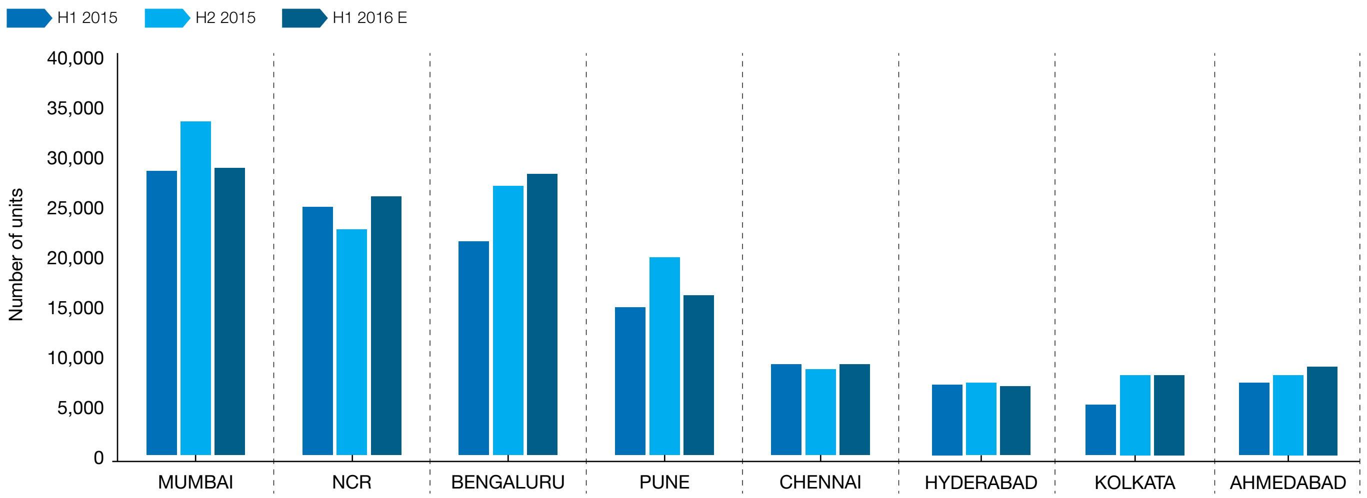


Source: Knight Frank Research

CITY-WISE SPLIT OF RESIDENTIAL SALES

FIGURE 3

HALF-YEARLY ABSORPTION (TOP EIGHT CITIES)

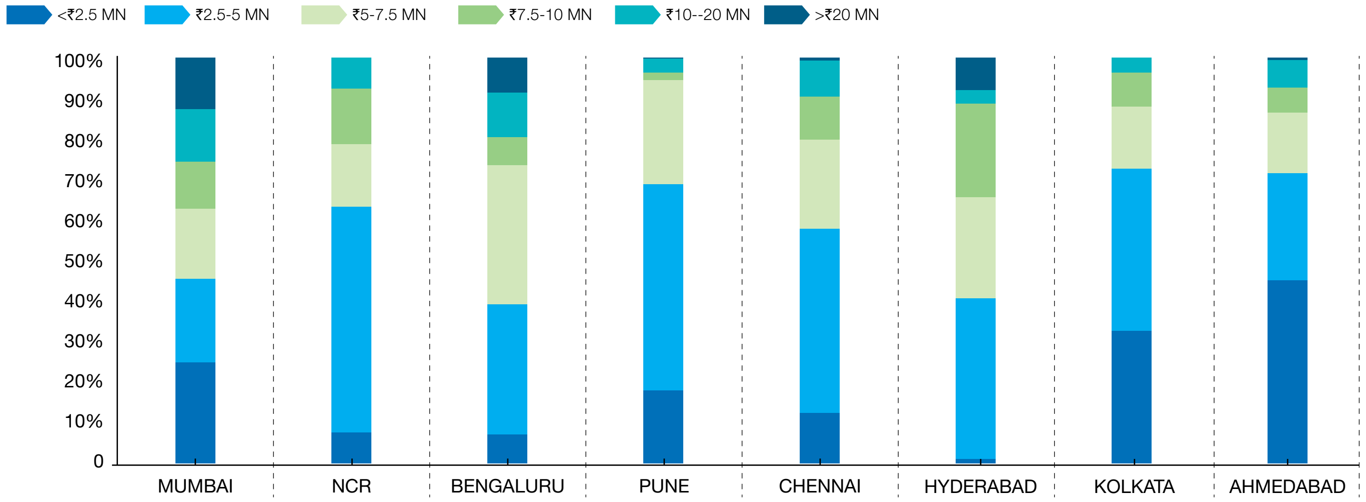


Source: Knight Frank Research

- The sales volume in H2 2015 in most of the cities has shown a positive trend, with NCR and Kolkata growing at the fastest pace. While NCR witnessed a 15% jump in sales, Kolkata saw it grow by 29%.
- Chennai recorded the sharpest fall in the sales volume, at 15% in H2 2015. The unprecedented floods in the city during the second half of the year impacted homebuyer sentiments adversely, thereby resulting in lower sales.
- Going forward, other than Bengaluru and Kolkata, the cities will continue to observe a tepid growth in the sales volume. While the sales volume in Bengaluru is estimated to grow by 28% in H1 2016, it is projected to grow by 42% in Kolkata during the same period.
- Mumbai continues to remain the most unaffordable market in India, with more than 26% of the new launches in H2 2015 being above the ticket size of ₹10 mn. The corresponding figures for NCR and Bengaluru are 8% and 20%, respectively.
- The maximum number of new launches in H2 2015 was witnessed in the mid-segment, with a ticket size of ₹2.5 – 7.5 mn. This segment has been witnessing better traction than all the other segments since the last two years. The primary reason for this trend is that homebuyers are averse to buying in peripheral locations despite the availability of affordable housing, as poor access to employment hubs and underdeveloped infrastructure render them unattractive. This leaves the mid-segment as the only feasible option.
- In terms of affordability, the Ahmedabad and Kolkata markets are leading, as the total new launches in H2 2015 below the ticket size of ₹2.5 mn in these cities stand at 45% and 33%, respectively.

FIGURE 4

TICKET-SIZE SPLIT OF LAUNCHED UNITS IN H2 2015

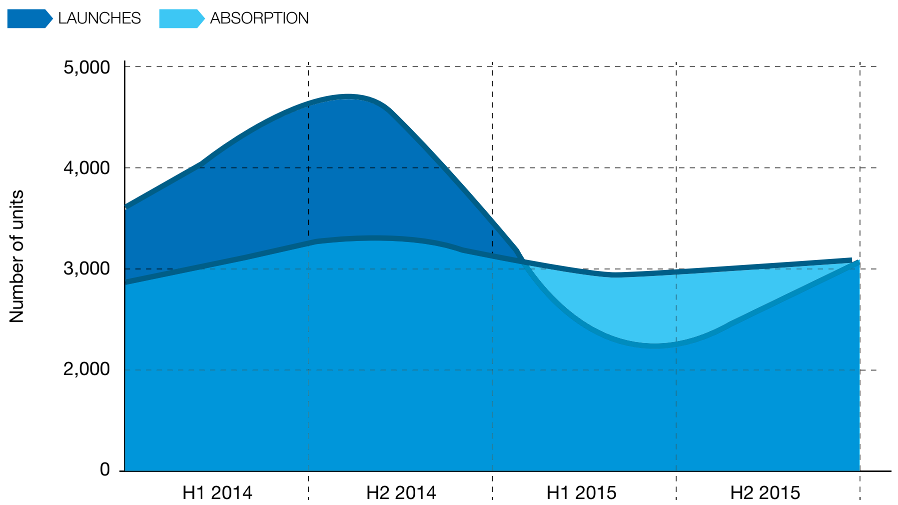


Source: Knight Frank Research

PREMIUM RESIDENTIAL MARKET LAUNCHES AND ABSORPTION TRENDS

FIGURE 5

HALF-YEARLY LAUNCHES AND ABSORPTION TRENDS IN PREMIUM MARKETS (TOP EIGHT CITIES)



Source: Knight Frank Research

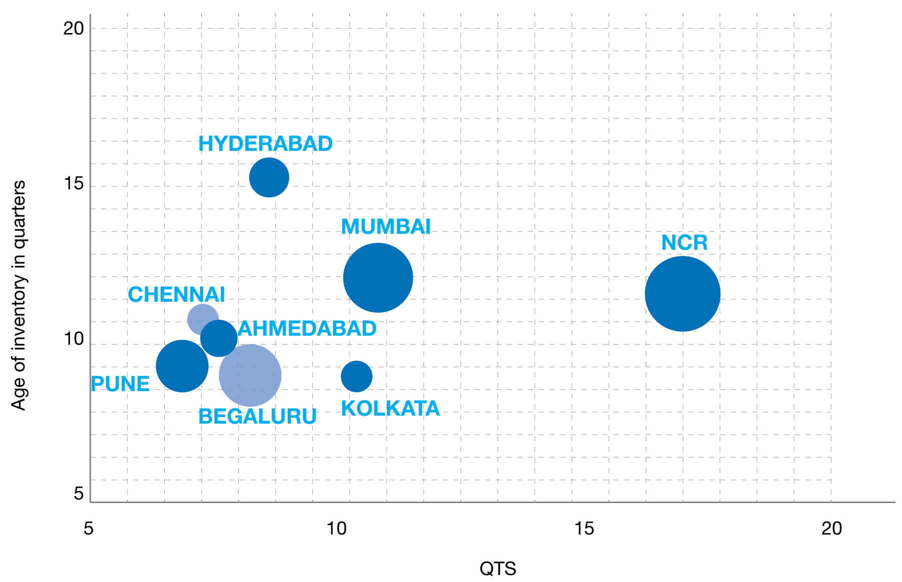
- The premium segment had taken a hard hit in sales volume in 2014 and H1 2015. This led to the developer community taking a cautious stand before launching new projects in this segment. New launches in H2 2015 fell drastically, by 33% compared to the same period in the preceding year.
- In contrast to the sharp fall in new launches, the sales volume remained steady in H2 2015. The steady growth in cities such as Hyderabad, Kolkata and Ahmedabad has helped in maintaining the sales momentum in the premium segment.

Based on the sales momentum of the preceding eight quarters, it will take around 11 quarters to exhaust the current unsold inventory available in the top eight cities of India

UNSOLD INVENTORY LEVELS (TOP EIGHT CITIES)

FIGURE 6

RELATIVE HEALTH OF THE RESIDENTIAL MARKETS (TOP EIGHT CITIES)



Source: Knight Frank Research

Note: The size of the bubble indicates the quantum of unsold inventory. QTS is the quarter to sell unsold inventory.

- Fewer new launches have helped in bringing down the unsold inventory level in India during the last year. Unsold inventory decreased by 3%, from 714,970 units in H2 2014 to 691,700 units in H2 2015.
- Based on the sales momentum of the preceding eight quarters, it will take around 11 quarters to exhaust the current unsold inventory.
- Pune and Bengaluru continue to be among the best performing residential markets in the country, with low quarters to sell unsold inventory and minimal ages of unsold inventory.
- NCR continues to be the worst performing market in India, as it will take more than four years to exhaust the existing unsold inventory of 206,000 units. This is significantly higher than the average time of less than three years that the other cities will take.

OUTLOOK FOR THE NEXT SIX MONTHS

	H1 2015	H1 2016E	Growth
Launches (units)	113,499	118,402	4%
Absorption (units)	121,051	133,556	10%

Source: Knight Frank Research

- The improvement in the overall economic sentiment and the subdued growth in price are set to improve the sales volume marginally in H1 2016. While the growth in sales volume across most of the cities is expected to remain in the range of 4-5%, Bengaluru is set to lead with a massive 28% growth.
- In terms of new launches, H1 2016 will remain at a similar level as H1 2015. While Mumbai, NCR, Chennai and Hyderabad will continue to record negative growth rates in new launches, Bengaluru and Pune will surge ahead.
- Prices are estimated to remain stagnant in the coming six months, as the existing unsold inventory will keep them in check. However, none of the cities are expected to witness a fall in prices, as the new supply entering the market will be considerably lower than the demand for housing.

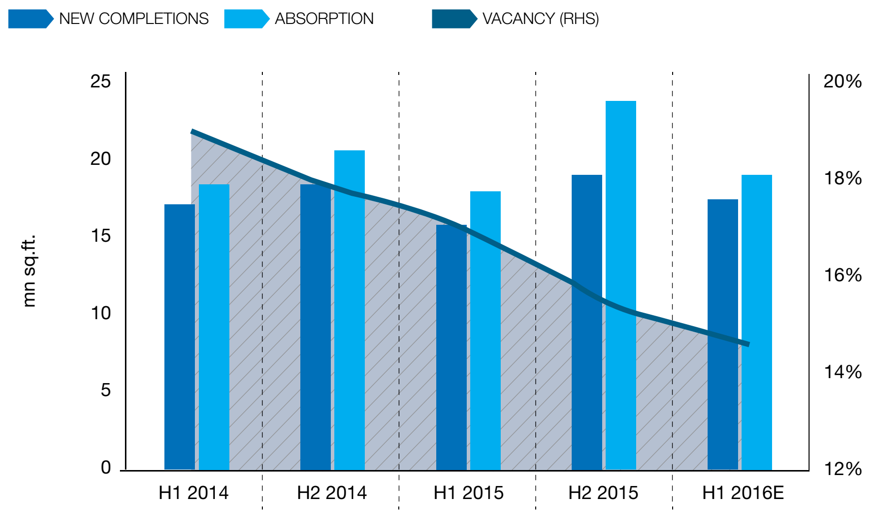
OFFICE MARKET

OFFICE MARKET STOCK, NEW COMPLETIONS, ABSORPTION AND VACANCY TRENDS (TOP SIX CITIES)

- Absorption surpassed new completions for the second straight year across the top six cities of India, pushing vacancy levels to an eight-year low. Vacancy levels reached 15.6% in H2 2015, significantly lower from the peak of 21% in 2012.
- While 41.1 mn sq ft of space was absorbed in 2015, only 34.5 mn sq ft of new supply came online. The trend is similar to what was observed in 2014, when 38.3 mn sq ft of space was absorbed against a supply of 34.9 mn sq ft.
- H2 2015 witnessed a 14% growth in transactions at 23.2 mn sq ft, compared to 20.4 mn sq ft recorded in H2 2014. Strong demand from the IT/ITeS and manufacturing industries has pushed the transaction volume to this level.
- The combined office space stock in the top six cities of India has currently reached 560 mn sq ft, of which 473 mn sq ft is occupied. While NCR leads in terms of total office space stock, at 138 mn sq ft, Bengaluru accounts for the highest amount of occupied space, at 113 mn sq ft.
- During H2 2015, while Bengaluru and Mumbai observed the highest absorption at 5 mn sq ft each, NCR recorded the maximum delivery of new space at 6 mn sq ft. Other than NCR, transactions in all the cities surpassed new supply during the last six months.
- Among the top six cities of India, Bengaluru currently has the lowest vacancy level at 7.5%, followed by Pune and Hyderabad at 10.8% and 14.6% respectively. Mumbai and NCR have the highest vacancy levels at 20% and 21.5% respectively.

FIGURE 1

NEW COMPLETIONS, ABSORPTION AND VACANCY LEVEL (TOP SIX CITIES)

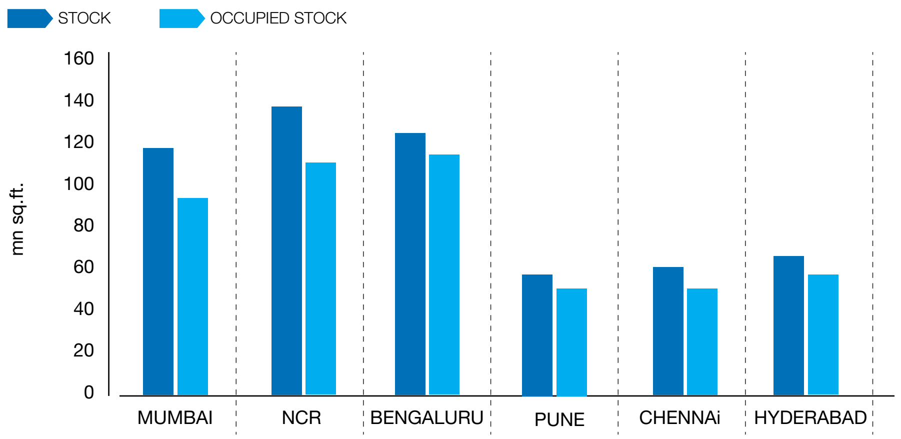


Source: Knight Frank Research

The top six cities are Mumbai, NCR, Bengaluru, Pune, Chennai and Hyderabad

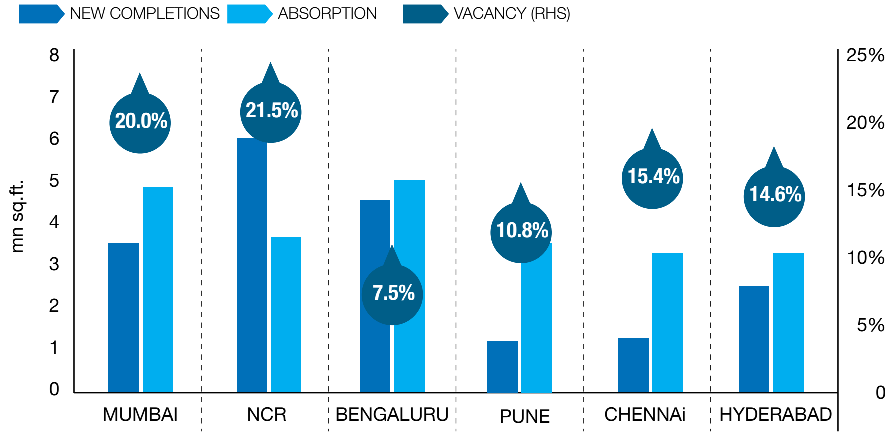
FIGURE 2

OFFICE STOCK AND OCCUPIED STOCK (AS OF DECEMBER 2015)



Source: Knight Frank Research

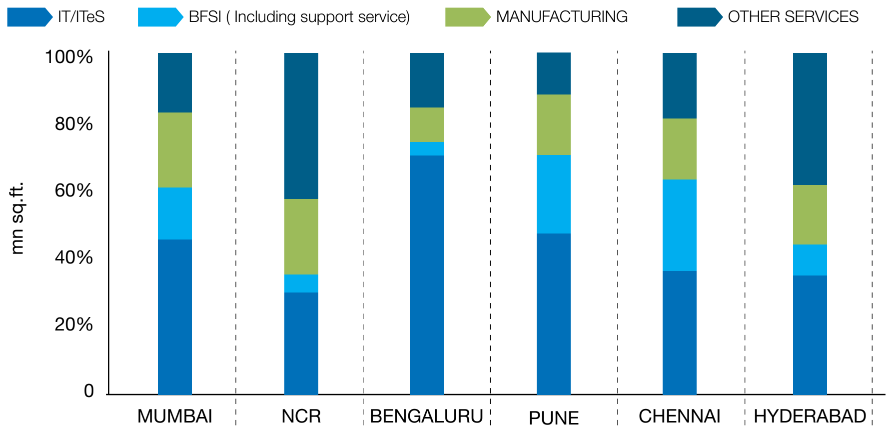
FIGURE 3
CITY-WISE NEW COMPLETIONS, ABSORPTION AND VACANCY LEVELS IN H2 2015



Source: Knight Frank Research

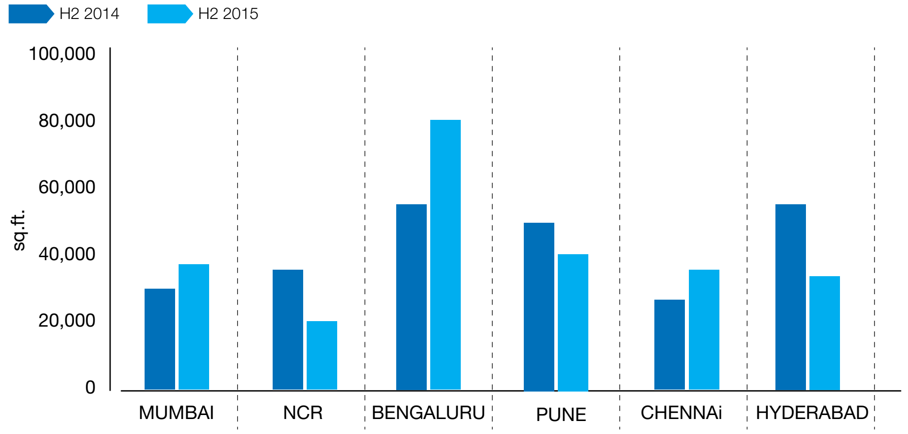
- The IT/ITeS sector continued to lead in terms of absorption across the top six cities in H2 2015. While one-third of this space was transacted in Bengaluru, it is surprising to note that Mumbai accounted for more than 20% of the total. Since Mumbai has historically been identified with the banking, financial services and insurance (BFSI) sector, such a large number of transactions in the IT/ITeS space is contrary to the popular belief that the city is not conducive for IT/ITeS occupiers.
- The development of Navi Mumbai and Thane as IT/ITeS hubs at the periphery of Mumbai, along with the shortage of quality office space in other cities, seems to be drawing occupiers to the city. Additionally, the sharp appreciation in rental values across cities such as Bengaluru, Pune and Gurgaon over the last two years has enabled Navi Mumbai and Thane to emerge as attractive IT/ITeS destinations on the back competitive rental values.
- The other services sector, which constitutes ecommerce, media, consulting and telecom, among others, accounted for 23% of the total space absorbed in H2 2015. NCR and Hyderabad recorded the maximum transactions in this sector.
- The manufacturing sector witnessed a phenomenal recovery in terms of office space demand, as its share in the total space went up from just 9% in H2 2014 to more than 18% in H2 2015. The uptick in demand from manufacturing was observed across all the six cities, with Mumbai and NCR leading the way.
- Bengaluru continues to lead in terms of average deal size, as compared to the rest of the cities in India. The average deal size in Bengaluru stood at 80,000 sq ft in H2 2015, significantly higher than the 21,000-39,000 sq ft recorded in the rest of the cities. Consolidation of space within the IT/ITeS sector, along with strong demand from the ecommerce segment, seems to have pushed the average size of deals in Bengaluru to this level.

FIGURE 4
SECTOR-WISE ABSORPTION SPLIT IN H2 2015



Source: Knight Frank Research

FIGURE 5
DEAL SIZE ANALYSIS



Source: Knight Frank Research

The Bengaluru residential market strove to recover from the setback that it had suffered in the first half of the year (H1 2015). While the number of new launches continued to fall in H2 2015 compared to H2 2014, the rate of decline was relatively restrained at 26%. The city's sales volume, on the other hand, remained steady

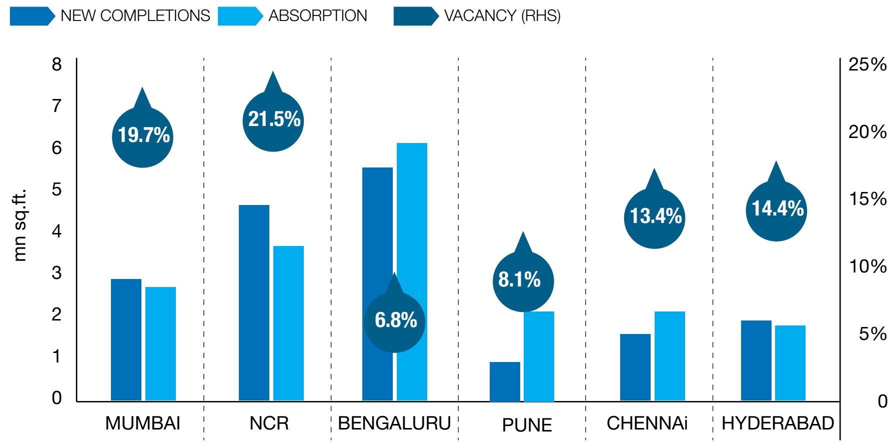
OUTLOOK FOR THE NEXT SIX MONTHS

	H1 2015	H1 2016E	Growth
New completions (mn sq ft)	15.7	17.0	8%
Absorption (mn sq ft)	17.9	18.8	5%
Vacancy	17%	15%	

Source: Knight Frank Research

- New completions are set to get a marginal boost in the coming six months, as cities such as Mumbai, Bengaluru, Chennai and Hyderabad will witness the delivery of multiple projects.
- However, demand for office space will continue to remain strong and is projected to grow by 5% in H1 2016 from 17.9 mn sq ft to 18.8 mn sq ft. This will exert further pressure on the vacancy levels, which are expected to drop to 15% by the end of H1 2016.
- Rents in most of the cities have increased steadily since the last two years. Going forward, this trend is expected to continue in the coming six-month period, with Pune and Bengaluru projected to grow at the fastest pace.

FIGURE 6
CITY-WISE NEW COMPLETIONS, ABSORPTION AND VACANCY LEVELS FORECASTED FOR H1 2016



Source: Knight Frank Research

Hetal Bachkaniwala
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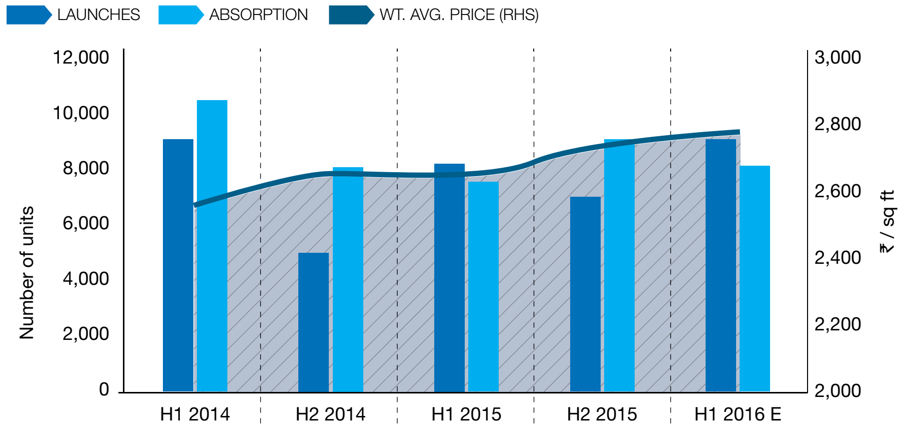
AHMEDABAD

RESIDENTIAL MARKET

RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

FIGURE 1
AHMEDABAD MARKET TRENDS



Source: Knight Frank Research

- The situation in Ahmedabad's residential markets deteriorated in 2015. While its sales volume continued to fall, new launches made a quick recovery.
- The sales volume in Ahmedabad fell by 9% during 2015, to 16,800 units from 18,500 in the year before. This is the city's lowest sales volume in the last six years and has nearly halved from its peak of 30,000 units in 2012.
- New launches recovered by 11% during 2015, to 15,500 units from 14,000 in 2014. This has increased the stress in the market and worsened the oversupply situation in the city.
- However, H2 2015 offers some cheer, with a positive sales volume growth compared to the same period in the previous year. Fuelled by the festive season during the second half of the year, demand pushed the sales volume up by 13%, from 8,020 units in H2 2014 to 9,075 in H2 2015.
- The weighted average price rise has remained muted at 2-3% in the last six months, and we expect it to increase in the same range over the next six months.

H2 2015 brings offers some cheer, with a positive sales volume growth compared to the same period in the previous year. Fuelled by the festive season during the second half of the year, demand pushed the sales volume up by 13%.

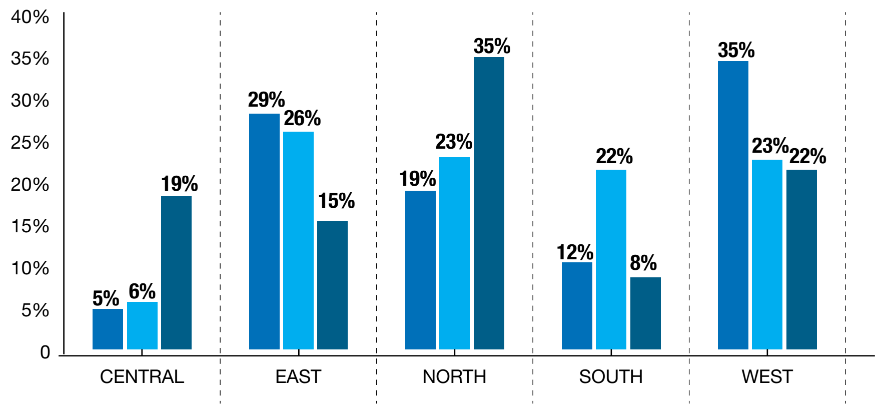
MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

- North Ahmedabad, with locations such as Gota, New Ranip, Tragad, Chandkheda and Motera, has witnessed the maximum number of new launches during H2 2015. With prices in West and Central Ahmedabad breaching the homebuyers' affordability level, North Ahmedabad has emerged as the most preferred destination for affordable housing. During H2 2015, 78% of the new launches in this market were below the ticket size of ₹5 mn.
- Central Ahmedabad is another market that witnessed a significant jump in new launches during H2 2015. Given the dismal price performance in the rest of the city since the last two years, developers seem to have shifted their focus back to the Central market.
- New launches in East and West Ahmedabad have dropped in the last year, as developers are still trying to sell the residential units in their previously-launched projects that remain unsold despite nearing completion.

With the dismal price performance in the rest of the city since the last two years, developers seem to have shifted their focus back to the Central market.

FIGURE 2

MICRO-MARKET SPLIT OF LAUNCHED UNITS



Source: Knight Frank Research

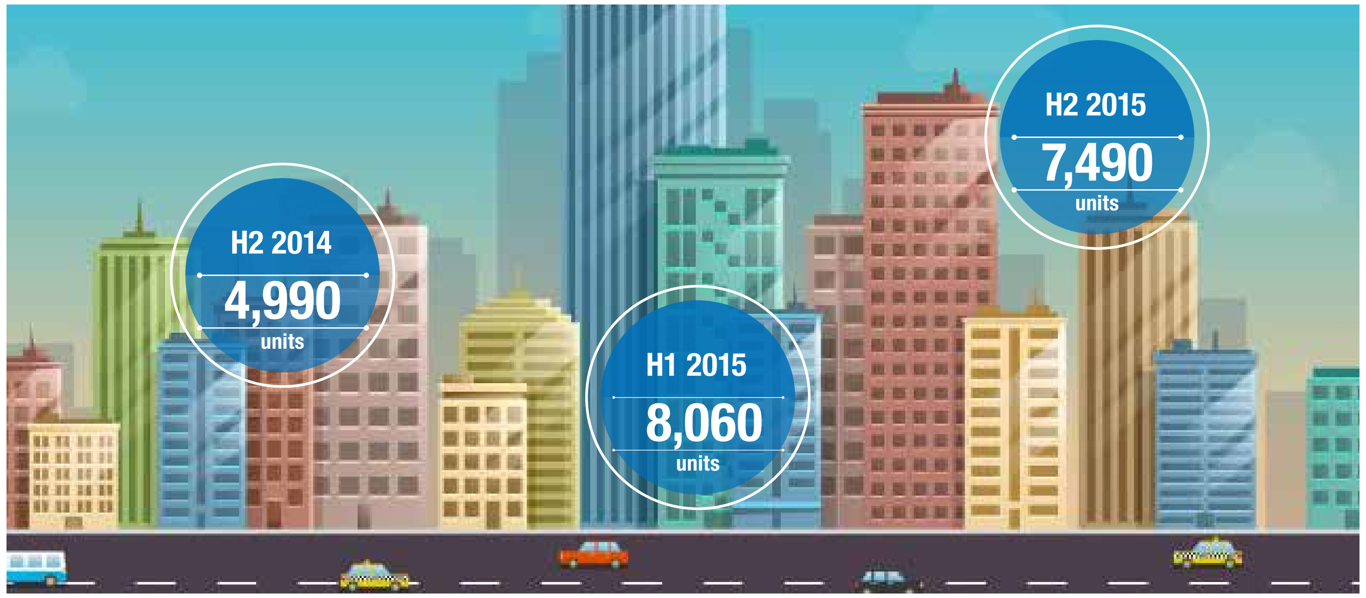
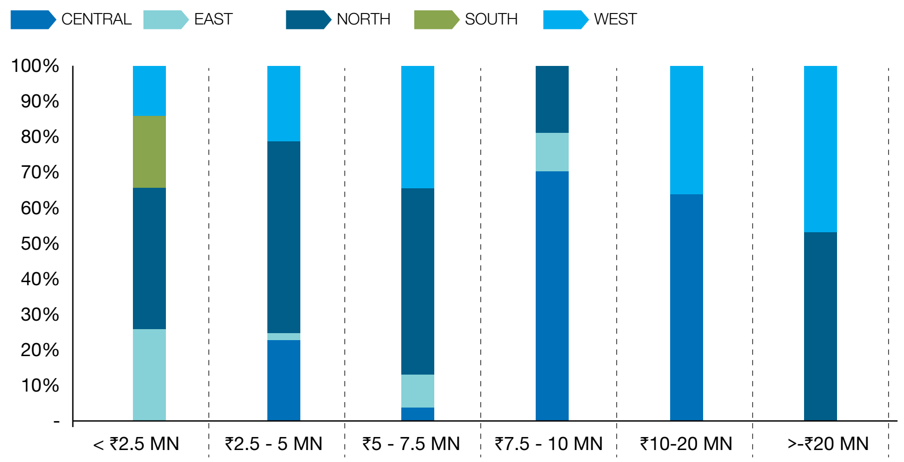


FIGURE 3

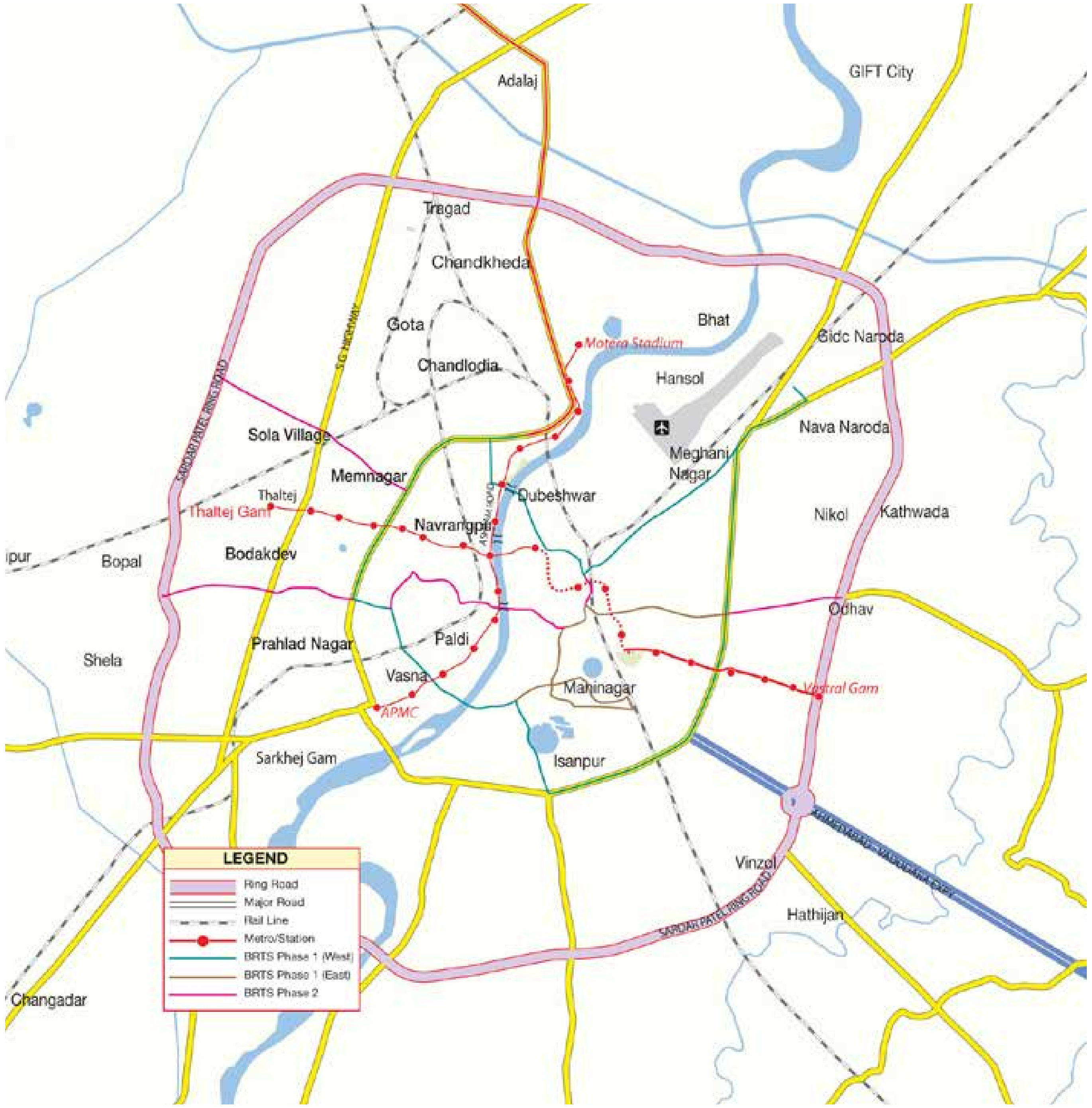
TICKET SIZE SPLIT OF LAUNCHES DURING H2 2015



Source: Knight Frank Research

MICRO-MARKET-WISE RESIDENTIAL SALES

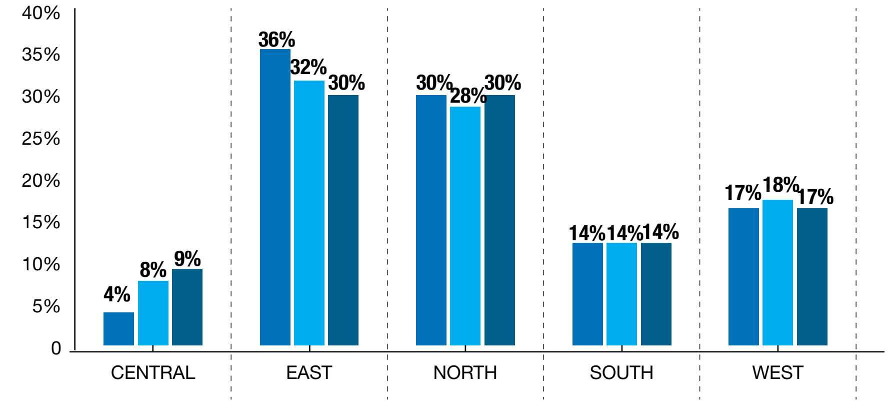
MICRO-MARKET	LOCATIONS
Central	Paldi, Vasna, Navrangpura, Maninagar, Dudheshwar, Ambawadi
East	Naroda, Vastral, Nikol, Kathwada Road, Odhav
North	Gota, New Ranip, Tragad, Chandkheda, Motera
South	Narol, Vatva, Vinzol, Hathijan
West	S G Highway, Prahlad Nagar, Bopal, Thaltej, Science City Road



- The micro-market split of absorption has not witnessed any significant change in the last six months. While the shares of Central and North Ahmedabad have increased marginally since H1 2015, the shares of the rest of the micro-markets have reduced slightly.
- Central Ahmedabad's share has been increasing over the last 12 months. Better connectivity with the city centre, proximity to the central business district (CBD) and the presence of a well-developed retail market continue to attract homebuyers to this micro-market despite its higher pricing.

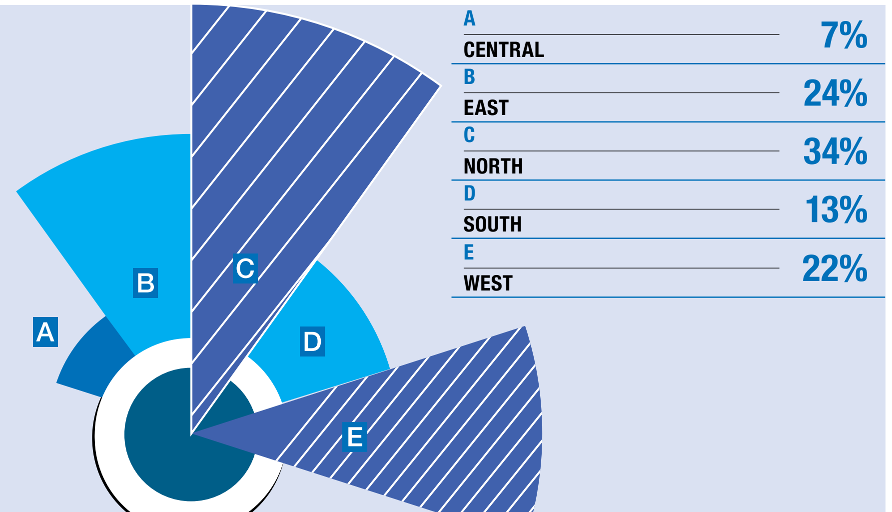
FIGURE 4

MICRO-MARKET-WISE RESIDENTIAL SALES



Source: Knight Frank Research

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF DECEMBER 2015



Source: Knight Frank Research

- Central Ahmedabad accounts for only 7% of the total number of under-construction units in the city, as the majority of the new projects are being launched in other parts of the city.
- The maximum under-construction units are present in North Ahmedabad, with locations such as Gota, Tragad, Chandkheda and Motera witnessing a construction boom since the last three years. This is followed by East and West Ahmedabad, with a 24% and 22% share, respectively.

STRONG DEMAND FROM HOMEBUYERS BRINGS BACK DEVELOPER FOCUS ON THE CITY CENTRE

Central Ahmedabad, with locations such as Paldi, Naranpura, Ambawadi and Vasna, has witnessed a phenomenal recovery in the last year. While the sales volume dipped by 37%, from 1,200 units in 2013 to less than 760 units in 2014, there was a trend reversal in 2015, when sales jumped by more than 90% to 1,460 units. There are several reasons for such a dramatic recovery in sales:

Homebuyers in Ahmedabad consider price appreciation in property an important variable in their purchase decision, even for properties bought for self-consumption. Since 2013, price growth in most locations in Ahmedabad has remained stagnant, thereby disappointing homebuyers who had expected a double-digit growth. However, the residential markets in Central Ahmedabad continued to witness a steady appreciation despite the sluggish demand. This scenario seems to have revived homebuyer interest in locations such as Paldi, Naranpura, Ambawadi and Vasna, despite the high ticket size of the projects located there.

Another reason for the uptick in demand in Central Ahmedabad is the launch of lifestyle projects with all the amenities of modern buildings. This has attracted a large number of homebuyers residing in old buildings within Central Ahmedabad and scouting for bigger and more modern apartments in the vicinity. Sensing this demand, the developer community launched several projects in 2015, resulting in a four-fold jump in the number of units launched during the year. A total of 1,950 units were launched in 2015, compared to less than 480 units in the preceding year.

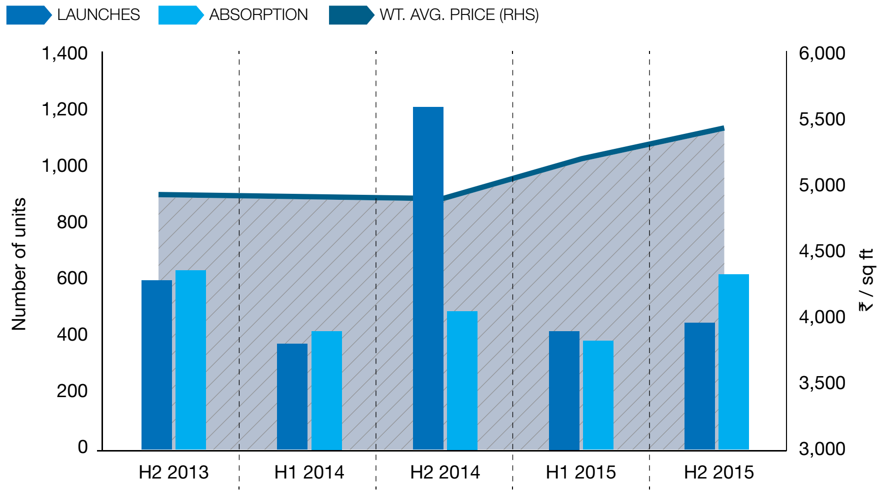
While Central Ahmedabad still holds an unsold inventory of 6.3 quarters, it is considerably lower than the city's 7.6 quarters of unsold inventory. Hence, compared to other cities where the residential market of the central zones is suffering due to sluggish demand and high unsold inventory, Ahmedabad's Central zone is a very bright spot.

PREMIUM RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

MICRO-MARKET	PREMIUM LOCATIONS
Central	Ambawadi, Navrangpura, Shahibaug, Nehru Nagar
West	Ambli, Bodakdev, Jodhpur, Prahlad Nagar, Satellite, Thaltej, Vastrapur

FIGURE 5

PREMIUM MARKET TRENDS



Source: Knight Frank Research

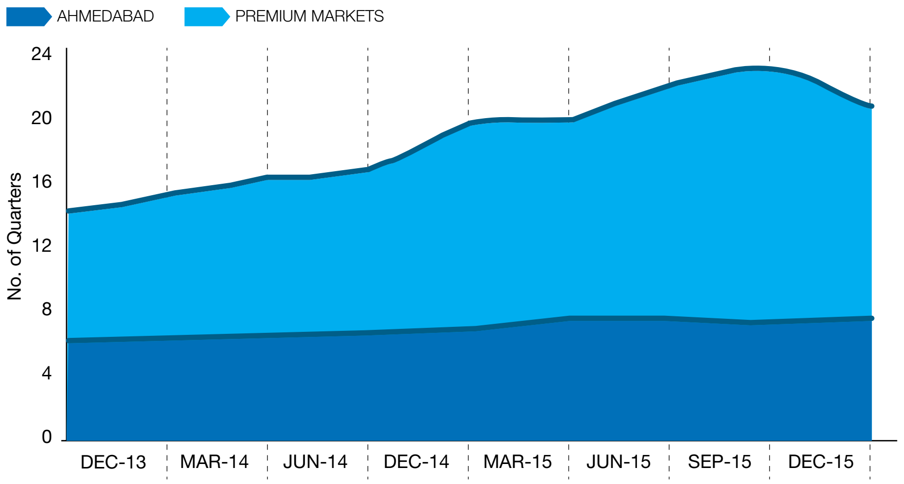
Note: Premium markets include locations where the average ticket size of a residential unit is above ₹15 mn, are in close proximity to the central business district of the city and have witnessed new project launches in the preceding three years

- The premium market of Ahmedabad, which constitutes locations such as Ambawadi, Bodakdev, Jodhpur, Navrangpura and Prahlad Nagar, among others, has observed a positive growth in sales volume, at 30% during H2 2015, compared to the same period in the previous year. However, new project launches have fallen drastically, by 60% during the same period.
- Lack of investor interest in the peripheral markets due to poor price performance has shifted the focus back to the premium locations.
- Fewer new launches and the steady growth in sales volume have boosted project prices in the premium segment, with H2 2015 observing a 9% price growth compared to H2 2014. Product differentiation, extra amenities and close proximity to the city centre have helped the newly-launched projects command a stronger price growth in these locations.

AHMEDABAD MARKET HEALTH

FIGURE 6

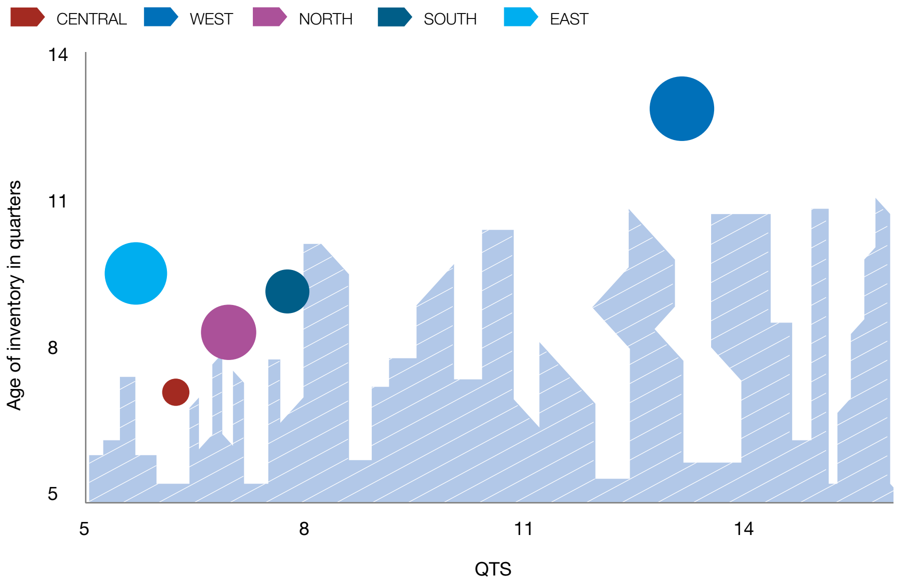
QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS



Source: Knight Frank Research

FIGURE 7

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

- The quarters to sell unsold inventory (QTS) is the number of quarters required to exhaust the existing unsold inventory in the market. The existing unsold inventory is divided by the average sales velocity of the preceding eight quarters in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market.
- The QTS for Ahmedabad has been increasing gradually since December 2013 and currently stands at 7.6 quarters. However, the QTS for the premium markets in the city has witnessed a much sharper rise and is currently at 21 quarters.
- West Ahmedabad is the worst performer among the city's zones. High ticket sizes and a supply glut are the primary reasons for the poor performance reported by this zone.
- Central Ahmedabad is currently the best performing market, as restricted supply and steady demand have helped in bringing down the quarters to sell unsold inventory there.
- With a poor price appreciation and a supply glut in the rest of the city's zones, investor focus has shifted back to Central Ahmedabad. This has helped in pushing up the sales volume in this zone during the last 12 months.

PRICE MOVEMENT DURING H2 2015

WEIGHTED AVERAGE PRICE MOVEMENT IN AHMEDABAD

LOCATION	WEIGHTED AVERAGE PRICE IN H2 2015 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Ahmedabad	2,770	3.3%	1.5%
Premium markets	5,325	9.0%	3.7%

PRICE MOVEMENT IN SELECT LOCATIONS

LOCATION	MICRO-MARKET	PRICE RANGE IN H2 2015 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Ambawadi	Central	5,500 - 8,500	5%	2%
Navrangpura	Central	5,500 - 8,500	4%	2%
Mani Nagar	Central	3,500 - 6,500	2%	1%
Paldi	Central	5,000 - 6,800	2%	1%
Naroda	East	2,000 - 3,500	1%	0%
Vastral	East	1,800 - 2,200	2%	1%
Nikol	East	1,800 - 2,200	1%	0%
Prahlad Nagar	West	5,000 - 6,000	6%	3%
Satellite	West	5,500 - 7,200	1%	0%
Thaltej	West	5,000 - 7,000	5%	2%
Vastrapur	West	5,500 - 7,500	2%	0%
Bopal	West	3,500 - 5,000	2%	1%
Chandkheda	North	2,500 - 3,800	3%	1%
Motera	North	2,800 - 3,600	2%	1%
Gota	North	3,000 - 3,800	3%	1%

Source: Knight Frank Research

- The price growth across most locations in Ahmedabad during H2 2015 has been tepid, despite the sales volume witnessing a marginal recovery. The pressure of the unsold inventory has restricted developers from hiking prices in most of the newly-launched projects.
- Prices in certain premium locations, such as Ambawadi, Prahlad Nagar and Thaltej, have increased by 5-6% during the last 12 months on the back of the restricted supply and the strong homebuyer preference for these locations.

The price growth across most locations in Ahmedabad during H2 2015 has been tepid, despite the sales volume witnessing a marginal recovery. The pressure of the unsold inventory has restricted developers from hiking prices in most of the newly-launched projects.

South Ahmedabad will continue to witness a subdued sales volume, as its great distance from the city centre, the presence of a large number of manufacturing units and poor infrastructure facilities are expected to restrict homebuyer interest in this zone.

OUTLOOK FOR THE NEXT SIX MONTHS

Projections	H1 2015	H1 2016E	Growth
Launches (units)	8,060	9,070	13%
Absorption (units)	7,750	8,080	4%
Weighted average price (₹/sq ft)	2,640	2,770	5%

Source: Knight Frank Research

- The positive sentiment in the residential market due to the revival in manufacturing activity, the improving business sentiment and the renewed traction Gujarat International Finance Tec-City (GIFT) are expected to usher in a double-digit growth in new launches during H1 2016. We forecast that new launches will increase by 13% in H1 2016, to 9,070 units, compared to 8,060 units in H1 2015.
- North and East Ahmedabad will continue to dominate in terms of new launches, as their proximity to GIFT and the availability of large tracts of vacant land make these micro-markets attractive to developers.
- However, the growth in the city's sales volume will be limited to 4% during H1 2016 compared to the same period last year, as homebuyers are still in a wait-and-watch mode, expecting further positive signs on the country's economic front.
- South Ahmedabad will continue to witness a subdued sales volume, as its great distance from the city centre, the presence of a large number of manufacturing units and poor infrastructure facilities are expected to restrict homebuyer interest in this zone.
- The sales volume in West Ahmedabad is estimated to increase during H1 2016 compared to H1 2015, albeit at a slower pace compared to the other parts of the city. High ticket size and the ample availability of relatively cheaper options in other micro-markets of the city could delay a full recovery in the sales volume of this zone.

Sangeeta Sharma Dutta
Lead Consultant - Research

BENGALURU

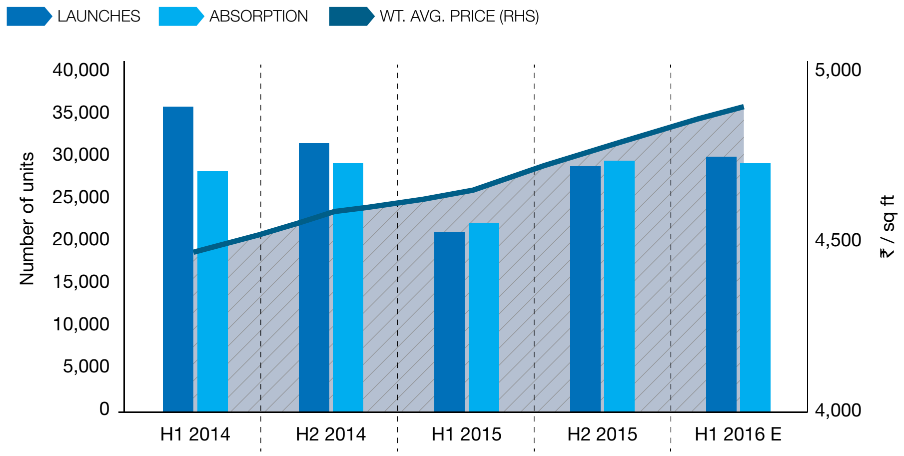
The Bengaluru residential market strove to recover from the setback that it had suffered in the first half of the year (H1 2015). While the number of new launches continued to fall in H2 2015 compared to H2 2014, the rate of decline was relatively restrained at 26%. The city's sales volume, on the other hand, remained steady

RESIDENTIAL MARKET

BENGALURU RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

FIGURE 1

BENGALURU MARKET TRENDS



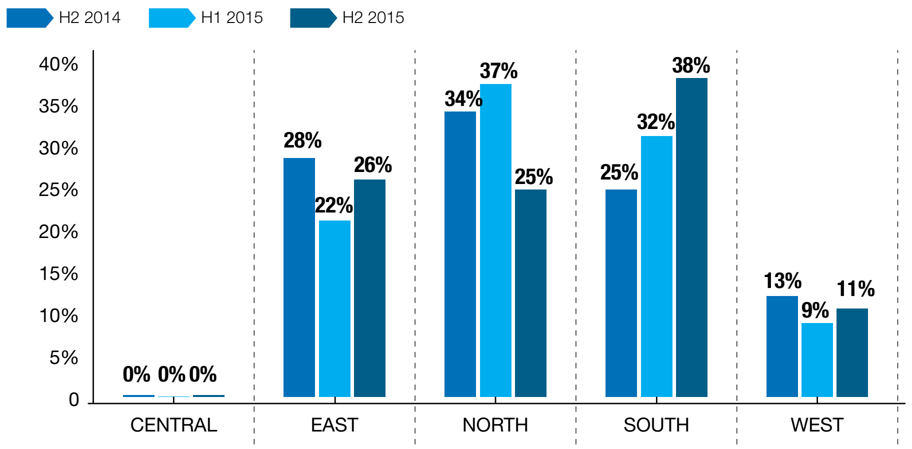
Source: Knight Frank Research

- The Bengaluru residential market strove to recover from the setback that it had suffered in the first half of the year (H1 2015). While the number of new launches continued to fall in H2 2015 compared to H2 2014, the rate of decline was restrained at 26%, compared to the steep fall it had witnessed in H1 2015.
- Significantly, 2015 witnessed the lowest number of launches in 5 years, to the tune of 33% as compared to 2014.
- The city's sales volume, on the other hand, remained steady. Notwithstanding the decline in launches, the market sentiment regarding sales held relatively firm and witnessed a marginal dip of 2% in H2 2015 compared to H2 2014.
- Meanwhile, the weighted average prices continued to scale upwards at a gradual pace and saw an increase of 4% in H2 2015 compared to H2 2014. The increase in construction costs and the improvement of infrastructure in select zones of the city have primarily been responsible for this price appreciation.
- With the market struggling to regain its past composure after the subdued real estate sentiments that had impinged upon the city since H2 2014, developers have become cautious regarding their projects, thereby restricting their number of launches.
- On a positive note, an uptick was observed in both new launches and sales in H2 2015 compared H1 2015. We expect the market to pick up again in the next six months, owing mainly to the large quantum of office space transacted in the city during 2015 as well as the projected new office absorption in H1 2016. We estimate new launches to increase by 21% in H1 2016, compared to H1 2015.
- The sales volume is also expected to improve in the next six months, to the tune of around 28%, on a year-over-year (YOY) basis.
- On the price front, we expect increased growth in H1 2016 compared to H1 2015. The period is estimated to witness a 5% increase in the annual weighted average price.

MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

FIGURE 2

MICRO-MARKET SPLIT OF LAUNCHED UNITS



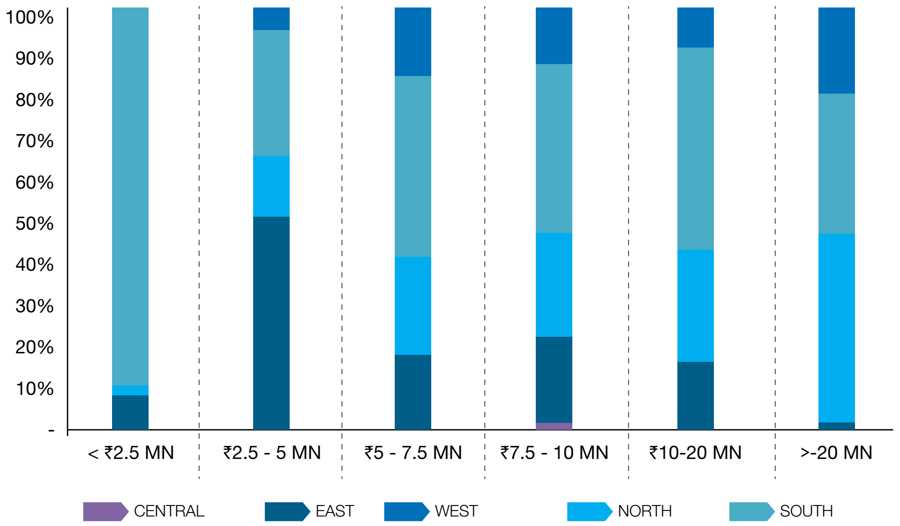
Source: Knight Frank Research

- The southern market, which had witnessed a somewhat waning developer interest in H2 2014, saw a 30% growth in launches in H2 2015. This can be attributed to the number of residential projects that were launched in the peripheral locations. Besides, positive sentiment in the IT/ITeS sector seems to have led to the resurgence of residential development in this region.
- North Bengaluru, which had witnessed the highest number of new launches in H2 2014 and H1 2015, saw a restricted number of launches in H2 2015. However, the region exudes optimism regarding the housing demand in the forthcoming period, owing to the imminent emergence of the office sector there.
- East and West Bengaluru's shares, which had dipped slightly in the previous six months, reinstated their growth potential in H2 2015, with an increasing trend of new launches. The presence of the Bangalore Metro rail towards West Bengaluru, operational at several key locations, has increased the location's attractiveness, and we foresee the number of new launches picking up in the forthcoming months.
- The southern zone of the city witnessed the majority of the projects below the ₹2.5 mn ticket size in H2 2015, accounting for almost 88% of the total new launches in that segment. A major portion of these launches were in the distant peripheral locations in South Bengaluru, such as Chandapura, Akshaya Nagar, Electronics City, Begur and Hosa Road. The expectation of better connectivity, arising from the planned Bangalore Metro rail in its second phase, has resulted in these southern peripheral locations coming up as promising budget destinations.
- By contrast, North Bengaluru witnessed the launch of the most number of residential units priced above the ticket size of ₹20 mn – to the tune of around 45%. Notably, locations such as Hennur Road, Thanisandra and Hebbal saw a number of new launches in the premium housing segment.
- Approximately 66% of the total number of new launches in Bengaluru belonged to the ticket size of ₹2.5–7.5 mn, making it the segment that witnessed the most traction in the city.

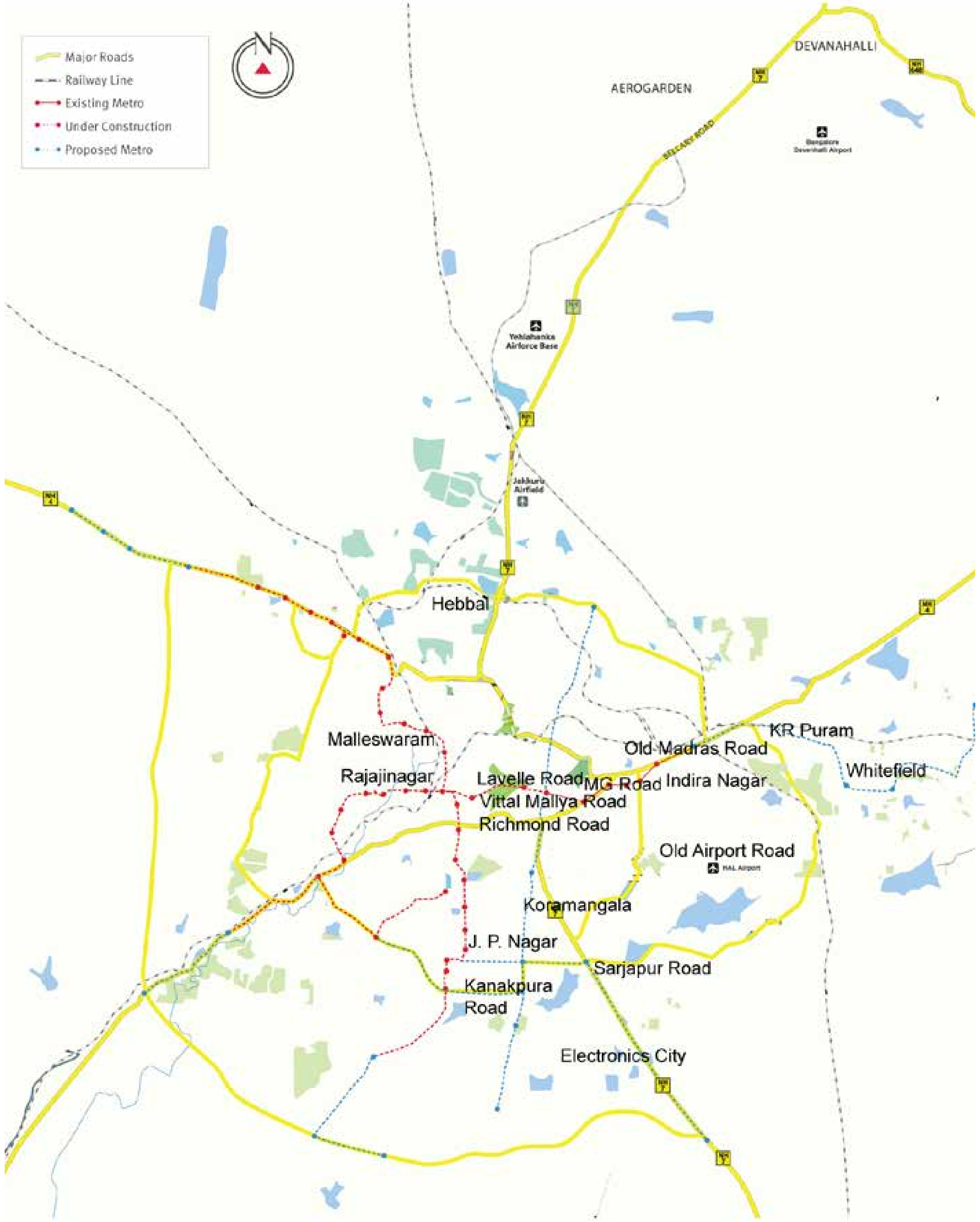
The southern zone of the city witnessed the majority of the projects below the ₹2.5 mn ticket size in H2 2015. The expectation of better connectivity, arising from the planned Bangalore Metro rail in its second phase, has resulted in these southern peripheral locations coming up as promising budget destinations. By contrast, North Bengaluru witnessed the launch of the most number of residential units priced above the ticket size of ₹20 mn

FIGURE 3

TICKET SIZE SPLIT OF LAUNCHES DURING H2 2015



Source: Knight Frank Research

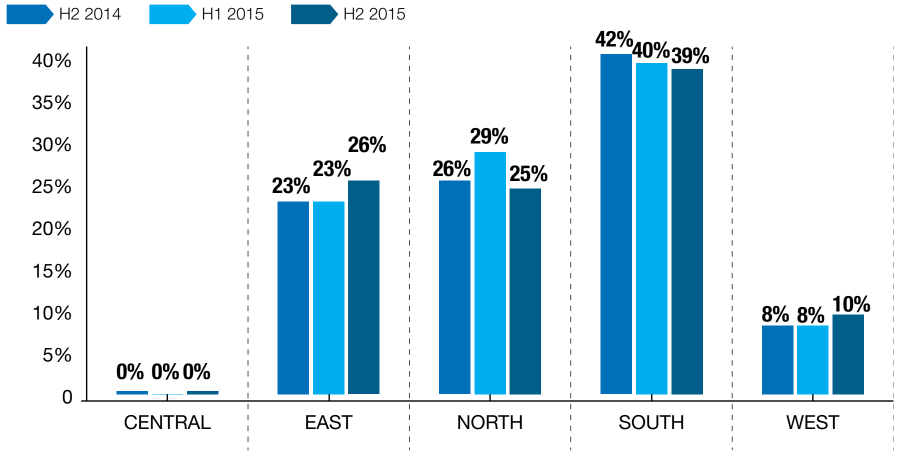


MICRO-MARKET-WISE RESIDENTIAL SALES

MICRO-MARKET	LOCATIONS
Central	M.G. Road, Lavelle Road, Langford Town, Vittal Mallya Road, Richmond Road
East	Whitefield, Old Airport Road, Old Madras Road, K.R. Puram, Marathahalli
West	Malleswaram, Rajajinagar, Yeshwanthpur, Tumkur Road, Vijayanagar
North	Hebbal, Bellary Road, Hennur, Jakkur, Yelahanka, Banaswadi
South	Koramangala, Sarjapur Road, Jayanagar, J.P. Nagar, HSR Layout, Kanakapura Road, Bannerghatta Road

FIGURE 4

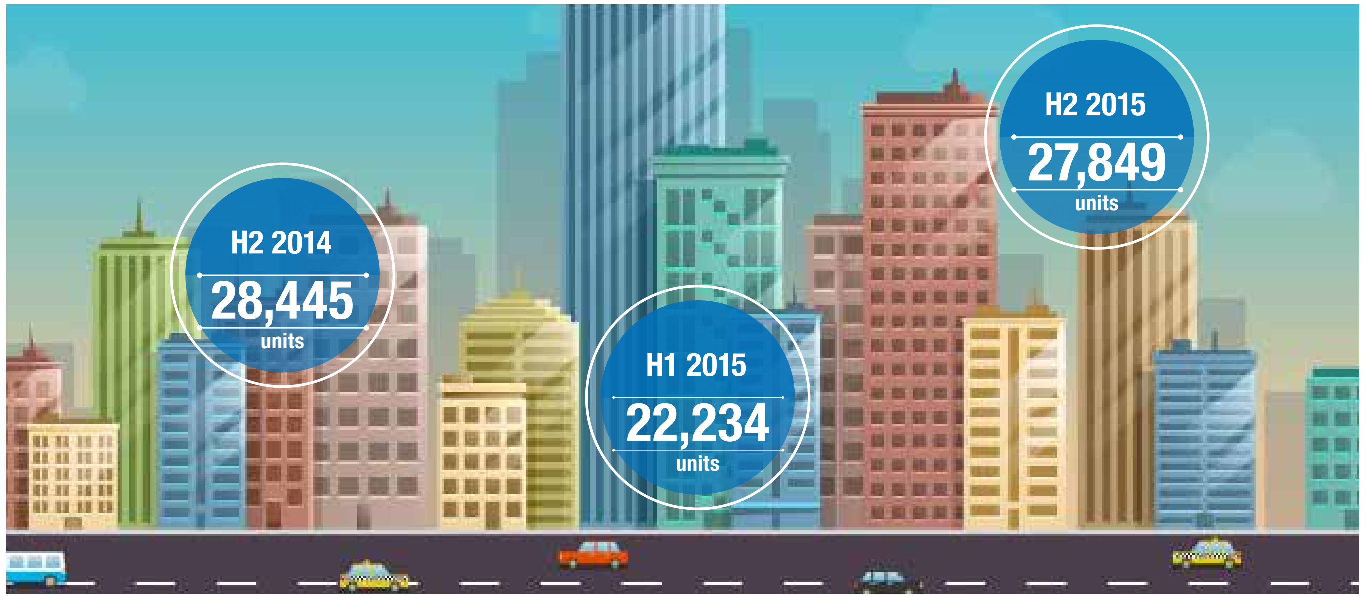
MICRO-MARKET SPLIT OF RESIDENTIAL SALES



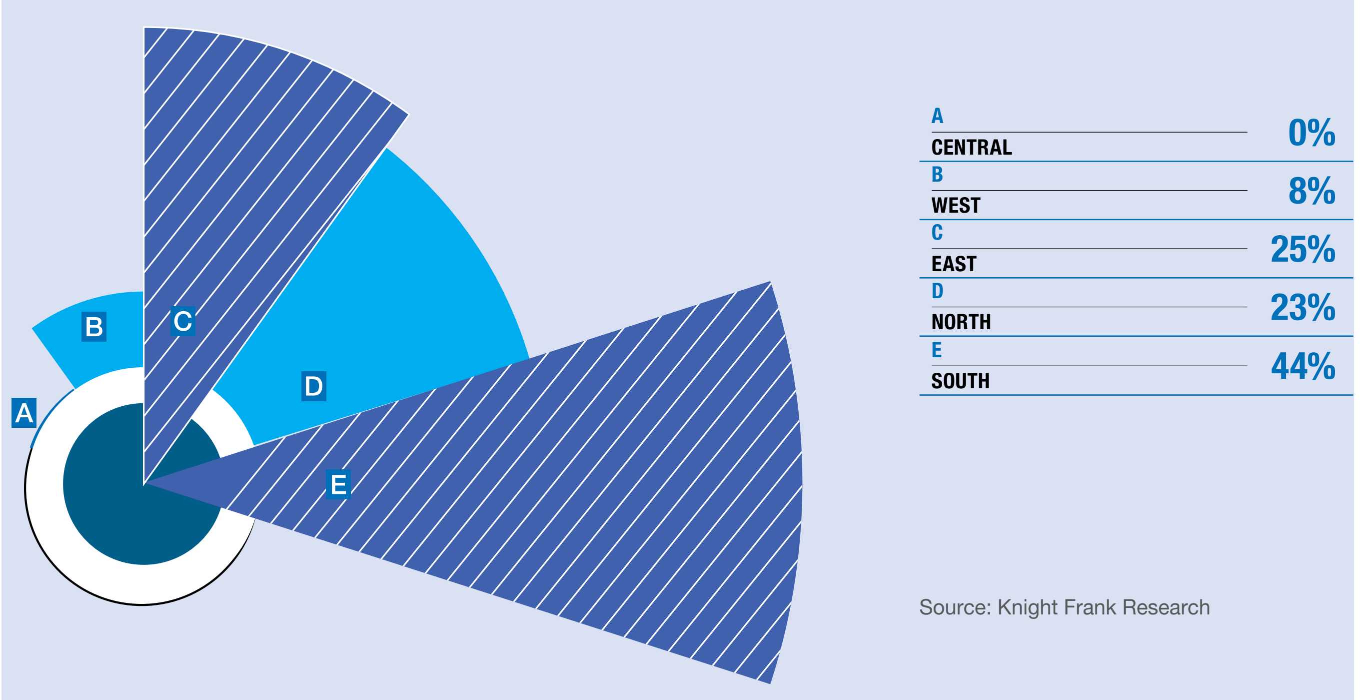
Source: Knight Frank Research

- The micro-market split of absorption was observed to have undergone a few changes in the past year. While the share of the northern and southern regions of the city saw a marginal decline in the sales volume in H2 2015 compared to H2 2014, East and West Bengaluru saw an increase in their share of sales volume in H2 2015
- East Bengaluru saw increased sales, owing largely to the employment hubs and social infrastructure in place in the region. The IT/ITeS office projects along the Outer Ring Road and in the Whitefield area have contributed majorly to the growth in this region.
- Despite its smaller market size, West Bengaluru witnessed a good growth in sales in H2 2015. The perception of the region being an industrial one is gradually dissipating, with the availability of lifestyle projects playing a key role. Good connectivity through the Bangalore Metro rail is also one of the prime factors behind the region's progress.

Despite its smaller market size, West Bengaluru witnessed a good growth in sales in H2 2015. The perception of the region being an industrial one is gradually dissipating, with good connectivity through the Bangalore Metro rail and the availability of lifestyle projects playing a key role.



MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF DECEMBER 2015



Source: Knight Frank Research

- South Bengaluru accounts for the major share of the total number of units under construction, to the tune of 44%, given that it has been witnessing large-scale residential development in the past years. The region is preferred due to its good social infrastructure and the presence of employment hubs, leading developers to launch their projects there. Additionally, property prices are relatively cheaper in the peripheral locations in the south, compared to the other micro-markets.
- The northern and eastern markets have fairly uniform shares of units under construction, with West Bengaluru gradually emerging on the residential market scene.

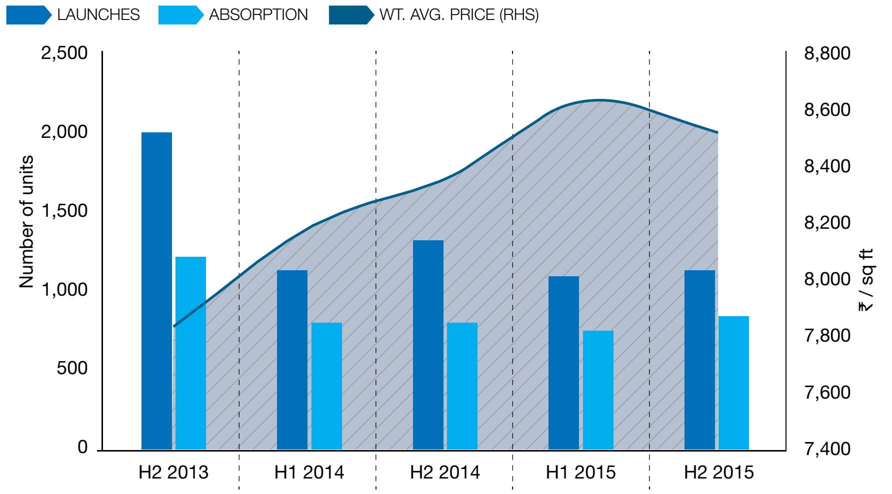
PREMIUM RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

MICRO-MARKET	PREMIUM LOCATIONS
Central	M.G. Road, Lavelle Road, Langford Town, Vittal Mallya Road, Richmond Road
East	Whitefield, Indiranagar
West	Malleswaram, Rajajinagar, Yeshwanthpur
North	Hebbal, Bellary Road
South	Koramangala, Jayanagar, J.P. Nagar

The premium market of Bengaluru observed a decline of 16% in new launches during H2 2015 as compared to H2 2014. Developers refrained from launching premium projects in the face of a subdued market, concentrating, in the meantime, on completing their earlier projects.

FIGURE 5

PREMIUM MARKET TRENDS



Source: Knight Frank Research

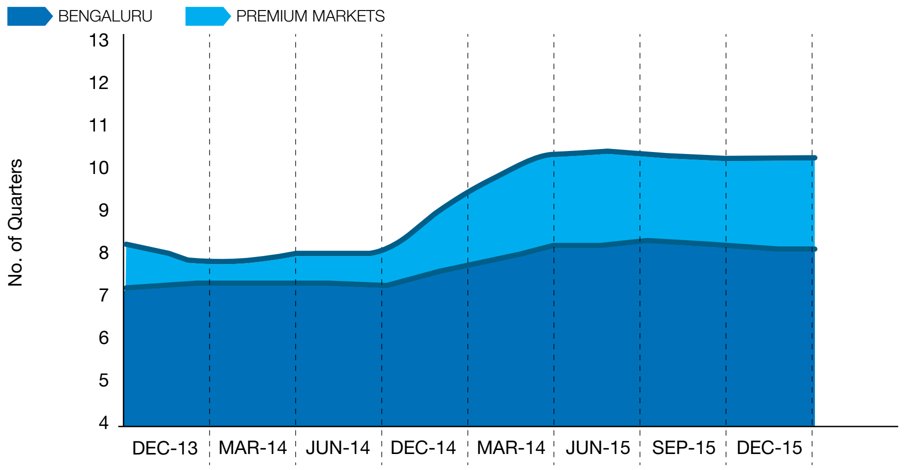
Note: Premium markets include locations where the average ticket size of a residential unit is above ₹ 20 mn, are in close proximity to the central business district of the city and have witnessed new project launches in the preceding three years

- The premium market of Bengaluru, which constitutes locations such as Lavelle Road, Richmond Road, Indiranagar and Malleswaram, among others, observed a decline of 16% in new launches during H2 2015 as compared to H2 2014. Developers refrained from launching premium projects in the face of a subdued market, concentrating, in the meantime, on completing their earlier projects.
- While H2 2015 was characterised by a constricted number of launches in the premium housing segment, cautious market sentiments led to a marginal decline of 1% in demand for such properties, as against the same period last year.
- Generally, the demand for premium units in Bengaluru has always been lower than in other segments, as the city is mainly an end-user market, driven by the IT/ITeS and other services sectors, which prefer mid-end residences.
- Not surprisingly, due to the slackening of the premium housing market, the weighted average price growth YOY in the premium segment grew at a sluggish pace in H2 2015, at 2%, as compared to H2 2014.

BENGALURU MARKET HEALTH

FIGURE 6

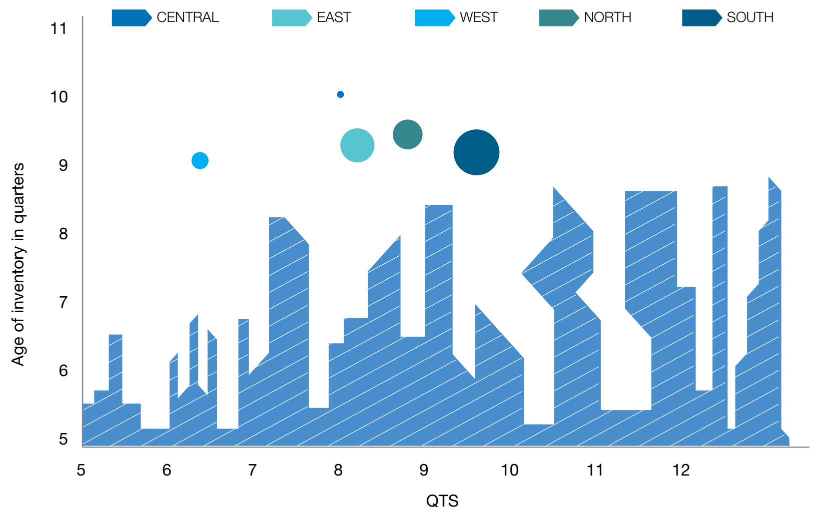
QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS



Source: Knight Frank Research

FIGURE 5

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

- The quarters to sell unsold inventory (QTS) is the number of quarters required to exhaust the existing unsold inventory in the market. The existing unsold inventory is divided by the average sales velocity of the preceding eight quarters in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market.
- The QTS for Bengaluru has been increasing gradually since September 2013, and currently stands at 7.9 quarters. However, the QTS for the premium markets in the city is much higher, at 10.1 quarters currently. This is mainly due to the relatively slow rate of absorption in the premium housing segment.
- West Bengaluru is currently the best performing market of the city, with the lowest QTS, signifying that the market has been witnessing substantial traction in recent times. The Bangalore Metro rail being operational at several key locations and the availability of lifestyle projects are some of the prime factors behind this development. However, West Bengaluru still does

West Bengaluru is currently the best performing market of the city, with the lowest QTS, signifying that the market has been witnessing substantial traction in recent times. The Bangalore Metro rail being operational at several key locations and the availability of lifestyle projects are some of the prime factors behind this development.

not have a sufficient inventory and sales volume compared to the other zones of the city.

- On the other hand, South Bengaluru is one of the worst performing markets, with the largest quantum of unsold inventory in the city and the highest QTS, indicating that the pace of absorption in the region is considerably slow.
- East Bengaluru has a relatively lower QTS and age of inventory than the South, thereby having the potential to perform better in the forthcoming months.
- North Bengaluru shares almost the same fate as its southern counterpart regarding the age of inventory, but having evolved later than the South, it enjoys the advantage of a smaller unsold inventory size and a lower QTS. Thus, we expect this market to gain momentum once the office sector gains prominence in the near future.
- The premium residential market of Central Bengaluru does not have a key role to play due to its minimal unsold inventory size.

IMPENDING GUIDANCE VALUE INCREASE SETS THE MARKET ABUZZ

The Bengaluru residential real estate market is at the cusp of witnessing an increase in guidance value, the reverberations of which may reach far and wide. While in general parlance guidance value refers to the minimum value at which a property sale can be registered, in essence, guidance value strives to bring about sanity in property values in a market that is strife-ridden with cash-strapped developers and vacillating buyers.

According to latest rules, these values are to be revised on a yearly basis. Till 2011, the government used to revise the values once in three or four years. The objective behind putting forth the new annual revision rules is to bridge the huge gap between the market rates and the guidance values. The revision is usually adjusted to inflation and primarily aims to capture the trends in market transactions in order to arrive at a true value. It has been observed that typically there is a frantic scramble for registrations by buyers before the revision, so as to avail of the benefit, post which there is a lull in the market, till the market reconciles to the new values and transactions pick up. However, this year there has not been any unusual spike in property registrations. While the yearly revision can yield income for the state, on the other hand, it is bound to impact property buyers adversely, particularly those from the mid and low-income segment, as rates are hiked by factoring in the amount payable to the government.

In 2015, the government had issued a set of preliminary notifications, proposing an increase in guidance value the extent of which ranged from 10% to 200% in some cases. However, with the slowdown witnessed in the realty industry, it decided to put on hold the revision before releasing the values in 2016. A relook was taken into the draft rates and the rates were revised further, resulting in some areas seeing a marginal reduction while a few others ended with increased rates.

Meanwhile, this hike is not expected to find favour with the realty industry, which is already sitting on a huge unsold inventory pile-up. The sector has urged the government to withdraw the revision owing to the slackening sales growth, as well as the fact that this step will make homes unaffordable for buyers. It remains to be seen whether the new guidance values cut ice with the buyers or lead the market to arrive at an impasse.

PRICE MOVEMENT DURING H2 2015

WEIGHTED AVERAGE PRICE MOVEMENT IN BENGALURU

LOCATION	PRICE RANGE IN H2 2015 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Bengaluru	4,780	4%	3%
Premium markets	8,515	2%	-1%

- Price appreciation across most locations in Bengaluru has been rather tepid during the last 12 months, ranging between 2–10%. The growth in price slowed down further in the last six months, primarily due to the huge unsold inventory present in the market. The range of price appreciation during the period has been within 1–5%.
- The premium housing segment observed a lower rate of growth in the weighted average price in the last 12 months, compared to the growth in the city's overall price. While the city's overall price growth has been pegged at 4%, the premium housing segment saw a price appreciation of 2%. However, when compared with the weighted average prices six months prior, there has been a slight decline of 1% in the values in H2 2015 in premium housing. This decline can be attributed to the large unsold inventory that has been building up, owing to the increasing QTS.

PRICE MOVEMENT IN SELECT LOCATIONS

LOCATION	MICRO-MARKET	PRICE RANGE IN H2 2015 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Langford Town	Central	15,000–21,000	3%	0%
Lavelle Road	Central	22,000–30,000	0%	0%
K.R. Puram	East	4,000–6,750	2%	0%
Whitefield	East	4,500–8,500	4%	0%
Marathahalli	East	4,500–7,100	3%	1%
Indiranagar	East	9,000–12,500	2%	0%
Yeshwanthpur	West	6,500–10,750	8%	1%
Malleshwaram	West	9,000–13,250	6%	1%
Rajajinagar	West	8,500–14,000	2%	0%
Tumkur Road	West	4,000–5,000	3%	2%
Yelahanka	North	4,500–7,500	4%	4%
Hebbal	North	5,000–9,800	2%	2%
Hennur	North	4,500–6,700	10%	5%
Thanisandra	North	4,000–7,500	5%	0%
Sarjapur Road	South	4,500–7,200	4%	0%
Electronics City	South	4,000–6,500	2%	0%
Kanakapura Road	South	4,300–6,000	0%	0%
Bannerghatta Road	South	4,200–7,200	2%	0%

Source: Knight Frank Research

While H2 2015 has been a period of cautious revival, with launches and absorption improving over H1 2015, we expect the first half of the year 2016 to remain steady. Market sentiments are likely to be positive, owing primarily to the large-scale absorption in the office sector.

OUTLOOK FOR THE NEXT SIX MONTHS

Projections	H1 2015	H1 2016E	Growth
Launches (units)	21,400	25,870	21%
Absorption (units)	22,234	28,367	28%
Weighted average price (₹/sq ft)	4,650	4,890	5%

Source: Knight Frank Research

- While H2 2015 has been a period of cautious revival, with launches and absorption improving over H1 2015, we expect the first half of the year 2016 to remain steady. Market sentiments are likely to be positive, owing primarily to the large-scale absorption in the office sector.
- The projected new launches and absorption in H1 2016 will exceed those of H1 2015 by 21% and 28%, respectively, since the decline in H1 2015 had been quite significant. Integrated developments in locations with good connectivity are likely to see good traction in H1 2016.
- West and North Bengaluru are expected to witness increased developer and buyer interest, chiefly due to infrastructure development, while East Bengaluru will continue to remain a preferred market owing to the job opportunities in the region. Locations around the Outer Ring Road will witness increased traction due to their proximity to employment hubs.
- South Bengaluru will continue to witness new launches, but at locations further away from the city centre, thereby creating a potential for budget housing in the peripheral locations.
- On the price front, we expect the weighted average price in Bengaluru to increase reasonably, by 5% in H1 2016 compared to H1 2015, on the back of an improved sales volume.

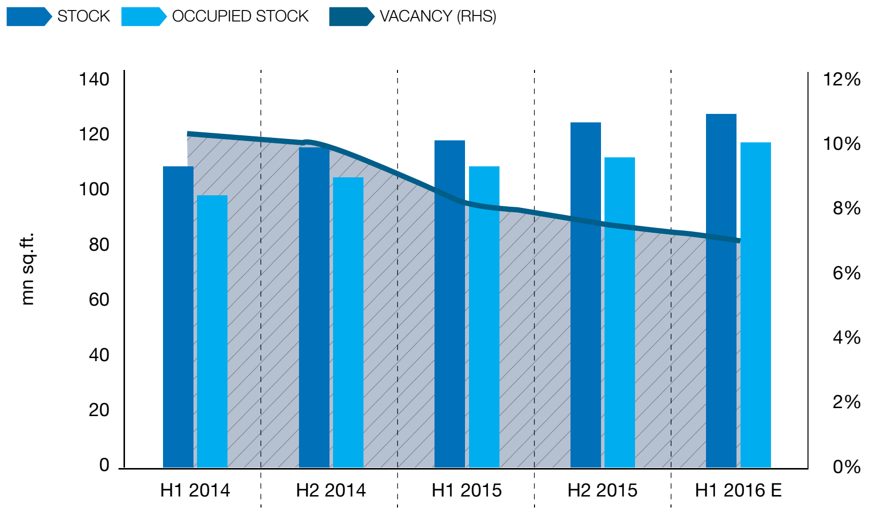
OFFICE MARKET

BENGALURU OFFICE MARKET STOCK, NEW COMPLETIONS, ABSORPTION AND VACANCY TRENDS

The Bengaluru office market continued to lead the way, with the highest office space absorption in the country. With 5 mn sq ft transacted in H2 2015, the city recorded a total absorption of 11.10 mn sq ft in the year. Vacancy rates, which have been steadily declining over the years, continued to remain at 8% in H2 2015.

FIGURE 1

OFFICE SPACE STOCK AND VACANCY LEVELS

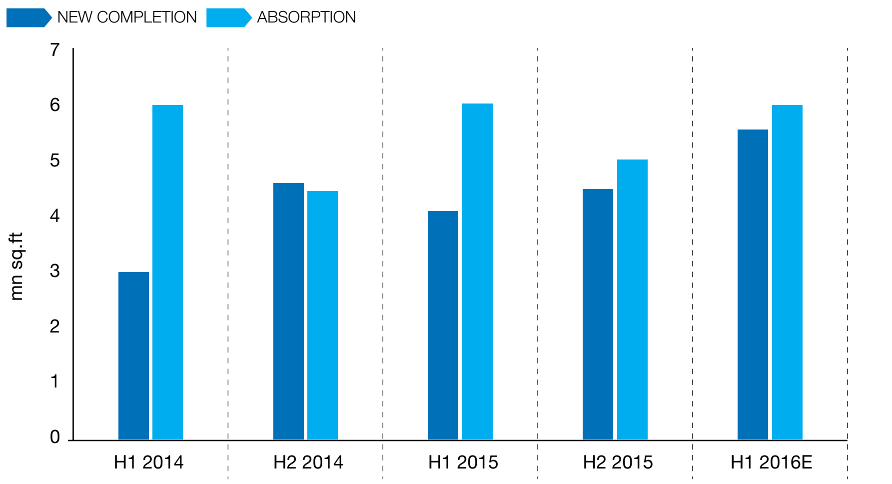


Source: Knight Frank Research

- The Bengaluru office market continued to lead the way, with the highest office space absorption in the country. With 5 mn sq ft transacted in H2 2015, the city recorded a total absorption of 11.10 mn sq ft during the year.
- Bengaluru attracted substantial occupier interest, the demand being driven primarily by the IT/ITeS sector and start-ups, which resulted in 2015 emerging as the period with the highest absorption in four years, falling marginally short of the absorption in 2011. Significantly, start-ups accounted for 3.4 mn sq ft of absorption in 2015, including pre-committed deals of 3.2 mn sq ft, compared to the 0.5 mn sq ft transacted in 2014.
- The city witnessed progressive new office space additions during the period, taking the total office stock to 122.5 mn sq ft in H2 2015, while the occupied stock was recorded at 113 mn sq ft, making it the office market with the highest occupied stock in the country.
- Vacancy rates, which have been steadily declining over the years owing to the consistent absorption and relatively restrained new completions, continued to remain at 8% in H2 2015.
- In the forthcoming months, the office space demand in Bengaluru is expected to remain upbeat, driven by corporate occupiers on an expansion mode as well as investors, both global and domestic, who are considering ownership of their operating assets.
- The total absorption during H2 015 was 5 mn sq ft, while only 4.5 mn sq ft of new office space came online.

The IT/ITeS sector, whose share in absorption had fairly lessened in the last few quarters, resurged strongly in H2 2015. The sector accounted for 70% of the total absorption in H2 2015. Despite fewer e-commerce transactions in H2 2015, as compared to the large-size deals in the previous six months (H1 2015), developers have recognised that the additional demand coming in from the sector has had a positive effect on the city's office market.

FIGURE 2
NEW COMPLETIONS AND ABSORPTION- ANNUAL

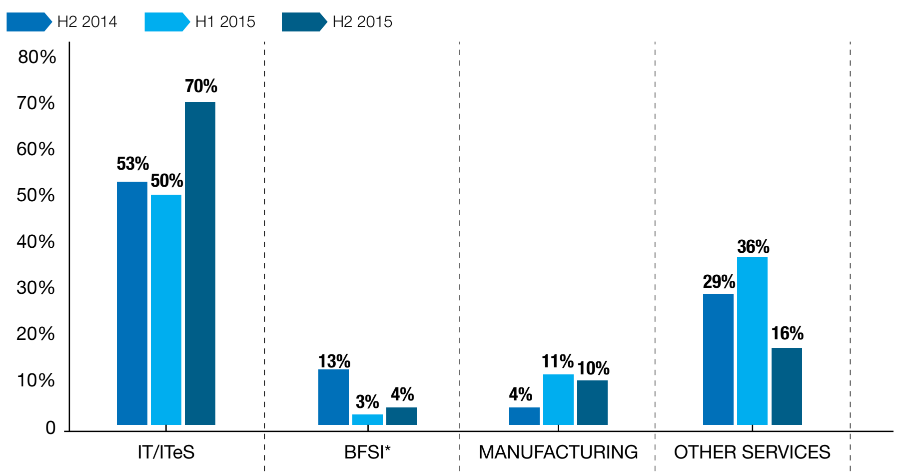


Source: Knight Frank Research

SECTOR ANALYSIS

- The IT/ITeS sector—the key demand driver of the city's office market, whose share in absorption had fairly lessened in the last few quarters—resurged strongly in H2 2015. The sector accounted for 70% of the total absorption in H2 2015, as compared to H2 2014, which had seen a 53% share. This can be attributed to the large-size deals transacted by IT majors, such as Accenture (400,000 sq ft), Infosys (480,000 sq ft) and IBM (400,000 sq ft), among others. Significantly, it was the e-commerce sector that stole the limelight in the previous six months in H1 2015, with around 3.2 mn sq ft of pre-committed deals.
- The share of the other services sector, of which the e-commerce sector is a part, has dropped from 29% in H2 2014 to 16% in H2 2015. Although the IT/ITeS sector led the way in the share of office space absorption in H2 2015, there is no denying that e-commerce holds great potential as well. Despite fewer e-commerce transactions in H2 2015, as compared to the large-size deals in the previous six months (H1 2015), developers have recognised that the additional demand coming in from the sector has had a positive effect on the city's office market. Some of the prominent transactions in the other services sector include companies such as Think & Learn inking office space deals of 116,000 sq ft while e-commerce transactions in H2 2015 include Flipkart taking up 18,000 sq ft of office space in Koramangala.
- Meanwhile, a few major transactions were recorded in the manufacturing sector in H2 2015. Although its share of 10% is minimal in the total office space absorption in H2 2015, this has been an improvement over its share in H2 2014. Big-size deals by companies such as Mercedes-Benz and Safran have augmented the sector's share.

FIGURE 3
SECTOR-WISE SPLIT OF ABSORPTION

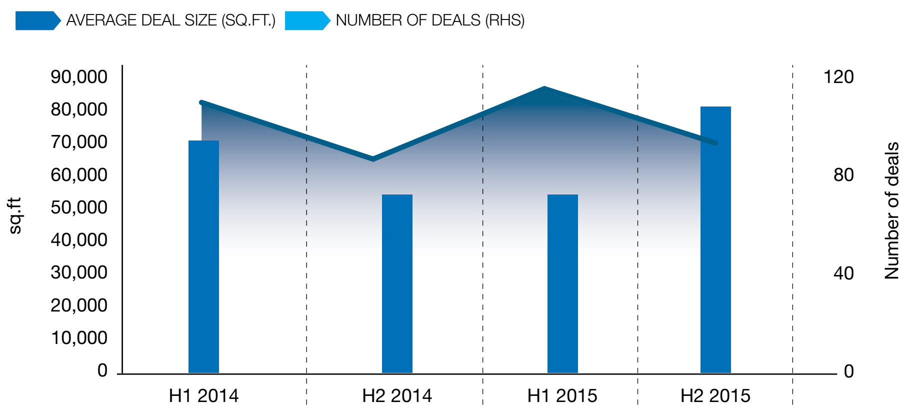


Source: Knight Frank Research

Note: BFSI includes BFSI support services

DEAL SIZE ANALYSIS

FIGURE 4
AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

SELECT TRANSACTIONS

OCCUPIER	BUILDING	LOCATION	APPROX. AREA (SQ FT)
Metric Stream	AMR Tech Park	Hosur Road	90000
Citrix	Embassy GolfLinks business park	Intermediate Ring Road	145000
Resource Pro	Karle Town Center	Hebbal Outer Ring Road	86000
Mercedes-Benz	Gopalan Global Axis	Whitefield	140000
HSBC	RMZ Futura 2	Bannerghatta Road	140000
Tech Mahindra	Golden Hill Supreme IT park	Electronics City	160000
Cadence	RMZ Ecoworld	Sarjapur Outer Ring Road	200000
IBM	Bhartiya City	Thanisandra Road	400000
Think & Learn	IBC Knowledge Park	Bannerghatta Road	116000

Source: Knight Frank Research

- The average deal size has increased significantly in H2 2015, coming close to 80,180 sq ft, while it stood at 55,430 sq ft in H2 2014 and 54,250 sq ft in H1 2015. However, the number of deals has reduced in the last six months, from 112 in H1 2015 to 88 in H2 2015.
- This denotes that while deals with bigger ticket sizes were inked in H2 2015 over the other periods, the lesser number of deals indicated a dearth of large, ready office configurations in the market.
- The drop in deal sizes also justifies the slightly lower quantum of absorption in H2 2015 (5 mn sq ft) as against the absorption in H1 2015 (6.07 mn sq ft).

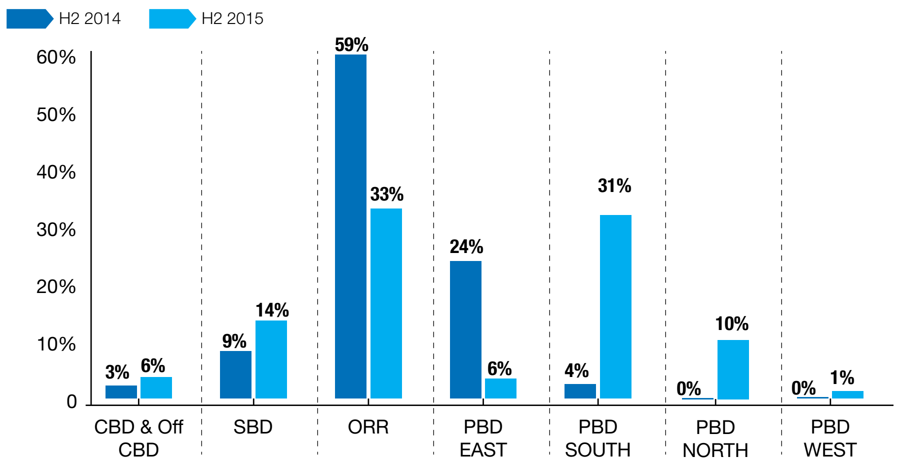
BUSINESS DISTRICT ANALYSIS

BUSINESS DISTRICT CLASSIFICATION

BUSINESS DISTRICTS	MICRO-MARKETS
Central Business District (CBD) and off-CBD	M.G. Road, Residency Road, Cunningham Road, Lavelle Road, Richmond Road, Infantry Road
Suburban business district (SBD)	Indiranagar, Koramangala, Old Airport Road, Old Madras Road
Peripheral Business District (PBD) East	Whitefield
Peripheral Business District (PBD) South	Electronics City, Bannerghatta Road
Peripheral Business District (PBD) North	Thanisandra, Yelahanka, Devanahalli
Outer Ring Road (ORR)	Hebbal ORR, Marathahalli ORR, Sarjapur Road ORR

FIGURE 5

BUSINESS DISTRICT-WISE ABSORPTION SPLIT



Source: Knight Frank Research

- The Outer Ring Road (ORR) office market saw a considerable dip in H2 2015 compared to H2 2014. Its share in the total absorption in H2 2015 was 33% compared to 59% in H2 2014. The ORR has been progressively preferred by corporates due to factors such as its proximity to the CBD and the major residential markets, access to large talent pools, the availability of contiguous land parcels, connectivity to the airport and the presence of hotel and retail projects. This has led the ready-to-occupy office space in the region to shrink significantly, thereby resulting in a decline in its absorption share in H2 2015. However, the ORR still accounts for a large quantum of pre-committed space, which is scheduled to become operational in the forthcoming months.
- With ready office space becoming scarce in the preferred markets, H2 2015 saw the PBD South markets resurfacing. Peripheral office markets in the south, such as Hosur Road, Bannerghatta Road and Electronics City, saw increased traction and occupier interest, thereby taking up the region's share from a mere 4% in H2 2014 to 31% in H2 2015. Key transactions in PBD South include those by Infosys and Tech Mahindra at Electronics City, SAP and Medi Assist on Bannerghatta Road, and MetricStream on Hosur Road.
- Another notable observation is the emergence of the PBD North market, primarily comprising the office market in Thanisandra. This peripheral region accounted for a 10% share of the total absorption in H2 2015, owing to large-size deals by companies such as IBM and Sutherland. With the quantum of office space expected to be completed in the next few quarters, the northern peripheral office markets portend a greater share in the city's absorption in the near future.
- Meanwhile, the SBD office markets at locations such as Koramangala and Intermediate Ring Road have been regaining occupier interest as well. The region saw its share increase to 14% in H2 2015, from 9% of the total absorption in H2 2014.
- On the other hand, office projects in the CBD and the peripheral business districts towards the east remained relatively subdued, with the majority of the traction taking place in the ORR, PBD South and SBD markets.

The Outer Ring Road (ORR) office market saw a considerable dip in H2 2015 compared to H2 2014. Progressive absorption YOY has led the ready-to-occupy office space in the region to shrink significantly. This has resulted in PBD South markets such as Hosur Road, Bannerghatta Road and Electronics City to account for increased traction in H2 2015. Another notable observation is the emergence of the PBD North market, primarily comprising the office market in Thanisandra.

BENGALURU OCCUPIES THE TOP SPOT FOR START-UPS IN THE COUNTRY

Bengaluru, proclaimed in recent years as the Silicon Valley of India, is ready to be anointed with another tech-related sobriquet – that of the start-up capital of the country. More specifically, the unicorn capital of India. Unicorn is a term that has been made popular by venture investor Aileen Lee to describe start-ups valued at a $1 billion or more. The city has leveraged its imposing IT services legacy to establish itself as the tech entrepreneurial hub of the nation, and currently boasts of housing five of the eight homegrown unicorns – Flipkart, Ola, InMobi, Quikr and MuSigma. Other three unicorn Indian companies, viz. Snapdeal, Zomato and mobile wallet start-up Paytm, are based in New Delhi.

A number of factors played in favour of Bengaluru to be chosen as the destination of choice of these start-ups. For one, the city's tech-first culture lent the confidence required to embark on a business journey that entailed significant technical support. Another important factor working in favour of Bengaluru is its huge quality skill base. It has a vast talent pool of technology experts, constituting of people who work for global giants like IBM, Microsoft, HP, Dell, Infosys and Wipro to name a few, as well as the captive technology development centres of large corporate giants like GE, Samsung, Fidelity and others. Bengaluru thrived on an ecosystem that developed and supported talent, connected with investors and followed lessons from other start-ups. These factors provided the start-ups with an early-mover advantage, thereby leading Bengaluru to observe more start-ups than the other cities in India.

Besides, the government of Karnataka's Department of Information Technology, Biotechnology and Science & Technology has offered tremendous support with its numerous initiatives, instances of this are the 10,000 start-ups initiative, which aims at having 10,000 start-ups by 2023, and the New Age Incubators to promote student start-ups. The government provides incubators along with Nasscom, Microsoft and a number of other companies that encourage start-ups within their campus. Moreover, most major software companies have their research centres in Bengaluru. These MNCs help in accelerating the start-ups either through mentorship or funding the entrepreneurs. Most importantly, the city offers relatively lower rentals for office space, thereby encouraging companies to set up their offices here.

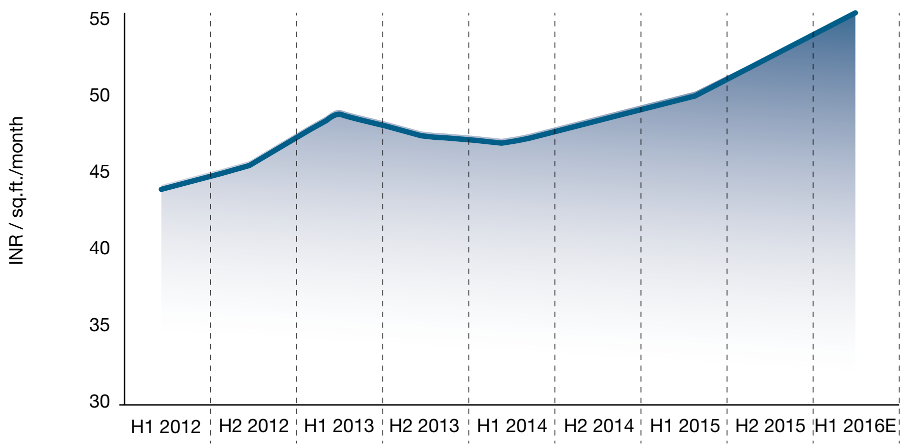
While start-ups have a long way to go, re-structuring their processes along the way to arrive at correct positionings, Bengaluru would continue to provide a nurturing environment for these companies to succeed and, in all likelihood, remain the start-up capital of India.

RENTAL TREND

- The SBD and ORR office markets witnessed the maximum rise in rentals during H2 2015, owing primarily to the strong demand for office space in the region, coupled with declining vacancies, particularly in the ORR.
- The weighted average rental values witnessed an increase of 6%, from ₹48.5 / sq ft /month in H2 2014 to ₹51.5 / sq ft / month in H2 2015.
- Going forward, the weighted average rentals are expected to increase by 7% from the current values in H2 2015 to around ₹55 / sq ft / month in H1 2016.
- This could be accredited to the anticipated demand for large spaces as well as the lack of vacant office stock, which have pushed the weighted average rentals upwards in the Bengaluru office space market

FIGURE 6

WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

BUSINESS DISTRICT-WISE RENTAL MOVEMENT

BUSINESS DISTRICT	RENTAL VALUE RANGE IN H2 2015 (₹/SQ FT/MONTH)	12 MONTH CHANGE	6 MONTH CHANGE
CBD & Off-CBD	75–95	6%	5%
SBD	50–90	10%	8%
PBD East	31–47	4%	0%
PBD South	31–48	5%	4%
ORR	45–70	10%	7%

Source: Knight Frank Research

OUTLOOK FOR THE NEXT SIX MONTHS

PROJECTIONS	H1 2015	H1 2016E	GROWTH
New supply (mn sq ft)	4.00	5.5	38%
Absorption (mn sq ft)	6.07	6	-1%
Vacancy (%)	10%	7%	
Weighted average rental (₹ / sq ft / month)	50.0	55	10%

Source: Knight Frank Research

- Going forward, in the first half of 2016 (H1 2016), the Bengaluru office market will continue to see the momentum that was witnessed in 2015. The absorption in H1 2016 is expected to remain steady, albeit with a slight decline of 1% over the absorption in H1 2015. This marginal de-growth could be accredited to the dearth of substantial ready-to-occupy office space in graded projects in key office markets. While H1 2016 is projected to witness a larger quantum of new completions compared to H1 2015, it remains to be seen if this would be sufficient to cater to the city's office space demand.
- As a result of the space crunch brought about by the steady absorption rate and declining vacancy levels, the rental values of select projects at locations such as the ORR and the SBD office markets are likely to increase in the short term. The weighted average rentals of the city are estimated to increase by 10% in H1 2016 on a YOY basis.
- The e-commerce sector, which barely existed two years ago, has been gaining ground quickly in the Indian business scenario and holds much potential to become one of key demand drivers of the city's office market, along with the IT/ITeS sector. However, being in its nascent stage, it remains to be seen how well the sector can sustain itself in the long run.

Yashwin Bangera
Assistant Vice President - Research

CHENNAI

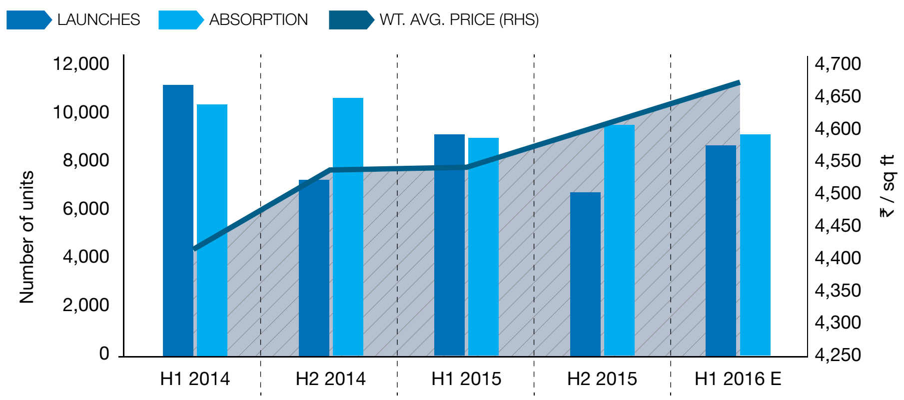
RESIDENTIAL MARKET

H2 2015 saw a sharp 20% decline in the number of units launched compared to the same period last year. This was largely due to the torrential rains that brought the residential real estate market to almost a standstill.

CHENNAI RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

FIGURE 1

CHENNAI MARKET TRENDS



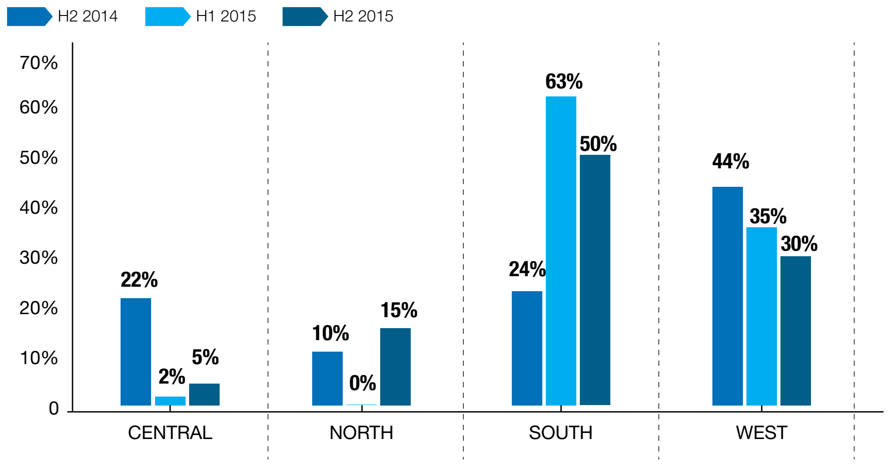
Source: Knight Frank Research

- Absorption levels in the Chennai residential market have stagnated since H2 2013, as a lacklustre economic outlook, escalating prices and the heavy November rains discouraged the price-conscious homebuyer from entering the market.
- Absorption levels averaged close to 14,000 units every half-yearly period before H2 2013 but now average just under 10,000 units, with H2 2015 seeing the lowest absorption levels since 2011, at 8,792 units. This was a 15% drop compared to H2 2014.
- The developers, in turn, reduced the pace of their launches in the face of mounting inventories as demand continued to trend lower.
- H2 2015 saw a sharp 20% decline in the number of units launched compared to the same period last year. This was largely due to the torrential rains that brought the residential real estate market to almost a standstill.
- However, this excessive reduction in supply in comparison to the absorption levels has also caused the unsold inventory level to fall to a three-year low, at 36,497 units.
- Weighted average prices have been growing, but at a steadily declining rate since H2 2012, when they grew at 10.4%, and now stand at 1.5% YOY at the end of H2 2015.
- We do not expect the ongoing lull in launches to persist in H1 2016, as the festive season during the first half of the year has traditionally seen developers launch new projects.
- However, YOY growth will be hampered, as the market sentiment is yet to recover from the aftermath of the floods. We expect H1 2016 to see 8,500 units in terms of supply – approximately 7% lower YOY.
- We believe that the absorption levels will recover from the current lows and reach approximately 9,000 units in the following period – marginally lower than the level achieved in H1 2015.
- This contraction in supply, coupled with a recovery in the absorption levels, will support market health and set the stage for a more robust recovery.

MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

FIGURE 2

MICRO-MARKET SPLIT OF LAUNCHED UNITS



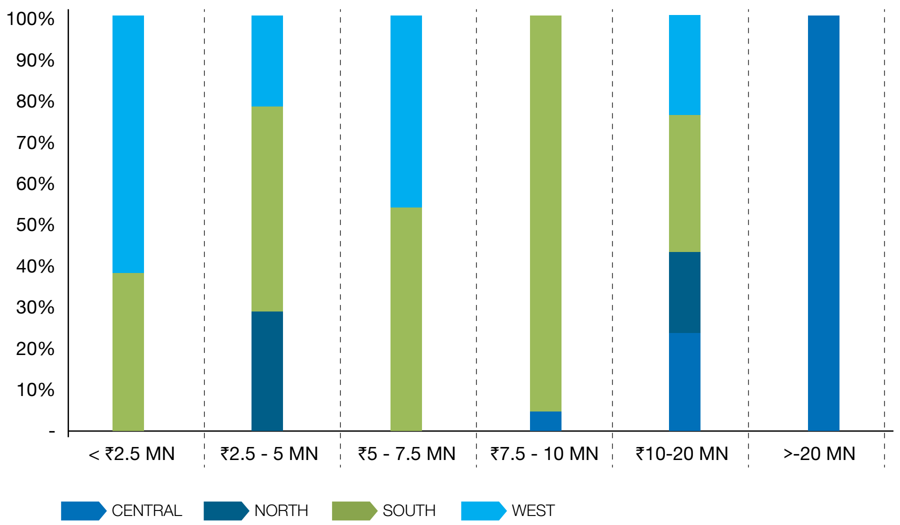
Source: Knight Frank Research

The South and the West micro-markets were the hardest hit in H2 2015, as they experienced the worst of the floods. These micro-markets usually attract over 90% of the development in Chennai, but H2 2015 saw this share come down to 80%

- The South and the West micro-markets were the hardest hit in H2 2015, as they experienced the worst of the floods. These micro-markets usually attract over 90% of the development in Chennai, but H2 2015 saw this share come down to 80%.
- South Chennai still accounted for half of the units launched during the period and saw the bulk of these launches take place in locations beyond Navalur and Padur on the OMR. The relatively more established residential locations of Pallavaram, Perumbakkam and Kelambakkam, which usually see development interest, experienced muted activity due to the floods.
- Comprising close to a third of the units launched during H2 2015, the West zone is second only to the South, as developers cater to the increasing number of homebuyers looking for comparatively affordable options away from the city centre but closer to the employment hubs on Mount-Poonamallee High Road and Ambattur. Thiruverkadu, Sriperumbudur and Avadi witnessed most of the development interest in West Chennai during this period.
- West Chennai saw close to 59% of the launches occur in ticket sizes under ₹5 mn compared to 53% for the entire market. In comparison, approximately 51% of the units in South Chennai were launched in the same ticket size.

FIGURE 3

TICKET-SIZE SPLIT OF LAUNCHES DURING H2 2015



Source: Knight Frank Research

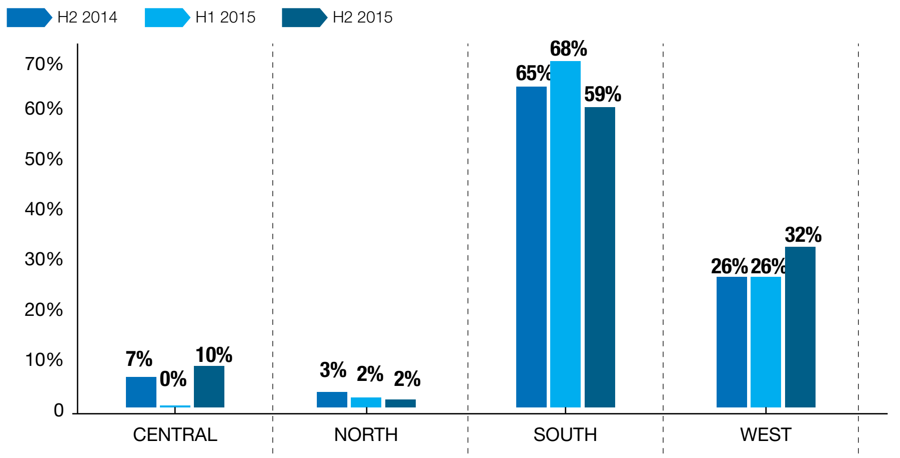
MICRO-MARKET-WISE RESIDENTIAL SALES

MICRO-MARKETS OF CHENNAI

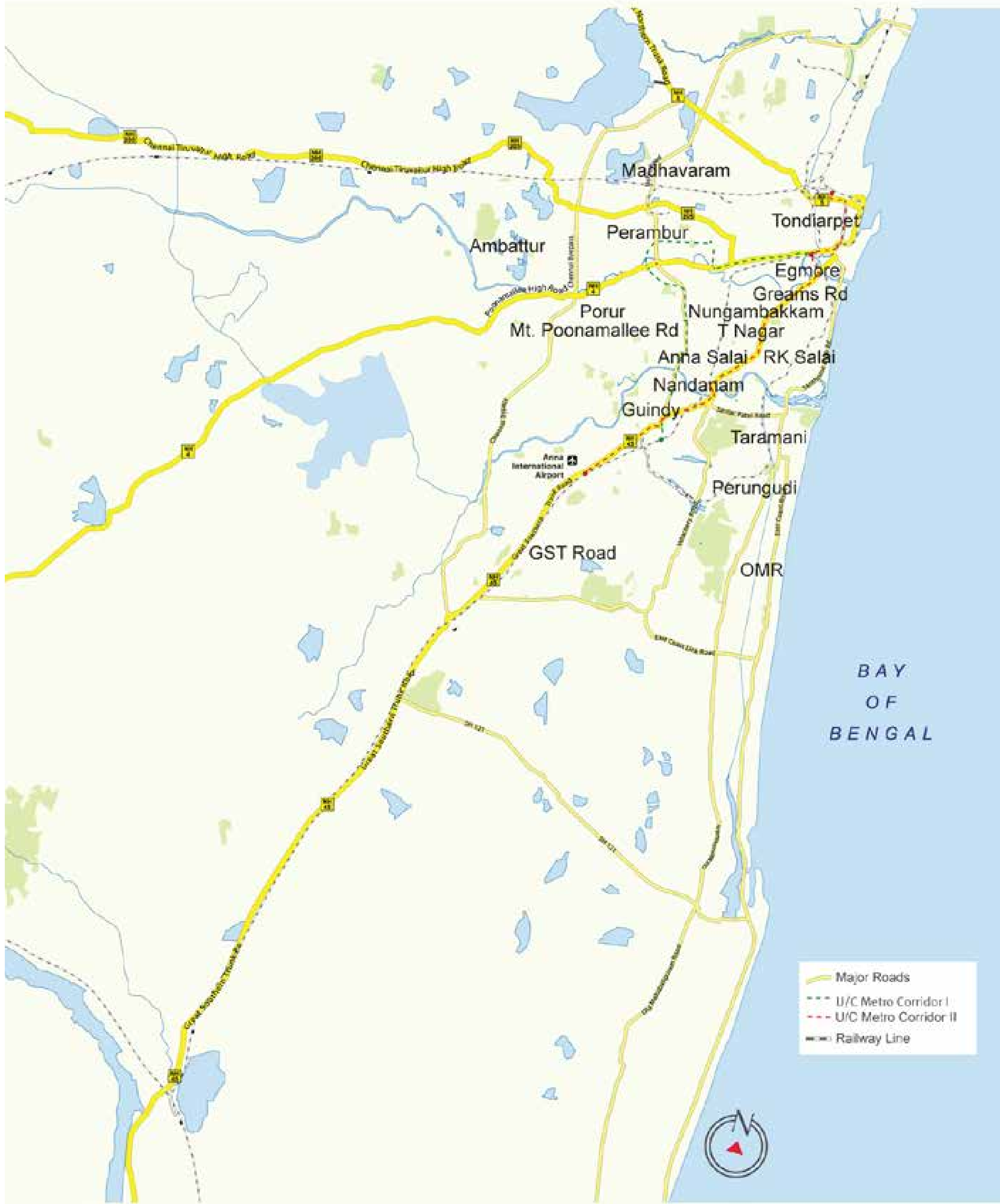
MICRO-MARKET	LOCATIONS
Central Chennai	T. Nagar, Alandur, Nungambakkam, Kodambakkam, Adyar, Kilpauk
West Chennai	Porur, Ambattur, Mogappair, Iyyappanthangal, Sriperumbudur
South Chennai	Perumbakkam, Chrompet, Sholinganallur, Guduvancheri, Kelambakkam
North Chennai	Tondiarpet, Kolathur, Madhavaram, Perambur

FIGURE 4

MICRO-MARKET-WISE RESIDENTIAL SALES



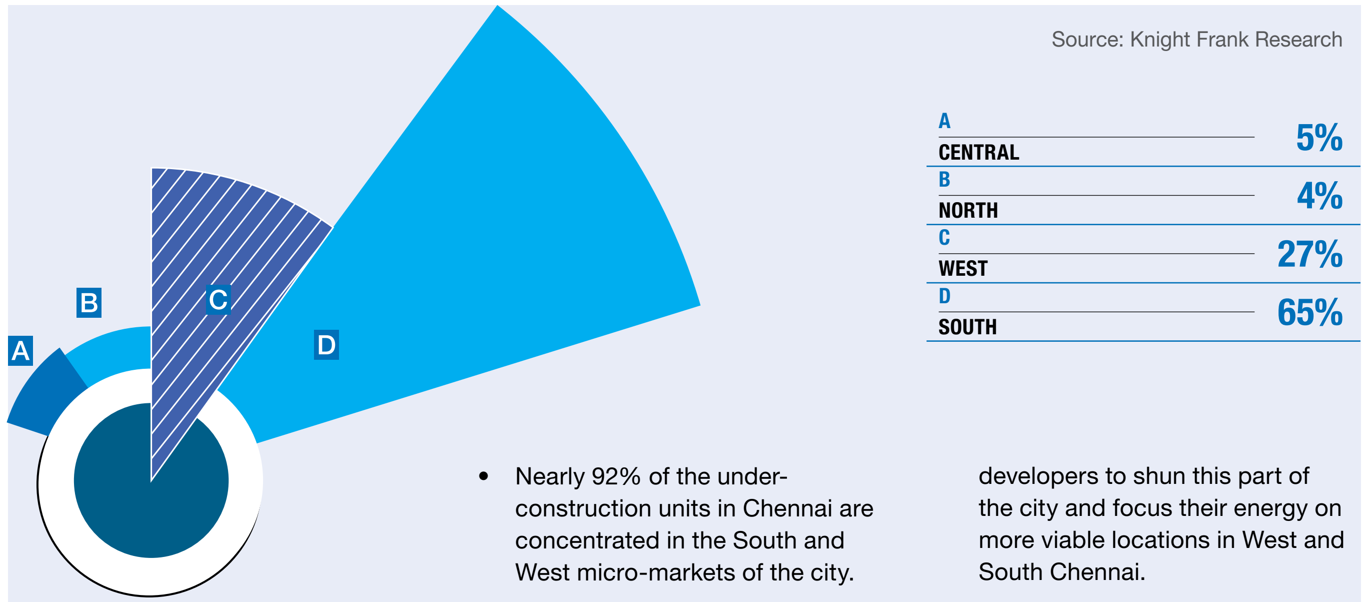
Source: Knight Frank Research



- Buyer behaviour has been largely consistent across the last three periods, with an inevitable dip in demand in South Chennai due to the floods.
- Buyers responded favourably to the increasing and lower-priced supply in the West zone. Western micro-markets, such as Tiruverkadu, saw an increase in traction due to an increased uptake of the lower-priced inventory and good connectivity with SBD locations, such as Mount Poonamallee High Road and Valasaravakkam.
- Demand shrank by 15% YOY in H2 2015. The South zone saw a 23% decline, while increased homebuyer interest in the more affordable locations in the West, such as Tiruverkadu, caused demand to increase 4% YOY in that zone.
- Landmark Construction, Doshi Housing, Emami Realty, Vijay Raja Group and Godrej Properties were the most active during this period and contributed to over half of the units launched during H2 2015.

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF DECEMBER 2015

Source: Knight Frank Research



- Nearly 92% of the under-construction units in Chennai are concentrated in the South and West micro-markets of the city.
- Comparatively poor connectivity to office market locations and the lack of social infrastructure has left very little incentive for the Chennai homebuyer to look north for homes. This has caused developers to shun this part of the city and focus their energy on more viable locations in West and South Chennai.
- The shortage of developable land and high prices prevent sizeable development activity in Central Chennai, but it remains the most sought-after residential micro-market of the city.

GROWTH CORRIDORS IN CHENNAI

Chennai's residential real estate market has been experiencing a slowdown, as the overall demand and supply numbers have fallen consistently since 2012. Consequently, price growth has also stagnated, rendering the investment climate less than optimum for fresh real estate investments. However, as in the case of the equity markets, when certain blue chip companies will continue to attract interest even in a downturn, some locations or zones with the right fundamentals in place will outperform and yield above average investment returns over the long term.

Employment generation and the infrastructure that connects employment hubs to residential areas are the cornerstones for the development and growth of any residential location. Chennai has always had a strong manufacturing base, but the new millennium ushered in an era of IT/ITeS development after Old Mahabalipuram Road (OMR) was promoted as an IT corridor, and the IT/ITeS and other services sectors (ecommerce, healthcare, etc.) are the largest employers in the city today. The IT/ITeS and other services sectors currently account for a massive 80% of the office stock in Chennai. The availability of a vast talent pool, favourable state government policies and an improvement in the overall economic landscape will ensure a sustained growth in the IT/ITeS and other services sectors. This will also ensure that these sectors will be the largest consumers of office space and will be the biggest drivers of the Chennai real estate market in times to come.

The Chennai office space market has expanded towards the south and southwest over the years, and bulk of the office space today is concentrated in these zones. The OMR stretch, especially, has seen prodigious growth over the past decade, as quality office spaces tailor-made for the IT/ITeS and other services sectors have come up, and this stretch currently houses over half of the office stock in the city. The state government's initiative to promote the stretch as an IT corridor, coupled with affordable rentals, will ensure the growth of this corridor in the foreseeable future as well.

As the southern end of the Chennai office space market has thrived on the IT/ITeS sector's demand for large format office spaces, the SBD locations have attracted corporate offices and other front offices that can afford comparatively higher rentals and prefer being closer to the city centre. These dynamics are expected to sustain over time and close to 80% of the IT/ITeS and other services sectors' workforce will continue to commute to these office hubs during the same period.

The city faces sizeable challenges in terms of transport infrastructure, which are being addressed by initiatives such as the ongoing construction of the metro and near completion of the outer ring road (ORR). These initiatives, while significant in terms of connecting southern locations to central and west Chennai, do not provide direct connectivity to the bulk of the major office locations in the south and southwest. This requires daily commuters to rely largely on road transport to get to their places of work.

These hurdles in commuting to work have encouraged homebuyers to look for residential options closer to office locations, and have caused the proliferation of a healthy residential market in proximity to these office hubs. As the residential units coming up in these locations are also lower priced compared to other residential zones in the city, they are an attractive proposition for the resident workforce. Residential locations comparatively closer to these office hubs that have sufficient supply constraints will see better price performance compared to the market. Thus residential locations such as Alandur and Guindy are more likely to see above average price appreciation. In addition to being connected to major employment hubs via road, metro and MRTS routes, they also have sufficient supply constraints in place to give residential prices sufficient room to grow.

Prices in this segment have increased 42% since H1 2013, compared to the overall residential market, which, at 9%, has not performed even half as well during the same period

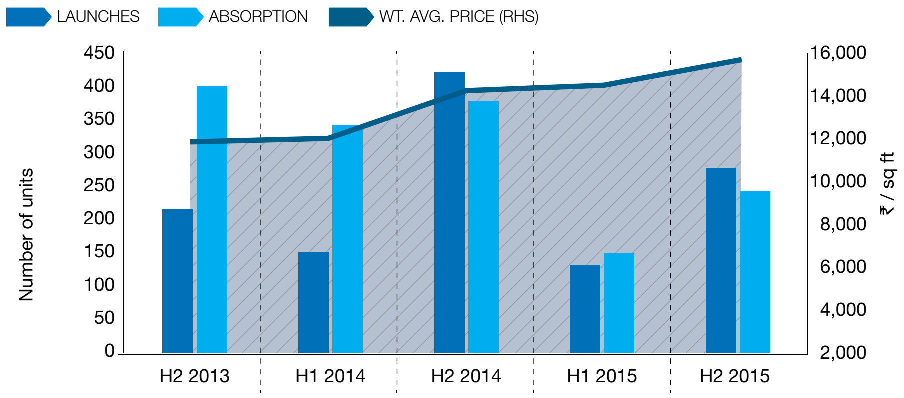
PREMIUM RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

PREMIUM MARKET

MICRO-MARKET	LOCATIONS
Central Chennai	Nungambakkam, R. A. Puram, Alwarpet, T. Nagar, Mylapore, Royapettah, Kilpauk, Anna Nagar, Teynampet, Adyar
West Chennai	K. K. Nagar, Thiruvanmiyur, Valasaravakkam
South Chennai	Injambakkam, Palavakkam, Uthandi

FIGURE 5

PREMIUM MARKET TRENDS



Source: Knight Frank Research

Note: Premium markets include locations where the average ticket size of a residential unit is above ₹15 mn, are in close proximity to the central business district of the city and have witnessed new project launches in the preceding three years

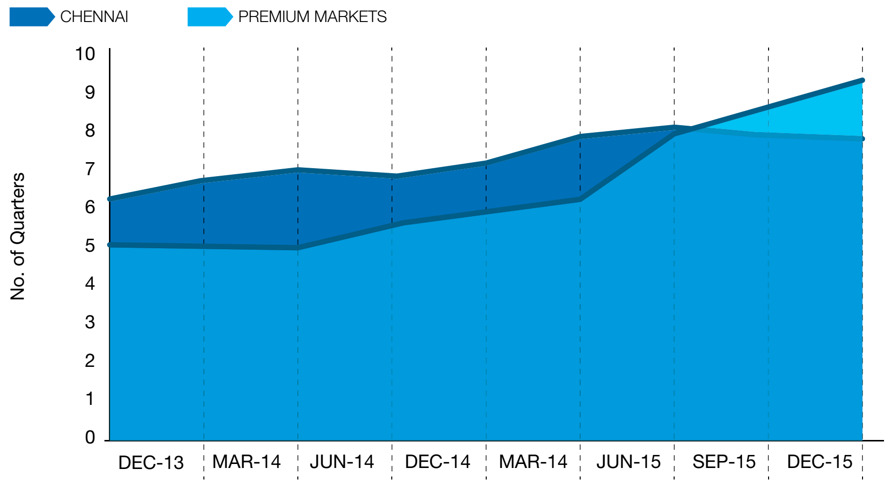
- The premium locations of the city are concentrated largely in Central Chennai areas, such as Nungambakkam, Adyar and R. A. Puram, and some locations with a high aspirational value in South and West Chennai, such as Palavakkam, Injambakkam, Thiruvanmiyur and K. K. Nagar.
- The premium market in Chennai has been better insulated against market vagaries compared to the overall Chennai residential market, as there was relatively little supply in the early years of this decade compared to the situation today.
- The Chennai market had a significantly higher appetite for premium residential products compared to the supply on offer. The increasing redevelopment of bungalows in central locations, the breakdown of joint families among the affluent and the dearth of lifestyle residential products have been strong drivers of the premium segment.
- Prices in this segment have increased 42% since H1 2013, compared to the overall residential market, which, at 9%, has not performed even half as well during the same period.
- Absorption levels that averaged almost 800 units on a half-yearly basis in the six periods prior to 2013 have dropped nearly 55% to the 350 levels since then. This has pushed the QTS level of the premium segment over that of the Chennai residential market since June 2015.

- The quarters to sell unsold inventory (QTS) is the number of quarters required to exhaust the existing unsold inventory in the market. The existing unsold inventory is divided by the average sales velocity of the preceding eight quarters in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market.
- The Chennai residential market currently has a QTS of 7.6, with an average age of inventory of 10.7 quarters. The QTS has been inching down since the beginning of 2015, which signifies an improvement in the overall market health.
- A spurt in the absorption levels, coupled with depressed launches, has pulled the QTS and age of inventory of the Cental zone to 7 quarters – well below that of the overall market.
- South and West Chennai contain the largest chunks of unsold inventory in the Chennai market and have a QTS of 7 and 8 quarters respectively. Relatively affordable residential prices, proximity to employment hubs and improving social infrastructure continue to drive both these micro-markets.
- North Chennai is the worst-performing micro-market, with a QTS and age of inventory of nearly 11 quarters, though its QTS has been reducing over the last three analysis periods.

Chennai market health

FIGURE 6

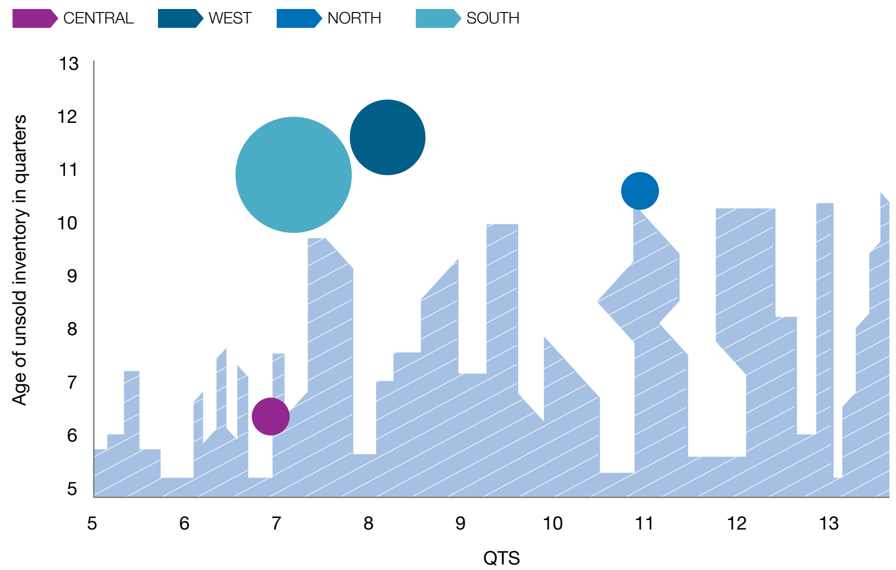
QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS



Source: Knight Frank Research

FIGURE 7

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

PRICE MOVEMENT DURING H2 2015

WEIGHTED AVERAGE PRICE MOVEMENT IN CHENNAI

LOCATION	PRICE RANGE IN H2 2015 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Chennai	4,596	1.5%	1%
Premium markets	14,474	7%	6%

- The drop in market traction during the latter part of H2 2015 weighed down the price growth in the Chennai residential market during H2 2015. Growing at just 1.5% YOY during this period, the price growth has stagnated, compared to the 4% YOY growth seen during the previous period.
- South Chennai bore the brunt of the floods and also took the hardest hit in terms of real estate price growth, with locations such as Guindy and Ekkaduthangal—which are located within a 1–2 km radius of the Adyar river—seeing prices stagnate completely in H2 2015 as end user and investor sentiments took a beating in the aftermath of the damage caused by the floods. This phenomenon was especially exacerbated in the secondary market, where opportunistic buyers were seen looking for big discounts in a market full of panic-stricken sellers.
- Developers were also seen to pursue aggressive subvention schemes to push sales.
- Central locations in Chennai, such as Anna Nagar, T. Nagar and Adyar, continue to remain the most premium locations of the city. Relatively strong absorption during H2 2015, brought on by the fact that most of the under-construction inventory was nearing completion, has helped these central locations register a price growth in the range of 3–5% YOY.
- We expect the weighted average prices in Chennai to grow at a significant 3% YOY in H1 2016, as the shock of the recent floods blows over and homebuyers start come back to the market during the festive season.
- We believe that the price growth in the premium segment locations will continue to outperform the market and match the current analysis period's 9% growth in H1 2016 as well.

PRICE MOVEMENT IN SELECT LOCATIONS

LOCATION	MICRO-MARKET	PRICE RANGE IN H1 2015 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Anna Nagar	Central	10,500–11,900	3%	1%
Adyar	Central	16,500–17,800	1%	1%
Kilpauk	Central	14,800–15,800	4%	0%
T. Nagar	Central	18,000–19,300	4%	1%
Alandur	Central	7,000–7,500	3%	2%
Porur	West	5,200–5,500	3%	2%
Ambattur	West	4,100–4,600	2%	1%
Mogappair	West	6,200–6,700	2%	2%
Iyyappanthangal	West	4,000–4,500	2%	2%
Sriperumbudur	West	2,700–3,200	2%	1%
Perumbakkam	South	4,100–4,500	1%	0%
Chrompet	South	4,200–4,700	2%	0%
Sholinganallur	South	4,500–5,500	2%	1%
Guduvancheri	South	3,200–3,700	1%	0%
Kelambakkam	South	3,500–3,900	0%	0%
Tondiarpet	North	4,500–4,800	2%	2%
Kolathur	North	4,800–5,500	2%	1%
Madhavaram	North	4,500–5,000	2%	0%
Perambur	North	6,200–6,500	2%	3%

OUTLOOK FOR THE NEXT SIX MONTHS

Projections	H1 2015	H1 2016E	GROWTH
Launches (units)	9,102	8,500	-7%
Absorption (units)	9,091	9,000	-1%
Weighted average price (₹/sq ft)	4,532	4,662	2.9%

Source: Knight Frank Research

- Chennai city is currently undergoing a prolonged phase of time correction, characterised by a persistent slump in launches and absorption levels, wherein market players are wary about entering the market at this time.
- Our interactions with the developer and investor community corroborate our analysis and lead us to believe that the recent slump in the Chennai residential market was accentuated by the floods, and that this situation will ease in the months to come. While residential supply will take some more time to revive due to the still high unsold inventory levels, we believe that H1 2016 will see a 7% de-growth YOY compared to the 20% fall YOY in H1 2015.
- We believe that the absorption levels, however, will prove to be much stronger and match the H1 2015 levels in the next period.
- We expect the weighted average price in Chennai to increase at a healthier rate, by close to 3% in H1 2016 compared to H1 2015, on the back of the improved sales volume. Price growth will continue to be capped until the absorption volumes start approaching the 14,000-unit average per six-month period that the Chennai market had clocked prior to 2013, compared to the sub-10,000 units averaged by the market since then.
- The consistent decline in unsold under-construction inventory levels and steady QTS levels since H1 2015 lead us to believe that the Chennai market is bottoming out and close to a point of recovery in sales numbers.
- The revival in the manufacturing and IT/ITeS sectors that make up the bedrock of Chennai's economy, coupled with reducing interest rates and inflation levels in the national economy, makes for a strong case for the business and investment climate to improve and to boost the overall sentiment.
- These factors instil confidence that the residential market is slowly but surely on its way to recovery in the coming 12 months.
- We believe that South Chennai will continue to grow, as connectivity to employment hubs such as the OMR, improving social infrastructure and comparatively lower prices will deter homebuyers from looking elsewhere.
- The premium market has been under increasing pressure, as is seen in its rising QTS; however, the above-average price growth and the small number of units relative to its specific demand base lead us to believe that the price growth in this segment will continue to be strong, though slightly muted compared to earlier periods.
- The effects of a steadily-improving office market, thanks to improving fundamentals in the IT/ITeS and manufacturing sectors, are bound to rub off on the residential market as well. Hence, locations such as Pallikaranai, Medavakkam, Perumbakkam and locations on the Pallavaram–Thoraipakkam road that are well connected to IT/ITeS office hubs on the OMR with improving social infrastructure are expected to see increasing market activity in the coming months.

The consistent decline in unsold under-construction inventory levels and steady QTS levels since H1 2015 lead us to believe that the Chennai market is bottoming out and close to a point of recovery in sales numbers

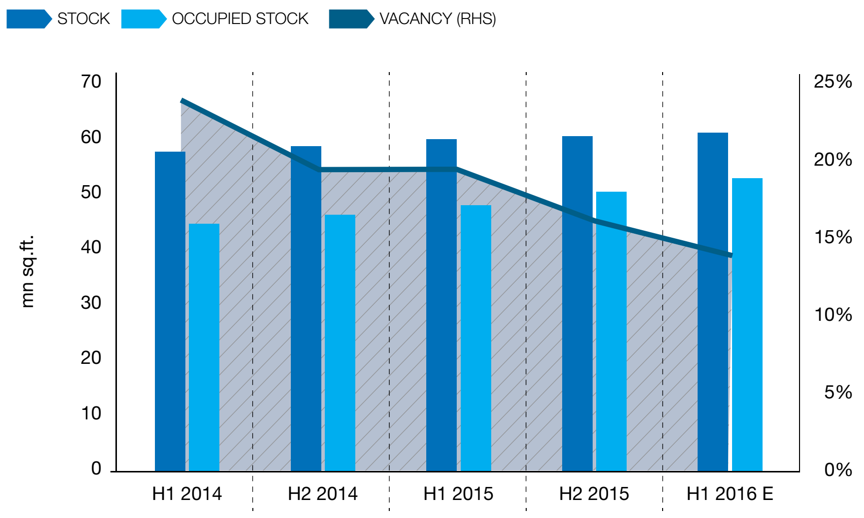
Up almost 41% YoY, H2 2015 experienced the highest absorption levels of any half-yearly period in the history of the Chennai office space market

OFFICE MARKET

CHENNAI OFFICE MARKET STOCK, NEW COMPLETIONS, ABSORPTION AND VACANCY TRENDS

FIGURE 1

OFFICE SPACE STOCK AND VACANCY LEVELS



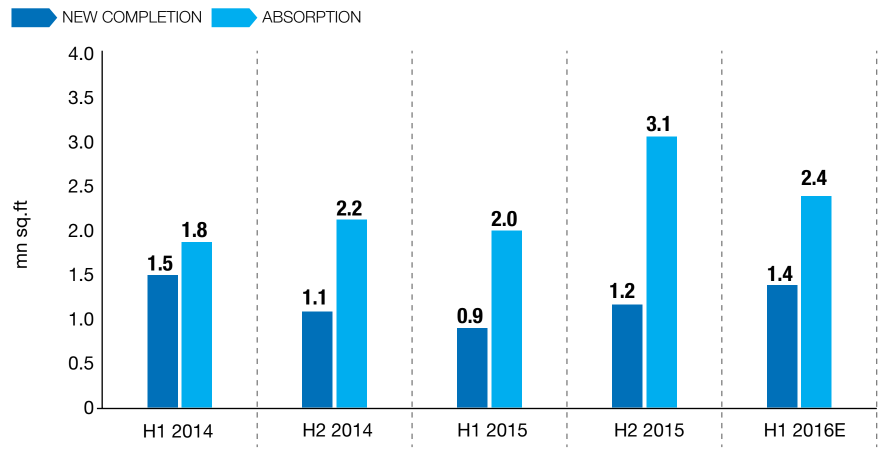
Source: Knight Frank Research

- The Chennai office space market moved from strength to strength as demand rose for the third consecutive year.
- 2015 recorded 5.1 mn sq ft of absorption, 28% higher than the 4 mn sq ft absorbed in 2014. On the other hand, 2015 witnessed 2.1 mn sq ft of office space come online, compared to 2.6 mn sq ft in the previous year.
- Spiralling absorption numbers, coupled with falling supply, has pushed down vacancy levels from 24% in 2013 to 15% at the end of 2015.
- Up almost 41% YoY, H2 2015 experienced the highest absorption levels of any half-yearly period in the history of the Chennai office space market on the back of big-ticket transactions by Yes Bank, AstraZeneca, Sutherland and Ericsson, among others.
- The fall in vacancy levels accelerated after 2013, as the following two years saw just 4.7 mn sq ft of office space come online – a substantial 58% drop from the 11.1 mn sq ft delivered during the previous reference period.
- By contrast, the same period saw a 34% increase in the total absorption levels, highlighting the underlying strength of the market.
- The improvement in global sentiment, especially in the US—a major market for Indian IT/ITeS companies—along with the relatively stable domestic economy, has bolstered the recovery of the Indian IT/ITeS sector, which is the mainstay of the Chennai office space market. This momentum is expected to continue in the following period as well.

- The total office space absorption in H2 2015 was 3.1 mn sq ft, while only 1.2 mn sq ft of new office space came online.
- The adjoining chart depicts the stabilising absorption levels, coupled with the falling trend in supply since H2 2013. However, the current period saw a rise in completions, which is heartening in a market starved of new, high-quality office projects.

FIGURE 2

NEW COMPLETIONS AND ABSORPTION

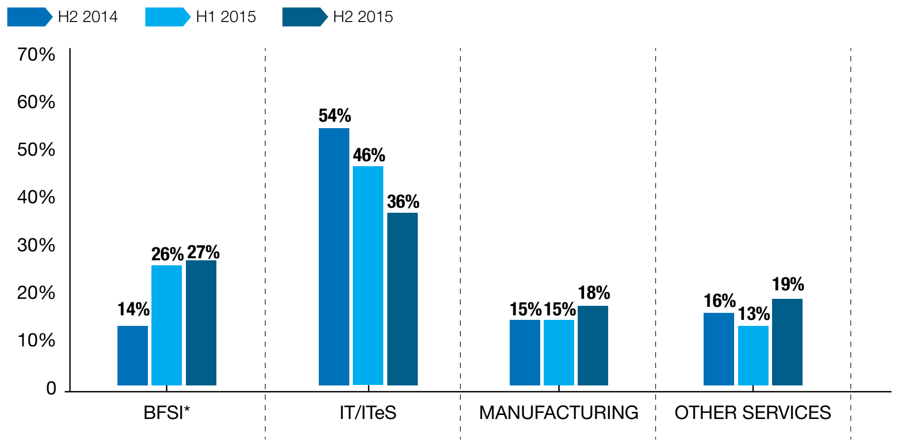


Source: Knight Frank Research

SECTOR ANALYSIS

FIGURE 3

SECTOR-WISE SPLIT OF ABSORPTION



Source: Knight Frank Research

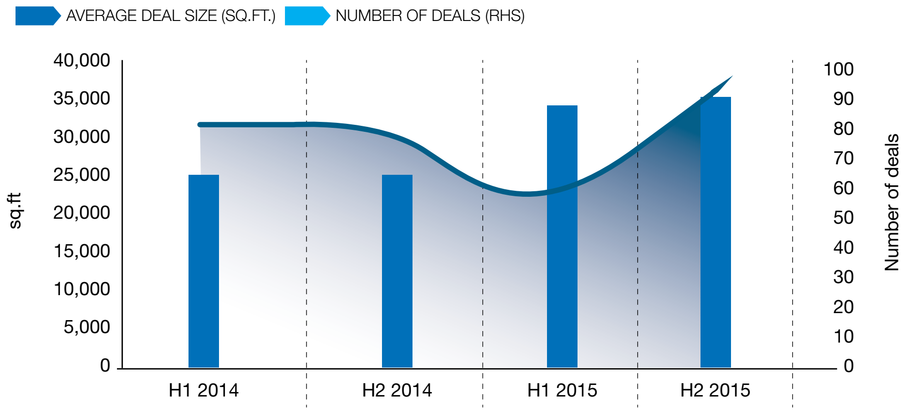
Note: BFSI includes BFSI Support Services

- The Chennai office market has traditionally been anchored by the IT/ITeS sector, but recent periods—especially the last 18 months—have seen the BFSI sector also gaining in market share.
- The BFSI sector has nearly doubled its market share YoY, as industry majors such as Yes Bank and the World Bank took up large office spaces for their support services and accounted for some of the largest transactions in H2 2015.
- The IT/ITeS sector continues to be the largest consumer in the Chennai office space market despite losing market share over the past three periods. The sector accounted for 1.1 mn sq ft of office space absorption during H2 2015. Accenture Sutherland and Freshdesk were among the most active IT/ITeS companies in H2 2015.
- The shares of the manufacturing and other services sectors have been declining since H1 2014, but gained in the recently-concluded period, as companies such as AstraZeneca, Ford, Ericsson and Access Healthcare took up large office spaces in the city.

DEAL SIZE ANALYSIS

FIGURE 4

AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

- Deal sizes averaged close to 25,000 units in 2014, and have grown nearly 40% to almost 35,000 units in 2015. This bodes well for the market and could herald a more sustained recovery in 2016.
- The increase in the average deal size, strong absorption and an increase in the number of transactions since 2014 clearly indicate an overall improvement in occupier interest in the Chennai office space market.
- The increase in big-ticket transactions has a major role to play in the spike seen in the average deal size.

SELECT TRANSACTIONS

BUILDING	OCCUPIER	LOCATION	APPROX. AREA (SQ FT)
One Indiabulls Park	Yes Bank	Ambattur	700,000
Shriram IT Gateway	Accenture	Perungulathur	225,000
Chennai One	Astra Zeneca	Thoraipakkam	150,000
Shriram IT Gateway	Sutherland	Perungulathur	125,000
SP Infocity	Ericsson	Kandanchavadi	120,000
Futura Tech Park	Scope International	Sholinganallur	90,000
One Indiabulls Park	Access Healthcare	Ambattur	75,000
SP Infocity	Freshdesk	Perungudi	68,000
SP Infocity	Ford	Perungudi	63,000
SP Infocity	World Bank	Perungudi	63,000

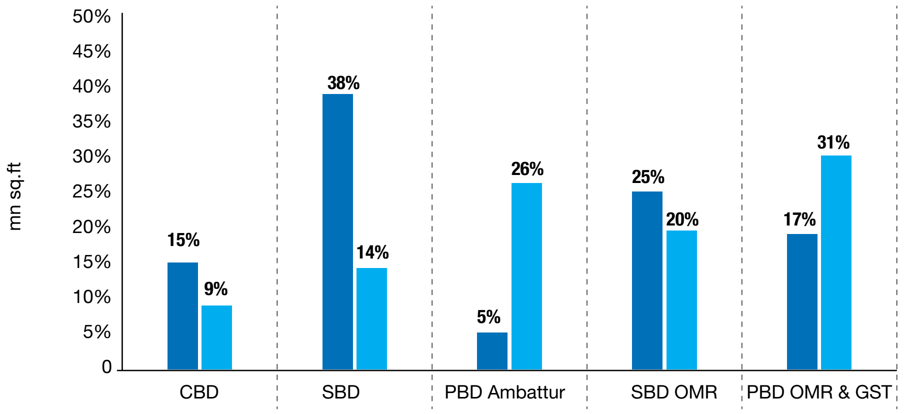
BUSINESS DISTRICT ANALYSIS

BUSINESS DISTRICT CLASSIFICATION

BUSINESS DISTRICTS	MICRO-MARKETS
Central business district (CBD and off-CBD)	Anna Salai, RK Salai, Nungambakkam, Greams Road, Egmore, T. Nagar
Suburban business district (SBD)	Mount-Poonamallee Road, Porur, Guindy, Nandanam
SBD – Old Mahabalipuram Road (OMR)	Perungudi, Taramani
Peripheral business district (PBD) – OMR and Grand Southern Trunk road (GST)	OMR beyond Perungudi Toll Plaza, GST Road
PBD – Ambattur	Ambattur

FIGURE 5

BUSINESS DISTRICT-WISE ABSORPTION SPLIT



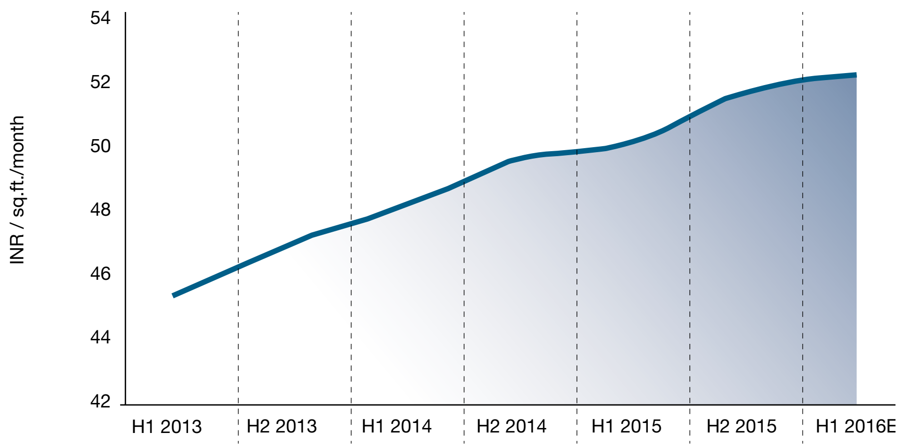
Source: Knight Frank Research

- The peripheral business districts saw a spurt in demand, while the other business districts experienced a fall in market share in H2 2015.
- This could be attributed to the comparatively higher rentals and the lack of viable office stock in the central and secondary business districts.
- The peripheral business districts are the only markets that have a significant availability of viable office spaces with large floor plates in the city. This factor, coupled with the comparatively low rentals, has rendered the PBD – Ambattur business district a BFSI sector favourite in H2 2015, as nearly 87% of the sector's transactions took place in this market.
- Practically all the area taken up by the BFSI sector in H2 2015 was accounted for by Yes Bank, which leased 0.7 mn sq ft at One Indiabulls Park Tech in Ambattur.
- Just three locations—Ambattur, Kandanchavadi and Shollinganallur—accounted for over half of the total transacted volume in H2 2015.

RENTAL TREND

FIGURE 6

WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

- Rental values have seen a sustained rise since 2012 on the back of steady demand and a lesser amount of office space inventory coming online in successive years.
- The severe shortage of good quality office space in prime areas has rendered the market favourable to landlords, who are asking for higher rents from tenants with each passing quarter.
- The lack of vacant office stock, coupled with steady demand, has pushed the weighted average rentals in the Chennai office space market to ₹52 per sq ft per month at the end of H2 2015 – a significant 4% growth YoY.
- Rental growth was healthy across locations, and SBD locations such as Pallikarnai, Guindy and Nandambakkam continue to witness an above-average rental growth, particularly due to their specific offerings for medium-scale enterprises that are looking for office spaces of up to 0.1 mn sq ft.

Rental growth was healthy across locations, and SBD locations such as Pallikarnai, Guindy and Nandambakkam continue to witness an above-average rental growth, particularly due to their specific offerings for medium-scale enterprises that are looking for office spaces of up to 0.1 mn sq ft

BUSINESS DISTRICT-WISE RENTAL MOVEMENT

BUSINESS DISTRICT	RENTAL VALUE RANGE IN H2 2015 (₹/SQ FT/MONTH)	12 MONTH CHANGE	6 MONTH CHANGE
CBD & off-CBD	60–95	4%	2%
PBD OMR & GST Road	25–35	3%	1%
SBD OMR	45–80	3%	1%
PBD Ambattur	28–35	3%	2%
SBD	50–65	3%	2%

Source: Knight Frank Research

OUTLOOK FOR THE NEXT SIX MONTHS

PROJECTIONS	H1 2015	H1 2016E	GROWTH
New supply (mn sq ft)	0.9	1.4	44%
Absorption (mn sq ft)	2	2.4	20%
Vacancy (%)	19%	13.4%	
Weighted average rental (₹ / sq ft / month)	50	52	4%

Source: Knight Frank Research

- We believe that the absorption levels will continue their uptrend in H1 2016, as occupier interest remains strong at the end of the current period and no significant supply is scheduled to come online in the short term.
- Based on our analysis, the current rate of enquiries and our interactions with market players, we estimate that approximately 2.4 mn sq ft of office space will be absorbed in H1 2016 – a healthy 20% growth over H1 2015. This, in tandem with a limited 1.4 mn sq ft scheduled for delivery in the Chennai office space market, will force vacancy levels to go below 14% and support sustainable rental growth, inevitably setting the stage for further office space development.
- Going forward, we expect that the current momentum in demand will sustain itself and have a direct impact on rentals. We project rentals to grow by a healthy 4%, from ₹50 per sq ft per month in H1 2015 to approximately ₹52 per sq ft per month by H1 2016.
- Improved accessibility through infrastructure initiatives such as the metro, the quality of office office spaces and lower rentals compared to the CBD and off-CBD locations continue to enhance the the SBD's appeal as a desirable occupier destination.
- Locations such as Guindy, in the SBD, have already seen a run-up in occupier interest and rents alike, and adjoining locations, such as Mount-Poonamallee Road and Nandanam, should see development interest as viable land becomes scarce in the surrounding locations.

We believe that the absorption levels will continue their uptrend in H1 2016, as occupier interest remains strong at the end of the current period and no significant supply is scheduled to come online in the short term

Yashwin Bangera
Assistant Vice President - Research

HYDERABAD

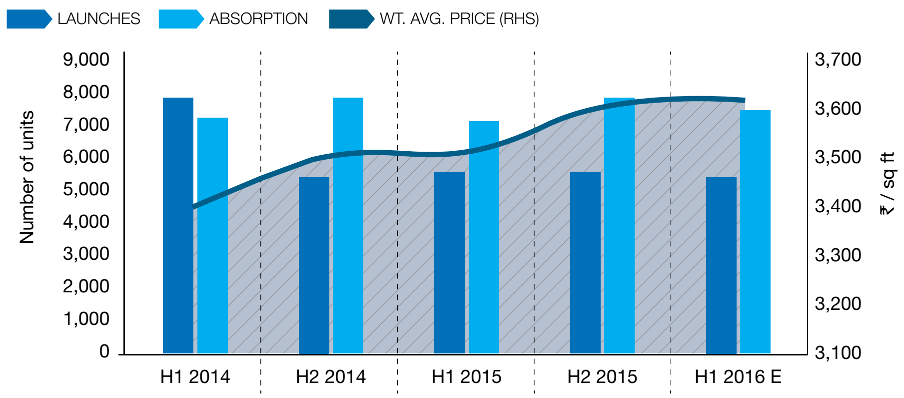
Steady absorption, coupled with falling demand, has reduced the unsold inventory levels to 31,480 units – the lowest since 2010

RESIDENTIAL MARKET

HYDERABAD RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

FIGURE 1

HYDERABAD MARKET TRENDS



Source: Knight Frank Research

- The closure of the Telangana issue has helped keep absorption numbers stable as 2015 ended on a flat note. However, the Hyderabad residential market has yet to show definite signs of recovery in market activity.
- While the sales volume fell marginally, by 1% in 2015 compared to the previous year, new launches dropped by a more pronounced 14% during the same period.
- The end of the year did show some promise in terms of supply, as H2 2015 saw an 11% growth in the number of units launched, compared to the previous period. On the other hand, the festive season did not boost absorption levels, which stayed largely stagnant.
- Steady absorption, coupled with falling demand, has reduced the unsold inventory levels to 31,480 units – the lowest since 2010.
- The ongoing supply crunch and the reduction in unsold inventory have helped sustain price growth. Weighted average prices in the Hyderabad residential market grew by 3.1% YoY in H2 2015.

MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

MICRO-MARKETS OF HYDERABAD

MICRO-MARKET	LOCATIONS
HMR – Central	Begumpet, Banjara Hills, Jubilee Hills, Panjagutta, Somajiguda
HMR – West	Kukatpally, Madhapur, Kondapur, Gachibowli, Raidurgam
HMR – East	Uppal, Malkajgiri, L. B. Nagar
HMR – North	Kompally, Medchal, Alwal, Quthbullapur
HMR – South	Rajendra Nagar, Shamshabad

*HMR refers to the Hyderabad Metropolitan Region

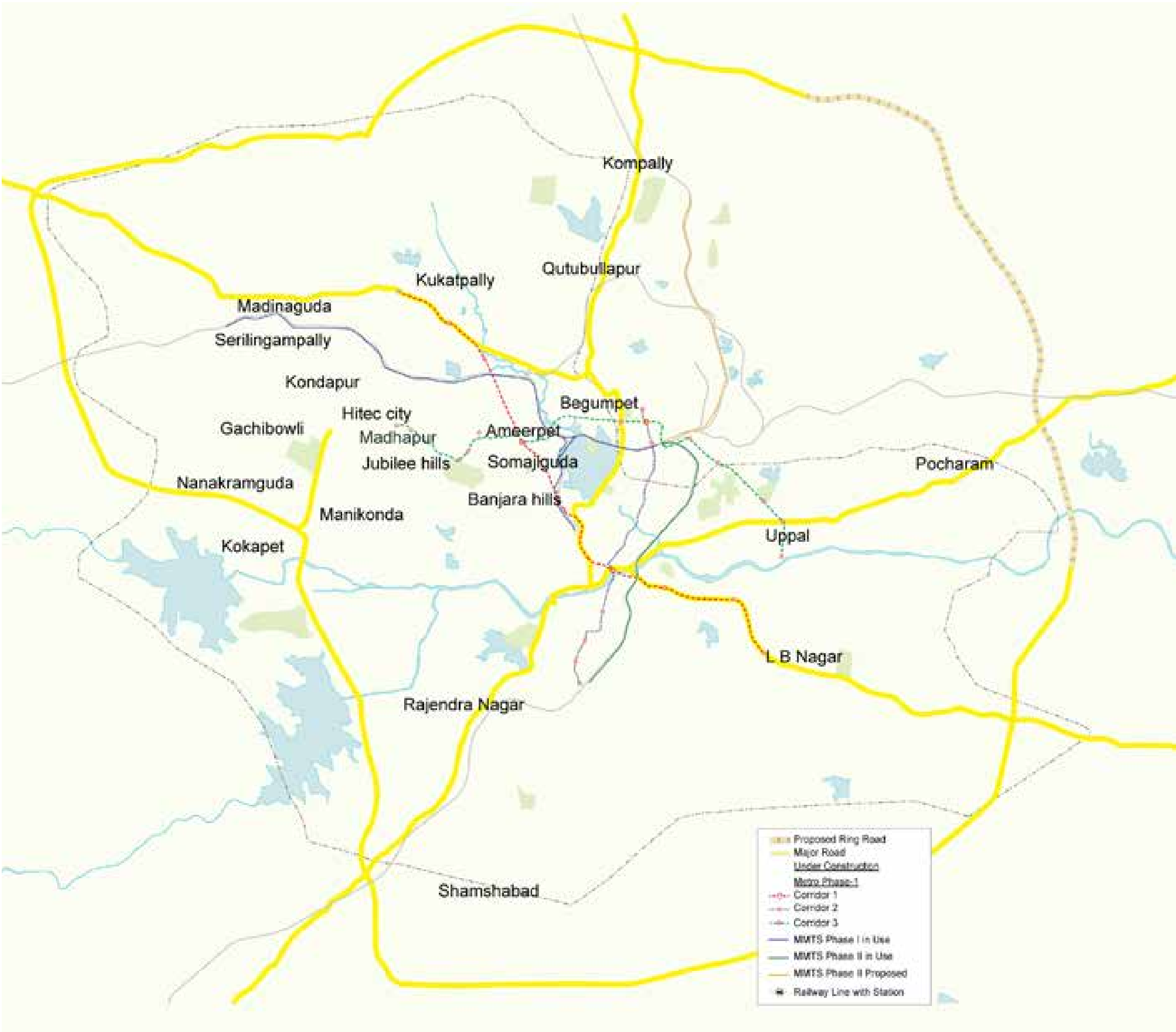
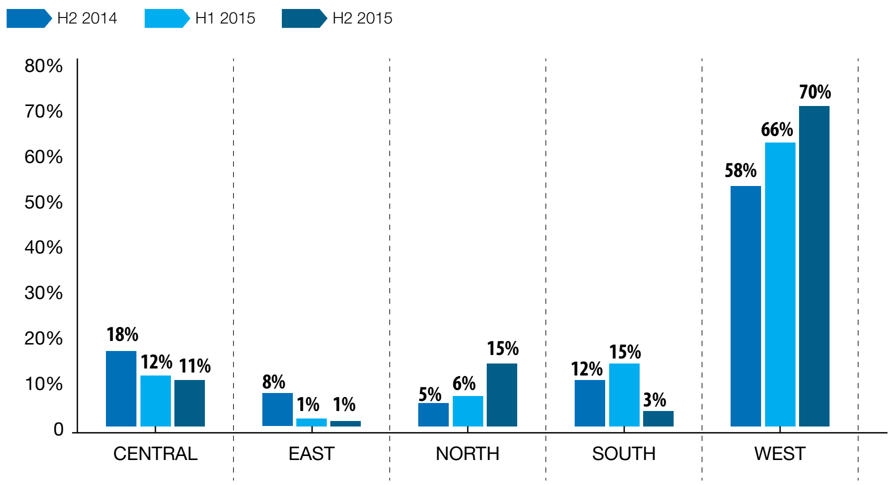


FIGURE 2

MICRO-MARKET SPLIT OF LAUNCHED UNITS

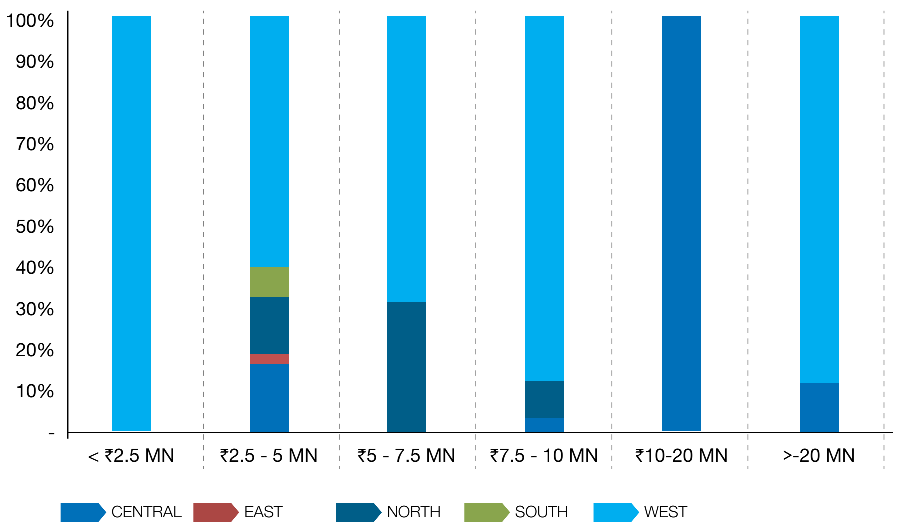


Source: Knight Frank Research

- West Hyderabad attracts most of the development interest in the city, as its residential ethos and proximity to the IT/ITeS and BFSI sector hubs, such as HITEC City and Gachibowli, continue to attract young IT employees that form the bulk of the city's workforce.
- While the West zone continues to dominate the residential market, northern locations, particularly Jeedimetla and Aminpur, saw greater development interest compared to their counterparts in the southern and eastern peripheries.
- East Hyderabad has seen development interest plummet in recent years, as homebuyer activity has greatly fallen short of expectations. However, this lack of supply has helped reduce the unsold inventory to a large extent.
- The shares of the East, South and Central Hyderabad micro-markets have dropped compared to the preceding period, while those of West and North Hyderabad have increased during the same period.
- In the long term, East Hyderabad should see more traction in terms of launches, especially along the Warangal highway, once the ORR and the metro connecting it to the western locations are

FIGURE 3

TICKET SIZE SPLIT OF LAUNCHES DURING H2 2015



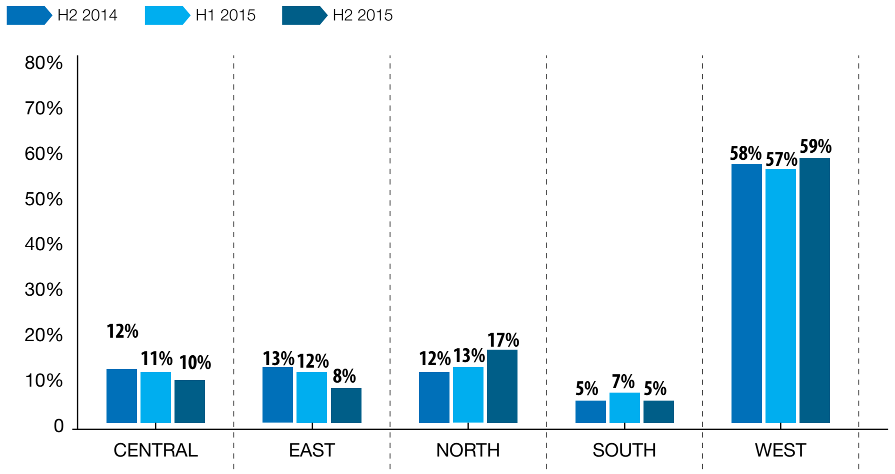
Source: Knight Frank Research

- Nearly all the zones saw developers launching basic housing projects with few amenities in the ₹2.5–5 mn ticket size range, in a bid to attract the budget-conscious buyer.
- Almost 40% of the unit launches in H2 2015 were in the ₹2.5–5 mn ticket size range.
- Nearly 66% of the units launched in H2 2015 were under ₹7.5 mn.
- Projects with average ticket sizes above ₹10 mn were, understandably, launched largely in the western and central locations during H2 2015.
- The fact that West Hyderabad has a healthy representation of projects launched in all ticket sizes underscores its attraction as a residential destination.

MICRO-MARKET-WISE RESIDENTIAL SALES

FIGURE 4

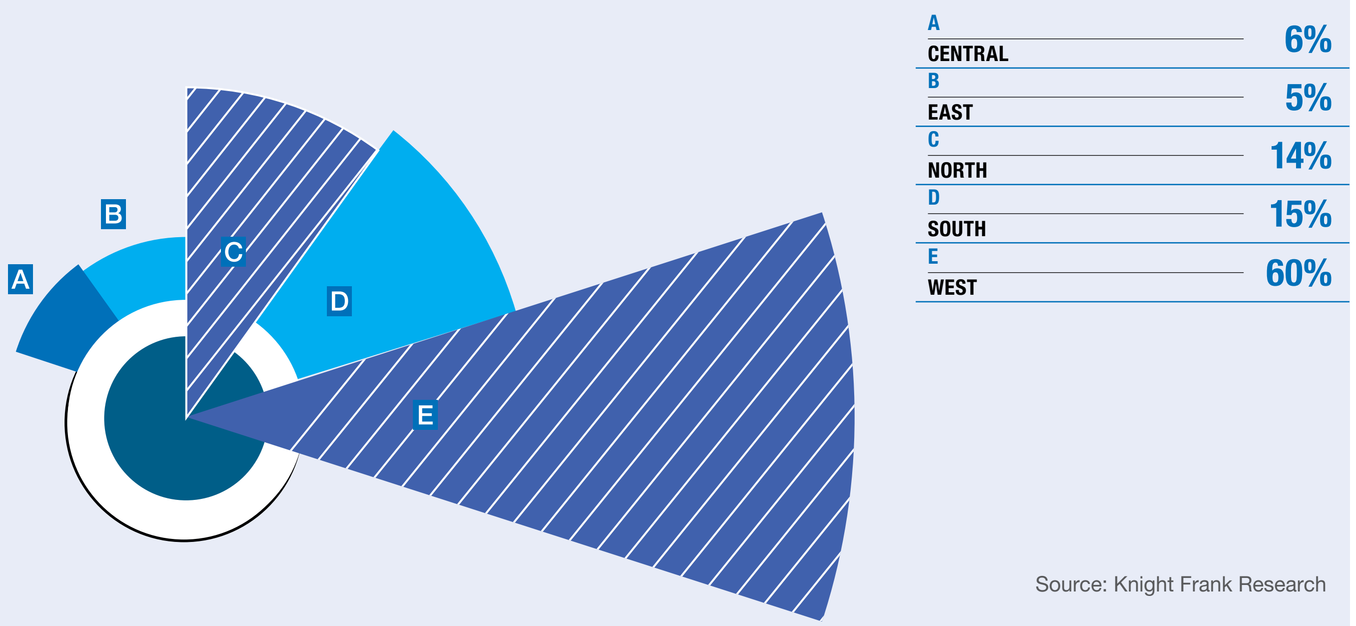
MICRO-MARKET-WISE RESIDENTIAL SALES



Source: Knight Frank Research

- While the relative shares of the various residential zones in Hyderabad have not deviated much, the North zone experienced an increase in its share of absorption during H2 2015 due to a significant increase in launches during the same period.
- Apartment and villa projects within gated communities have been gaining the buyers' favour in recent times due to the access to social infrastructure and security on offer.
- It was observed that the West zone's share had been declining over the three half-year periods prior to H2 2015, while the other markets have been gaining over the same period. This is largely because buyers have been resisting developers' attempts to raise prices. However, H2 2015 saw a marginal increase in the West zone's share of the absorption pie, indicating that buyer sentiments are slowly improving.

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF DECEMBER 2015



Source: Knight Frank Research

HYDERABAD MARKET FUNDAMENTALS

Hyderabad is arguably the most affordable residential real estate market among the six Indian frontline cities, which include the four metros and Pune and Hyderabad. The city's real estate market has been vilified by investors for underperforming in comparison to every other residential market across almost all time periods, in spite of the great promise of growth. Residential properties are available within the boundaries of the ORR from ₹ 2,000 per sq ft on the outskirts to ₹ 14,000 per sq ft in premium locations such as Banjara Hills. Prices even in premium offerings in the most sought-after locations of the city are comparable to those of mid-segment locations in Mumbai.

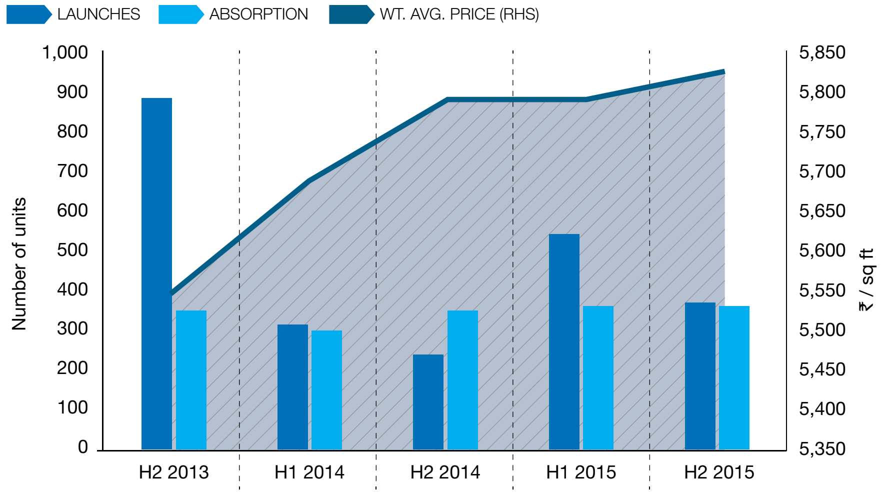
The Telangana issue has long been the scapegoat for this status quo. However, the promised upswing in market traction has not occurred even eighteen months after the formation of Telangana, as both demand and supply continue to lay low. The office market has however toed the line as far as market expectations go and is moving from strength to strength, as existing office space inventory shows signs of falling short of demand. Vacancy levels have fallen a huge four percentage points in the past 18 months since the formation of Telangana, underscoring the momentum that the office market juggernaut has gained.

Characteristically, the residential market follows office markets, as increased office space take-up points to an increase in the existing workforce and consequently, an increase in the existing homebuyer base in a residential market. It remains to be seen how long it takes for volumes to revive in the residential market, while an improvement in sentiments according to the Knight Frank Sentiment Index seems to indicate that the market is on the cusp of a recovery. While market volumes could indeed be close to a recovery, observers should not be surprised to see the price growth being muted in comparison as Hyderabad has an abundance of developable land and an extremely well developed transport infrastructure base that supports the infusion of fresh residential supply in case prices see significant increases in a short time, effectively capping price increases.

PREMIUM RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

FIGURE 5

PREMIUM MARKET TRENDS



Source: Knight Frank Research

Note: Premium markets include locations where the average ticket size of a residential unit is above ₹ 15 mn, are in close proximity to the central business district of the city and have witnessed new project launches in the preceding three years

The weighted average price growth in the premium segment has tapered off since 2013, from 13% YoY during H2 2013 to a stagnant 1% in H2 2015, due to high prices and the real estate investment climate going sour, especially in this segment

PREMIUM MARKET

MICRO-MARKET	LOCATIONS
HMR – Central	Banjara Hills, Begumpet, Jubilee Hills, Srinagar Colony, Somajiguda
HMR – West	Madhapur

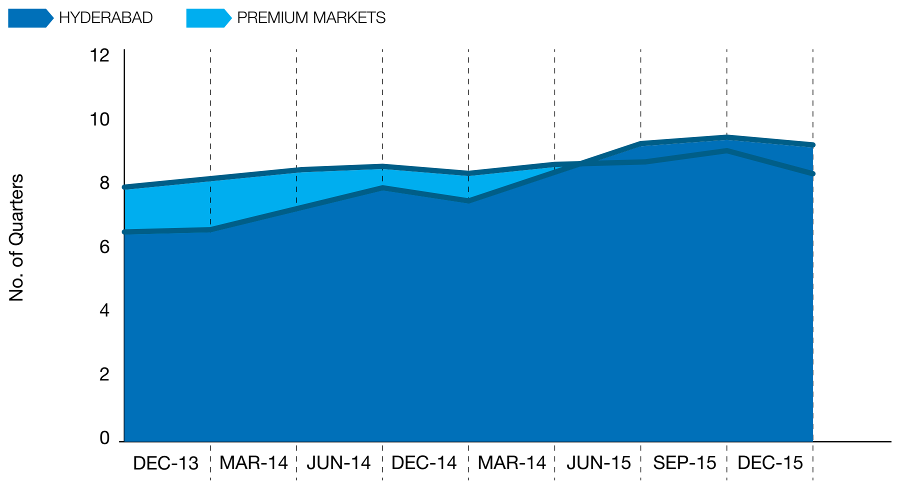
- The premium market of Hyderabad, which constitutes locations such as Banjara Hills, Jubilee Hills, Madhapur, Begumpet and Srinagar Colony, among others, has experienced a 55% YoY growth in launches during H2 2015, while the absorption numbers have stayed almost the same compared to the previous reference period.
- Project launches, which topped out in H2 2013 when they spiked over 100% YoY and dropped in 2014, are seeing a recovery in the current period, as the market appetite for gated communities in these premium locations has grown.
- The weighted average price growth in the premium segment has tapered off since 2013, from 13% YoY during H2 2013 to a stagnant 1% in H2 2015, due to high prices and the real estate investment climate going sour, especially in this segment.

Trending up from a QTS level of just 3 in H2 2011 to 9.4 in H2 2015, the premium segment has deteriorated much more rapidly compared to the overall Hyderabad residential market

HYDERABAD MARKET HEALTH

FIGURE 6

QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS

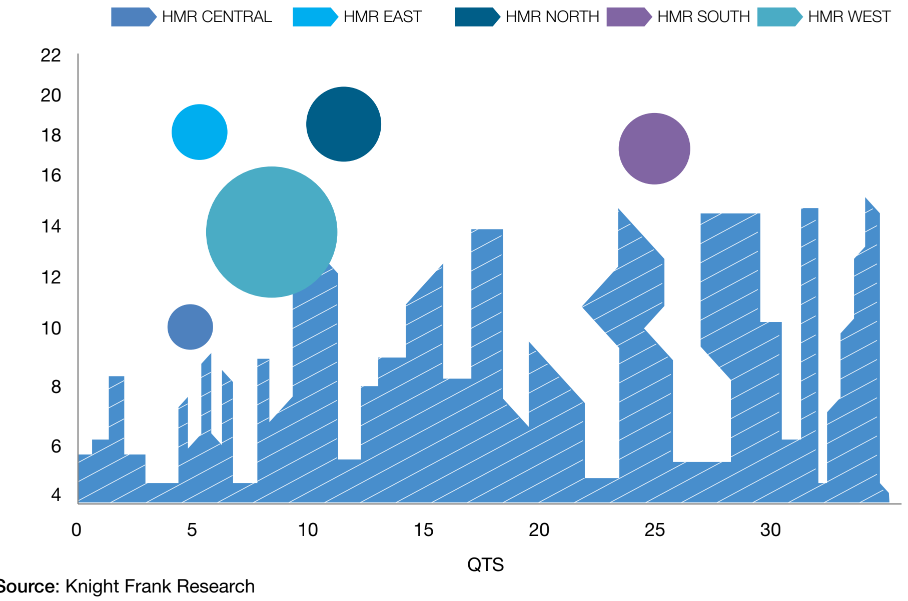


Source: Knight Frank Research

- The quarters to sell unsold inventory (QTS) is the number of quarters required to exhaust the existing unsold inventory in the market. The existing unsold inventory is divided by the average sales velocity of the eight trailing quarters in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market.
- The Hyderabad market QTS has been range-bound between 8–9 quarters, but has been on an uptrend since the end of 2013.
- Now at 8.4 quarters, the QTS is at its lowest level in 2015.
- The steep fall in launches had helped the QTS level stay range bound; however, declining absorption levels have outweighed this factor. Consistently-declining unsold inventory levels and an expected recovery in demand should help alleviate this situation.
- Trending up from a QTS level of just 3 in H2 2011 to 9.4 in H2 2015, the premium segment has deteriorated much more rapidly compared to the overall Hyderabad residential market, as the supply of projects with average ticket sizes over ₹15 mn increased dramatically, especially in 2012 and 2013, while demand dried up.
- Having said that, the QTS for premium locations in Hyderabad is still close to the market average today, which is quite exceptional compared to other cities where premium locations suffer with a much higher QTS.
- We do not expect the QTS level for the Hyderabad residential market to worsen further during H1 2016, as we believe that the continuously strengthening office market and uptick in our sentiment index is rubbing off on the Hyderabad residential market as well.

FIGURE 7

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

- It is clear from the adjoining chart that the Central zone is the healthiest market today, as it has the lowest QTS, and comparatively, the youngest unsold inventory among all the residential markets of Hyderabad. This could be attributed to the limited inventory and inherent supply constraints in this zone.
- West Hyderabad is arguably the next healthiest market, as it has a comparatively low QTS and age of inventory, considering that it carries the largest inventory among all the zones in Hyderabad.
- Incidentally, its proportion of unsold inventory to under-construction stock is also the lowest among all the zones.
- North Hyderabad contains the oldest inventory, while South Hyderabad will take the most time to liquidate its existing unsold inventory.
- East Hyderabad has a QTS of just 5 quarters, second only to the Central zone and much below the 8.4-quarter average for the Hyderabad market as a whole. It shows the increasing interest that this zone is attracting due to the focus on the completion of the ORR and the promised development along the Warangal highway.

PRICE MOVEMENT DURING H2 2015

WEIGHTED AVERAGE PRICE MOVEMENT IN HYDERABAD

LOCATION	PRICE RANGE IN H2 2015 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Hyderabad city	3,610	3.1%	2.9%
Premium markets	5,825	0.6%	0.3%

- The weighted average asking prices for the Hyderabad residential market grew marginally, by 3.1% YoY to ₹3,610 per sq ft in H2 2015.
- However, the weighted average prices in the premium locations stagnated over the 12 months ending December 2015, with growth since H2 2014 barely making it into positive territory.
- Prices continued to firm up across locations in Central and West Hyderabad due to a limited inventory and launches at higher price ranges, respectively.

PRICE MOVEMENT IN SELECT LOCATIONS

LOCATION	MICRO-MARKET	PRICE RANGE IN H1 2015 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Begumpet	Central	4,500–6,000	4%	3%
Banjara Hills	Central	7,000–9,000	5%	3%
Jubilee Hills	Central	4,500–6,200	6%	2%
Madhapur	Central	5,800–7,800	5%	0%
Uppal	East	2,600–2,800	4%	3%
L. B. Nagar	East	2,500–2,900	4%	4%
Nacharam	East	2,200–2,800	3%	3%
Kompally	North	2,200–3,100	2%	6%
Quthbullapur	North	2,100–2,600	-3%	3%
Shamirpet	North	2,000–2,400	-1%	1%
Shamshabad	South	2,300–3,000	2%	2%
Bandlaguda	South	2,200–3,100	2%	2%
Rajendranagar	South	2,100–3,100	1%	2%
Kondapur	West	4,000–5,200	2%	2%
Gachibowli	West	3,800–4,750	5%	4%
Manikonda	West	3,400–4,500	5%	3%
Kukatpally	West	2,800–4,000	6%	3%
Madeenaguda	West	2,600–3,350	3%	5%

OUTLOOK FOR THE NEXT SIX MONTHS

Projections	H1 2015	H1 2016E	CHA
Launches (units)	5,457	5,300	-3%
Absorption (units)	7,123	7,450	5%
Weighted average price (₹/sq ft)	3,510	3,620	3%

Source: Knight Frank Research

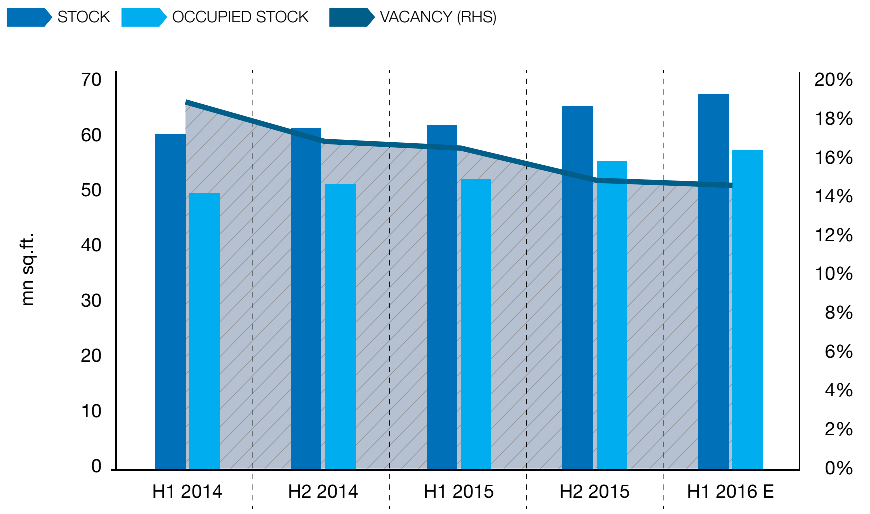
- Hyderabad's business districts are well connected via the internal/ outer ring roads, and the upcoming metro will enhance this further. While this is an excellent factor to promote balanced real estate growth in the city, it does tend to cap the real estate price growth, as people are willing to move further away from the business districts to save on real estate costs.
- We do not expect the steep de-growth in launches and absorption to continue, because the easing of the political situation, initiatives such as the recent rate cuts by the RBI and an overall improvement in business sentiment will reap rewards in the future.
- The health of the office market is a fair indicator of the economic activity / business sentiment in the city, and if the drop in its vacancy levels and steady absorption are anything to go by, then the Hyderabad residential market is most likely on the cusp of a recovery.
- West Hyderabad locations will continue to be the centre of residential real estate activity in Hyderabad, be it launches, sales or price growth. By contrast, South Hyderabad still has a long way to go, as there is no significant driver to attract buyer interest in the short term.
- We believe that absorption levels will stay buoyant going forward, as our research and interactions with developers and other stakeholders lead us to believe that the underlying sentiment in the Hyderabad residential market is improving steadily.
- We do expect the supply numbers to revive over the second half of 2016, while forecasting that H1 2016 would have a flat-to-slightly negative growth YoY in terms of supply.
- The continued pressure on supply and the slowly-improving economic sentiments will support prices, which are expected to grow by 3% YoY, reaching ₹3,620 per sq ft in H1 2016.

OFFICE MARKET

HYDERABAD OFFICE MARKET STOCK, NEW COMPLETIONS, ABSORPTION AND VACANCY TRENDS

FIGURE 1

OFFICE SPACE STOCK AND VACANCY LEVELS



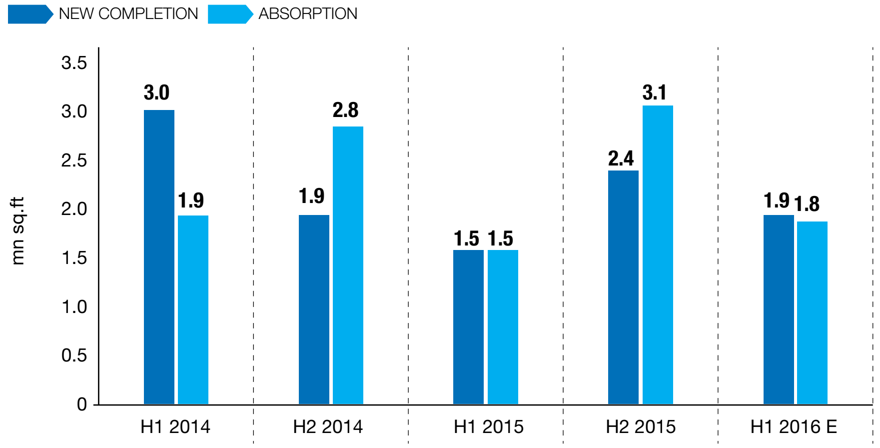
Source: Knight Frank Research

- The Hyderabad office space market continues to trend upward as demand stays robust and supply tapers down for the second straight year.
- H2 2015 experienced the highest absorption levels seen in any half-yearly period in the history of the Hyderabad office space market, on the back of big-ticket transactions by Qualcomm, Salesforce, Unitedhealth Group and J.P. Morgan.
- Robust absorption numbers, coupled with falling supply, have pushed down the vacancy levels from 17.7% in 2013 to 14.6% at the end of 2015.
- While the recently concluded analysis period reached a new high and underscored the buoyant sentiments in the market, the annual numbers ended on a flat note.
- 2015 recorded 4.6 mn sq ft of absorption, marginally lower than the 4.7 mn sq ft absorbed in 2014. 2015 also saw 3.9 mn sq ft of office space come online, compared to 5 mn sq ft in the previous year.
- Hyderabad has an office stock of approximately 64 mn sq ft today, with a vacancy of 14.5%.

H2 2015 experienced the highest absorption levels seen in any half-yearly period in the history of the Hyderabad office space market, on the back of big-ticket transactions by Qualcomm, Salesforce, Unitedhealth Group and J.P. Morgan

- The Hyderabad office market experienced approximately 2.4 mn sq ft of supply and a massive 3.1 mn sq ft of absorption during H2 2015 – a 23% and 13% growth, respectively, compared to the same period in the previous year.

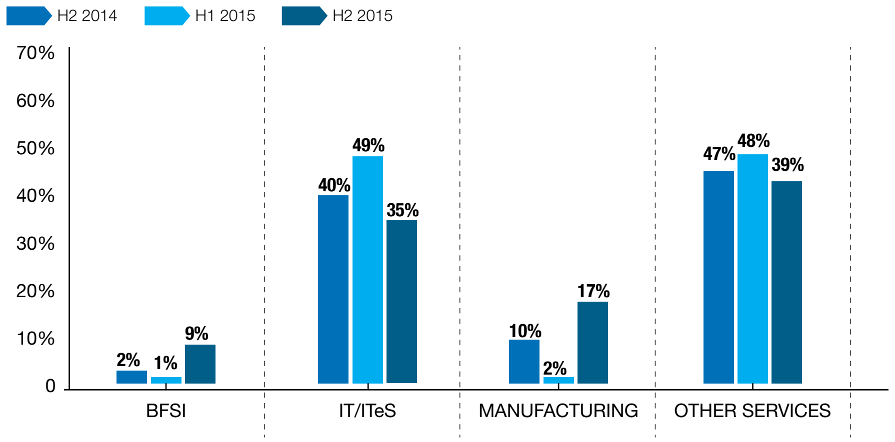
FIGURE 2
NEW COMPLETIONS AND ABSORPTION



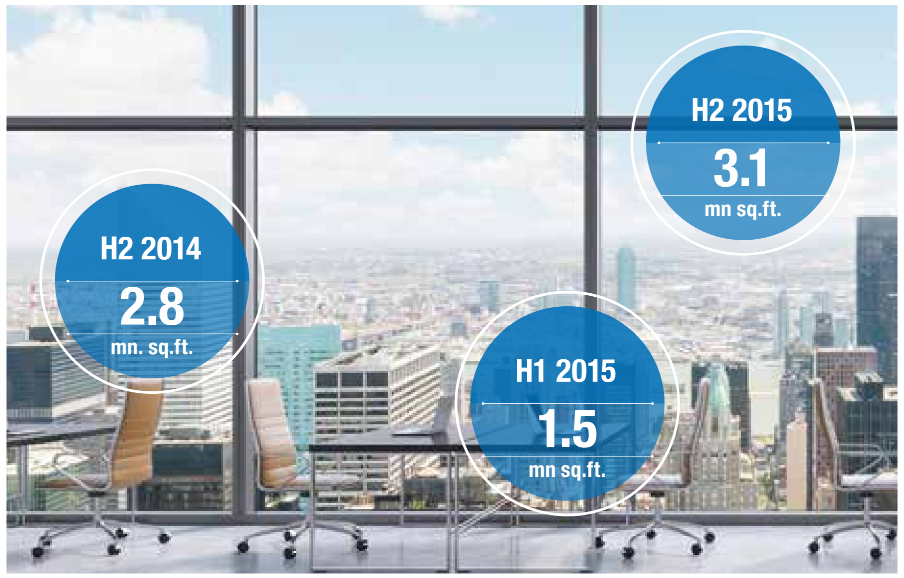
Source: Knight Frank Research

SECTOR ANALYSIS

FIGURE 3
SECTOR-WISE SPLIT OF ABSORPTION



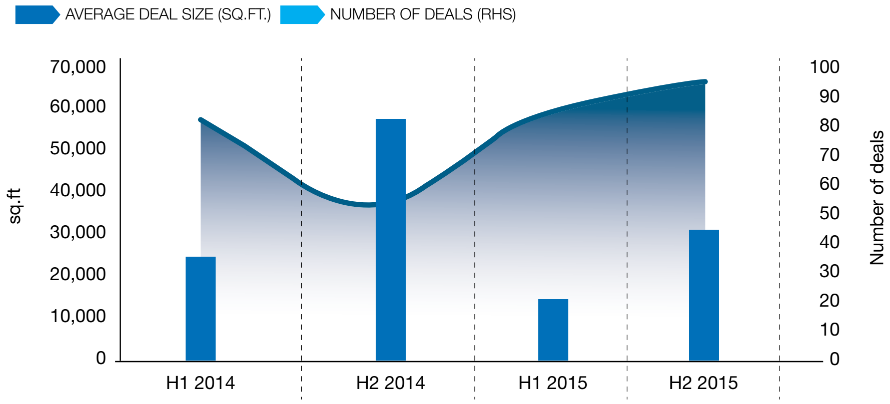
Source: Knight Frank Research
Note: BFSI includes support services



- The IT/ITeS sector has traditionally dominated the absorption pie in the Hyderabad office space market; however, other services sector companies from the consulting, healthcare and e-commerce space have been increasing their presence in recent years.
- Qualcomm's 0.39 mn sq ft lease at Raheja Mindspace was the largest transaction of H2 2015 and made up the bulk of the volume transacted by the manufacturing sector.
- The other services sector's share had eclipsed that of the IT/ITeS sector in H2 2014, but the current period saw it take up the most space in the market again, at 1.2 mn sq ft, or 39% of the entire market.
- The manufacturing and BFSI sectors saw manifold increases in the space taken up, compared to H2 2014, as big names such as IBM, AMD, J. P. Morgan and KPMG were active in H2 2015.

DEAL SIZE ANALYSIS

FIGURE 4
AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

- The number of transactions has been increasing consistently since H2 2014, when the state of Telangana was formed. H2 2015 saw the highest number of transactions in three years, coupled with the highest-ever volumes in any six-month period, accentuating the upward trajectory that the Hyderabad office market has taken.
- There were nine transactions exceeding 0.1 mn sq ft in H2 2015, as much of the latent demand poured into the market. This is also among the highest-ever concentrations of big-ticket transactions in a six-month period.
- The significant increase in the number of deals, coupled with the jump in transaction volumes, also indicates a higher propensity or greater confidence among occupiers to take up office space in the market.

The significant increase in the number of deals, coupled with the jump in transaction volumes, also indicates a higher propensity or greater confidence among occupiers to take up office space in the market

SELECT TRANSACTIONS

BUILDING	OCCUPIER	LOCATION	APPROX. AREA (SQ FT)
Raheja	Qualcomm	Madhapur	388,500
Divyasree Orion	Salesforce	Raidurgam	200,000
Raheja Mindspace	Unitedhealth group	Madhapur	150,000
Divyasree Orion	NTT Data	Raidurgam	120,000
Divyasree Trinity	J.P. Morgan	Madhapur	120,000
Signature Towers	Income Tax	Kondapur	112,000
Laxmi Cyber Point	Fernandez Hospital	Banjara Hills	100,000
Flagstone Towers	ValueMomentum	Gachibowli	100,000
Divyasree Trinity	Deloitte	Madhapur	92,000
Divyasree Omega	Deloitte	Madhapur	92,000
Raheja Building 11	J.P. Morgan	Madhapur	87,700

Source: Knight Frank Research

BUSINESS DISTRICT ANALYSIS

BUSINESS DISTRICT CLASSIFICATION

BUSINESS DISTRICTS	MICRO-MARKETS
CBD & off-CBD	Banjara Hills, Jubilee Hills, Begumpet, Ameerpet, Somajiguda, Himayat Nagar, Raj Bhavan Road, Punjagutta
SBD	Madhapur, Manikonda, Kukatpally, Raidurg
PBD West	Gachibowli, Kokapet, Madinaguda, Nanakramguda, Serilingampally
PBD East	Uppal, Pocharam

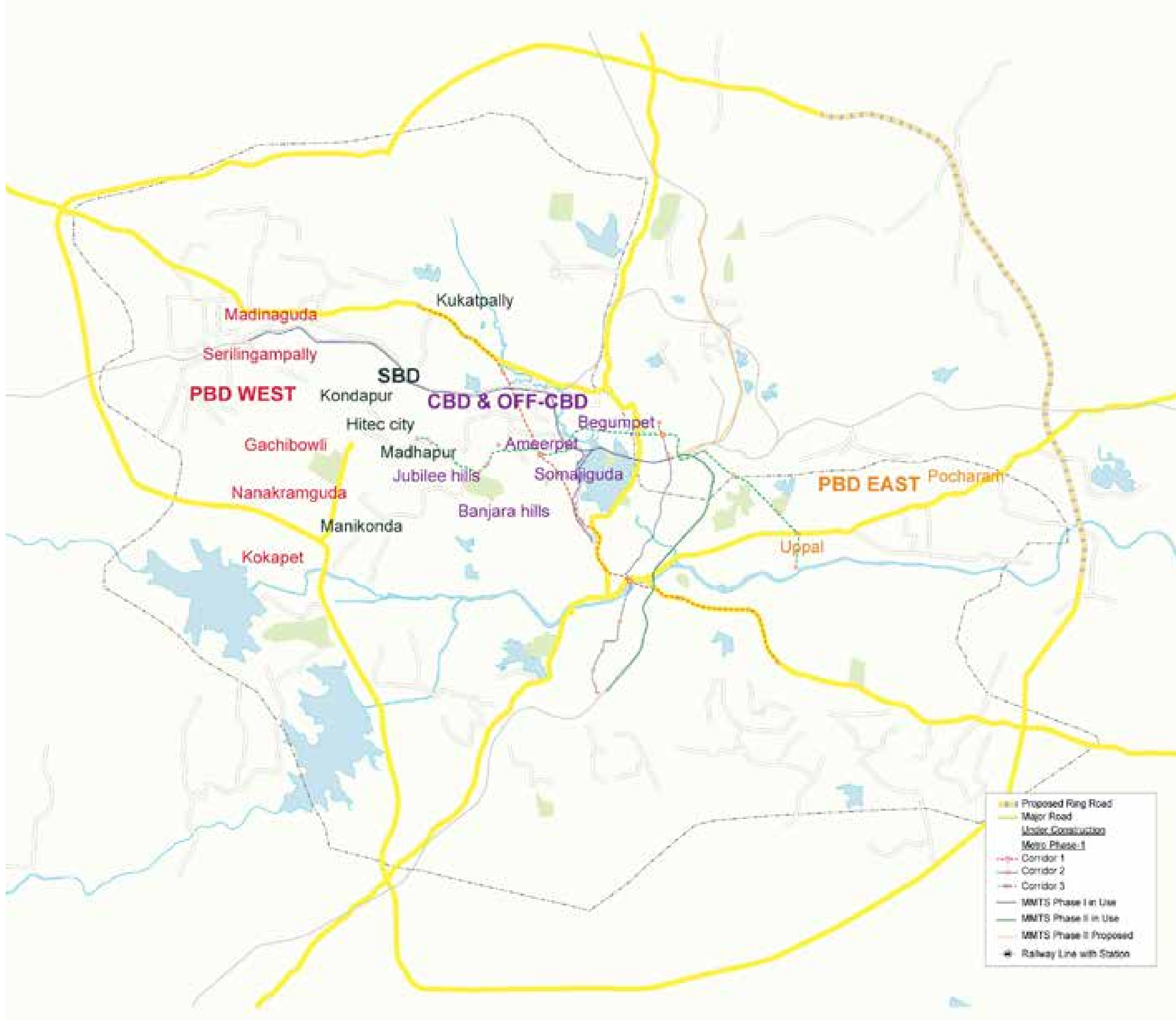
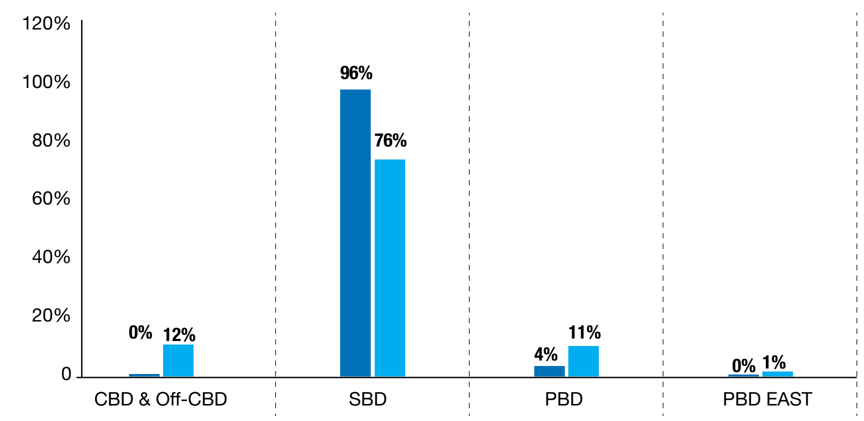


FIGURE 5

BUSINESS DISTRICT-WISE ABSORPTION SPLIT



Source: Knight Frank Research

- The scarcity of viable office space in the SBD locations saw the share of this business district fall during H2 2015, while all other business districts experienced manifold increases in their market share during the same period. However, the SBD continues to dominate the office space landscape of Hyderabad, as it is the most sought-after business district in the city. Madhapur and Kondapur solely accounted for close to 2.0 mn sq ft of office space absorption during H2 2015.
- The most prolific increase in absorption was seen in the CBD & off-CBD business district, which experienced a huge spurt in demand during H2 2015, at 0.37 mn sq ft, compared to less than 0.05 mn sq ft in H2 2014. Lakshmi Cyber Point and Sanali Info Park themselves accounted for almost half of the total space consumed by lessees in the CBD and off-CBD business district.
- PBD West is second only to the SBD in terms of the quality of office development for the IT/ITeS sector. This business district also saw absorption volumes triple in H2 2015, compared to the same period in the previous year due to the comparatively greater availability of good quality office spaces in locations such as Gachibowli and Nanakramguda.
- The spillover demand from SBD IT/ITeS hotspots, such as Madhapur and Kondapur, which have almost no viable large-format office spaces left, pushed occupiers to take up spaces in the PBD West business district.
- Just three locations—Madhapur, Kondapur and Raidurgam—accounted for over 75% of the space transacted during H2 2015.

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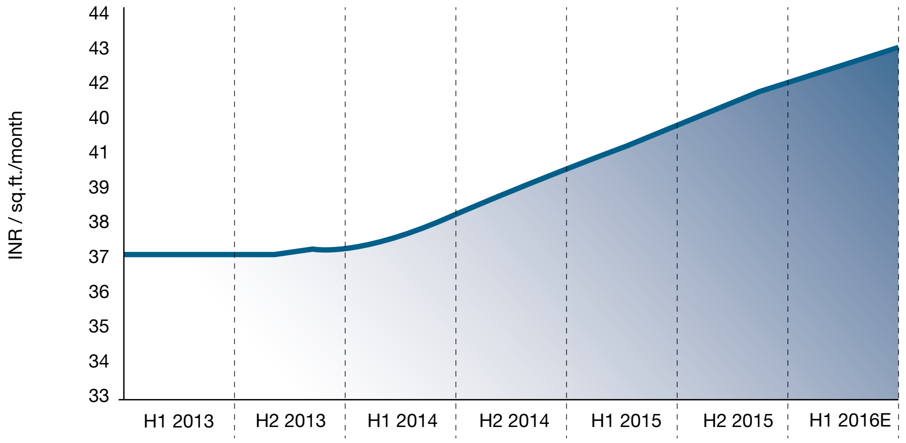
RENTAL TREND

FIGURE 6

WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

- Rentals in the Hyderabad office market, which had stagnated till 2013, have seen sustained growth since 2014, as the Telangana issue achieved resolution.
- The lack of vacant office stock, coupled with steady demand, has pushed the weighted average rentals in the Hyderabad office space market to `42 per sq ft per month at the end of H2 2015 – a strong 8% growth YoY.
- H2 2015 saw rental levels grow across locations, compared to the same period in the previous year. SBD locations such as HITEC City and Kondapur have experienced the strongest rent growth in the market, particularly due to the absence of viable space in this business district.
- The PBD West business district experienced the next highest growth in rentals on the back of big-ticket deals by other services and IT/ITeS sector companies such as ValueMomentum, Capillary Technologies and Genpact. Practically all of the transaction activity during the period took place in Gachibowli, and consequently, it also experienced the most appreciation in asking rentals, as vacancy levels continued to drop during H2 2015 as well.
- The PBD East market has witnessed little interest from occupiers and developers alike, and saw marginal rental growth during this period.

BUSINESS DISTRICT-WISE RENTAL MOVEMENT

BUSINESS DISTRICT	RENTAL VALUE RANGE IN H2 2015 (₹/SQ FT/MONTH)	12 MONTH CHANGE	6 MONTH CHANGE
CBD & off-CBD	44–49	5%	2%
SBD	40–48	9%	6%
PBD West	34–38	7%	3%
PBD East	27–32	1.5%	1%

Source: Knight Frank Research

OUTLOOK FOR THE NEXT SIX MONTHS

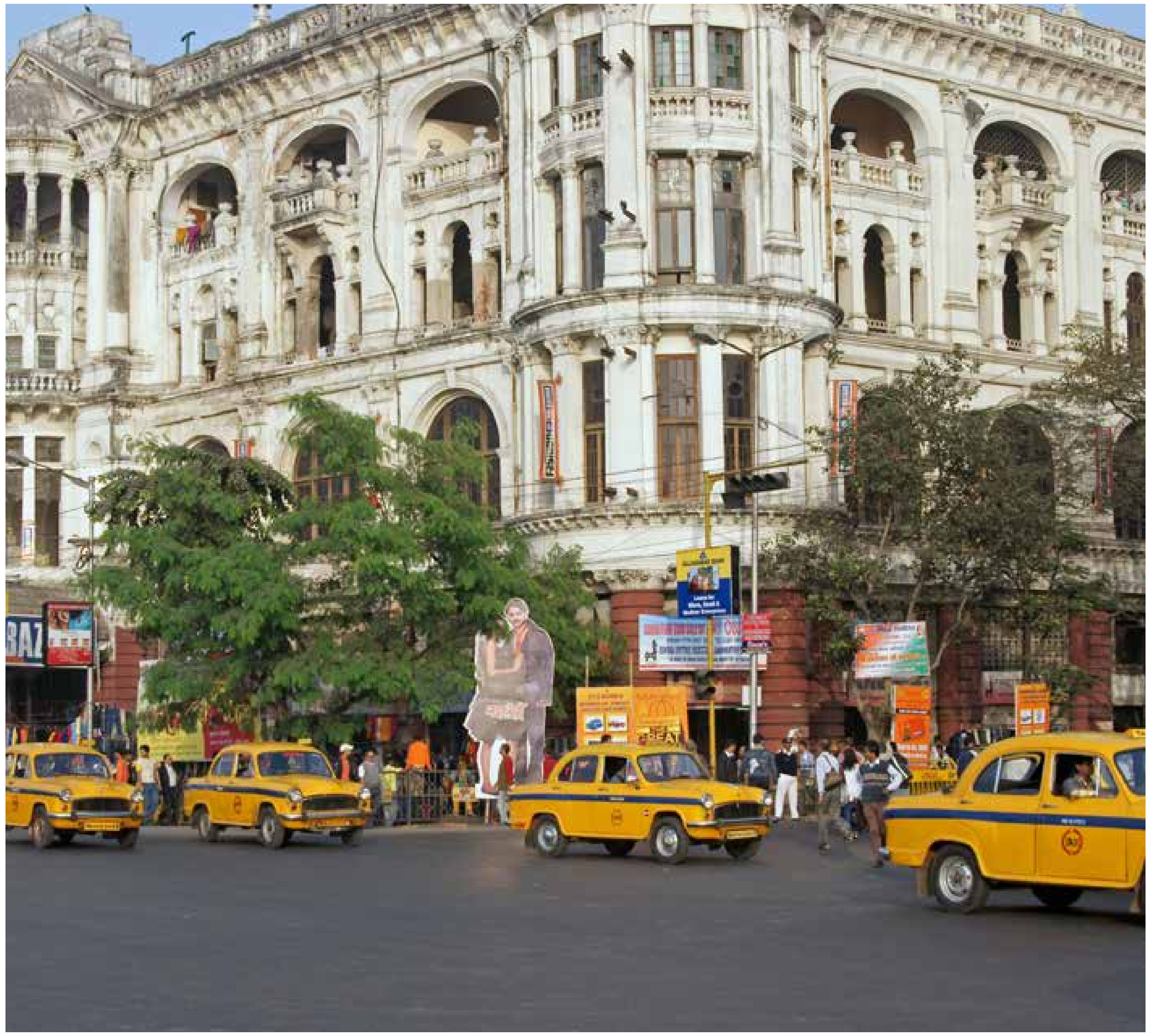
PROJECTIONS	H1 2015	H1 2016E	GROWTH
New supply (mn sq ft)	1.5	1.9	27%
Absorption (mn sq ft)	1.5	1.8	23%
Vacancy (%)	16%	14%	
Weighted average rental (₹ / sq ft / month)	40	43	7%

Source: Knight Frank Research

- Approximately 1.9 mn sq ft of quality office space is expected to come online in H1 2016 and will be instrumental in boosting absorption numbers to approximately 1.8 mn sq ft – a 23% growth over H1 2015.
- A steady demand pipeline, coupled with limited office space deliveries hitting the market in the following six months, should push vacancy levels down to an estimated 14%, and consequently, drive rental growth by a further 7% YoY, from ₹40 per sq ft per month in H1 2015 to approximately ₹43 per sq ft per month by H1 2016.
- The SBD locations along the IT Corridor of HITEC City and Kondapur are undisputedly the most sought-after office destinations by the IT/ITeS sector today, and will continue to experience the strongest rental growth, going forward. Gachibowli and Nanakramguda, in the PBD West business district, will also see strong rental growth.

Sangeeta Sharma Dutta
Lead Consultant - Research

KOLKATA

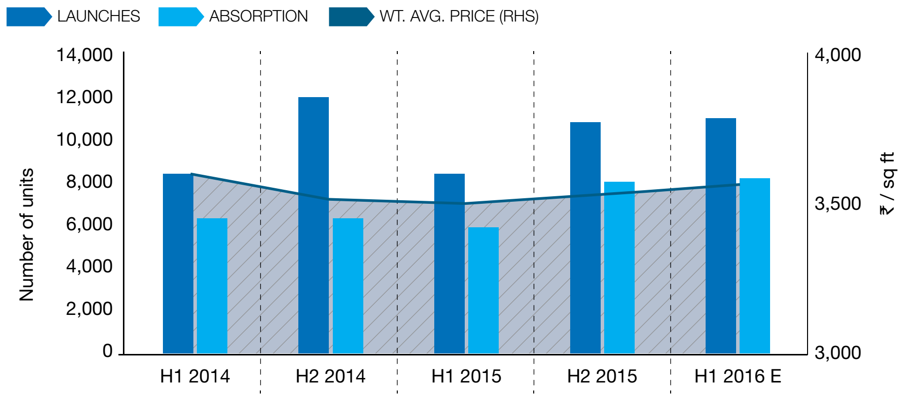


RESIDENTIAL MARKET

KOLKATA RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

FIGURE 1

KOLKATA MARKET TRENDS



Source: Knight Frank Research

- Kolkata strived to keep itself afloat amidst subdued market sentiments. With new residential projects being curbed to some extent in the previous six months, the number of new launches continued to be under pressure in H2 2015. While new launches fell by 6% in 2015 vis-à-vis 2014, the rate of decline in H2 2015 was constrained at 10% as compared to H2 2014.
- On the other hand, the city's sales volume, driven largely by end users, remained unaffected by the dip in new launches; in fact, it witnessed an increase of 10% in 2015 vis-à-vis 2014. The absorption in H2 2015 was significantly better as compared to H2 2014 and showed a recovery of 29%.
- The weighted average price remained almost stagnant in H2 2015, with a slight increase of 1% compared to the corresponding period in 2014, emphasising the fact that the market has remained stable despite the decrease in new launches. This marginal appreciation could be attributed to the increased sales volume witnessed during the period, with mid-segment housing witnessing the most number of launches.
- We expect the Kolkata residential market to improve in the first half of 2016, owing mainly to the strong traction in the office market that caused a growth of almost 44% in 2015 compared to 2014, as well as the increased momentum in hiring activity in the city. The quantum of office transactions in H2 2015 over the previous six months showed a growth of 17%, whereas in H2 2014, it was a whopping 110% on a YOY basis.
- We estimate new launches to increase by 29% in H1 2016 compared to H1 2015, with the sales volume expected to improve significantly in the forthcoming six months – to the tune of around 42%, on a YOY basis.
- On the price front, we expect the weighted average values to improve slightly in H1 2016 as compared to H1 2015. The upcoming period is expected to witness a growth of 2% in the YOY prices.

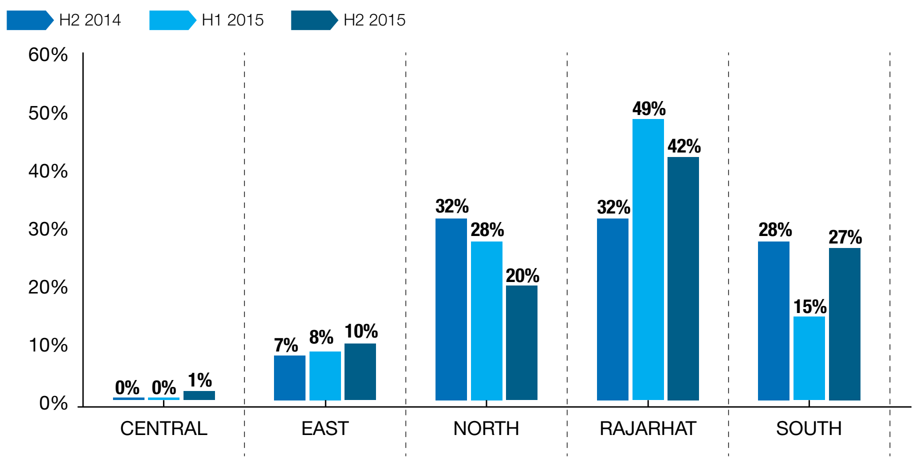
Kolkata strived to keep itself afloat amidst subdued market sentiments. With new residential projects being curbed to some extent in the previous six months, the number of new launches continued to be under pressure in H2 2015. However, the city's sales volume, driven largely by end users, witnessed an increase of 10% in 2015 vis-à-vis 2014. The absorption in H2 2015 was significantly better as compared to H2 2014 and showed a recovery of 29%.

Rajarhat emerged as the region with the highest number of residential units launched in H2 2015, accounting for a 42% share of the total number of new launches. South Kolkata witnessed a significant number of new launches in H2 2015 compared to the preceding six months. H2 2015 witnessed the launch of large-scale projects in locations such as Maheshtala, taking South Kolkata's share of residential launches up to its H2 2014 levels.

MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

FIGURE 2

MICRO-MARKET SPLIT OF LAUNCHED UNITS

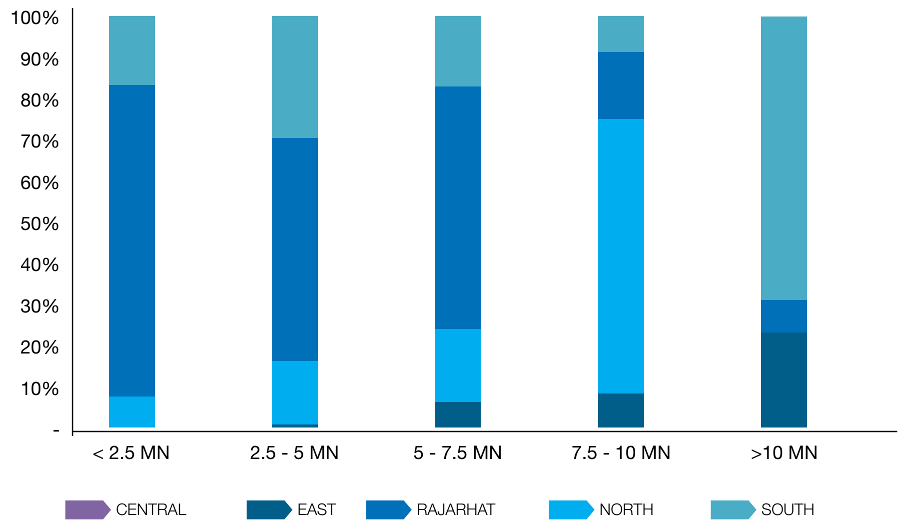


Source: Knight Frank Research

- Rajarhat has accounted for the largest share in the total number of new launches in the city in the last few years owing to persistent interest from the developer community. Although its share had reduced to come at par with North Kolkata in H2 2014, it re-emerged as the region with the highest number of residential units launched in H2 2015, accounting for a 42% share of the total number of new launches. Rajarhat is expected to maintain positivity regarding the housing demand in the forthcoming years, considering the quantum of office-sector development and infrastructure underway in the region.
- South Kolkata witnessed a significant number of new launches in H2 2015 compared to the preceding six months. Being a conventionally-preferred residential destination of the city, it has always been on developers' radars. H2 2015 witnessed the launch of large-scale projects in locations such as Maheshtala, taking South Kolkata's share of residential launches up to its H2 2014 levels.
- North Kolkata's share, which had increased significantly in H2 2014, has been reducing gradually in the recent months. While its share of residential launches was at 32% in H2 2014 owing to the new launches in locations such as BT Road and Sodepur, it reduced to 20% in H2 2015. Notwithstanding the slack in new launches, North Kolkata holds much potential with its industrial tag dissipating gradually. The region has gained prominence in recent years, owing to the existing and upcoming phases of the metro rail, impending infrastructure in and around VIP Road and Jessore Road, and its proximity to Rajarhat as well as the international airport. The majority of the new launches in this zone belong to the affordable housing sector.
- Central Kolkata, the traditional bastion of the upper segment, witnessed a limited number of new launches in H2 2014 as well as H2 2015, although the latter period saw a slight improvement in this figure. These comprised small projects with very few units, owing to land constraints, as a result of which the region's share is restricted to just 1% of the total number of new launches.
- The East zone, comprising locations such as Salt Lake and Kankurgachi, also observed a limited number of new launches due to land constraints. Its share has remained almost constant, in the range of 7–8% during H2 2014 and H1 2015, though H2 2015 saw a slight increase in the share, at 10%.
- The Rajarhat area, excluding New Town, was responsible for the majority of the affordable and mid-end projects in H2 2015, accounting for over 60% of the total number of new launches below the ticket size of ₹5 mn. By contrast, South Kolkata and East Kolkata dominated the high-end segment, with the most number of launches priced above the ticket size of ₹1 mn.

FIGURE 3

TICKET SIZE SPLIT OF LAUNCHES DURING H2 2015



Source: Knight Frank Research

MICRO-MARKET-WISE RESIDENTIAL SALES

MICRO-MARKETS OF KOLKATA

MICRO-MARKET	LOCATIONS
Central	Park Street, Rawdon Street, A.J.C. Bose Road, Minto Park, Elgin Road
East	Kankurgachi, Beliaghata, Salt Lake, Narkeldanga, Keshtopur, E.M. Bypass (eastern parts)
North	Baguiati, Ultadanga, Jessore Road, Shyambazar, Lake Town, B.T. Road, VIP Road
Rajarhat	Rajarhat New Town
South	Ballygunge, Alipore, Tollygunge, Narendrapur, Behala, Garia, Maheshtala, E.M. Bypass (southern parts)

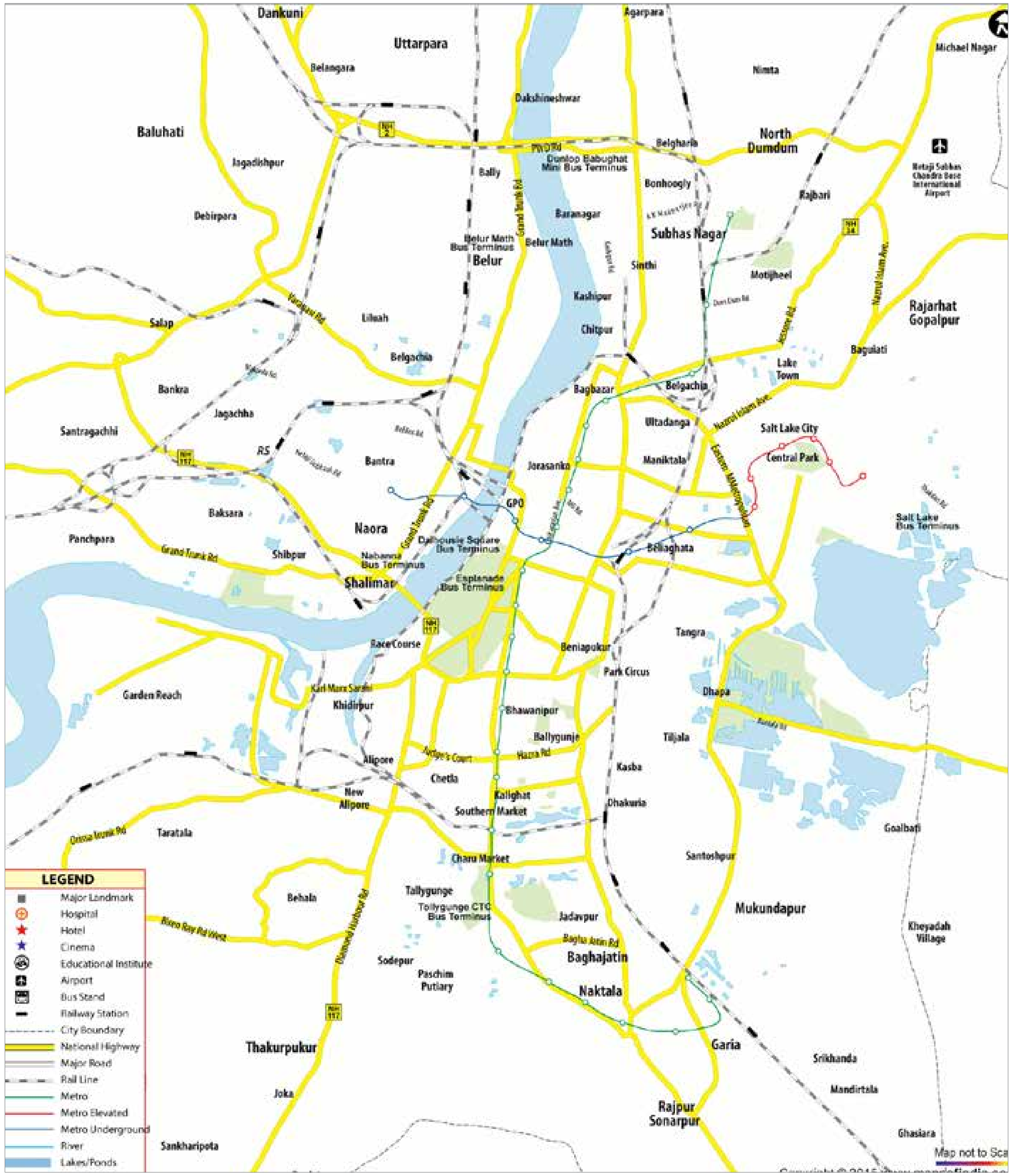
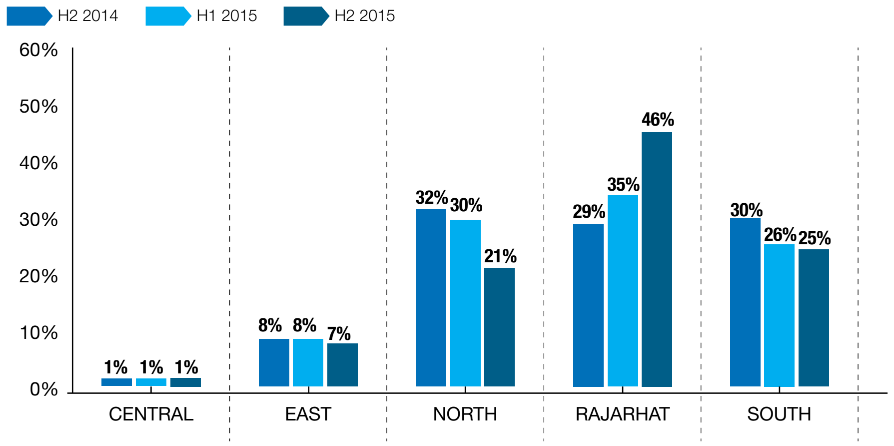
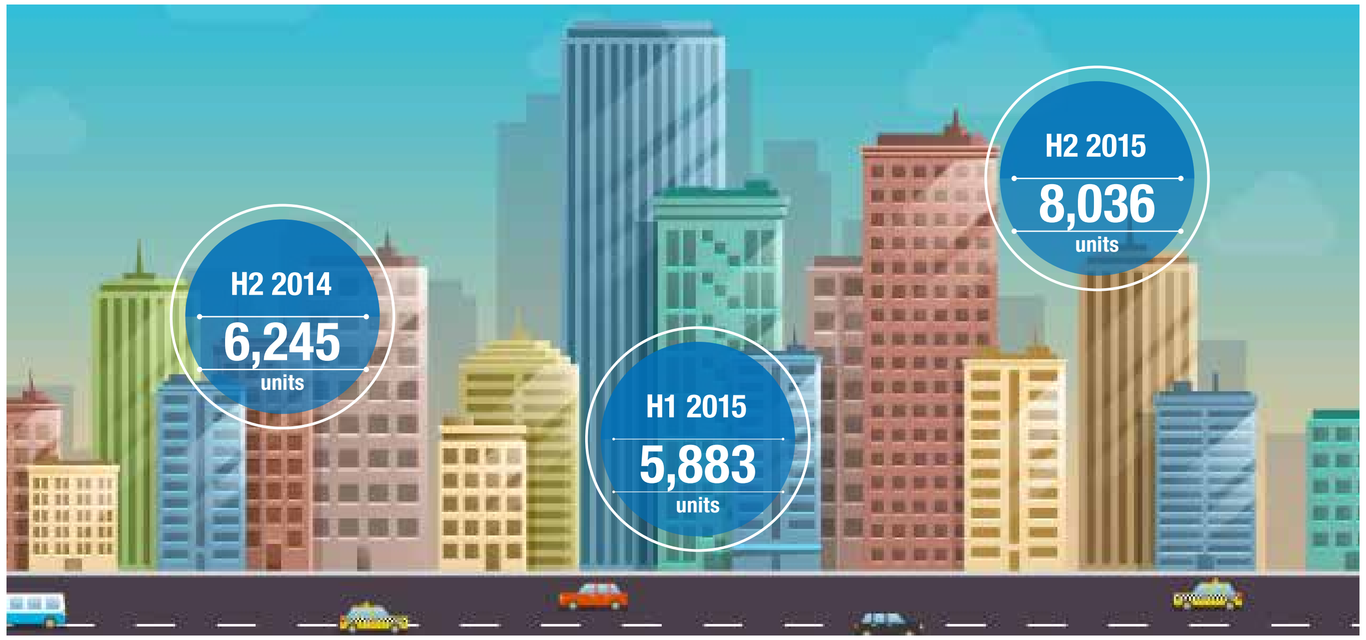


FIGURE 4

MICRO-MARKET SPLIT OF RESIDENTIAL SALES

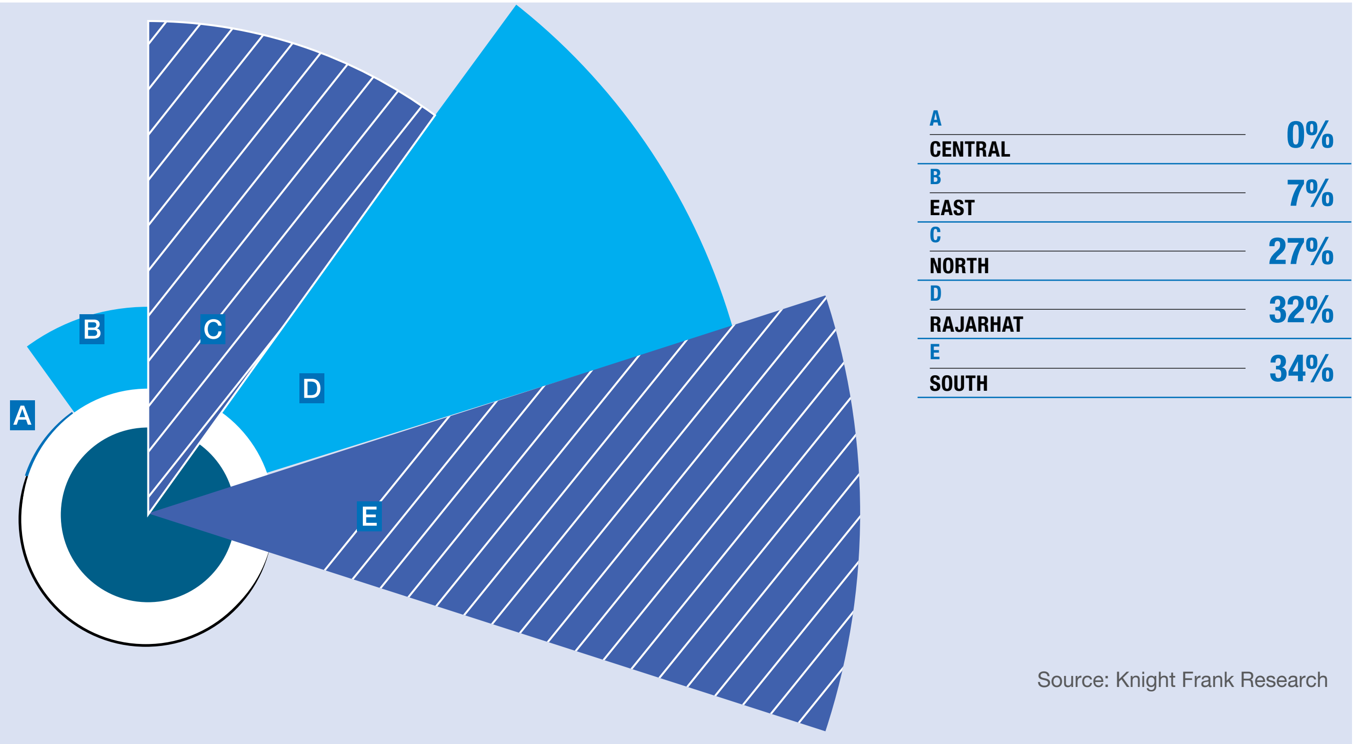


Source: Knight Frank Research



- Rajarhat witnessed the largest share of the absorption in H2 2015, accounting for a whopping 46%, compared to 29% in H2 2014. The region's share of the sales volume has been increasing, primarily due to factors such as the well-planned existing and upcoming road network, the proposed metro connectivity within Rajarhat and with other locations of the city and its proximity to the international airport as well as Salt Lake Sector V – the IT/ITeS hub of Kolkata.
- On the other hand, South Kolkata has been witnessing a gradually decreasing trend in absorption, which continued in H2 2015 as well. It accounted for a 25% share of the sales volume in H2 2015, which dipped from its 30% share of the absorption in H2 2014. This decline in absorption needs to be controlled, as the unsold inventory is expected to increase in the coming months.
- Meanwhile, North Kolkata, which had seen an uptick in sales in H1 2014, dropped its share from 32% to 21% in H1 2015. However, we expect this region to perform better in the forthcoming periods due to the abundance of mid-end and affordable housing here.
- Despite being preferred residential locations for the affluent class, East and Central Kolkata accounted for marginal shares in the total sales volume in the primary market of the city, owing to a relatively smaller inventory size.

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF DECEMBER 2015



Source: Knight Frank Research

Rajarhat witnessed the largest share of the absorption, accounting for 46% of the total sales in H2 2014. The region's share of the sales volume has been increasing, primarily due to factors such as the well-planned existing and upcoming road network, the proposed metro connectivity within Rajarhat and with other locations of the city and its proximity to the international airport as well as Salt Lake Sector V – the IT/ITeS hub of Kolkata.

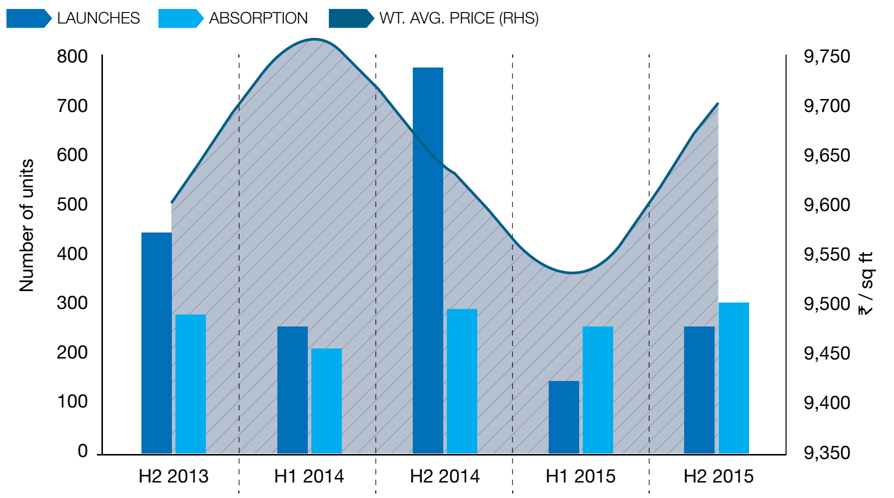
- South Kolkata accounts for a major share of the total number of units under construction, to the tune of 34%, given the fact that the region has been witnessing large-scale residential development in the last few years. Currently, development is being observed in the peripheral locations of Narendrapur, Sonarpur Road and Diamond Harbour Road. This region is preferred, chiefly due to its good social infrastructure, causing developers to launch their projects here.
- South Kolkata is followed by Rajarhat, with a 32% share of the total number of residential units under construction. This zone, comprising several Action Areas, has witnessed frenetic residential activity in the last decade and boasts the presence of most key real estate developers.
- North Kolkata, recognised primarily as an industrial area till recently, has emerged as a preferred residential location. Areas such as Sodepur, B.T. Road, Madhyamgram and Jessore Road now have a number of projects launched by reputed developers, accounting for 27% of the total residential units underway in the city.
- The central and eastern markets have fairly marginal shares of units under construction, to the tune of less than 1% and 7% respectively.

PREMIUM RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

MICRO-MARKET	PREMIUM LOCATIONS
Central	Park Street, Rawdon Street, Shakespeare Sarani, Chowringhee Road
East	Kankurgachi, Topsia
Rajarhat	New Town
South	Ballygunge, Alipore, Tollygunge, Bhowanipore, Jodhpur Park

FIGURE 5

PREMIUM MARKET TRENDS



Source: Knight Frank Research

Note: Premium markets include locations where the average ticket size of a residential unit is above ₹15 mn, are in close proximity to the central business district of the city and have witnessed new project launches in the preceding three years

- Kolkata's premium market, comprising locations such as Chowringhee, Rawdon Street, Ballygunge and Jodhpur Park, among others, witnessed the launch of a number of high-end residential projects in the last year in locations such as E.M. Bypass, Chowringhee and Rajarhat. However, the segment has observed a considerable decline in new launches during H2 2015, compared to H2 2014. H2 2015 witnessed a steep decline of 68% over the number of new launches in H2 2014. This could be attributed largely to the economic slowdown that caused developers to hold back the launch of premium projects.
- On the other hand, H2 2015 saw an improvement of 4% in absorption compared to the same period in 2014. This bodes well for the premium market of the city.
- The weighted average price growth YOY in the premium segment remained almost constant, with a marginal improvement of 1% observed in H2 2015 over H2 2014. This relative stability in the weighted average price could be attributed to the increase in the sales volume during the period, coupled with constricted launches.

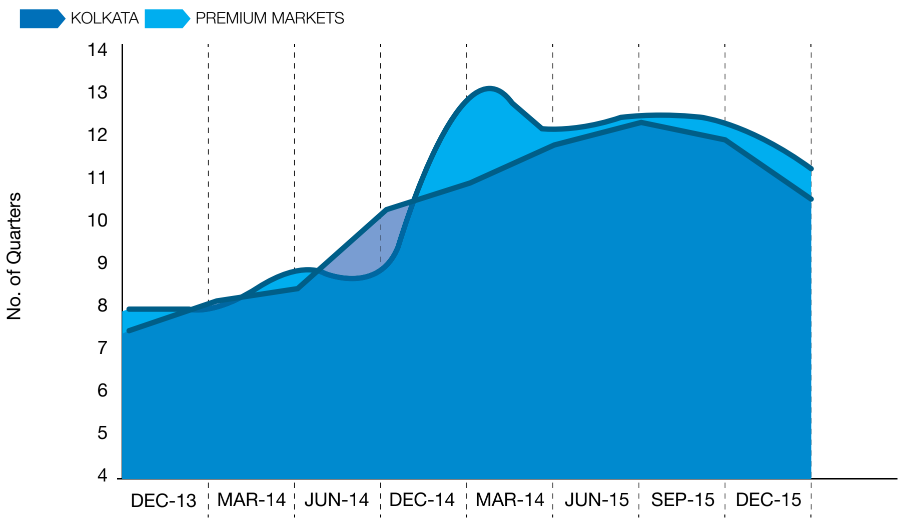
The premium housing segment has observed a considerable decline in new launches during H2 2015, compared to H2 2014. This could be attributed largely to the economic slowdown that caused developers to hold back the launch of premium projects.

The QTS for Kolkata has decreased somewhat since H1 2015, the growth in demand for housing in the last 12 months being one of the reasons for this decrease. East Kolkata is currently the best-performing market of the city, with the lowest QTS. The presence of Salt Lake Sector V, one of the key employment hubs of the city, and its proximity to Rajarhat—another upcoming IT hub—have made East Kolkata a preferred market for homebuyers. However, the residential market here is relatively smaller than in the other parts of the city and does not have sufficient inventory and sales volume.

KOLKATA MARKET HEALTH

FIGURE 6

QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS

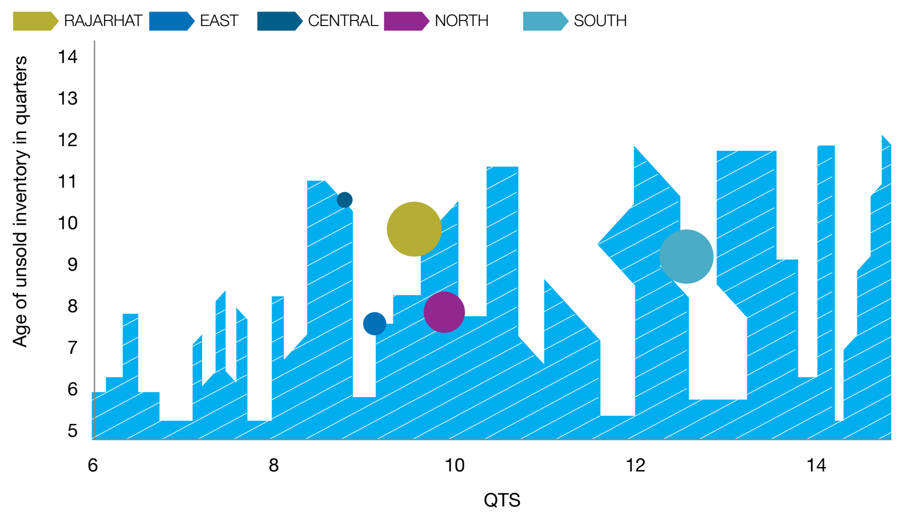


Source: Knight Frank Research

- The quarters to sell unsold inventory (QTS) is the number of quarters required to exhaust the existing unsold inventory in the market. The existing unsold inventory is divided by the average sales velocity of the preceding eight quarters in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market.
- The QTS for Kolkata has decreased somewhat since H1 2015, and currently stands at 10.7 quarters. The growth in demand for housing in the last 12 months could be cited as the main reason for this decrease. Significantly, the QTS for the city's premium markets, which had witnessed a sharper rise than the city in Q4 2014 is set to converge with the overall QTS, and is currently at 11.4 quarters. This could be attributed to the fact that the correction in new launches in the premium segment has been higher than the fall in demand.
- Among the various zones, East Kolkata is currently the best-performing market of the city, with the lowest QTS of 9.2 and age of inventory pegged at 7.5 quarters. The presence of Salt Lake Sector V, one of the key employment hubs of the city, catering primarily to the IT/ITeS sector, and its proximity to Rajarhat—another upcoming IT hub—have made East Kolkata a preferred market for homebuyers. However, the residential market here is relatively smaller than in the other parts of the city and does not have sufficient inventory and sales volume compared to the other zones.
- On the other hand, South Kolkata has the highest QTS and the largest quantum of unsold inventory in the city – the consequence of a sizeable number of annual new launches in the region. Despite being a preferred residential destination, its QTS has been higher owing to a large concentration of high-end projects that generally see slower sales than mid-end developments. Besides, the newer employment hubs of the city are located in the eastern and north-eastern parts of the city, thereby shifting homebuyer focus there.
- Rajarhat followed East Kolkata closely and is the second best performing market, with a QTS of 9.5. Factors such as well-planned existing and upcoming road networks, the proposed metro connectivity within Rajarhat and with other locations of the city, and proximity to the international airport as well as the employment hub of Sector V have helped this micro-market perform better in recent months.
- With a QTS of 9.9, North Kolkata accounted for a lower age of inventory at 7.8 quarters. Though this region also has a sizeable quantum of unsold inventory, it enjoys the advantage of a relatively smaller unsold inventory size, having evolved later than the South zone. Thus, we expect this market to pick up momentum once the infrastructure projects are completed.
- Due to its constricted market size, the premium residential zone of Central Kolkata does not seem to impact the city's residential market prominently.

FIGURE 7

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

AFFORDABLE HOUSING SEES AN IMPETUS IN A SLOW MARKET

Kolkata, in recent times, has witnessed a change in its socio-economic structure. Conventional joint family set-ups have given way to nuclear families, while increase in job opportunities has led to rising aspiration levels amongst the city's residents. Pent-up demand for housing units led the city to witness a surge in residential development during 2006–08, thereby making the market end-user driven. Besides these end-users, positive economic outlook and transparency in real estate transactions also attracted a large number of NRIs to invest in the city's real estate. However, the recession has had its impact on the city's real estate sector and the ongoing slowdown has not taken off well for the sector.

Interestingly, developers have recognised the need to create more affordable housing projects in the city, owing to the price-sensitive nature of its residents and the current tepid real estate scenario. Besides, they have realised over the last few years that there is a huge shortfall in demand for houses for the middle income and low income groups. The slackening of residential demand has led developers to re-strategise their product offerings and launch their projects at lower rates in the peripheral locations of the city. This strategy seemed to have paid off well and locations in North Kolkata, such as B.T. Road and Sodepur, and the peripheral locations of South Kolkata, such as Narendrapur, Sonarpur Road and Baruipur, witnessed increased developer and buyer interest, chiefly due to the affordable pricing of the projects and infrastructure development. Besides the upcoming extension of the metro rail, these locations hold buyer interest because of the organised gated communities established in good neighbourhoods. In case of B.T. Road, it is well connected with the office projects located at Rajarhat and Salt Lake Sector V. While Rajarhat is better known for its slew of premium and mid-end projects in New Town, the region also comprises several affordable projects in the further Action Areas, which will continue to garner buyer interest. Metro rail connectivity will increase its location attractiveness even further. Other regions that are witnessing buyer interest are E.M. Bypass and Garia, and this trend is likely to continue.

Thus, the bottom-line remains that there is a huge demand for smaller ticket-sized homes, even in a slow market. But the real challenge for developers would be the ability to provide smaller homes at lower prices in the city and make it profitable.

PRICE MOVEMENT DURING H2 2015

WEIGHTED AVERAGE PRICE MOVEMENT IN KOLKATA

LOCATION	PRICE RANGE IN H2 2015 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Kolkata	3,535	1%	1%
Premium markets	9,699	1%	2%

- Price appreciation across most locations in Kolkata during the last 12 months has been rather tepid and remained constant. While the weighted average prices declined slightly in H1 2015—primarily due to the subdued sales volume and huge amount of unsold inventory in the market—H2 2015 saw some movement owing to better sales. The range of price appreciation during the period was around 1–2%.
- The weighted average price trend has been similar for both, the premium housing market as well as the city's overall figure, in the last 12 months, each witnessing an annual appreciation of 1%. Premium markets, however, saw a slightly increased growth rate of 2% on a half-yearly basis.

PRICE MOVEMENT IN SELECT LOCATIONS

LOCATION	MICRO-MARKET	PRICE RANGE IN H2 2015 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Park Street	Central	12,000–20,000	0%	0%
Rawdon Street	Central	10,000–19,500	0%	0%
Ballygunge	South	8,500–18,000	0%	0%
Tollygunge	South	6,500–16,500	0%	0%
Behala	South	3,300–4,800	1%	0%
Narendrapur	South	2,600–4,300	2%	0%
Kankurgachi	East	6,000–9,100	1%	0%
Salt Lake	East	5,000–8,000	0%	0%
New Town Rajarhat	Rajarhat	4,300–7,000	0%	0%
Madhyamgram	North	2,550–3,300	0%	0%
BT Road	North	3,200–4,500	0%	0%
Jessore Road	North	4,300–5,600	2%	0%

Source: Knight Frank Research

OUTLOOK FOR THE NEXT SIX MONTHS

Projections	H1 2015	H1 2016E	GROWTH
Launches (units)	8,372	10,760	29%
Absorption (units)	5,883	8,345	42%
Weighted average price (₹/sq ft)	3,495	3,570	2%

Source: Knight Frank Research

- Kolkata managed to shed its inertia in H2 2015 and although new launches were still somewhat constrained, the period witnessed a good traction in sales. This sentiment is likely to continue in the forthcoming months, owing to growth stimulators such as the increasing rate of employment, amplified office space development and a rise in office space absorption. The fact that office transactions in H2 2015 showed a growth of 17% on a half-yearly basis and a substantial growth of 110% on an annual basis augurs well for the residential sector.
- Thus, absorption in H1 2016 is estimated to surpass the H1 2015 sales figure by 42%, signifying a positive trend in buyer interest in the forthcoming months.
- New launches are likely to improve in H1 2016, given the activity in the office sector. The projected new launches in H1 2016 are expected exceed the H1 2015 figures by 29%, indicating an increased momentum in the market.
- With its slew of premium and mid-end projects in New Town and affordable projects in the further Action Areas, Rajarhat will continue to garner buyer interest. The metro rail connectivity will increase its location attractiveness even further. Other regions that are witnessing buyer interest are E.M. Bypass and Garia, and this trend is likely to continue.
- On the price front, we expect the weighted average price in Kolkata to appreciate marginally, by 2% in H1 2016.

Kolkata managed to shed its inertia in H2 2015 and although new launches were still somewhat constrained, the period witnessed a good traction in sales. This sentiment is likely to continue in the forthcoming months, owing to growth stimulators such as the increasing rate of employment, amplified office space development and a rise in office space absorption. The fact that office transactions in H2 2015 showed a growth of 17% on a half-yearly basis and a substantial growth of 110% on an annual basis augurs well for the residential sector.

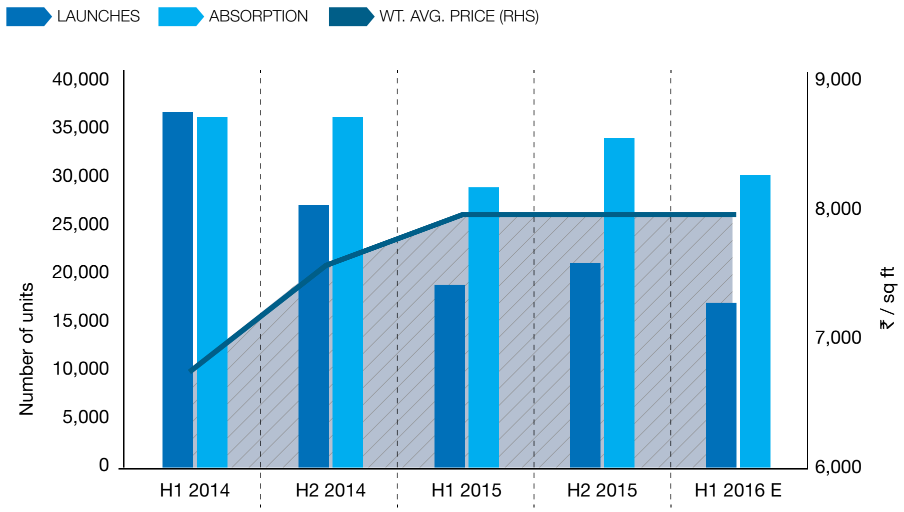
Vivek Rathi
Vice President - Research

MUMBAI

RESIDENTIAL MARKET

MMR RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

FIGURE 1
MMR MARKET TRENDS



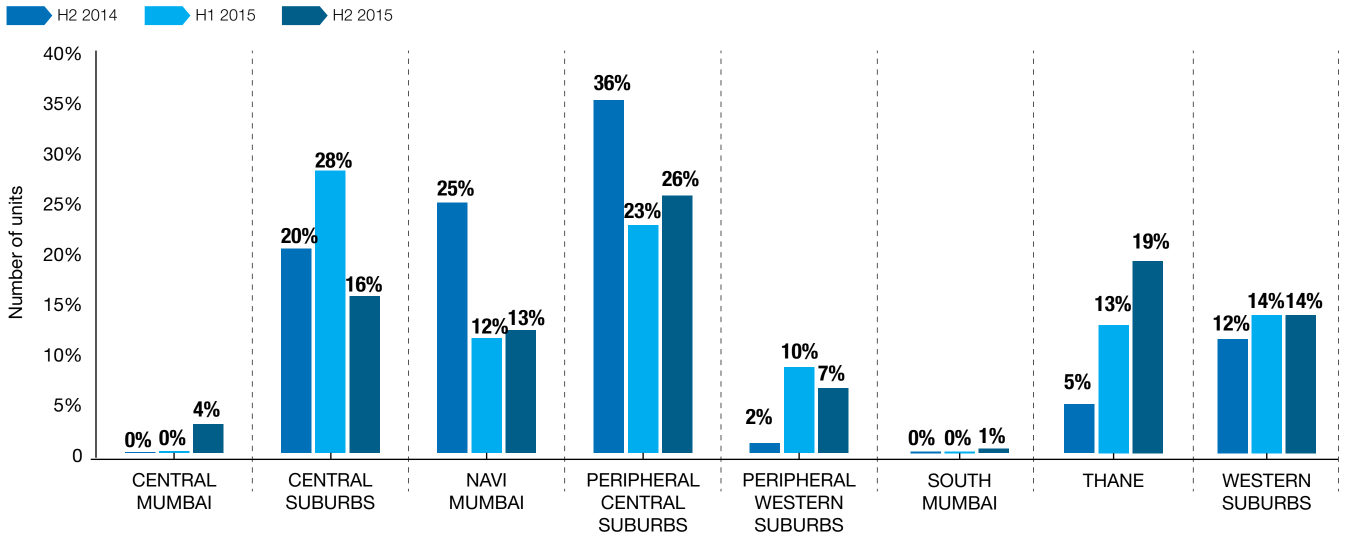
Source: Knight Frank Research

> Going forward, in H1 2016, infrastructure thrust, the improving office market and stable house prices will aid the housing market revival. Amidst the demand revival, new launches are to be lower and prices, stagnant on account of the inventory backlog.

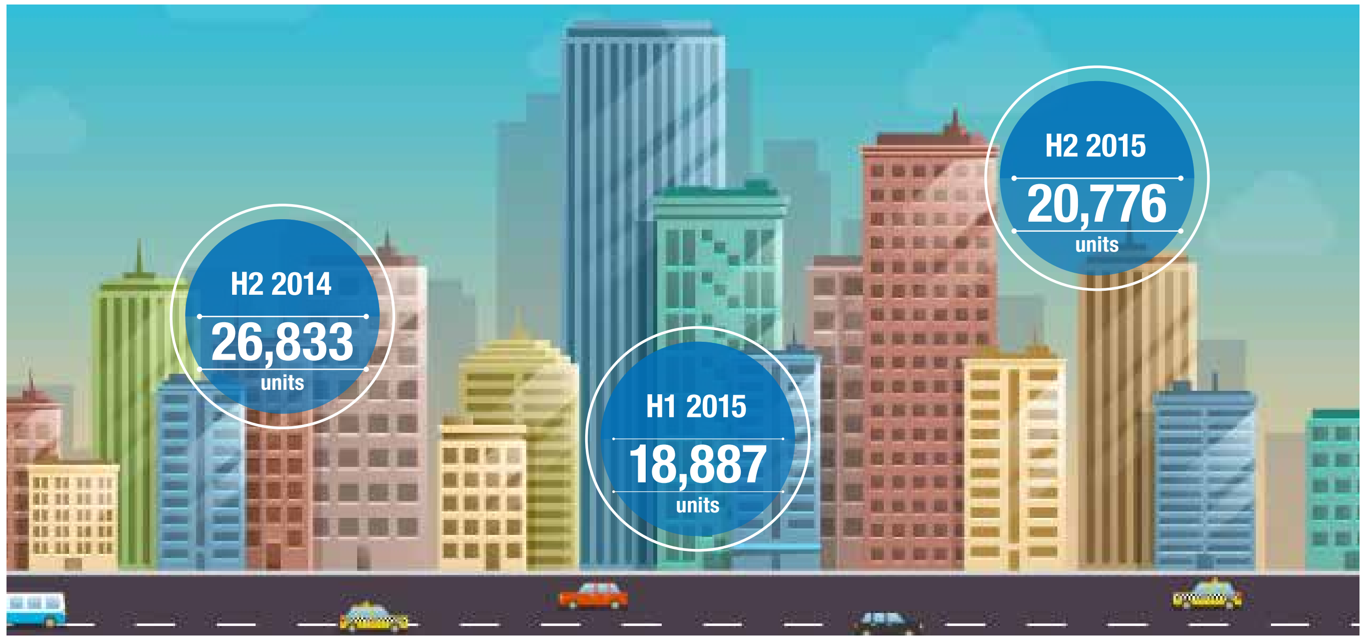
- The MMR residential market contracted further in H2 2015. In comparison with the half-yearly period of H2 2014, absorption and new launches shrunk by 6% and 23%, respectively. A total of 20,776 units were launched, making H2 2015 the worst H2 period after the global financial crisis.
- Despite the festive season, the markets failed to record a rise in demand during this period. Stretched affordability, coupled with a bleak employment outlook, kept buyers on the fence.
- In the case of supply, against the backdrop of unsold inventory, new launches would only aggravate the pressure. Taking cognizance of this, developers have aligned their new launches with the bleak demand scenario.
- In line with the slowdown in the MMR residential property market, the price growth decelerated in H2 2015. The MMR weighted average price increased by a modest 3% in H2 2015 over H2 2014.
- Going forward, in H1 2016, infrastructure thrust, the improving office market and stable house prices will aid the housing market revival.
- The central and state governments are pushing critical transit-oriented infrastructure projects in the MMR and aim at completion by 2019.
  - The Mumbai Trans Harbour Link has secured the environment clearance, and the bidding process will begin in March 2016.
  - Mumbai's coastal road has secured the forest and CRZ clearances. The bidding process will begin in June 2016.
  - The metro rail for the Dahisar to DN Nagar, Dahisar East to Andheri East, and Cuffe Parade to SEEPZ corridors has been expedited. Construction is to begin this year.
  - The Navi Mumbai International Airport construction contract is to be awarded by June 2016.
- Amidst the demand revival, new launches are to be lower and prices, stagnant on account of the inventory backlog.

MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

FIGURE 2
MICRO-MARKET SPLIT OF LAUNCHED UNITS

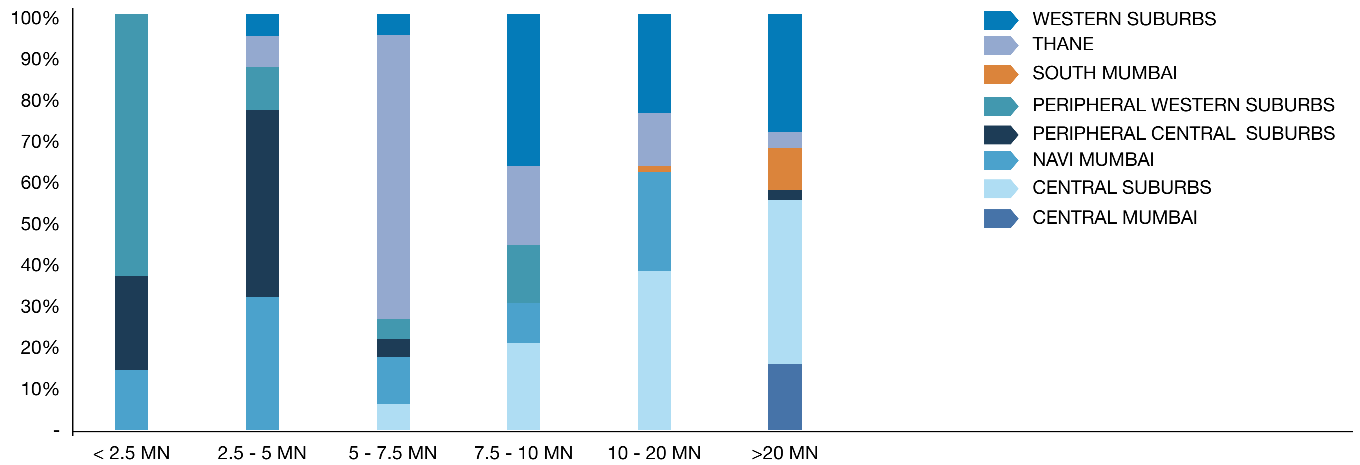


Source: Knight Frank Research



- Developers in the peripheral markets were the most concerned. Many put brakes on new project plans in H2 2015. The Peripheral Central Suburbs (Kalyan, Karjat, Kasara, etc.) and Navi Mumbai were the worst hit, seeing launches lower by 44% and 59%, respectively.
- While new launches grew in Peripheral Western Suburbs (Vasai, Virar, Palghar), the overall tally is low for this market. The current launch rate is just about a quarter of its historical rate.
- The South and Central Mumbai markets are critical for the industry because of their value. Even though they represent just 3% of the MMR's unsold inventory volume, they contribute a massive 29% to its value. The MMR has an unsold inventory worth ₹2,020 bn, of which ₹595 bn is in the South and Central Mumbai markets. The premium South and Central Mumbai markets witnessed a tenfold jump in new project launches, to 956 units in H2 2015, compared to just 100 units in H2 2014.

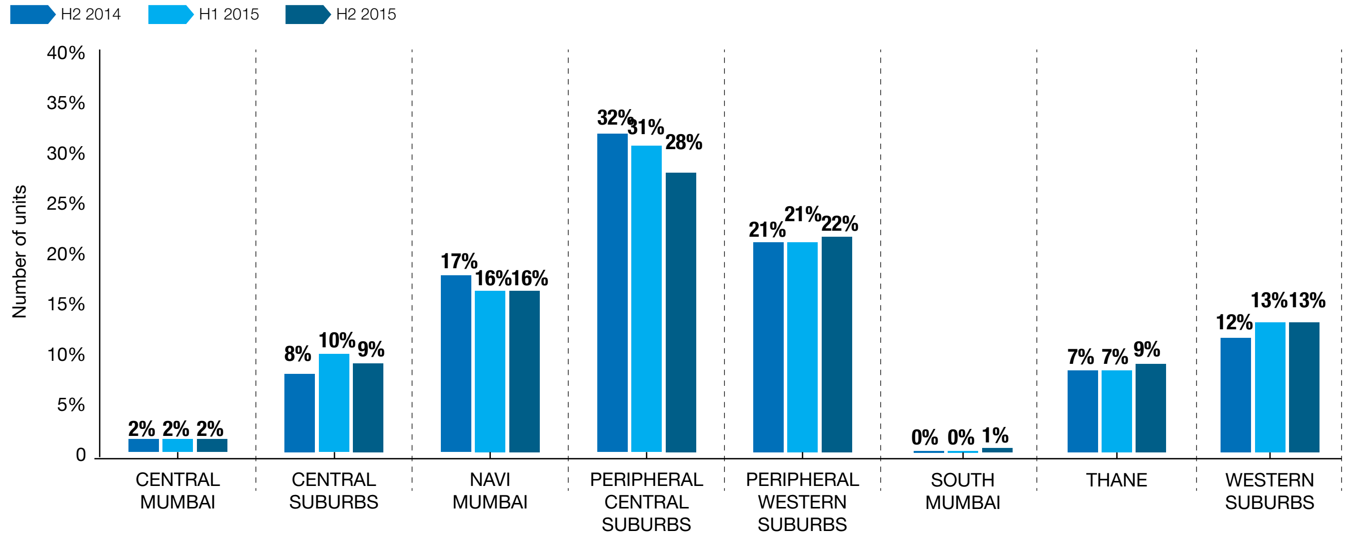
FIGURE 3
TICKET SIZE SPLIT OF LAUNCHES DURING H2 2015



Source: Knight Frank Research

MICRO-MARKET-WISE RESIDENTIAL SALES

FIGURE 4
MICRO-MARKET SPLIT OF SALES



Source: Knight Frank Research

MICRO-MARKETS OF THE MMR

MICRO-MARKET	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 Suburbs	Vasai, Virar, Boisar, Palghar, Bhayandar, Nalasopara
South Mumbai	Malabar, Hill, Napean Sea Road, Walkeshwar, Altamount Road, Colaba
Thane	Naupada, Ghodbunder Road, Pokhran Road, Majiwada, Khopat, Panchpakhadi
Western Suburbs	Bandra, Andheri, Goregaon, Kandivali, Borivali, Santacruz, Vile Parle

- Even though demand shrunk by 6% in the MMR, Thane bucked the trend with a growth of 13%.
- Good connectivity to office markets, coupled with the right ticket size products, made Thane successful in attracting buyers. Incidentally, Thane's Majiwada–Kasarvadavali belt also featured as a top investment destination in our last report.
- Incremental infrastructure in terms of the 32-km Mumbai Metro Line 4 (Wadala–Ghatkopar–Thane–Kasarvadavali) is scheduled for implementation in 2017–2023.
- Employment hubs in the peripheral business district (PBD), which includes the office markets of Thane and Navi Mumbai, have an office stock of 23 mn sq ft, out of which 5.4 mn sq ft is present in localities such as Wagle Estate and Ghodbunder Road, Thane. Going forward, we estimate an incremental office space addition of 13.7 mn sq ft in the PBD in the next five years (2016–2020). Of this, approximately 5 mn sq ft (62,500 jobs) will be in Wagle Estate and Ghodbunder Road.

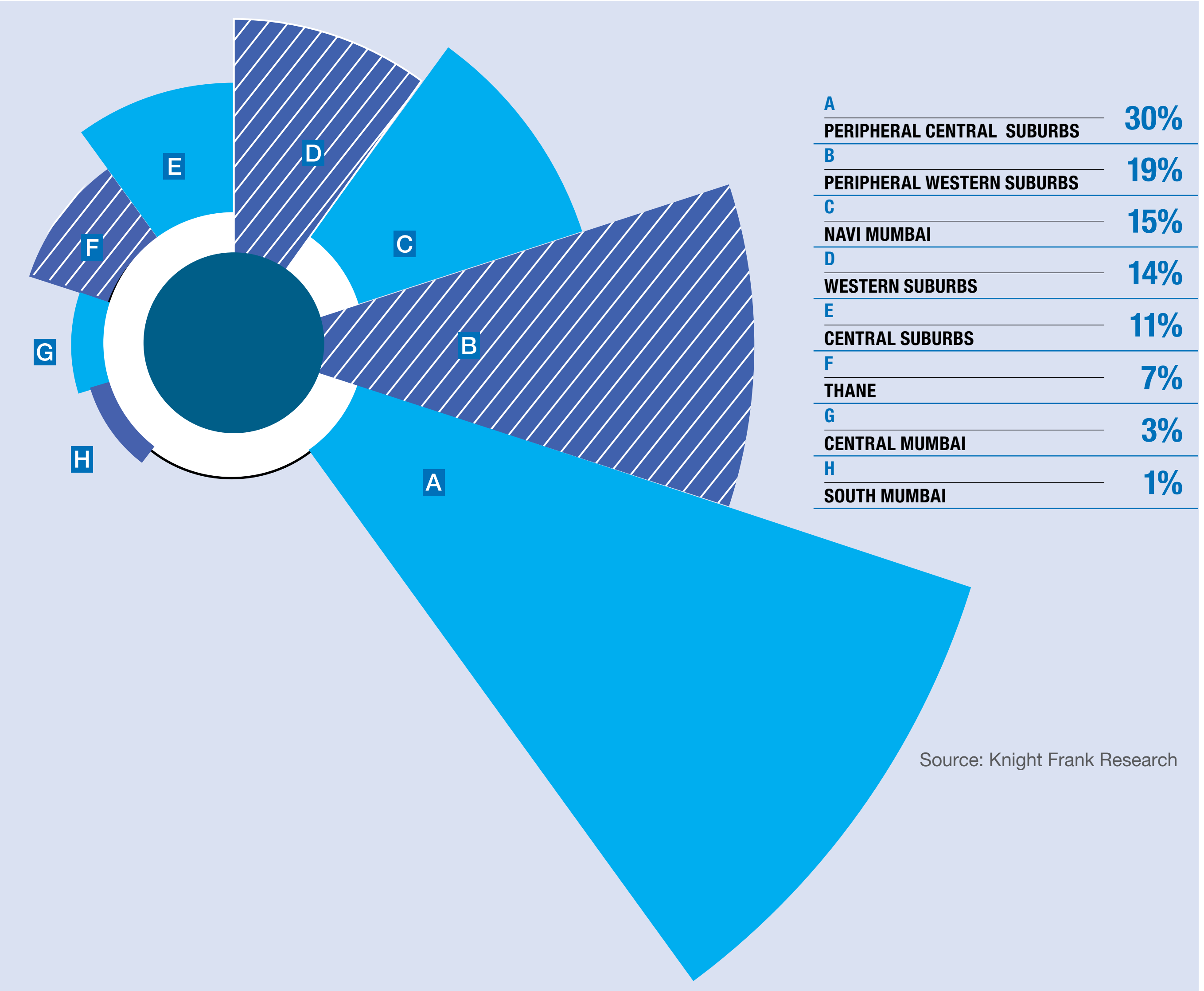
MUMBAI RESIDENTIAL MARKET DYNAMICS

The MMR residential property market can be classified in a price band of ₹3,000–100,000/sq ft, with a small proportion beyond this range. A 33 multiplier between the highest and the lowest band makes for a very large price gradient. We take a look at the primary factors that have shaped the MMR residential market, widely considered as the country's costliest. Mumbai city is spread over 458 sq km with a population base of 12.4 mn (2011). By contrast, the larger geography identified as the Mumbai Metropolitan Region (MMR) is spread over 4,355 sq km, which is almost ten times the size of Mumbai city and has a population of 22.8 mn, which is about twice that of Mumbai city. The comparison becomes pertinent, considering that the city has 80% of MMR's office space of 118 mn sq ft. The new office development in the next five years would be such that the city would contribute 62%, with the balance coming up outside the city. Clearly, this points to two things – first, that the rest of the MMR localities are driven by employment opportunities in Mumbai, and second, that the centre of gravity is slowly but gradually moving towards the north, or closer to the newer residential markets.

With a weighted average price of ₹7,994/sq ft, residential property in the MMR is the costliest in the country. The gap between the MMR and the second costliest market, Pune, is a huge 65%. Compared to the National Capital Region (NCR), it is 75% costlier. The premium is 67% compared to Bengaluru – the country's technology capital. Notwithstanding the associated premium in pricing, the MMR has been witnessing lower launches compared to NCR and Bengaluru during each of the last two years. While the lower supply has reduced the unsold inventory pressure and brought down the quarters to sell (QTS), it has also shrunk the market momentum.

Further, there are peripheral markets with prices at ₹3,000/sq ft, but our analysis indicates a tough time for these as well because low prices alone are not sufficient – connectivity to employment and social infrastructure centres is critical. Thus, a glaring housing shortage estimate on one hand and 181,000 unsold houses on the other highlight a dichotomy between consumer need and market offering. Ensuring a supply of affordable houses that have access to employment opportunities will ameliorate the situation. While market forces will move with a capitalist ideology, it is the government's prerogative to focus on creating an ecosystem that enhances the right supply. Augmenting the right supply would require working on several facets. Building transit-oriented infrastructure that can significantly reduce the time and cost for the daily commute should be a starting point. The other factors would be seamless construction approvals and incentivising transit-oriented real estate development.

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS IN H2 2015



Source: Knight Frank Research

- With a 30% share, the Peripheral Central Suburbs is the largest market in the MMR in terms of the quantum of under-construction housing units.
- The Peripheral Western Suburbs ranks second in terms of under-construction housing units, with a 19% share.

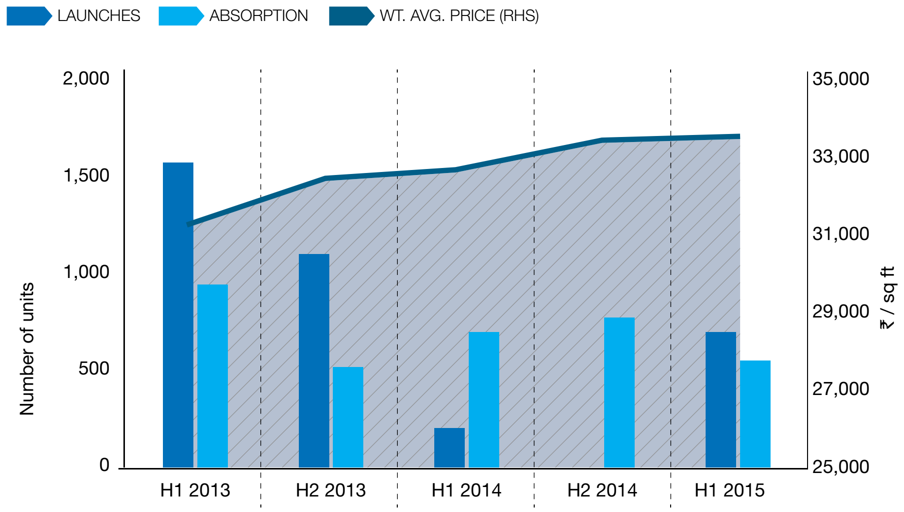
PREMIUM RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

MICRO-MARKET	PREMIUM LOCATIONS
South Mumbai	Malabar Hill, Tardeo, Mahalakshmi, Mumbai Central, Walkeshwar
Central Mumbai	Worli, Prabhadevi, Parel, Lower Parel, Dadar
Western Suburbs	Bandra West, Santacruz, Juhu

PREMIUM MARKET TRENDS

FIGURE 5

PREMIUM MARKET TRENDS



Source: Knight Frank Research

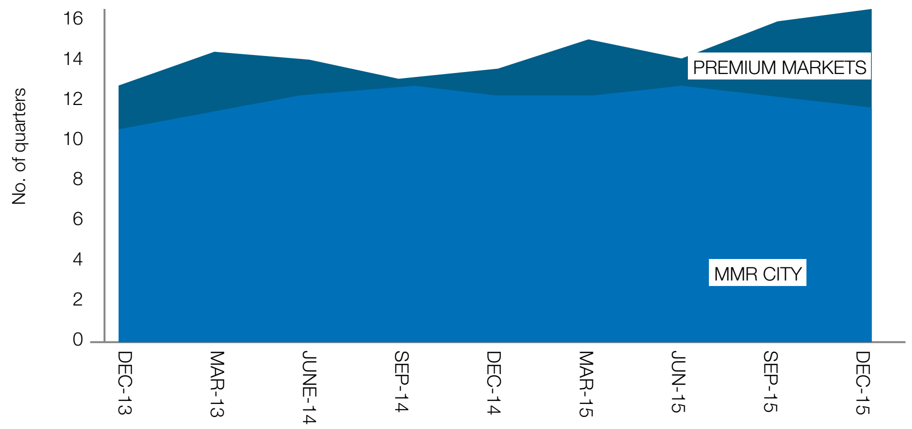
Note: Premium markets include locations where the average ticket size of a residential unit is above ₹50 mn, are in close proximity to the central business district of the city and have witnessed new project launches in the preceding three years

- With an average house price of ₹50 mn and above, the premium markets are select localities spread across the micro-markets of South Mumbai, Central Mumbai and the Western Suburbs. These markets have also been battling tough market conditions for the last few years.
- In H2 2015, new launches in this segment jumped by 490% to 714 units. This happened on the back of an extremely thin project launch scenario in H2 2014, wherein only 121 new units were launched, compared to the average launch rate of close to 1,500 units in H1 2013 and H2 2013 each.
- Demand in the premium market fell by 17% in H2 2015, compared to same period in the previous year. Large ticket sizes ensured that the shrinkage in this segment was bigger than the mainstream market.
- Besides the factors that impacted the overall MMR market, the large ticket size in these markets made buyers draw value proposition parallels with the relatively affordable markets in the Western and Central Suburbs. Even as new launches jumped sixfold, the price growth in the premium markets remained muted, at just 2% in H2 2015 over H2 2014.

MMR MARKET HEALTH

FIGURE 7

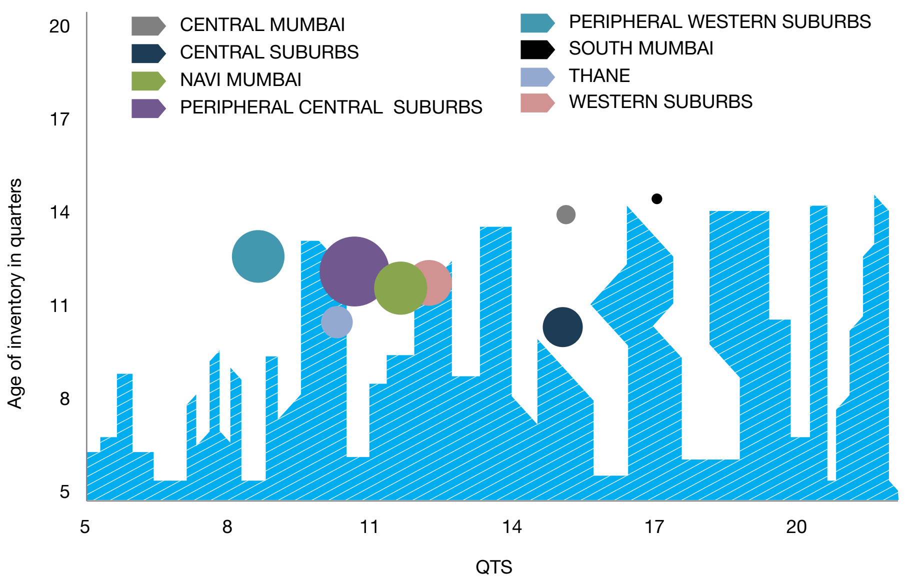
QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS



Source: Knight Frank Research

FIGURE 8

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

- The quarters to sell unsold inventory (QTS) is the number of quarters required to exhaust the existing unsold inventory in the market. The existing unsold inventory is divided by the average sales velocity of the preceding eight quarters in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market.
- Against the backdrop of a weak demand scenario, the QTS for the MMR saw an increasing trend between June 2013 and June 2015. However, in the last six months, the QTS has come down, mainly on account of the sharp curtailment in new project launches.
- The unsold inventory declined from 204,070 units in H2 2014 to 181,151 units in H2 2015, mainly on account of the sharp reduction in new launches. During this period, the QTS came down marginally, from 12 to 11. A comparison of the market health of all the micro-markets of the MMR indicates that the South Mumbai market has been ailing. Its QTS of 17 and age of inventory at 15 quarters is the worst across all markets. On the other hand, Thane and the Peripheral Western Suburbs are among the best markets on these parameters.
- The QTS for the premium markets has remained higher than that of the MMR. Since these markets have larger ticket sizes, it takes longer to sell. Against the backdrop of a 490% jump in new project launches in H2 2015, the QTS for premium markets has increased from 14 in H2 2014 to 17 in H2 2015.

PRICE MOVEMENT DURING H2 2015

WEIGHTED AVERAGE PRICE MOVEMENT IN PUNE

LOCATION	PRICE RANGE IN H2 2015 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
MMR	7,994	3%	0%
Premium markets	33,100	2%	0%

- Reeling under the pressure of a large unsold inventory and a slowdown in sales, developers adopted coping strategies to limit the pressure on prices. While new launches were reduced significantly, freebies in terms of waivers on levies and preferential location charges are being offered. Easy financing schemes are also prevalent to aid property buying.
- Barring a few projects that have seen 1–2% price cuts, most markets in the MMR are now witnessing stagnant prices.

PRICE MOVEMENT IN SELECT LOCATIONS

LOCATION	MICRO-MARKET	PRICE RANGE IN H2 2015 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Lower Parel	Central Mumbai	25,000–36,000	3%	0%
Worli	Central Mumbai	31,000–55,000	-1%	-2%
Ghatkopar	Central Suburbs	12,000–22,000	4%	3%
Mulund	Central Suburbs	10,500–14,000	4%	0%
Powai	Central Suburbs	14,000–20,000	6%	3%
Panvel	Navi Mumbai	4,500–6,500	-1%	2%
Kharghar	Navi Mumbai	6,500–9,500	2%	1%
Vashi	Navi Mumbai	10,000–15,000	2%	2%
Badlapur	Peripheral Central Suburbs	2,800–3,500	0%	0%
Dombivali	Peripheral Central Suburbs	4,500–6,000	1%	0%
Mira Road	Peripheral Western Suburbs	5,500–7,500	0%	0%
Virar	Peripheral Western Suburbs	4,500–5,500	0%	0%
Tardeo	South Mumbai	40,000–60,000	0%	0%
Ghodbunder Road	Thane	6,000–10,000	2%	2%
Naupada	Thane	14,000–18,000	2%	2%
Andheri	Western Suburbs	14,000–22,000	3%	0%
Bandra (W)	Western Suburbs	40,000–60,000	0%	0%
Borivali	Western Suburbs	11,000–15,000	1%	1%
Dahisar	Western Suburbs	8,500–10,000	3%	2%
Goregaon	Western Suburbs	13,000–15,000	1%	1%

OUTLOOK FOR THE NEXT SIX MONTHS

Projections	H1 2015	H1 2016E	CHANGE
Launches (units)	18,887	16,998	-10%
Absorption (units)	28,446	29,868	5%
Weighted average price (₹/sq ft)	7,994	7,994	0%

Source: Knight Frank Research

- Going forward, infrastructure thrust, the improving office market and stable house prices will aid the housing market revival. In H1 2016, we estimate a modest improvement in demand and lower supply coinciding with stagnation on the price front.
- Investor interest in residential property is expected to remain muted on account of suboptimal returns in comparison to other asset classes, such as equity and debt. A gradual improvement in the employment outlook, coupled with lower consumer inflation and housing loan interest rates, would augment end-user demand in H1 2016, resulting in housing sales of 29,868 units – up 5% compared to the first six months of 2015.
- On the supply side, even while the uncertainty over Mumbai's new development plan is expected to be resolved in H1 2016 and developers gauge higher enquiries, new project launches, at 16,998 units, will be 10% lower compared to H1 2015 on account of unsold inventory pressure.
- While new launches and absorption are estimated to improve in H1 2016 compared to the same period last year, we forecast a stagnation in property prices on account of the large unsold inventory and low investor interest.
- Among the micro-markets, Thane, the Central Suburbs and the Western Suburbs are expected to benefit due to attractive project launches and superior connectivity to office locations in Mumbai.
- The Peripheral Western Suburbs will continue to be driven by price-conscious homebuyers due to the plethora of options available in the sub-₹5 mn ticket size housing.

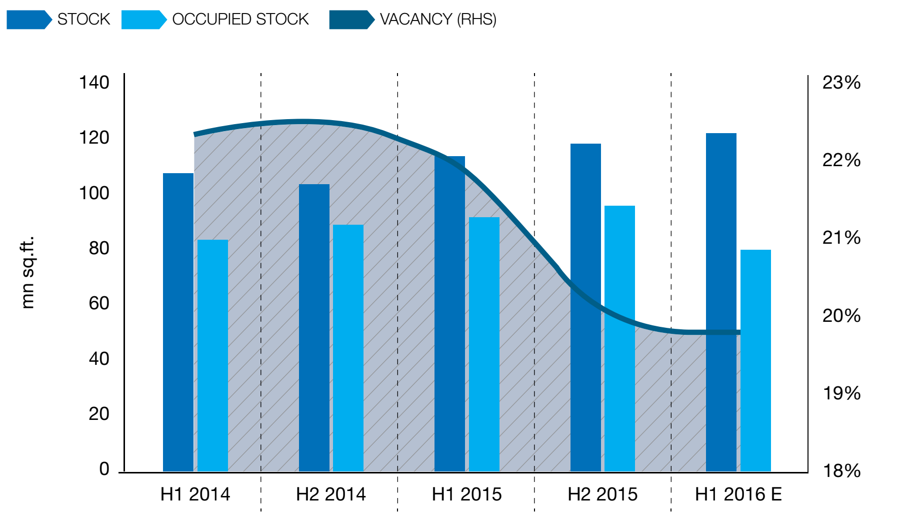
In 2015, demand exceeded supply in the MMR for the first time since 2008, as only 5.8 mn sq ft of new project completions were recorded against an occupier demand of 7.5 mn sq ft.

OFFICE MARKET

MMR OFFICE MARKET STOCK, NEW COMPLETIONS, ABSORPTION AND VACANCY TRENDS

FIGURE 1

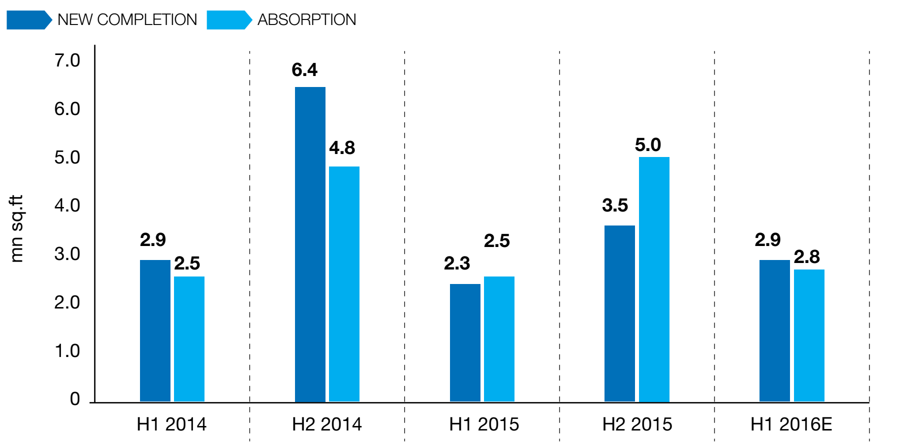
OFFICE SPACE STOCK AND VACANCY LEVELS



Source: Knight Frank Research

FIGURE 2

NEW COMPLETIONS AND ABSORPTION



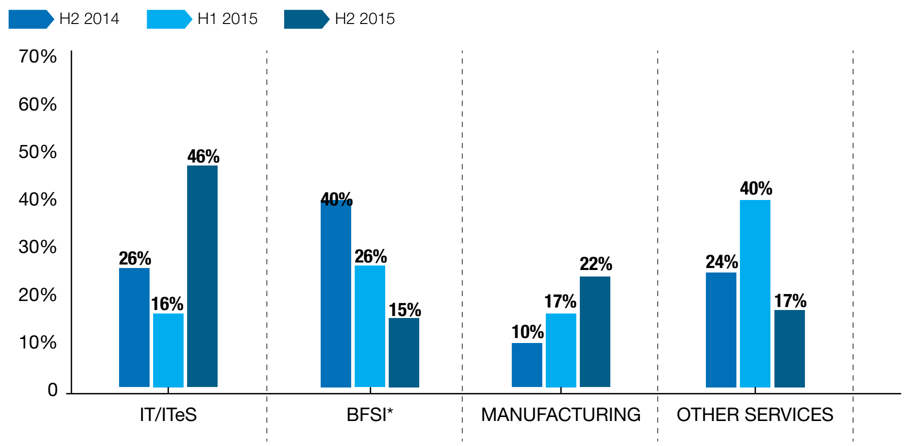
Source: Knight Frank Research

- In 2015, demand exceeded supply for the first time in the MMR since 2008, as only 5.8 mn sq ft of new project completions were recorded against an occupier demand of 7.5 mn sq ft. In H2 2015, new completions comprised 3.5 mn sq ft or 45% lower, and absorption was at 5 mn sq ft or 3% higher than same period last year.
- As a result of the improving demand-supply equation, the vacancy level trended down from 22.6% in H2 2014 to 20% in H2 2015.
- With the latest addition, the stock and occupied stock in the MMR stands at 118 mn sq ft and 94 mn sq ft, respectively. At a 20% vacancy level, which is lower than H2 2014, the market has a vacant stock of 24 mn sq ft.
- Although the market vacancy appears high at around 20%, there is a dearth of large-size quality office space. With occupiers interested to sign built to suit (BTS) facilities, developers are now opening up to opportunities for the development of office buildings to cater to such demand; large IT/ITeS giants signing up in markets such as Thane and Navi Mumbai being a prime example of this phenomenon.

SECTOR ANALYSIS

FIGURE 3

SECTOR-WISE SPLIT OF ABSORPTION



Source: Knight Frank Research

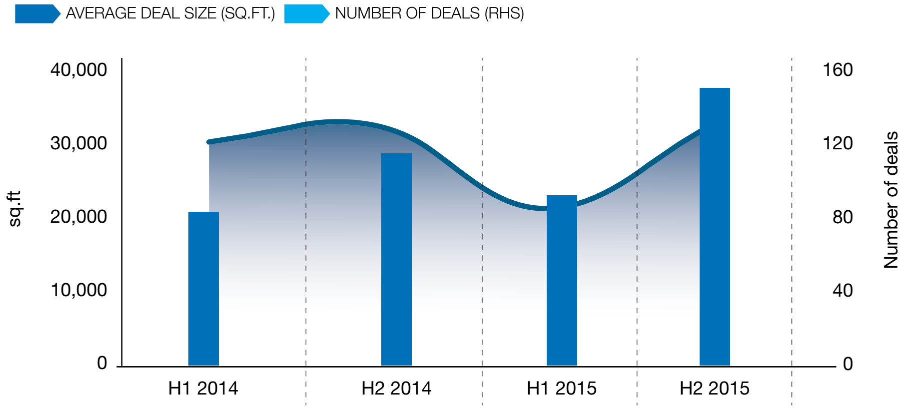
- Surpassing the BFSI sector, the IT/ITeS industry emerged as the top occupier of office space in the MMR, contributing 46% of the demand in H2 2015, compared to 26% in H2 2014.
- The manufacturing sector boosted its share even further, with leading engineering and pharmaceutical companies taking up more space in H2 2015, compared to the same period last year.
- With an 83% jump in demand, e-commerce raised its head. The sector generated 122,000 sq ft of office demand in H2 2015, led by players such as Amazon, Zomato and Toppr. Though miniature in contrast to Bengaluru, their most preferred market, e-commerce enterprises have garnered a bigger office space presence in Mumbai, with their interest primarily in the SBD Central and SBD West business districts.

Surpassing the BFSI sector, the IT/ITeS industry emerged as the top occupier of office space in the MMR, contributing 46% of the demand in H2 2015, compared to 26% in H2 2014.

SECTOR ANALYSIS

FIGURE 4

AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

SELECT TRANSACTIONS

BUILDING	OCCUPIER	LOCATION	APPROX. AREA (SQ FT)
BTS (Hiranandani Estate)	TCS	Thane	1,800,000
Godrej BKC	Abbott India	BKC	445,000
G: Corp	Quintiles	Thane	150,000
L&T Seawoods	SBI Life Insurance	Navi Mumbai	130,000
Lighthall	Piramal	Andheri East	100,000
Umang	Shoppers Stop & Hypercity	Malad	100,000
Mindspace	IDBI	Airoli	90,000
Kalpataru Prime	CMA CGM	Thane	65,000
Aventis House (Sanofi Bldg)	Ajanta Pharma	Andheri East	60,000
Indiabulls Finance Center	Yes Bank	Lower Parel	60,000

- The average deal size witnessed a jump of 34%, from 27,700 sq ft in H2 2014 to 37,300 sq ft in H2 2015, though a similar number of deals were closed in both years.
- The encouraging growth in deal size took place on account of the few large deals signed by IT/ ITeS and pharmaceutical sector companies.

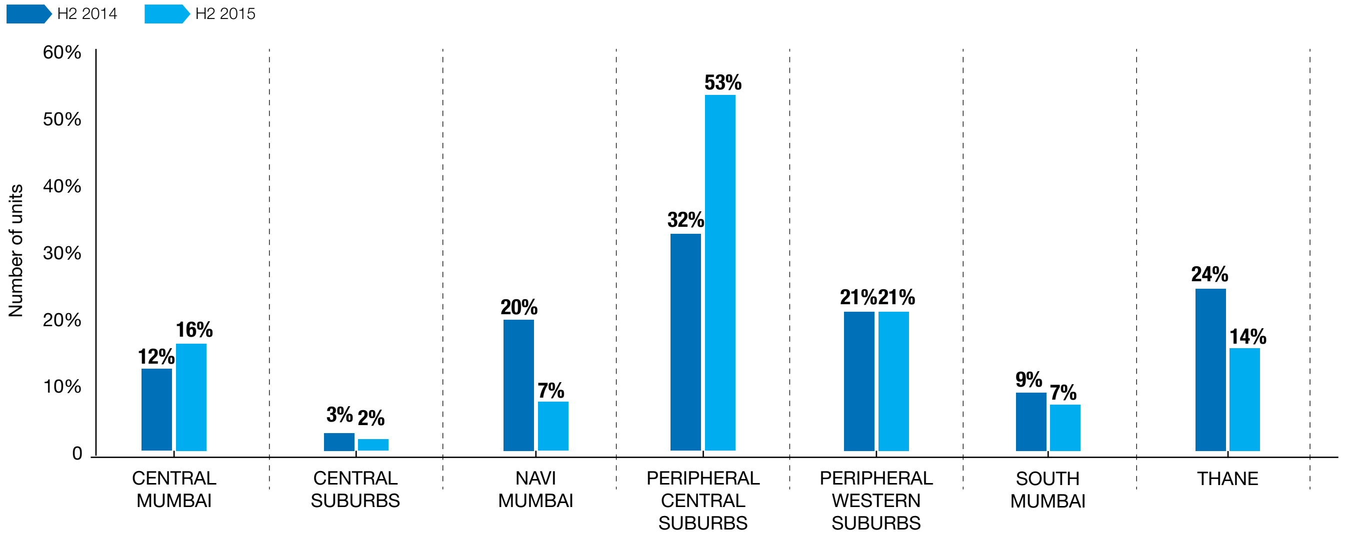
BUSINESS DISTRICT ANALYSIS

BUSINESS DISTRICT CLASSIFICATION

BUSINESS DISTRICTS	MICRO-MARKETS
CBD & off-CBD	Nariman Point, Cuffe Parade, Ballard Estate, Fort, Mahalaxmi, Worli
Bandra Kurla Complex & off-Bandra Kurla Complex (BKC & off-BKC)	BKC, Bandra (E), Kalina and Kalanagar
Central Mumbai	Parel, Lower Parel, Dadar, Prabhadevi
SBD West	Andheri, Jogeshwari, Goregaon, Malad
SBD Central	Kurla, Ghatkopar, Vikhroli, Kanjurmarg, Powai, Bhandup, Chembur
PBD	Thane, Airoli, Vashi, Ghansoli, Rabale, Belapur

FIGURE 5

BUSINESS DISTRICT-WISE ABSORPTION SPLIT



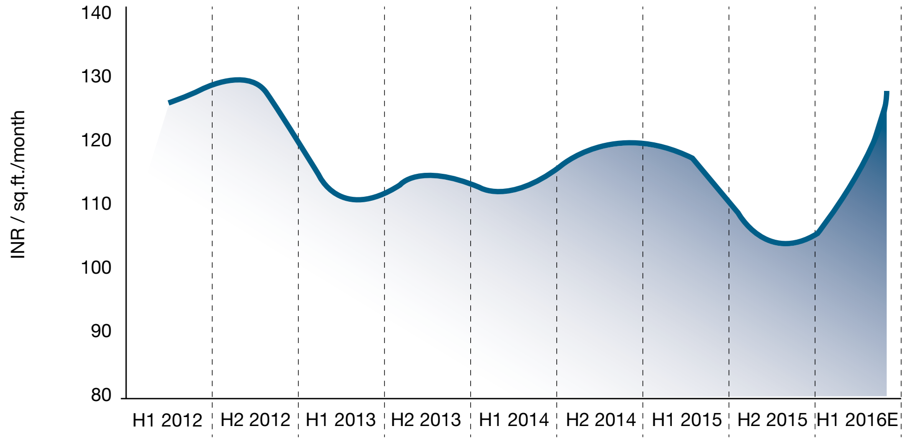
Source: Knight Frank Research

- The demand share of the PBD (Thane and Navi Mumbai) increased from 32% in H2 2014 to 53% in H2 2015 on account of the robust demand from the IT/ITeS industry.
- Central Mumbai has witnessed its share decline from 20% in H2 2014 to 7% in H2 2015, primarily on account of the receding office space options.

RENTAL TREND

FIGURE 6

WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

- The MMR weighted average rent is lower by 12%, from ₹118 / sq ft / month in H2 2014 to ₹104 / sq ft / month in H2 2015. This happened on account of the relatively lower priced PBD witnessing a jump in its share of absorption from 32% to 53% during this period.
- Notwithstanding the dip in the weighted average rent, owing to the improved demand-supply dynamics, office market rents are trending up. Markets such as Thane, Navi Mumbai, Andheri and Goregaon witnessed a rent growth of 3% in the last six months. Premium markets, such as Central Mumbai and BKC, also witnessed a rent growth of 2% in the last six months.

Notwithstanding the dip in the weighted average rent, owing to the improved demand-supply dynamics, office market rents are trending up.

BUSINESS DISTRICT-WISE RENTAL MOVEMENT

BUSINESS DISTRICT	RENTAL VALUE RANGE IN H2 2015 (₹/SQ FT/MONTH)	12 MONTH CHANGE	6 MONTH CHANGE
BKC & off-BKC	210–310	-4%	2%
CBD & off-CBD	160–260	-2%	-2%
Central Mumbai	150–190	0%	2%
PBD	50–70	5%	3%
SBD Central	80–130	-4%	-1%
SBD West	90–130	3%	3%

Source: Knight Frank Research

With macroeconomic factors such as the slowdown in China, which has impacted global growth, the India office market is expected to maintain a business-as-usual scenario in H1 2016. Knight Frank estimates the NCR office leasing to clock approximately 3.5 mn sq ft in H1 2016 with rentals firming up at key locations that offer quality office space.

OUTLOOK FOR THE NEXT SIX MONTHS

PROJECTIONS	H1 2015	H1 2016E	CHANGE
New supply (mn sq ft)	2.3	2.9	26%
Absorption (mn sq ft)	2.5	2.8	9%
Vacancy (%)	21.9%	19.7%	
Weighted average rental (₹ / sq ft / month)	117	123	5%

Source: Knight Frank Research

- Government focus, and IT/ITeS and manufacturing sector leadership will improve the MMR office market prospects, going forward. New completions will grow by 26% in H1 2016 and absorption will improve steadily by 9%, translating into a lower vacancy level of 19.7% compared to 21.9% during the same period last year.
- The IT/ITeS sector has been the largest contributor to the office demand in India, and the Maharashtra government's IT/ITeS Policy 2015 is among its latest initiatives to induce this skilled manpower-intensive industry to open offices here. The sector's large share in the latest demand number bodes well and has further improved the demand outlook.
- Encouragement in the office segment would also occur with the rising private equity interest and the shaping up pre-REIT-launch environment. This will boost supply-side aspirations to start considering new office projects.

Ankita Sood
Consultant - Research

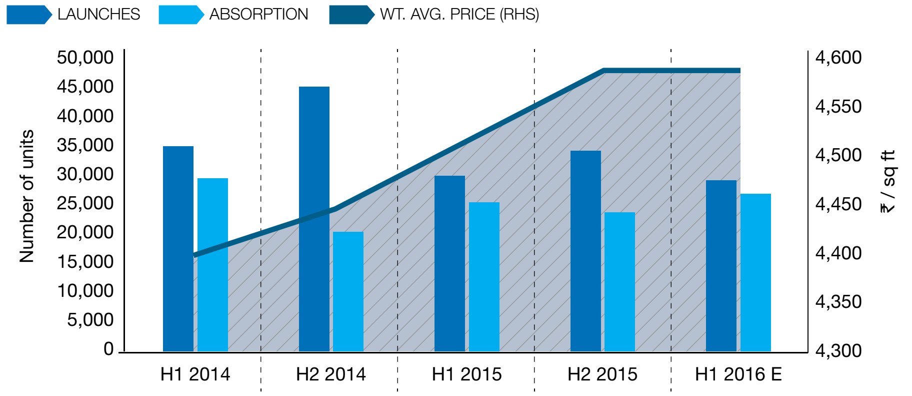
NCR

RESIDENTIAL MARKET

NCR RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

FIGURE 1

NCR MARKET TRENDS



Source: Knight Frank Research

- NCR saw the leanest year in terms of new launches since 2010.
- Dropping to 63,460 units in 2015, new launches registered a 20% dip YoY compared to 2014.
- Piling-up inventory and a low sales velocity led developers to restrict the supply of new launches in 2015.
- Slow sales velocity and delayed projects due to litigations characterised the NCR market in 2015.
- Taking cognisance of the pace of sales, developers were pressed to restrict new launches, resulting in the thinnest annual supply observed in NCR.
- The trend suggests that new launches in NCR are on a constant decline since 2010, with the average number of launched units coming down from 86,000 in 2010 to 31,700 in 2015.
- Registering a 20% drop in the number of units launched, NCR saw approximately 63,458 units launched in 2015 compared to 79,577 units in 2014.
- Though the second half of 2015 also registered a YoY drop of 24% in new project launches, there was a 15% increase in the number of project launches compared to H1 2015. This marginal increase can be attributed to the developers releasing their pent-up supply of new launches into the market.
- On the other hand, demand in NCR is yet to pick up. Approximately 48,800 units were sold in NCR in 2015, showing a negligible improvement over the 2014 sales numbers. The market refused to correct itself in the second half of 2015 and sales stood at 23,800 units in H2 2015.
- However, the market registered a 15% growth in sales in H2 2015 compared to the same period in 2014, which can be ascribed to the low base compared to the preceding years.
- Along with the impact of macroeconomic factors, delays in the delivery of some major large-scale projects have put buyers in NCR on the back foot.
- Policy fallacies, such as the opening up of new land for development, allotment of group housing licences in areas with no infrastructure, project delays due to litigations and the liquidity crunch, and stagnant incomes, have affected NCR's real estate appetite adversely.
- This three-year muted price growth indicates that residential real estate is facing a strong price resistance against unattractive and unaffordable prices in NCR.
- We forecast this trend to continue in the coming six months and project the weighted average price in NCR to grow slightly, at 2% in H1 2016, compared to the same period in 2015.

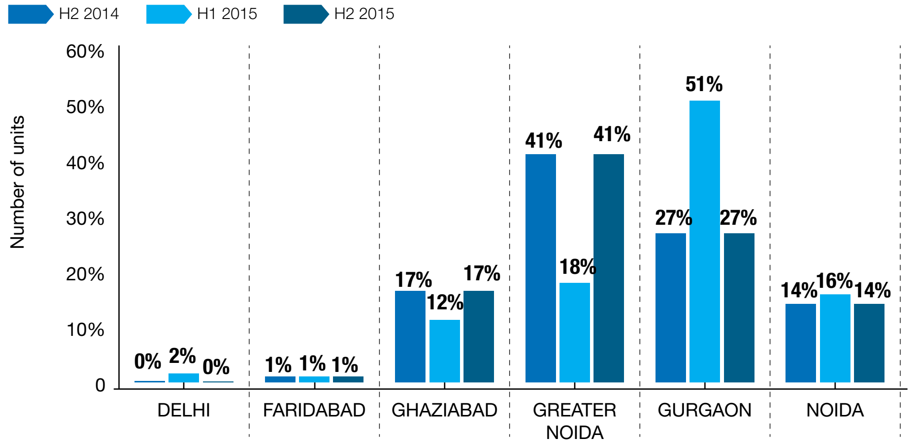
> Along with macroeconomic factors, policy fallacies, such as the opening up of new land for development, allotment of group housing licences in areas with no infrastructure, project delays due to litigations and the liquidity crunch, and stagnant incomes, have affected NCR's real estate appetite adversely. The three-year muted price growth indicates that residential real estate is facing a strong resistance to unattractive and unaffordable prices in NCR.

MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

- 68% of the total 63,458 units launched in NCR in 2015 are in Gurgaon and Greater Noida.
- Backed by the Haryana government's Affordable Housing Policy 2013, Gurgaon showed a 20% increase in new launches in 2015, compared to 2014. The policy intends to build group housing projects of a predefined size via a private developer, which would be available to buyers at a predetermined rate. The stipulated completion time for projects falling under this category is four years from the date of the approval of the building plan or obtaining the environmental clearance, failing which, there will be no renewal of the licence. The projects under this scheme are not charged with external development charges (EDC) and infrastructure development charges (IDC), thus making the homes more affordable than the private market. Gurgaon contributed significantly to the new launches in NCR in H2 2015, taking up 27% of the overall pie.
- Noida witnessed new launches decrease by 15% in 2015, with the total number of new launches at 9,475 units in 2015, compared to 11,117 units in 2015.
- New launches in Greater Noida have declined by a significant 39% in 2015, compared to 2014. However, in terms of percentage share, Greater Noida continues to be one of the largest markets considering the number of new launches in NCR, with a 41% share of the total new launches in H2 2015.
- The trend of new launches in NCR suggests that of the total number of new launches, more than half have been category of less than ₹5 mn, indicating a move towards affordable options for homebuyers. Matching the trend in H2 2015, 65% of the new launches were in the less than ₹5 mn category.
- Catering mostly to the affordable and budget segments, the maximum number of new launches in Greater Noida fall in ₹5 mn category. Keeping up with this trend, a massive 88% of the total new launches in Greater Noida in

FIGURE 2

MICRO-MARKET SPLIT OF LAUNCHED UNITS



Source: Knight Frank Research

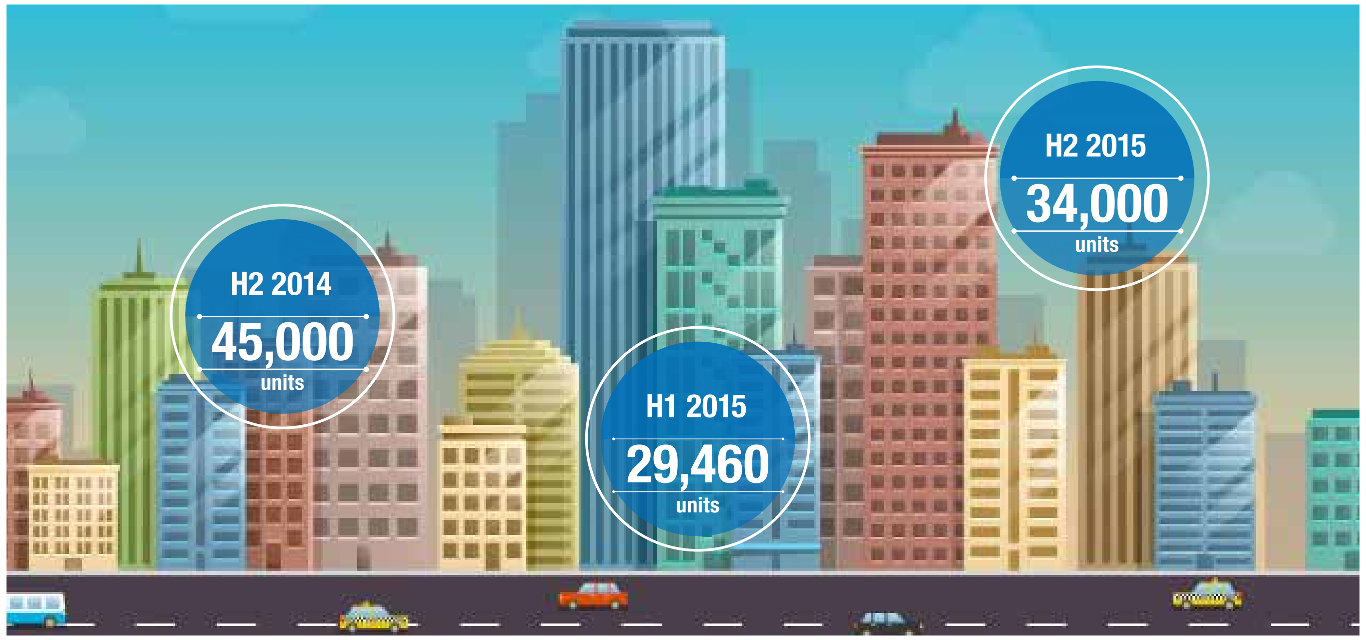
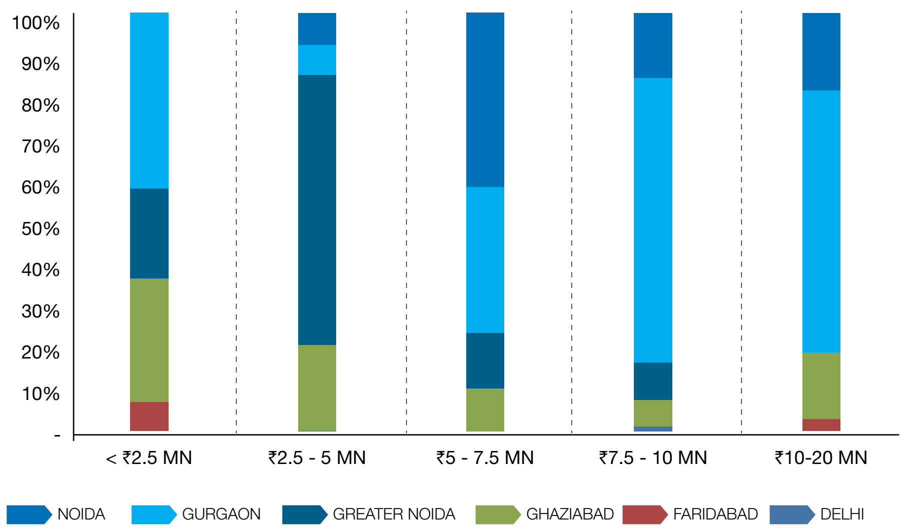


FIGURE 3

TICKET SIZE SPLIT OF LAUNCHES DURING H2 2015



Source: Knight Frank Research

H2 2015 were in the ₹2.5–5 mn category.

- Like Greater Noida, the residential market of Ghaziabad has also established itself as an affordable residential choice in NCR, owing to its low capital values. Affordable and mid-segment project launches saw a push in Ghaziabad in H2 2015, with 79% of the total new launches falling in the less than ₹5 mn category.
- A substantial 35% of the new launches in Gurgaon fall in the ₹2.5–7.5 mn category.

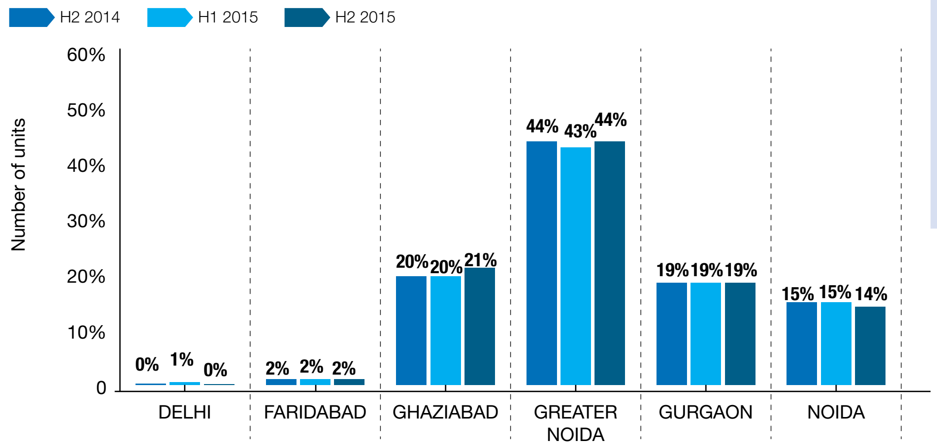
New launches in NCR have hit an all-time low, with the thinnest supply of residential units in 2015. A significant 68% of the total 63,458 units launched in NCR in 2015 are in Gurgaon and Greater Noida. While Greater Noida has always been NCR's largest micro-market by virtue of the number of units launched, Gurgaon saw an increase in the number of new launches in 2015 on the back of the Haryana government's Affordable Housing Policy, 2013.

The trend of new launches in NCR suggests that more than half of the total new launches have been in the category of less than ₹5 mn, indicating a move towards affordable options for homebuyers.

MICRO-MARKET-WISE RESIDENTIAL SALES

FIGURE 4

MICRO-MARKET SPLIT OF SALES

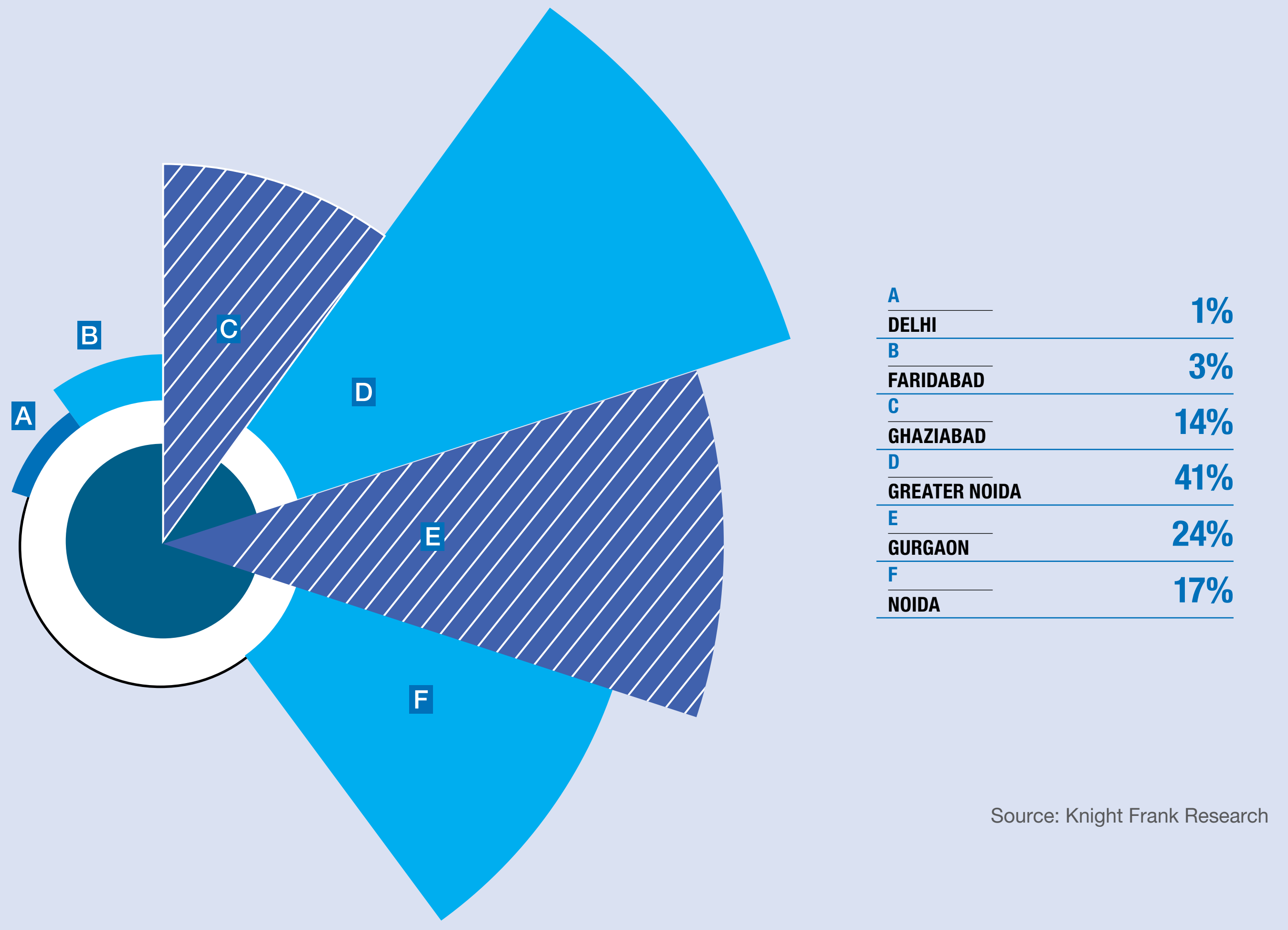


Source: Knight Frank Research

- Approximately 23,800 units were sold in the second half of 2015, compared to 20,630 units in H2 2014, thus registering a YoY increase of 15%; however, with the base remaining low, the long-term sustenance of the percentage growth is yet to be seen. The sales volume in NCR has remained muted and the percentage share of the micro-market has shown negligible deviation from the past quarters.
- Macroeconomic factors, along with ambiguity of infrastructure completions and developer delays, have adversely affected the NCR market appetite.
- Our survey findings suggest that there is a growing preference among homebuyers for ready-to-move-in projects or projects where there is a certainty of possession within a year. This growing inclination is a consequence of project delays and long gestation periods in the completion of infrastructure projects.
- Affordability has driven sales in the micro-markets of Greater Noida and Ghaziabad, as both markets have low capital values. Both markets make up a considerable 64% share of the overall sales in H2 2015.
- On the other hand, Gurgaon registered a 13% uptick in sales in H2 2015, compared to the same period in 2014. Fresh launches in New Gurgaon and New Sohna have provided buyers with several options in the steep price market of Gurgaon, thus giving some traction to the market.

The looming uncertainty over project deliveries and the unaffordability of the existing supply have depressed buyer sentiments in NCR. Our survey findings suggest that there is a growing preference among homebuyers for ready-to-move-in projects or projects where there is a certainty of possession within a year. This is a consequence of project delays and long gestation periods in the completion of infrastructure projects.

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS IN H2 2015



Source: Knight Frank Research

INFRASTRUCTURE LAG DAMPENS CONSUMER SENTIMENTS

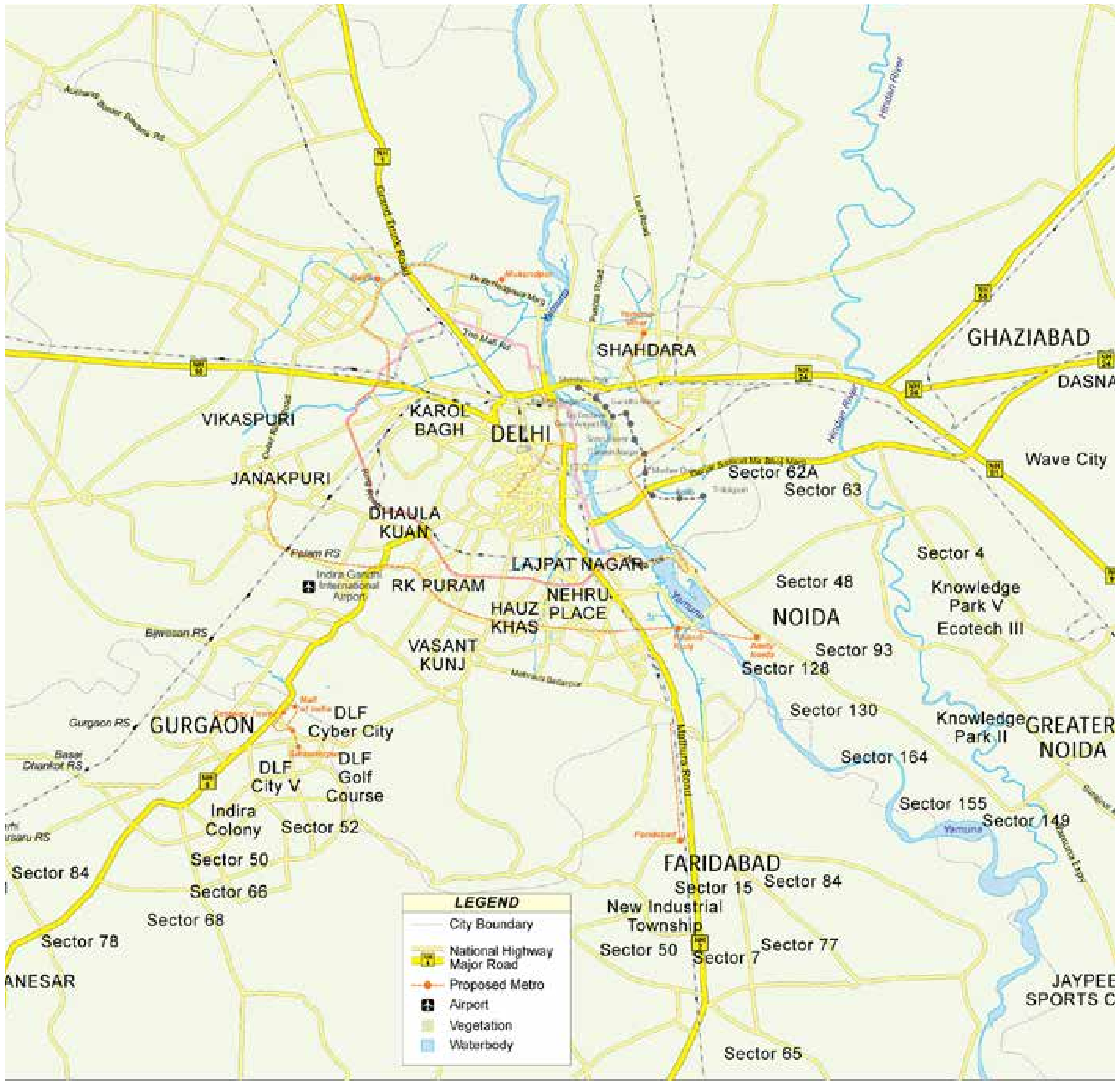
The current real estate market scenario has put stakeholders on the back foot. At some places, even ready inventory does not have takers, while elsewhere, end users are not moving in. Theoretically, when a particular area undergoes development, the infrastructure is first put in place to form the base, followed by real estate, which cashes in on the infrastructure by developing around it. However, this does not happen in practical application.

When the market was up, developers would start selling even before construction began. This was called the infamous pre-launch or soft launch stage. Developers enticed buyers with discounts on the final selling rates and gathered large sums of money from investors to fund the project, as well as divert money to other projects.

On the other hand, since large infrastructure projects involve immense costs and negotiations with the inhabitants of village settlements in the area, government projects usually exceed the time committed for completion. This mismatch between project delivery and the completed infrastructure leads to uninhabited areas – most of our urban development is an unfortunate consequence of such mismatches.

This scenario has caused buyers to be more cautious about investing their money. Insights suggest that factors such as good connectivity, employment and social infrastructure, including schools, colleges and hospitals, have begun to command more importance in the recent past. The increased number of queries for ready-to-move-in apartments and projects in proximity to the city centre in NCR hint that the buyers are mostly end users who do not want to risk investing in bad products. On the price front, due to the overall macroeconomic scenario, the market is in a catch-22 situation – neither is the demand side willing to invest nor the supply side ready to bring down costs, though some developers are offering discounts after negotiations. The value addition of every rupee spent has become the new sale mantra of some developers.

Buyer awareness has revived concepts such as 'habitation plans' and 'customer experience centres' in NCR. Such tools become increasingly important while attempting to attract customers to areas further away from the city. Shuttle services, 24x7 ambulances and doctors on call, all-round security and tie-ups with service agencies, such as laundry and housekeeping, are some of the elements that have helped developers attract buyer interest in their projects.



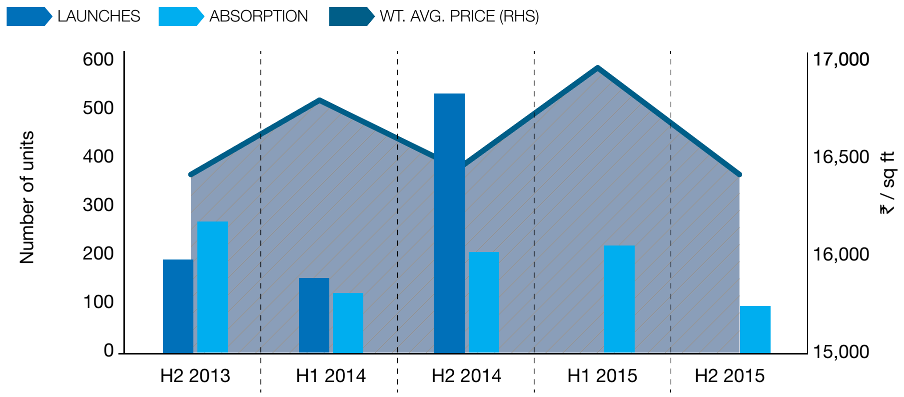
PREMIUM RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

Micro-market	Premium locations
Gurgaon	Sectors 42, 53, 54, 58, 59, 65, Gurgaon–Faridabad Road
Noida	Sectors 16 B, 100

The average sales velocity in NCR's premium segment has slowed down considerably. Insights suggest that clear titles, a shift in lifestyle and positive returns are inducing buyers to buy property oversees. Buyers that are either looking for a second home, have children studying abroad or are looking for a long-term investment are seen exploring this option, which is changing the dynamics of this segment.

FIGURE 5

PREMIUM MARKET TRENDS



Source: Knight Frank Research

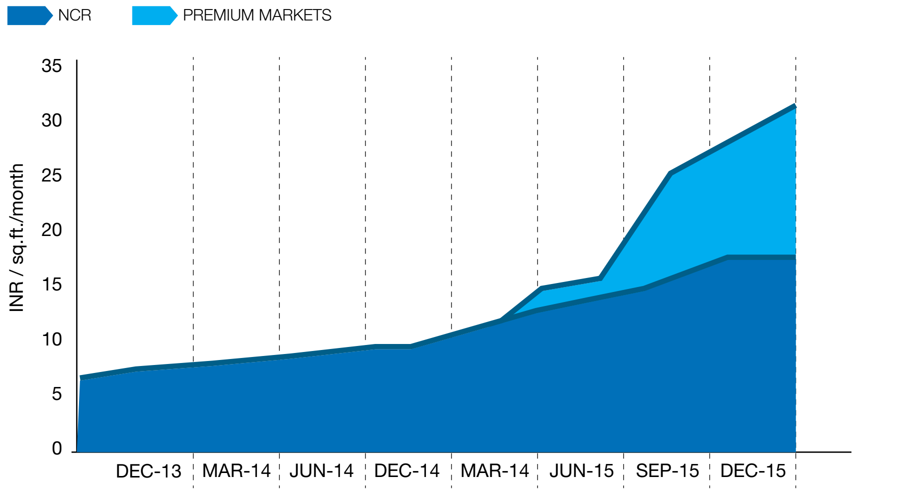
Note: Premium markets include locations where the average ticket size of a residential unit is above ₹30 mn, are in close proximity to the central business district of the city and have witnessed new project launches in the preceding three years

- The NCR agglomeration comprises five micro-markets, namely Delhi, Gurgaon, Noida, Greater Noida, Faridabad and Ghaziabad, of which Gurgaon and Noida are seen as premium markets, with a fresh inventory above ₹30 mn.
- The slowdown in the NCR residential market has hit the premium segment the most. Despite there being no new launches in the premium segment in Gurgaon and Noida in 2015, the QTS was pushed to 31 quarters from 25 quarters in a mere two-quarter period.
- No new launches in 2015 comes in the wake of weak buyer demand for the premium segment, resulting in developers opting to exhaust the current inventory instead of blocking capital in high-ticket-size projects.
- The average sales velocity in the premium segment in NCR has slowed down considerably. Insight suggests that clear titles, a shift in lifestyle and positive returns are inducing buyers to buy property oversees. Buyers that are either looking for a second home, have children studying abroad or are looking for a long-term investment are seen exploring this option, which is changing the dynamics of this segment.
- Reflecting the overall market sentiment, the weighted average price growth in the premium segment remains muted in H2 2015, compared to the same period in 2014.

NCR MARKET HEALTH

FIGURE 6

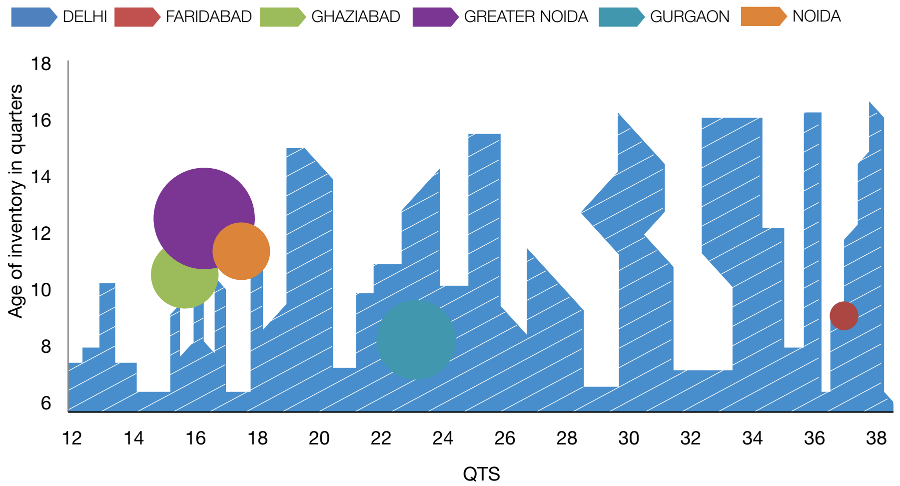
QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS



Source: Knight Frank Research

FIGURE 7

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

The NCR market became overly bullish with a flurry of new project launches and was headed for oversupply in 2010–2012. The demand did not keep pace with the supply, which led to the slowdown in residential real estate. NCR has moved from a QTS of 15 to 17 in a six-month period due to sluggish sales velocity, which has pushed the QTS to nearly 5 years. The unsold inventory stands at approximately 206,030 units as of December 2015.

- The quarters to sell unsold inventory (QTS) is the number of quarters required to exhaust the existing unsold inventory in the market. The existing unsold inventory is divided by the average sales velocity of the preceding eight quarters in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market.
- NCR has moved from a QTS of 15 to 17 in a six-month period. Though H1 2015 was the leanest half in terms of new launches, the absence of sales velocity has pushed the QTS to nearly 5 years. The unsold inventory stands at approximately 206,030 units till December 2015.
- The market became overly bullish with a flurry of new project launches and was headed for oversupply in 2010–2012. However, demand did not keep pace with the supply, which led to the slowdown in residential real estate.
- Pushed by the affordable and mid-segment demand, Ghaziabad and Greater Noida are NCR's best performing markets, with a QTS of 14 and 15 respectively.

PRICE MOVEMENT DURING H2 2015

WEIGHTED AVERAGE PRICE MOVEMENT IN NCR

LOCATION	PRICE RANGE IN H2 2015 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
NCR	4,578	3%	1%
Premium markets	16,373	0%	-4%

PRICE MOVEMENT IN SELECT LOCATIONS

LOCATION	MICRO-MARKET	PRICE RANGE IN H1 2015 (₹/ SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Yamuna Expressway	Greater Noida	3,295–3,557	3%	0%
Sector Chi V	Greater Noida	3,448–3,514	2%	2%
Sector Pi	Greater Noida	3,545–3,576	1%	1%
Sector 16 B	Greater Noida	3,444–3,497	1%	1%
Sector 78	Noida	5,600–5,627	-1%	0%
Sector 70	Noida	4,000–4,083	2%	0%
Sector 117	Noida	4,850–4,905	1%	0%
Sector 131	Noida	5,900–6,000	2%	0%
Sector 37	Gurgaon	5,243–5,600	-4%	0%
Sector 49	Gurgaon	7,800–10,900	0%	0%
Sector 67	Gurgaon	9,222–9,255	7%	0%
Sector 79	Gurgaon	4,500–6,500	-2%	0%
Sector 82	Gurgaon	3,700–5,900	0%	0%
NH-24 Bypass	Ghaziabad	2,842–2,888	3%	2%
Raj Nagar Extension	Ghaziabad	2,884–2,959	3%	1%
Crossings NH24	Ghaziabad	3,200–3,242	0%	2%
Sector 37	Faridabad	7,900–8,137	3%	0%
Sector 75	Faridabad	3,550–3,636	1%	1%
Sector 87	Faridabad	3,448–3,600	1%	0%

- The growth rate of the weighted average price has been witnessing a downward trend since 2013 and has slowed down considerably, from 6% in H1 2013 to a mere 1% in H2 2015.
- The trend suggests that there has been no major price increase in NCR in the past quarters, which reflects a price correction.
- The price stagnation has also affected the premium segment, with negligible deviations from the preceding quarters.

The growth rate of the weighted average price has been witnessing a downward trend since 2013 and has slowed down considerably, from 6% in H1 2013 to a mere 1% in H2 2015. The trend suggests that there has been no major price increase in NCR in the past quarters, which reflects a price correction.

OUTLOOK FOR THE NEXT SIX MONTHS

Projections	H1 2015	H1 2016E	Growth
Launches (units)	29,460	28,000	-5%
Absorption (units)	25,000	26,000	4%
Weighted average price (₹/sq ft)	4,511	4,580	2%

Source: Knight Frank Research

- The realty market in NCR will continue to remain muted in the first half of 2016. Knight Frank estimates sales to plug around 26,000 units in the coming two quarters.
- Developers will keep new launches in check and we estimate new launches to stay below 30,000 units in the first half of 2016, with stagnation in the weighted average prices.
- Delays in projects have made buyers cautious of defaulting developers. Till they are fully convinced, buyers will continue to assess projects and developers before purchasing property, and this is where the developers' brand and credibility will come into play.
- The recent developments in 2015, such as the clearance of the Dwarka Expressway litigation in Gurgaon, have had a positive impact on the market. With the 18-km expressway now completely litigation-free, buyer interest in the zone is expected to revive.

Developers are trying to reconnect with buyers through exhibitions and attractive payment plans, but the far-reaching effects of these steps on the sales velocity are yet to be seen. Factors such as affordability, ready-to-move-in properties with visibility on the project construction and upcoming infrastructure will drive sales in the coming quarters.

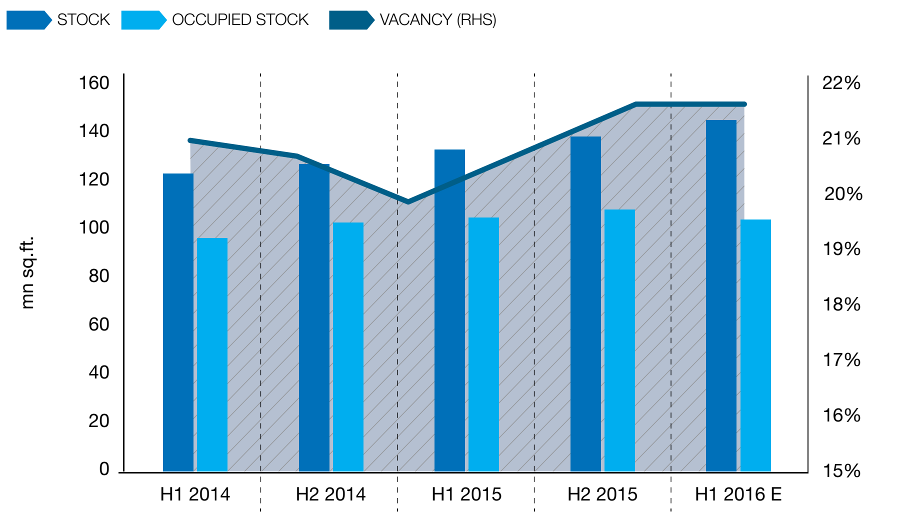
The NCR market maintained its absorption appetite in 2015, achieving a total of 7.4 mn sq ft of absorbed office space at the end of the year. Driven by corporate demand, 3.7 mn sq ft of office space was clocked in the second half of 2015. However, new project completions pushed the vacancy levels to 21.5%.

OFFICE MARKET

NCR OFFICE MARKET STOCK, NEW COMPLETIONS, ABSORPTION AND VACANCY TRENDS

FIGURE 1

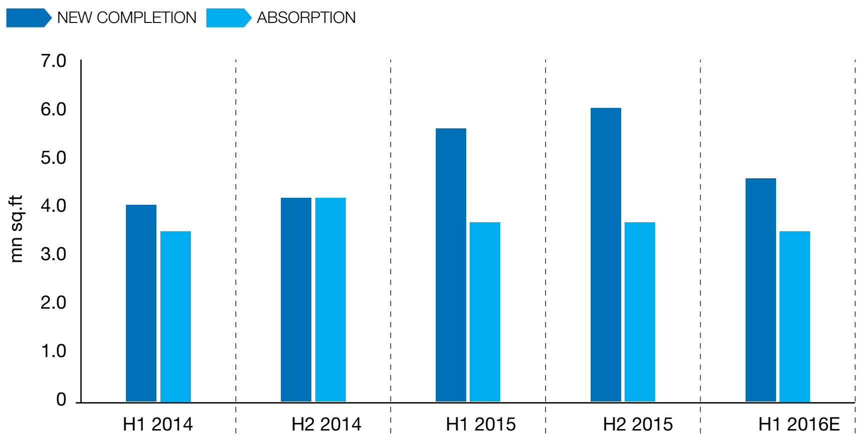
OFFICE SPACE STOCK AND VACANCY LEVELS



Source: Knight Frank Research

FIGURE 2

NEW COMPLETIONS AND ABSORPTION



Source: Knight Frank Research

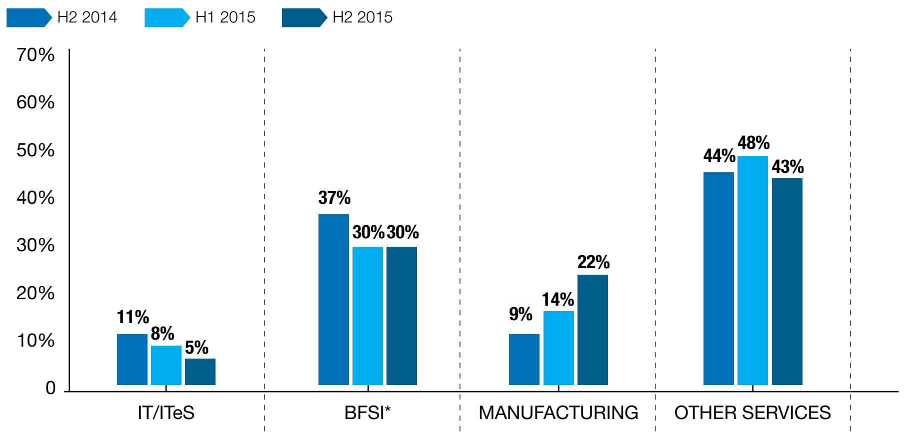
- The office stock in NCR stood at 138 mn sq ft till the end of December 2015, of which 108 mn sq ft is occupied stock.
- The influx of pent-up project completions in 2015 has been instrumental in nudging the vacancy levels from 20% in H2 2014 to 21.5% in H2 2015, with micro-markets such as Greater Noida contributing significantly to the new supply.
- In terms of leasing, H2 2015 saw a total of 3.7 mn sq ft of office space transactions. The market maintained its absorption appetite, achieving a total of 7.4 mn sq ft of absorbed space at the end of 2015.
- A pent-up supply of 11.5 mn sq ft in the NCR market led to a 42% growth in new completions in 2015, compared to the previous year.

SECTOR ANALYSIS

- Corporate demand outdid the IT/ITeS sector in NCR once again, to emerge as the driving sector for office space demand in H2 2015.
- The other services sector drove office space demand in NCR during this half, backed by strong demand from consulting and e-commerce companies, such as Bain Consulting, Boston Consulting Group and SpiceJet.
- The second half of 2015 also saw some large size e-commerce transactions by companies such as Grofers, Hike and Groupon. E-commerce is considered a part of the other services sector, since retail is the driving factor behind the business.
- Another segment that saw growth in terms of transacted space was the manufacturing sector. The sector registered a more than double-digit growth in terms of transacted space, which increased from 0.35 mn sq ft in H2 2014 to

FIGURE 3

SECTOR-WISE SPLIT OF ABSORPTION



Source: Knight Frank Research

Note: * BFSI includes BFSI Support Services

Corporate demand outdid the IT/ITeS sector in NCR once again, to emerge as the driving sector for office space demand in H2 2015. The other services sector drove office space demand in NCR during this half, backed by strong demand from consulting and e-commerce companies. The change in the dynamics of the IT sector is responsible for its slowdown, which is increasingly emphasising on automation, and in turn, leading to a slowdown in hiring by larger IT firms, thus getting translated into a dull demand and cautious moves for large office spaces.

0.80 mn sq ft in H2 2015. Take-ups by companies such as Vivo in Greater Noida, Ericsson in Noida and Airbus in SBD Delhi contributed significantly to the sector's demand in this half. Long facing a slowdown, the impact of the Make in India campaign on the sector's movement is yet to be seen.

- There was a 27% drop in the total transacted space of the IT/ITeS sector in H2 2015, compared to the same period in 2014. In terms of percentage share in the overall NCR transacted space, the sector is seen to be losing out to the other services sector.

QUALITY SPACE COMMANDS PREMIUM

NCR's economy is driven by multiple industries – primarily manufacturing, IT/ITeS, small and medium enterprises, banking, financial services and insurance (BFSI), and consulting. While the national capital attracts the BFSI sector, Faridabad and Ghaziabad are perceived to be manufacturing and industrial towns, and Noida and Gurgaon are driven by the IT/ITeS sector.

However, over the past few years, the IT/ITeS and other services sectors have emerged as the largest employers in NCR, thereby evolving as the biggest drivers of the city's office market, which is evident from the year-over-year absorption trends. With a current office stock of 138 mn sq ft and a vacancy of 21.5% as of H2 2015, NCR's office market is second only to Bangalore. Since many industries drive the office market in NCR, the office footprint is a mixture of all types of building construction specifications that vary across the business districts of this agglomeration.

For instance, the National Capital Territory (NCT) of Delhi, which forms the CBD of NCR, has several old buildings; however, since it is the oldest commercial business district of NCR and also the political seat, its importance to offices, especially in the BFSI sector, holds true. The business district, however, lags behind in quality office spaces with large floor plates and associated infrastructure facilities. On the other hand, the peripheral business districts of Noida and Gurgaon attract corporate and IT/ITeS companies that are looking for quality office spaces and well-developed infrastructure that gives them the ease of business.

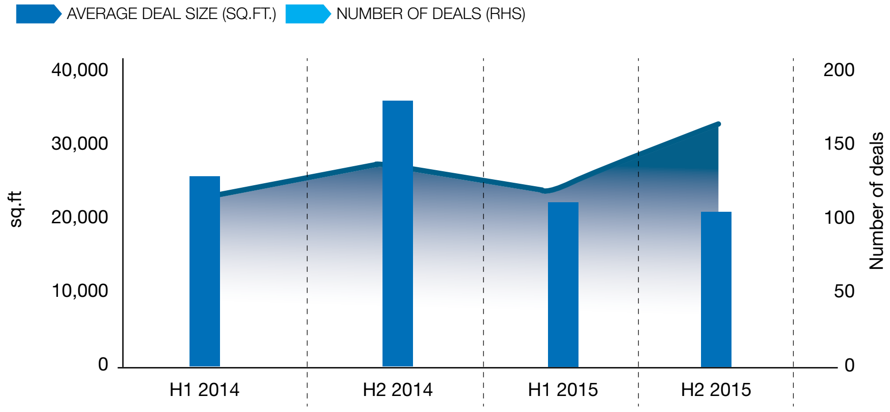
Insights suggest that lately, occupiers across business districts are willing to pay more for good quality office spaces, which resulted in high-value transactions in 2015. The swift leasing of some prime office buildings, such as One Horizon Centre and DLF Two Horizon Centre in Gurgaon, Red Fort Capital in CBD Delhi and Worldmark in Aerocity, bears testament to the demand for quality office spaces in NCR. Today, occupiers are willing to spend the extra buck, not only for prime office real estate but also for choice locations within the office complex. Concepts such as preferential location charges (PLC), which only applied to residential projects, are now catching up even in the office segment in NCR.

Higher floors, floor direction, utilities and facilities are all attracting occupiers looking for a 'sense of address and extravagance'. Going forward, this trend is seen to be backed by corporate occupiers, international financial institutions and the other services sector.

DEAL SIZE ANALYSIS

FIGURE 4

AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

- Small- to mid-size transactions dominated the leasing activity in NCR in H2 2015. Approximately 57% of the total number of transactions in H2 2015 involved floor plates of less than 12,500 sq ft.
- The average transacted space came down significantly, to 21,000 sq ft in H2 2015, from 35,600 sq ft in H2 2014, registering a drop of 41%. Factors such as the macroeconomic slowdown, cautious expansion plans and more of corporate sector occupancy than the large floor space seeking IT/ITeS sector have contributed to the shrinking size of the office space demand in NCR.
- Gurgaon led the tally of the number of deals once again, with 54% of the 175 deals in H2 2015, followed by 39 deal conversions in the peripheral business district of Noida and 28 deals in the secondary business district of Delhi, in locations such as Aerocity and Jasola.

Small- to mid-size transactions dominated the leasing activity in NCR in H2 2015. Approximately 57% of the total number of transactions in H2 2015 involved floor plates of less than 12,500 sq ft.

However, a few large-sized transactions by companies such as Vivo, Google, Reliance Jio and arvato pushed up the overall absorption levels in the second half of the year.

SELECT TRANSACTIONS

OCCUPIER	BUILDING	LOCATION	APPROX. AREA (SQ FT)
Vivo	World Trade Centre	Tech Zone – 1, Greater Noida	293,000
Google	Signature Towers II	NH-8, Gurgaon	207,161
arvato India	Phase V	Udyog Vihar, Gurgaon	100,000
SpiceJet	Phase IV	Udyog Vihar, Gurgaon	100,000
Ernst & Young	Worldmark	Aerocity, SBD Delhi	98,000
Reliance Jio	Logix Cyber Park	Sector 62, Noida	92,000
Boston Consulting Group	Building 9 A	DLF Cyber City, Gurgaon	80,000
Mercer	ASF Insignia	Gwal Pahari, Gurgaon	69,000
Groupon	Paras Twin Towers – A	Golf Course Road, Gurgaon	61,410
IGATE	Infospace 2	Sector 135, Noida	60,000

OCCUPIER	BUILDING	LOCATION	APPROX. AREA (SQ FT)
Hike	Worldmark	Aerocity, SBD Delhi	59,585
Bain Consulting	DLF Building 8	DLF Cyber City, Gurgaon	52,000
Grofers	Plot 81	Sector 32, Gurgaon	50,000
UrbanClap	Sector 18	Udyog Vihar, Gurgaon	35,000
Uber	One Horizon Centre	Golf Course Road, Gurgaon	33,000
PWC	Building 8C	DLF Cyber City, Gurgaon	30,647
Airbus	Worldmark	Aerocity, SBD Delhi	30,000
Gaadi.com	Plot No. 49	Sector 44, Gurgaon	25,000
Delhivery	Veritas Tower	Golf Course Road, Gurgaon	12,000
Cisco System Pvt Ltd	EastTower	Barakhamba Road, CBD Delhi	7,650

Source: Knight Frank Research

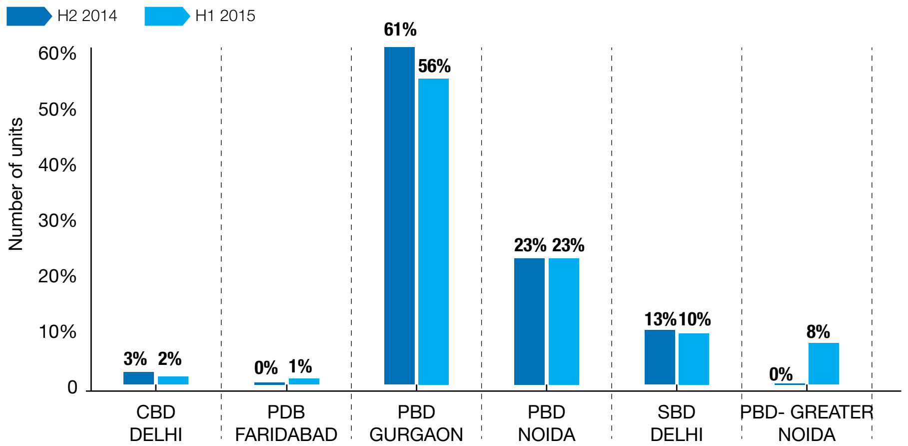
BUSINESS DISTRICT ANALYSIS

BUSINESS DISTRICT CLASSIFICATION

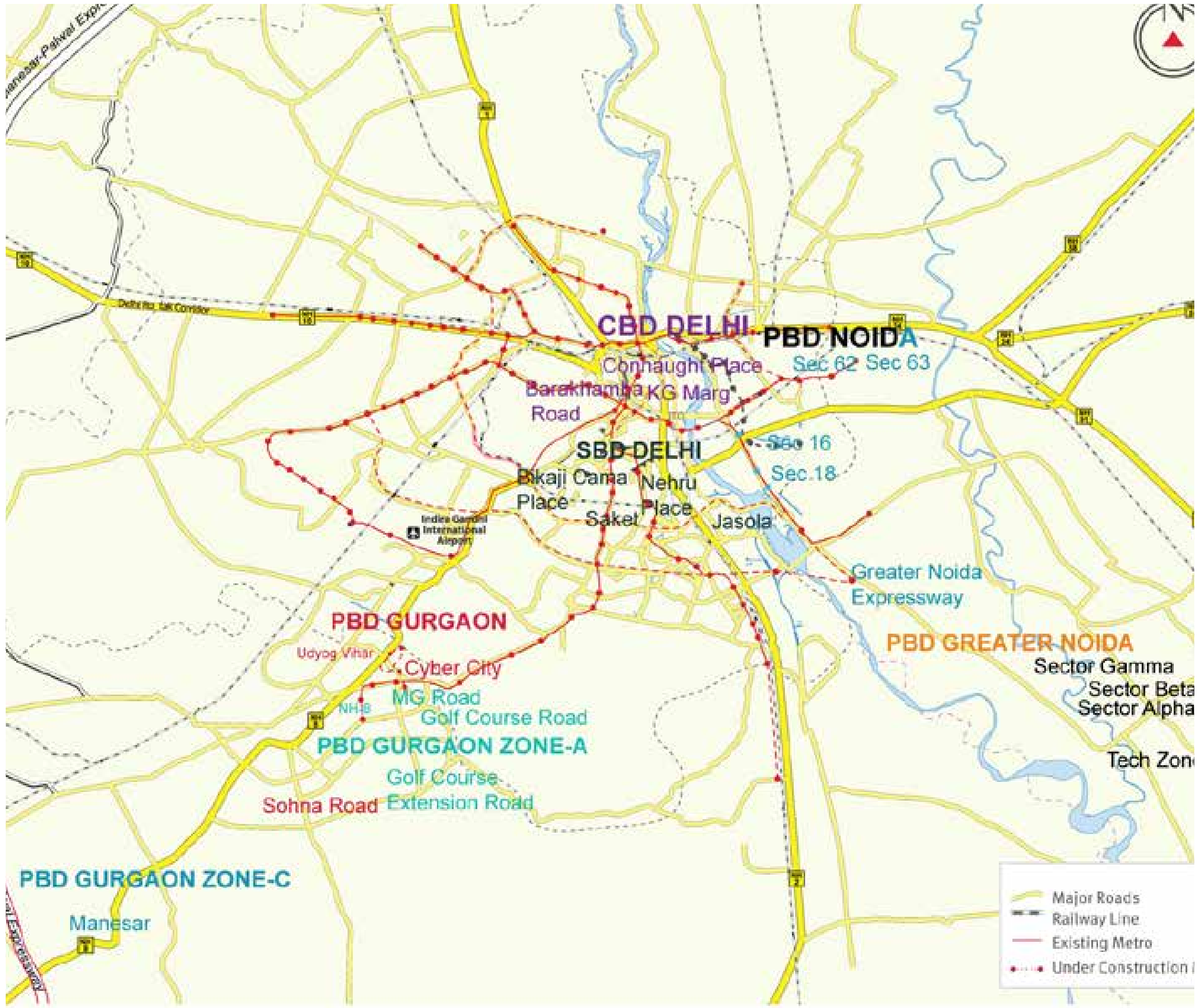
BUSINESS DISTRICTS	MICRO-MARKETS
CBD Delhi	Connaught Place, Barakhamba Road, Kasturba Gandhi Marg and Minto Road
SBD Delhi	Nehru Place, Saket, Jasola, Bhikaji Cama Place, Mohan Cooperative and Aerocity
PBD Gurgaon Zone A	MG Road, NH-8, Golf Course Road and Golf Course Extension Road
PBD Gurgaon Zone B	DLF Cyber City, Sohna Road, Udyog Vihar and Gwal Pahari
PBD Gurgaon Zone C	Manesar
Noida	Sectors 16, 18, 62, 63 and the Noida–Greater Noida Expressway
Faridabad	Sector Alpha, Beta, Gamma and Tech Zone

FIGURE 5

BUSINESS DISTRICT-WISE ABSORPTION SPLIT



Source: Knight Frank Research



While commercial office demand drove leasing in the peripheral business district of Gurgaon, Noida continues to be a preferred office space for the IT/ITeS sector. The secondary business district of Delhi saw some movement in the second half of 2015, with notable companies taking up space in Worldmark.

GURGAON

- PBD Gurgaon emerged as the most preferred business district in NCR once again, taking up 56% of the total absorption pie of 3.7 mn sq ft in H2 2015.
- The market also registered an increase of 51% in the number of deals over the same period in 2014, with a marginal decline in the average transaction size.
- Office space in Gurgaon is driven primarily by the quality office space offered, which agrees with the needs of the occupiers.
- Some of the locations that saw major traction in Gurgaon in H2 2015 are DLF Cyber City and M. G. Road. Approximately 40% of the 95 deal closures in Gurgaon in H2 2015 were concentrated in these locations.
- The other services sector dominated the Gurgaon leasing activity yet again, with more than half of the total leasing in Gurgaon driven by consulting and e-commerce companies, such as PWC, Uber, Bain Consulting, Boston Consulting, Deloitte, SpiceJet, Groupon, OYO Rooms, UrbanClap, Grofers and Delhivery.

NOIDA

- Leasing activity in Noida continued to be dull in H2 2015. In terms of transacted space, this micro-market registered a 9% drop in leased space in H2 2015, compared to the same period in 2014.
- Unlike Gurgaon, IT/ITeS drove leasing activity in Noida in H2 2015, taking up 57% of the total 0.85 mn sq ft leased in this peripheral business district. Companies such as Fidelity, Reliance Jio, SafeNet and IGATE were among the major occupiers in this sector in H2 2015.

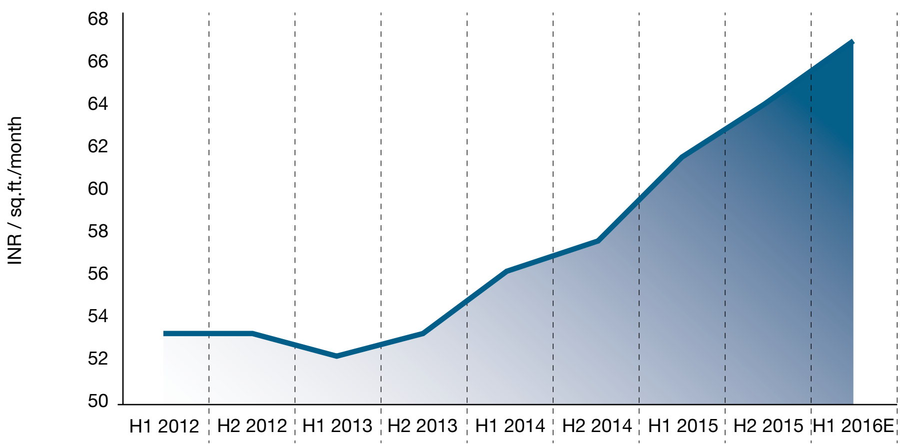
CBD AND SBD DELHI

- Leasing activity in CBD Delhi was concentrated around Barakhamba Road and Bhai Veer Singh Marg, with eBay, ICICI Lombard, IFCI Limited and Cisco taking up spaces in the area.
- Aerocity in SBD Delhi saw some movement in the second half of 2015, with notable companies such as Ernst & Young, Hike, Airbus and Bharti Softbank taking up spaces in Worldmark.

RENTAL TREND

FIGURE 6

WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

BUSINESS DISTRICT-WISE RENTAL MOVEMENT

BUSINESS DISTRICT	RENTAL VALUE RANGE IN H2 2015 (₹/SQ FT/MONTH)	12 MONTH CHANGE	6 MONTH CHANGE
CBD Delhi	208–350	4%	1%
SBD Delhi	93–163	3%	4%
PBD Gurgaon Zone A	94–159	18%	5%
PBD Gurgaon Zone B	63–134	7%	5%
PBD Gurgaon Zone C	25–35	0%	0%
Noida	44–64	10%	1%
Faridabad	45–55	0%	0%

Source: Knight Frank Research

- Though new completions have pushed up the overall vacancy rates in NCR, the weighted average rentals seem to be firming up in the region.
- The weighted average rental values witnessed a sharp 11% increase, from ₹58 per sq ft per month in H2 2014 to ₹64 per sq ft per month in H2 2015.
- Going forward, we expect the weighted average rentals to increase by 5% from the current values in H2 2015, to around ₹67 per sq ft per month in H1 2016.
- However, quality office space in micro-markets such as Gurgaon is expected to witness a significant upward pressure on price.

OUTLOOK FOR THE NEXT SIX MONTHS

PROJECTIONS	H1 2015	H1 2016E	GROWTH
New supply (mn sq ft)	5.5	4.5	-18%
Absorption (mn sq ft)	3.7	3.5	-5%
Vacancy (%)	20.7%	21.5%	
Weighted average rental (₹/sq ft/month)	62	67	9%

Source: Knight Frank Research

- With macroeconomic factors such as the slowdown in China, which has impacted global growth, the India office market is expected to maintain a business-as-usual scenario in H1 2016.
- The slowdown in the manufacturing sector has been plaguing the country for a long time now, and the impact of government initiatives, such as the Make in India campaign, are yet to be seen.
- Going forward, we expect the NCR office market to sustain its half-yearly momentum in H1 2016, and envisage the absorption of approximately 3.5 mn sq ft.
- New completions will continue to pump approximately 4–5 mn sq ft in the market, which will lead to an increase in the overall vacancy rates.

Despite macroeconomic factors, such as the slowdown in China, which has impacted global growth, the India office market is expected to maintain a business-as-usual scenario in H1 2016. Knight Frank estimates the NCR office leasing to clock approximately 3.5 mn sq ft in H1 2016, with rentals firming up at key locations that offer quality office space.

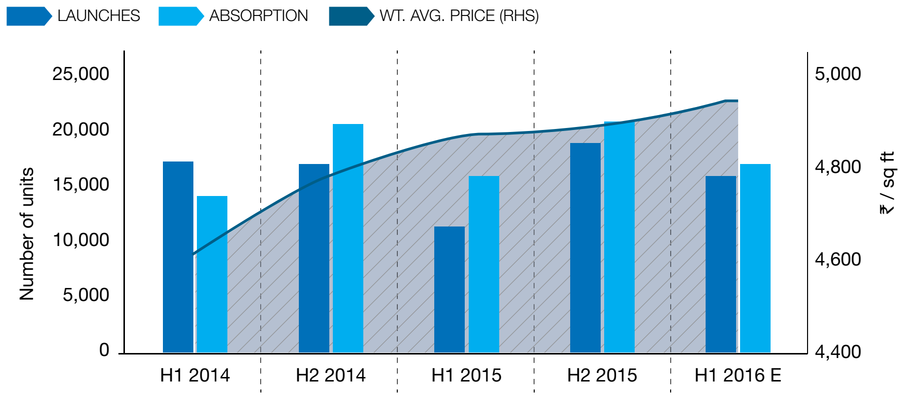
Hetal Bachkaniwala
Vice President - Research

PUNE

RESIDENTIAL MARKET

PUNE RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

FIGURE 1
PUNE MARKET TRENDS



Source: Knight Frank Research

- 2015 was the best time to buy property in Pune, as the steady sales volume and stagnant price growth provided an ideal opportunity for homebuyers.
- While the sales volume grew marginally, by 4% in 2015 compared to the previous year, new launches dropped by 8% during the same period.
- However, encouraged by the consistent growth in sales volume, developers were back in action during H2 2015. New launches increased by 9% during H2 2015 compared to H2 2014.
- Nonetheless, new launches are still commanding old prices. The majority of the new launches in H2 2015 are in price ranges similar to those of H1 2015.
- The price growth in Pune has fallen from above 12% to less than 2% over the last three years. This consistent drop in price growth presents a good opportunity for homebuyers to buy property. Going forward, we do not expect prices to rise significantly, and hence, continue to recommend that buyers take advantage of this scenario.

New launches are still commanding old prices. The majority of the new launches in H2 2015 are in price ranges similar to those of H1 2015.

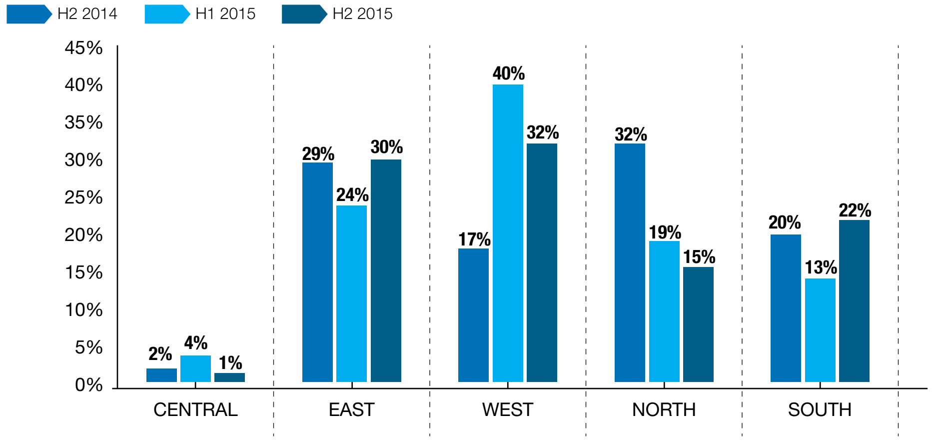
MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

- South Pune has witnessed renewed interest from the developer community, with its share in the total new launches increasing steadily since H2 2014. Undri, Pisoli, Sinhgad Road and Kondhwa Road are some of the locations in South Pune that have recorded new launches during the last six months.
- North Pune's share has been falling gradually from the last year, as the existing under-construction projects are yet to offload a significant portion of their inventory. This has led to most of the developers in this area postponing new project launches for the coming six months.
- North Pune continues to remain the most affordable market in the city, as 93% of the new launches in H2 2015 were below the ticket size of ₹5 mn. Central Pune is the least affordable market, as more than 85% of the new launches in H2 2015 were above the ticket size of ₹10 mn.

North Pune continues to remain the most affordable market in the city, as 93% of the new launches in H2 2015 were below the ticket size of ₹5 mn. Central Pune is the least affordable market, as more than 85% of the new launches in H2 2015 were above the ticket size of ₹10 mn

FIGURE 2

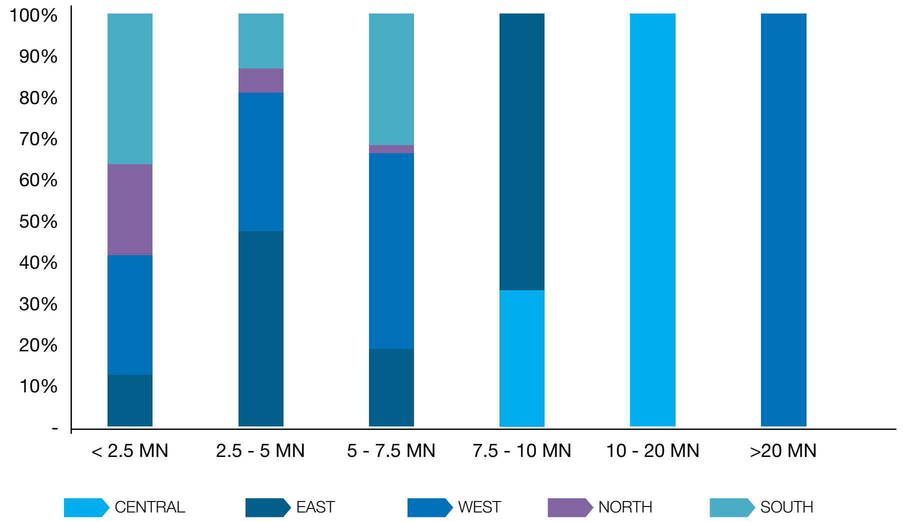
MICRO-MARKET SPLIT OF LAUNCHED UNITS



Source: Knight Frank Research

FIGURE 3

TICKET SIZE SPLIT OF LAUNCHES DURING H2 2015



Source: Knight Frank Research

MICRO-MARKET-WISE RESIDENTIAL SALES

MICRO MARKETS OF PUNE

MICRO-MARKET	LOCATIONS
Central	Koregaon Park, Boat Club Road, Erandwane, Deccan, Kothrud, Model Colony
East	Viman Nagar, Kharadi, Wagholi, Hadapsar, Dhanori
West	Aundh, Baner, Wakad, Hinjewadi, Bavdhan, Pashan
North	Pimpri, Chinchwad, Moshi, Chikhali, Chakan, Talegaon
South	Kondhwa, Ambegaon, Undri, Dhayari, Warje, Sinhgad Road

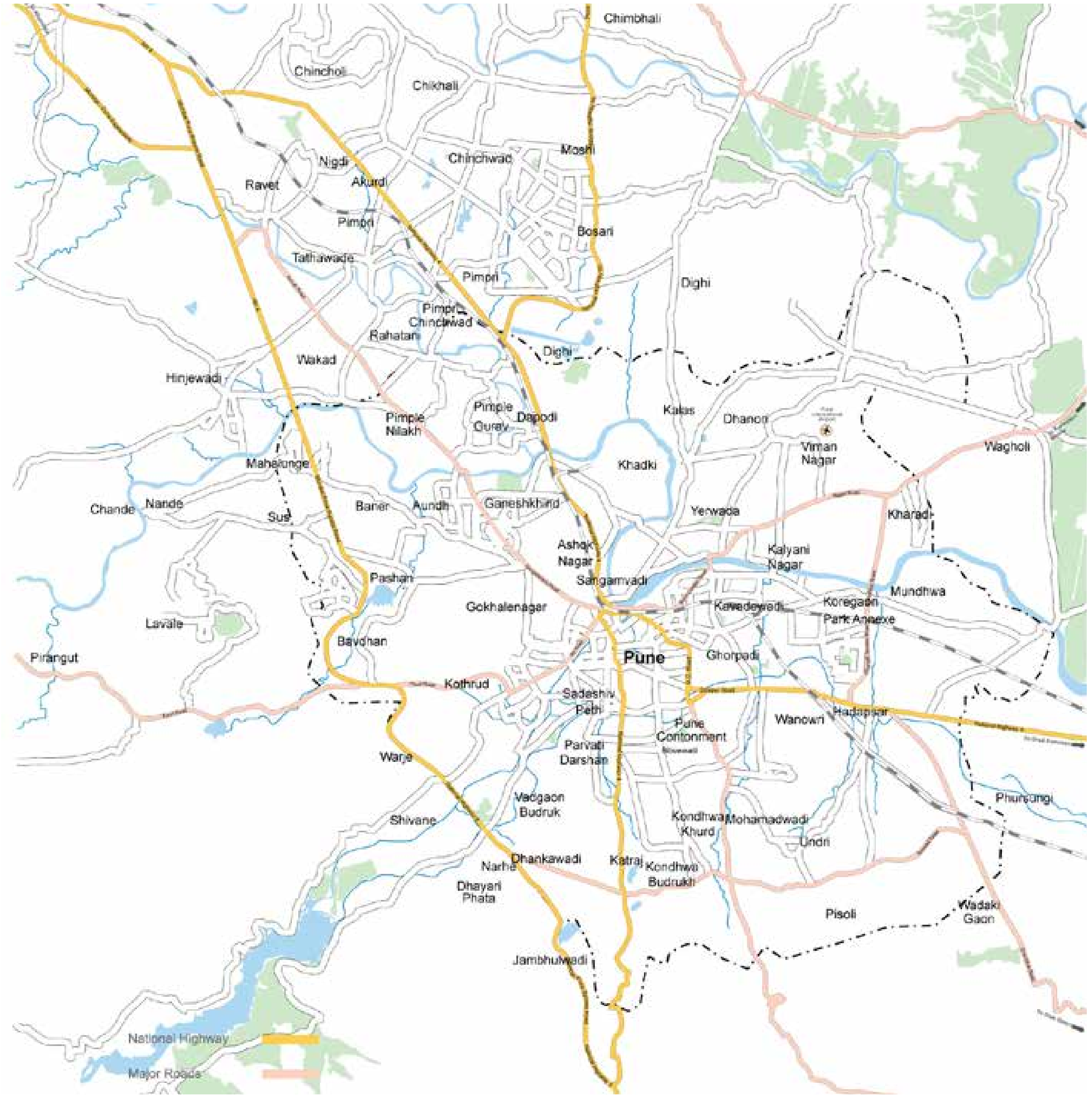
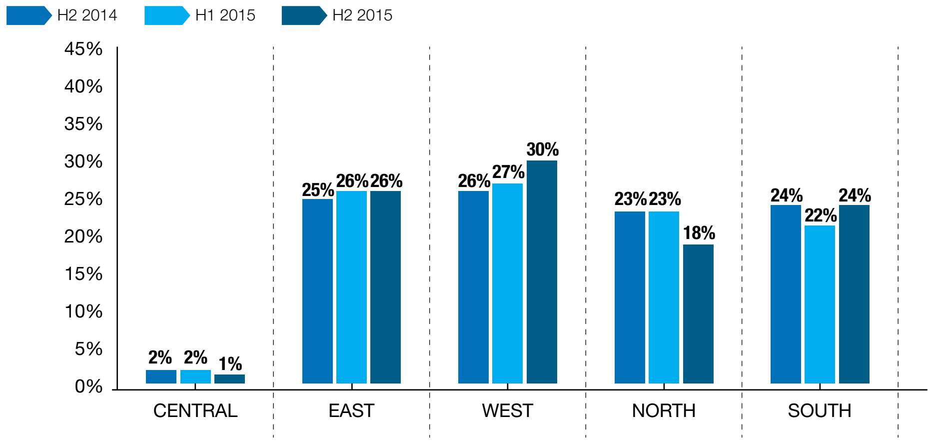


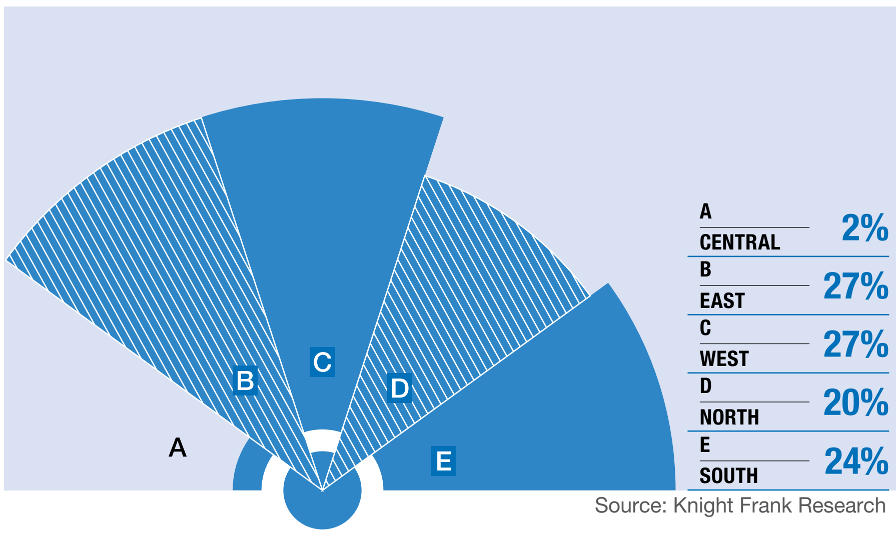
FIGURE 4
MICRO-MARKET SPLIT OF SALES



Source: Knight Frank Research

- The micro-market split of absorption has not witnessed any significant change in the last six months. While the shares of East and West Pune have increased marginally since H2 2014, North Pune's share has reduced slightly.
- Central Pune's share in the total absorption has come down marginally during H2 2015. This could be a worrying trend for developers operating in this market, as the unsold inventory will increase further in the coming months.

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF DECEMBER 2015



Source: Knight Frank Research

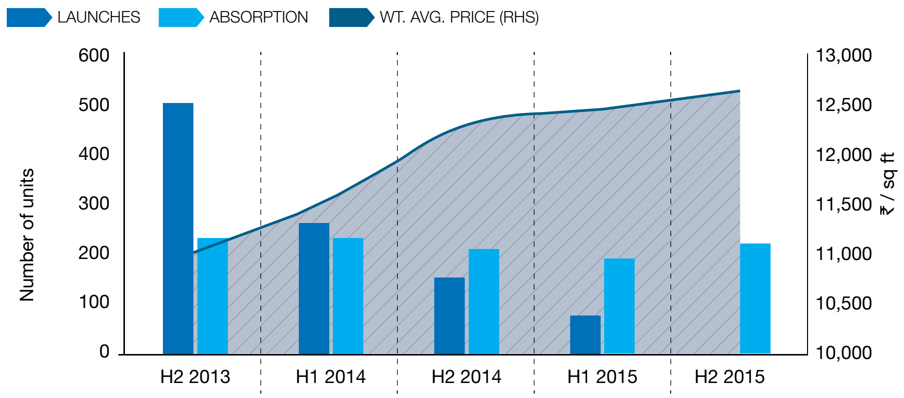
- Central Pune currently accounts for only 2% of the total under-construction units in the city, as the majority of the new projects are being launched in the rest of the city.
- The maximum under-construction units are in East and West Pune. This is followed by South and North Pune, at 24% and 20%, respectively.

PREMIUM RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

Micro-market	Premium locations
Central	Bhosale Nagar, Boat Club Road, Erandwane, Koregaon Park, Model Colony, Prabhat Road, Uday Baug
East	Kalyani Nagar, Viman Nagar
South	Salisbury Park

PREMIUM MARKET TRENDS

FIGURE 5
PREMIUM MARKET TRENDS



Source: Knight Frank Research

Note: Premium markets include locations where the average ticket size of a residential unit is above ₹20 mn, are in close proximity to the central business district of the city and have witnessed new project launches in the preceding three years

- The premium market of Pune, which constitutes locations such as Koregaon Park, Model Colony, Boat Club Road and Bhosale Nagar, among others, has been witnessing a lower number of new launches with each passing period since 2014, and H2 2015 recorded no new launches.
- However, the sales volume has remained steady, in the range of 180 – 220 units for each of the half-yearly periods since 2014. With steady sales volume and receding new launches, the unsold inventory pressure in the premium market has reduced significantly in the last two years.

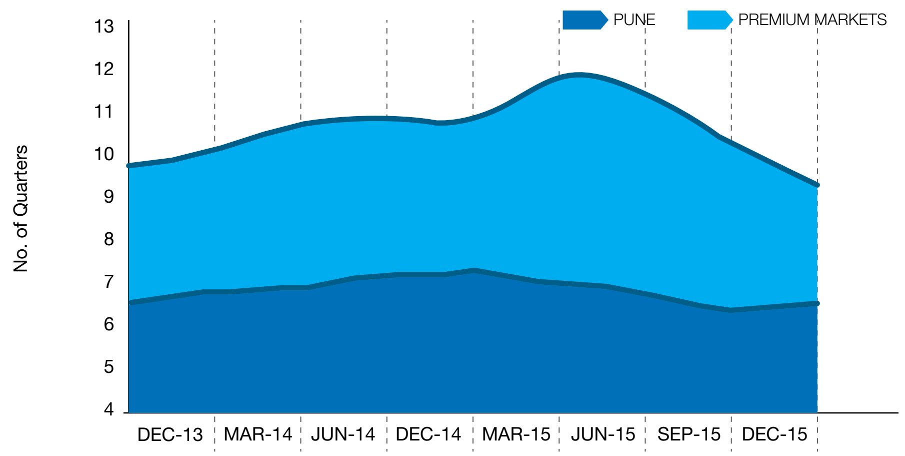
With a steady sales volume and receding new launches, the unsold inventory pressure in the premium market has reduced significantly in the last two years.

A steady sales volume, fewer new launches and lower ticket sizes have helped South Pune improve its performance compared to the city's other zones. The advantage of being located between the two major employment hubs of Hinjewadi in the west and the Hadapsar-Kharadi belt in the east has sustained homebuyer interest in this zone.

PUNE MARKET HEALTH

FIGURE 6

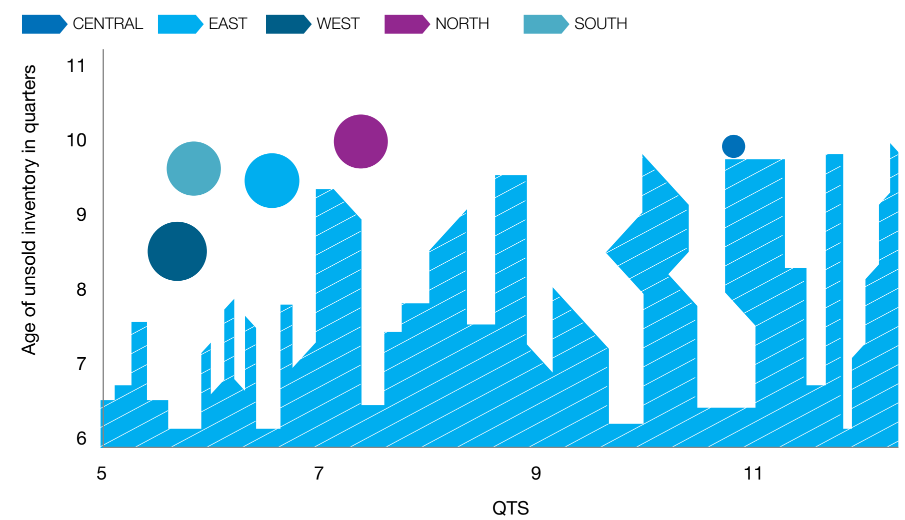
QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS



Source: Knight Frank Research

FIGURE 7

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

- South Pune witnessed a phenomenal recovery in the last two years. One of the worst performing zones in H1 2014, it has emerged as one of the best performing markets in H2 2015. The QTS (quarters to sell unsold inventory) has fallen from 9 in H1 2014 to less than 5.7 in H2 2015.
- A steady sales volume, fewer new launches and lower ticket sizes have helped South Pune improve its performance compared to the city's other zones. The advantage of being located between the two major employment hubs of Hinjewadi in the west and the Hadapsar-Kharadi belt in the east has sustained homebuyer interest in this zone.
- West Pune continues to be the best performing zone in Pune, with a QTS of 5.7 in H2 2015. Strong demand, on the back of the incremental employment generation in Hinjewadi and Wakad, has helped this zone sustain in terms of sales volume.
- The situation in Central Pune has worsened, as the sales volume in this zone has been falling consistently since 2013. Higher ticket sizes and a lack of investor interest have resulted in Central Pune's poor performance.

SOUTH PUNE HAS WITNESSED A PHENOMENAL RECOVERY, LED BY MID-SEGMENT HOUSING

South Pune, with locations such as Ambegaon, Undri, Dhayari, Warje and Sinhgad Road, has witnessed a phenomenal recovery in the last two years. This zone had an unsold inventory of more than nine quarters in H1 2014, which came down to less than six quarters by H2 2015. There are three major reasons for this recovery in the market:

Firstly, the surge in new launches from 2010 to 2013 by developers had led to a significant pile-up in inventory by the end of 2013. While developers continued to push new project launches, the sales volume remained sluggish, leading to a huge inventory overhang. Realising the perils of such a scenario, developers curtailed new launches by 25% and 39% year over year (YOY) during 2014 and 2015, respectively. This led to a sharp drop in the total unsold inventory available in the market.

Secondly, the ticket sizes of the launched units were brought down to relatively affordable levels in 2015. While only 73% of the newly-launched units in 2014 were below the ticket size of ₹7.5 mn, it stood at 90% in 2015. The push towards budget and mid-segment projects seems to be working in favour of the market, as demand has witnessed a marginal recovery during the year.

Lastly, easy access from South Pune to the employment hubs of Hinjewadi in the west and Kharadi and Hadapsar in the east places the zone in a strategic position. These employment hubs are within a 30-minute drive from most of the residential locations of South Pune and hence, have become preferred residential destinations for people employed in these hubs. This has helped in maintaining end-user interest in this market. With a steady demand on the back of the factors mentioned above as well as falling launches, the stress in the market has reduced considerably over the last two years. While the rest of the zones in the city have also witnessed a fall in unsold inventory levels, it is not to the extent observed in South Pune. This has aided South Pune's remarkable recovery from being one of the worst performing markets of the city to one of the best.

PRICE MOVEMENT DURING H2 2015

WEIGHTED AVERAGE PRICE MOVEMENT IN PUNE

LOCATION	PRICE RANGE IN H2 2015 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Pune	4,835	1.8%	0.3%
Premium markets	12,580	3.1%	1.6%

PRICE MOVEMENT IN SELECT LOCATIONS

LOCATION	MICRO-MARKET	PRICE RANGE IN H2 2015 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Koregaon Park	Central	13,000 - 17,000	0%	0%
Kothrud	Central	7,500 - 13,000	0%	0%
Erandwane	Central	13,500 - 18,000	0%	0%
Boat Club Road	Central	14,500 - 19,500	0%	0%
Kharadi	East	5,300 - 6,300	2%	2%
Wagholi	East	3,500 - 4,600	2%	2%

- The price growth across most locations in Pune during the last 12 months has been tepid. It has slowed down further in the last six months, primarily due to the subdued sales volume and the huge unsold inventory in the market.
- The weighted average price growth has been much faster in the premium segment in the last 12 months compared to the growth in the city's overall price. However, this has moderated to a mere 1.6% in the previous six months.

The expected revisions in the development control regulations (DCR) in the coming six months will slow down the quantum of new launches, as developers are awaiting clarity on the subject. We estimate new launches to grow by 9% during H1 2016 compared to the same period in preceding year.

Dhanori	East	3,900 - 4,800	0%	0%
Hadapsar	East	4,600 - 6,000	3%	3%
Aundh	West	7,800 - 9,500	3%	3%
Baner	West	5,600 - 8,000	0%	0%
Hinjewadi	West	4,800 - 5,900	5%	5%
Wakad	West	5,400 - 6,200	0%	0%
Moshi	North	3,700 - 4,300	0%	0%
Chikhali	North	3,500 - 4,100	2%	2%
Chakan	North	2,900 - 3,400	3%	3%
Ambegaon	South	4,400 - 5,500	0%	0%
Undri	South	3,900 - 4,800	2%	2%
Kondhwa	South	4,600 - 5,700	2%	2%

Source: Knight Frank Research

OUTLOOK FOR THE NEXT SIX MONTHS

Projections	H1 2015	H1 2016E	Growth
Launches (units)	12,760	13,900	9%
Absorption (units)	15,520	16,450	6%
Weighted average price (₹/sq ft)	4,820	4,880	1%

Source: Knight Frank Research

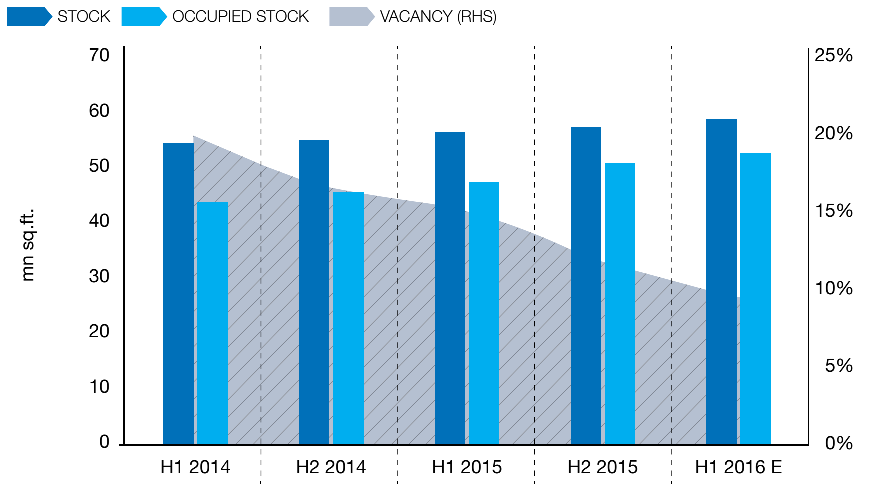
- The expected revisions in the development control regulations (DCR) in the coming six months will slow down the quantum of new launches, as developers are awaiting clarity on the subject. We estimate new launches to grow by 9% during H1 2016 compared to the same period in the preceding year.
- West and East Pune will continue to dominate in terms of new launches, as proximity to the employment hubs of Hinjewadi and Kharadi make these micro-markets attractive for developers to launch new projects.
- However, the growth in the city's sales volume will be limited to 6% during H1 2016 compared to the same period last year, as homebuyers are still in a wait-and-watch mode, and are expecting further positive signs on the country's economic front.
- We estimate that West and East Pune will witness a higher traction in sales volume in the coming months, as the lack of a mass rapid transit system will continue to push homebuyers towards locations that are in close proximity to the employment hubs in these zones. The delay in commencing the construction work of the metro project has made homebuyers averse to areas that are at a greater distance from Hinjewadi, Kharadi and Hadapsar.

OFFICE MARKET

PUNE OFFICE MARKET STOCK, NEW COMPLETIONS, ABSORPTION AND VACANCY TRENDS

FIGURE 1

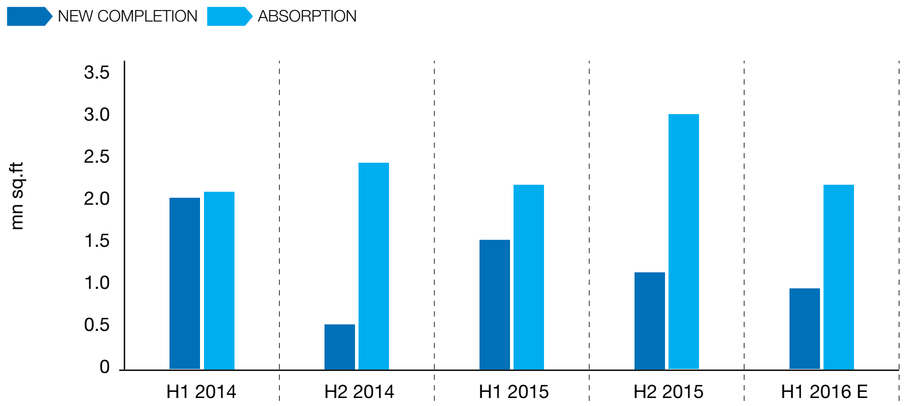
OFFICE SPACE STOCK AND VACANCY LEVELS



Source: Knight Frank Research

FIGURE 2

NEW COMPLETIONS AND ABSORPTION



Source: Knight Frank Research

With demand consistently outstripping supply, vacancy levels witnessed a free fall, from 16.5% in 2014 to 10.8% in 2015

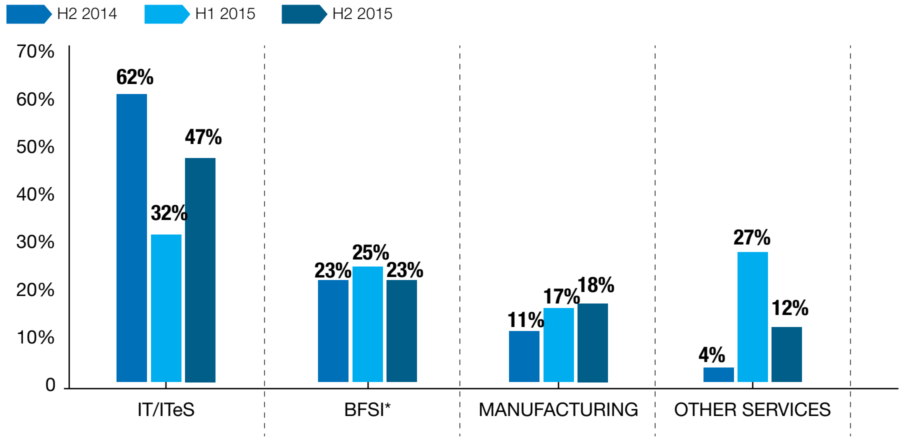
- Office space demand in Pune continues to outstrip new completions for the fourth straight year. 2015 recorded 5.5 mn sq ft of absorption, which was 22% higher than the 4.5 mn sq ft mark in 2014.
- In terms of new completions, only 2.7 mn sq ft of office space was delivered during the year, led by Blue Ridge in Hinjewadi and Commerzone in Yerwada. This was higher by 6% from the 2.5 mn sq ft delivered during 2014.
- With demand consistently outstripping supply, vacancy levels witnessed a free fall, from 16.5% in 2014 to 10.8% in 2015.
- H2 2015 recorded one of the highest absorptions, at 3.3 mn sq ft. This was 39% higher than H2 2014, when 2.4 mn sq ft of space was absorbed. Apart from certain large-size deals by companies such as HSBC, Siemens and Northern Trust Bank, various mid-size deals by IT/ITeS companies seem to have helped in pushing the absorption numbers to this level.
- On the other hand, new completions have remained tepid at 1.1 mn sq ft in H2 2015. Although this is more than double the 0.5 mn sq ft achieved during H2 2014, it is still considerably lower compared to the absorption.

The IT/ITeS sector continues to remain the biggest driver of office space in Pune, with a 47% share in H2 2015. However, its share is relatively lower than in 2014, as the uptake of office space from the rest of the sectors continues to grow.

SECTOR ANALYSIS

FIGURE 3

SECTOR-WISE SPLIT OF ABSORPTION



Source: Knight Frank Research

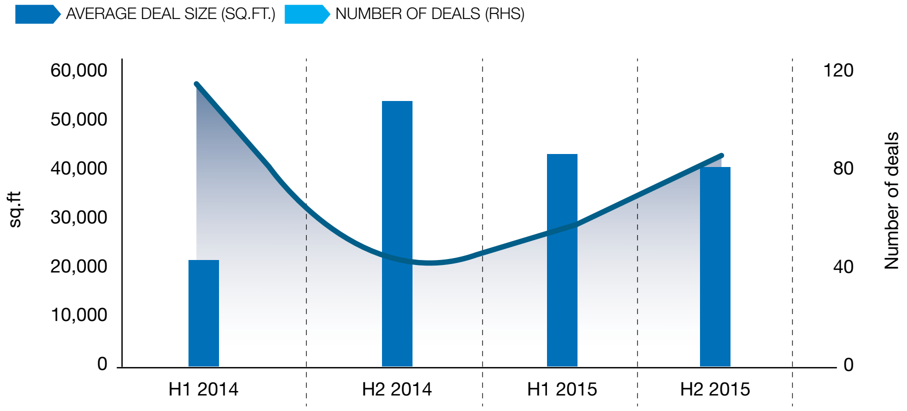
Note: BFSI includes BFSI support services

- The revival in manufacturing activity as a result of the 'Make in India' initiative by the Government of India and the improvement in business sentiment in the corporate sector seem to have maintained the office space take-up by Pune's manufacturing sector.
- The shares of the BFSI sector continue to hold steady, at 23%, although this is lower than the 25% share it reported during H1 2015. However, the majority of the deals in the BFSI sector are support services, which, in other words, are closely linked to the IT/ITeS sector.
- The IT/ITeS sector continues to remain the biggest driver of office space in Pune, with a 47% share in H2 2015. However, its share is relatively lower than that in 2014, as the uptake of office space from the rest of the sectors continues to grow.

DEAL SIZE ANALYSIS

FIGURE 4

AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

- The average deal size in H2 2015 was reported to be 39,700 sq ft, which is similar to the H1 2015 level. This, despite the fact that the number of deals increased significantly in H2 2015, indicating that most of the tenants are choosing to lease larger space.
- The BFSI sector led in terms of big-ticket deals, the majority of them being in the range of 50,000 sq ft and above. The space leased by most of the companies in this sector is for their back office IT/ ITeS-related operations.

The shares of the CBD & off-CBD markets have increased during H2 2015 compared to H2 2014, as S. B. Road continues to witness traction in office space absorption.

SELECT TRANSACTIONS

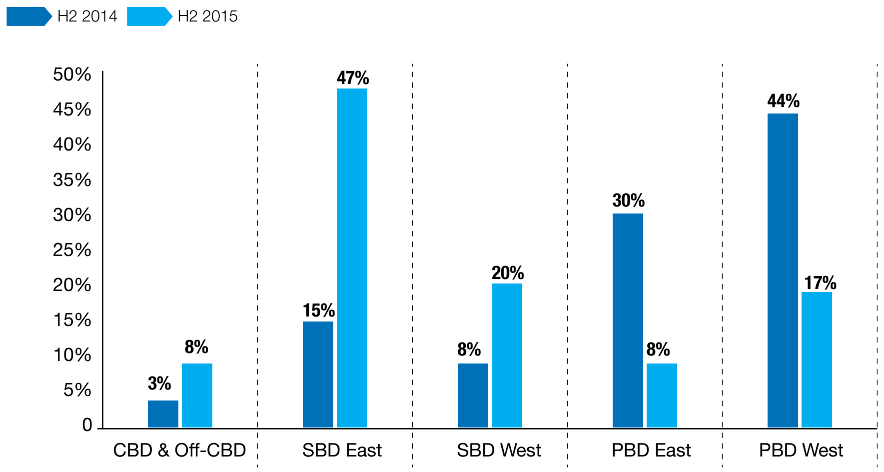
OCCUPIER	BUILDING	LOCATION	APPROX. AREA (SQ FT)
Siemens	Cummins Building Campus	Balewadi	342,000
HSBC	Raheja Woods	Kalyani Nagar	335,000
MasterCard	Business Bay	Yerwada	100,000
Northern Trust Bank	Tech Park One	Yerwada	100,000
BNY Melon	Commerzone	Yerwada	90,000
Concentrix	Tech Park One	Yerwada	80,000
Saama Technology	Blue Ridge	Hinjewadi	70,000
All states	SP Infocity	Phursungi	55,000
Deutsche Bank	Business Bay	Yerwada	54,000
Johnson Control	Commerzone	Yerwada	50,000
Tata Technologies	Blue Ridge	Hinjewadi	48,500
Varian Medical Systems	Magarpatta	Hadapsar	44,000
R Systems	DTC	Erandwane	42,000
TCS	Suzlon Campus	Hadapsar	30,000

Source: Knight Frank Research

BUSINESS DISTRICT ANALYSIS

BUSINESS DISTRICT	MICRO-MARKETS
CBD and off-CBD	Bund Garden Road, S B Road, Camp, Deccan, University Road, Shankar Sheth Road
SBD East	Kalyani Nagar, Yerwada, Nagar Road, Vishrantwadi, Hadapsar
PBD East	Kharadi, Phursungi, Wanowrie
SBD West	Wakdewadi, Aundh, Baner, Kothrud, Balewadi
PBD West	Hinjewadi, Bavdhan, Wakad

FIGURE 5
BUSINESS DISTRICT-WISE ABSORPTION SPLIT



Source: Knight Frank Research

- The shares of the CBD & off-CBD markets have increased during H2 2015 compared to H2 2014, as S. B. Road continues to witness traction in office space absorption.
- Yerwada continues to consolidate its position as one of the largest office space hubs in the city, helping SBD East in increasing its share in the total office space absorption during H2 2015. Proximity to the city centre and easy access to the airport have resulted in occupiers preferring this location.
- Limited supply of vacant office and relatively high rentals have restricted the absorption levels in PBD East, with its share coming down from 30% in H2 2014 to 8% in H2 2015. Similarly, PBD West's share has also dropped significantly in the last six months, although this is primarily due to a jump in SBD West's share, which otherwise would have been absorbed by the PBD West market.

Since no new major office projects are expected to be completed in the coming six months, vacancy levels will witness a further fall to the single-digit level.

SHORTAGE OF READY-TO-OCCUPY SPACE IN PUNE COULD PUSH OCCUPIERS TO OTHER CITIES

Vacancy levels in Pune have been falling consistently since 2012, from 23.4% to less than 11% currently. With demand outstripping new supply for the fourth consecutive year, the situation has only worsened for occupiers, who are unable to find leasable space in their preferred locations. The genesis of the current predicament lies in the heydays of the pre-2008 period, when strong demand from the IT/ ITeS sector encouraged developers to aggressively build new office space. However, the Global Financial Crisis (GFC) of 2008 resulted in an oversupply situation, with a huge amount of ready-to-occupy space remaining vacant from 2008 to 2010 due to a lack of occupier demand. With developers unable to earn any income on such assets and the residential market witnessing a steady recovery post 2010, their focus shifted from the commercial to the residential segment.

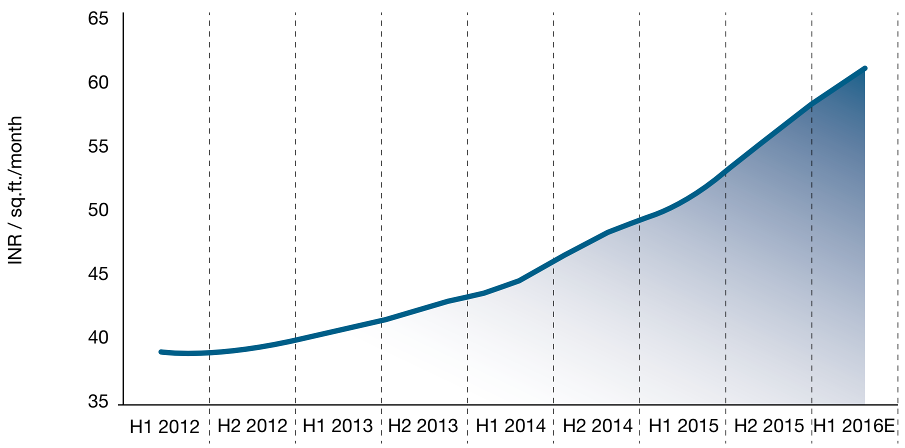
Since 2011, 20.2 mn sq ft of space has been absorbed in Pune, in contrast to the 14.6 mn sq ft of new space delivered. The shift in developers focus towards residential housing led to a limited number of new project launches in the office space segment post 2010, and the result is seen in the current situation, wherein there are no major completed projects available for lease. Even the existing 11% vacancy is largely in the peripheral business districts (PBD), with the prime areas having a near-zero vacancy level.

This undersupply situation is expected to worsen in 2016, as only 2.7 mn sq ft of new space is expected to be delivered. We anticipate that the demand for space will far exceed the supply, and this will lead to a situation wherein occupiers will have to look for space in other cities. With Bengaluru and Gurgaon in a similar state of affairs, we believe that occupiers will be pushed towards cities such as Hyderabad, Chennai and Noida. Additionally, some occupiers may also prefer moving to Navi Mumbai, which offers a similar occupancy cost. While such a scenario would be a loss to the Pune market, it will give a significant boost to the already thriving office markets of Hyderabad, Chennai, Noida and Navi Mumbai.

RENTAL TREND

FIGURE 4

WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

- Rental values have been rising steadily since 2013, as demand continues to surpass new supply. Currently, the weighted average rent in Pune is around ₹56 per sq ft per month - 44% higher than in H1 2013.
- Severe shortage of good quality office space in prime areas has turned the market in favour of landlords, who are asking for higher rents from tenants with each passing quarter.
- In H2 2015, the weighted average rents moved up 19% from ₹47 per sq ft per month in H2 2014. The maximum increase has been witnessed in the eastern part of the city, with rents in SBD East and PBD East rising by 22% and 24%, respectively in the past 12 months. This is primarily because of the limited availability of vacant space in these markets.

BUSINESS DISTRICT-WISE RENTAL MOVEMENT

BUSINESS DISTRICT	RENTAL VALUE RANGE IN H2 2015 (₹/SQ FT/MONTH)	12 MONTH CHANGE	6 MONTH CHANGE
CBD & off-CBD	70 - 110	19%	10%
SBD East	55 - 85	22%	17%
SBD West	60 - 90	19%	12%
PBD East	55 - 85	24%	20%
PBD West	40 - 58	12%	9%

Source: Knight Frank Research

OUTLOOK FOR THE NEXT SIX MONTHS

PROJECTIONS	H1 2015	H1 2016E	Growth
New completions (mn sq ft)	1.54	0.86	-44%
Absorption (mn sq ft)	2.16	2.33	8%
Vacancy	15%	8%	
Weighted average rent (₹/sq ft/month)	50	61	22%

Source: Knight Frank Research

- Going forward, while absorption is expected to increase 8% compared to its H1 2015 level of 2.16 mn sq ft, new completions are estimated to drop further in H1 2016, by 44% to 0.86 mn sq ft.
- Since no new major office projects are expected to be completed in the coming six months, vacancy levels will witness a further fall to the single-digit level.
- This will put additional pressure on rents, which are estimated to rise by 22% in H1 2016 compared to H1 2015.

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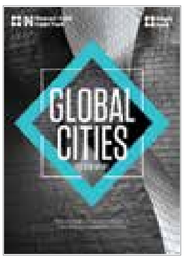

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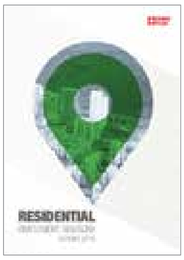

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CIN No. – U74140MH1995PTC093179