RESEARCH

INDIA REAL ESTATE

RESIDENTIAL AND OFFICE

JULY - DECEMBER 2017

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

Connecting People & Property, Perfectly.

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FOREWORD

SHISHIR BAIJAL
CHAIRMAN AND MANAGING DIRECTOR

Nearly half a decade from now would perhaps be a good time to review the new wave of transformation that set into India's real estate sector in 2017. At a glance the year was probably one packed with uncertainty, volatility and long-term promise of new opportunities. While a battery of reforms tested industry stakeholders, the new paradigm of transparency and consolidation achieved in the process should pave the way for a healthy momentum in attracting buoyant global capital in the near future.

At the end of 2017, India's residential sector appears to have shrunk to a fraction of its size in less than a decade. Eight cities covered in the report collectively saw just over 100,000 new residential units enter the market. Similarly, sales volumes were restricted to 228,000 units, again a fragment of its scale in the recent past. While the market has been on a steady decline, the past 12-odd months were an acid test of sorts for the real estate sector in India.

Nevertheless the near standstill triggered by demonetisation seems to have tapered with time. Stakeholders also appear to be growing in confidence with the gradual acceptance of structural reforms such as the Real Estate (Regulation and Development) Act, 2016. The Industry however, is still grappling to navigate its way through the new tax regime post the introduction of the Goods and Services Act.

However, select markets wherein RERA has matured have witnessed developers re-launch projects at attractive prices which led to an uptick in sales volumes in 2017. The strategic switch in developers' approach has led to a price reduction is most markets.

Meanwhile the office leasing market maintained its strong fundamentals although expansion concern for the turbulence-hit technology sector is still prevalent. While the struggle for new office blocks appears to be unceasing in the near future new business districts are taking shape across peripheral markets in big metros. The steady expansion of new age businesses such as co-working space providers is also one of the defining stories of 2017.

Going forward the government's emphasis on housing and its efforts to mitigate risks though structural reforms is gradually building confidence in consumers and big market stakeholders such as institutional funds.

A large number of these investors and funds have made changes to the portfolio allocation strategy allowing investment exposure to the Indian real estate. The pension and private equity funds are investing in commercial assets (office spaces and malls) and also in under-construction residential properties.

There is also an uptick in capital movements aboard in form of overseas residences. Traditionally, the desire for an overseas home in India has been largely driven by fascination for exotic locations or perhaps as a safe shelter for our children studying aboard. But today resident Indians investing in residential properties overseas are mostly doing so as sound investments.

We are also looking forward to the Union Budget 2018-19 with respect to the Real Estate Investments Trusts (REITs). It is time we cut down the long term capital gains holding period for REITs from three years to one year.

This would bring the investment opportunity at a similar level with equity investments. We strongly believe that the much anticipated move is the missing part of the jigsaw puzzle that could have undermined India's REITs story.

Meanwhile, the Moody's upgrade for India after 13-long-years has comes as bright spark amid widespread cynicism about the economy. The recognition is an endorsement of the structural resilience in our macro-economic architecture.

The overall resurrection of the real estate sector would depend upon the long –term impacts and benefits of the structural reforms brought into the sector over the past 12-odd months.

RERA: REALITY OF REFORMS

-By Divya Grover

> **Delayed notification of real estate rules put consumers in a dilemma regarding ascertaining the eligibility of projects under RERA.**

IS CONSUMER THE KING?

Due to the unregulated nature of India's real estate sector, fundamental problems associated with dispute resolution and delayed project deliveries had long skewed the balance in favour of supply-side stakeholders. Growing consumer agitation on social media, increasing complaints against builders and outreach to quasi-judicial commissions forced the government to sit up and take notice of the aggrieved homebuyers' plight. With this objective to safeguard consumers' interests, the Government of India enforced the Real Estate (Regulation and Development) Act, 2016 nationwide on 1 May 2017.

For a sector that did not have any regulatory structure governing the behaviour of its participants, this historic move was heralded as an inflection point that will change the manner in which real estate is transacted in India. Provisions such as mandatory disclosures by promoters were targeted to weed out fly-by-night operators and bring financial discipline, which will spike investors' interest. Most importantly, it was aimed to allow a grievance resolution platform to homebuyers. While consumers heaved a sigh of relief momentarily, on the ground realities are very different. Maharashtra is the only state that notified the real estate rules timely and subsequently implemented it statewide by 1 May 2017. Thereafter, in a bid to implement RERA at the eleventh hour, hasty notification of real estate regulations by many states came under the scanner for perceived dilution of central guidelines. Delayed notification of real estate rules put consumers in a dilemma regarding ascertaining the eligibility of projects under RERA. A major bone of contention is the interpretation of the term "ongoing project" by some states, which provide many relaxations to builders. Consequently, homebuyers in states like Karnataka, Haryana, Tamil Nadu, Telangana and Uttar Pradesh are disappointed as a vast proportion of under-construction projects will now not come within the purview of the Act.

TIME TO PULL UP THE SOCKS

It has been more than a year and a half since RERA was envisaged for nationwide implementation. Initially, the following timelines were prescribed by the Centre.

Notification of the Act at the respective state latest by 31 October 2016 was the first step towards setting up the machinery.

30 April 2017
Establishment of Appellate Tribunal, latest by

30 April 2017
Establishment of the Regulatory Authority, latest by

31 October 2016
Date within which the Real Estate Rules had to be notified by the state government

26 March 2016
The Real Estate (Regulation and Development) Act, 2016 published in the Official Gazette after Presidential Assent

However, West Bengal has not enacted the RERA Act as on 30 November 2017. After notification of rules, the immediate next step was the constitution of a "permanent" real estate regulatory authority for a smooth transition. But this process is still underway across majority of states. Due to challenges to create a large, web-based interface comprising state-level project information, the priority shifted to putting a registration mechanism for promoters and agents first. As of 30 November 2017, 60% of Indian cities under our review had started registration of real estate projects through online mode. The Maharashtra government's proactive establishment of a real estate authority and an online portal has put Mumbai and Pune far ahead of other cities in terms of RERA compliance. Recently, Maharashtra also designated the Maharashtra Revenue Tribunal to be the Appellate Tribunal to hear appeals against the rulings of MahaRERA. While the Karnataka government concurrently announced the establishment of both the Interim Real Estate Authority and the Interim Appellate Tribunal, the availability of detailed project level information still needs work. NCR (comprising Delhi, Gurugram and Noida) is the worst hit, as all the three state governments (Delhi, Haryana and Uttar Pradesh) have a low adoption rate of RERA across various parameters. Hence, most of the states will take further time for a well-ordered RERA implementation. In the absence of a permanent real estate regulator and appellate tribunal, the efficacy with which consumer disputes can be resolved remains a big question mark.

CITY WISE PROGRESS

Except for West Bengal, most states have notified the real estate regulations by now. This in itself was a long-winded process. As a result, it prolonged the enforcement of real estate reforms and delayed the recovery cycle in major Indian cities. As per the data available on the website of the Ministry of Housing and Urban Poverty Alleviation (MHUPA), as of 30 November 2017 only Maharashtra, Madhya Pradesh and Punjab have established a permanent Real Estate Regulatory Authority, while 15 others only have interim authorities. Since different states are at a different stage in RERA compliance, city wise progress has been tracked as per four crucial stages as below, each of which has an equal weightage:

RERA IMPLEMENTATION SCORE (Maximum score: 4)

City name	Stage I	Stage II	Stage III	Stage IV	Total score
Ahmedabad	1	1	1	0	3
Bengaluru*	1	1	1	1	4
Chennai	1	1	1	0	3
Delhi	1	1	0	0	2
Gurugram**	1	1	0	0	2
Hyderabad***	1	1	0	0	2
Kolkata#	0	0	0	0	0
Mumbai##	1	1	1	1	4
Noida	1	1	1	0	3
Pune##	1	1	1	1	4

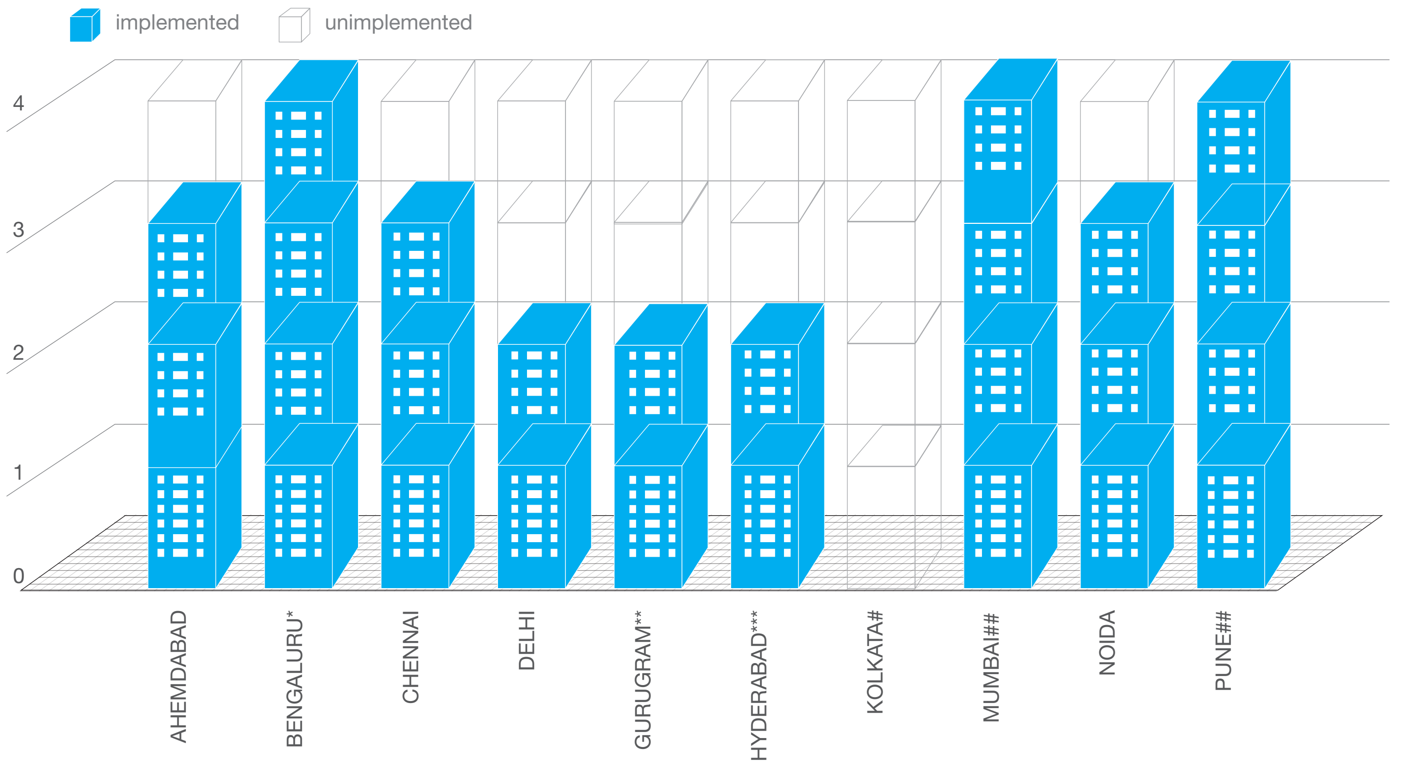
STAGE I :
Real Estate Rules Notified

STAGE II :
Establishment of Real Estate Regulatory Authority

STAGE III :
Functional Portal

STAGE IV :
Establishment of Real Estate Appellate Tribunal

RERA IMPLEMENTATION SCORE (Maximum score: 4)



Source: Knight Frank Research, Ministry of Housing and Urban Poverty Alleviation

Notes:
*The Government of Karnataka has appointed Karnataka Appellate Tribunal as the Interim Appellate Tribunal
**Haryana is likely to set up the real estate regulatory authority by the end of this year. The Haryana government has been accepting registration applications offline, for now.
***The Telangana government has notified the RERA rules and is in the process of setting up the authority.
#West Bengal has drafted the West Bengal Housing Industry Regulation Act but it is yet to be notified.
##The Government of Maharashtra has recently designated the Maharashtra Revenue Tribunal to be the Appellate Tribunal to hear appeals against MahaRERA.
Both permanent and interim Real Estate Regulatory Authorities and Appellate Tribunals have been taken into account for progress.

STRENGTHENING REGULATOR PORTALS THE NEED OF THE HOUR

Technology is an enabler to RERA compliance. Though access to registered real estate agents on the regulators' portal has eased a lot of confusion about who is authorised to sell real estate, most cities are far behind in providing an end-to-end, web-based system for consumers despite having functional portals. Lack of information on portals such as disclosure about registered projects, promoter information, approvals, stage-wise completion updates and ongoing litigation brings the consumers back to square one. These are requisite information parameters for a consumer to assess project performance, which foster transparency in real estate data and instill confidence. Maharashtra is the only state with detailed project level pages providing relevant information such as number of units along with carpet area, revised dates of project completion, building wise break up of configurations along with available and sold units, copies of sanctioned building plans, amongst others. Consumers can search simply on the MahaRERA website by the developer's name as well as RERA registration number to access this information. While other state RERA websites do allow basic searchability, minute project level details are still not available in many states. There is an acute need to create a user-oriented technical infrastructure that can guide buyers in due diligence and enable data-driven decision making. For consumers used to accessing real estate information through third party sources in the public domain, state level real estate regulatory portals are of little use in their current form. They require a massive upgrade in terms of:

a) addition of all registered projects to their online repositories

b) addition of more data points to enhance transparency

c) enhanced user interface on portals that assist homebuyers and increase consumer experience

Central RERA stipulates that promoters have to submit many documents for registration. Data mining and analysis of the data hence collected must be available on the RERA website for consumers to assess the developers' past performance smoothly.

PUBLIC VIEWING SCORECARD FOR PROJECT-LEVEL PARAMETERS ON RERA PORTALS IN KEY CITIES

Every state's RERA portal prominently displays the RERA Registration Numbers for each project. Based on the information accessible for public viewing, we have developed a scorecard across the top cities taking into account pivotal information parameters regarding project-level data availability, promoter information and legal details and uploaded documents. If the parameter information is available on the RERA website, it is scored as 1, indicating transparency, else 0, indicative of non-transparency as per the respective city.

> **"There is an acute need to create a user-oriented technical infrastructure that can guide buyers in due diligence and enable data-driven decision making."**

RERA TRANSPARENCY SCORE (Maximum score: 15) Transparent Non-Transparent

City	Ahmedabad	Bengaluru	Chennai	Delhi	Gurugram[1]	Hyderabad[2]	Kolkata[3]	Mumbai	Noida	Pune
PROJECT-LEVEL INFORMATION										
Project name	1	1	1	NR	NR	NR	NR	1	1	1
Project type	1	1	1	NR	NR	NR	NR	1	1	1
Location	1	1	1	NR	NR	NR	NR	1	1	1
Carpet area	1	1	1	NR	NR	NR	NR	1	1	1
No. of units	1	0	1	NR	NR	NR	NR	1	0	1
Configuration	1	0	1	NR	NR	NR	NR	1	0	1
No. of booked units	0	0	1	NR	NR	NR	NR	1	0	1
Status	1	1	1	NR	NR	NR	NR	1	1	1
Completion date	1	0	1	NR	NR	NR	NR	1	1	1
PROMOTER INFORMATION										
Promoter name	1	1	1	NR	NR	NR	NR	1	1	1
Contact information	1	0	1	NR	NR	NR	NR	1	1	1
Past experience details	0	0	1	NR	NR	NR	NR	1	0	1
LEGAL DETAILS AND UPLOADED DOCUMENTS										
Title report	0	0	0	NR	NR	NR	NR	1	1	1
Encumbrances	0	0	0	NR	NR	NR	NR	1	1	1
Project approvals	0	0	1	NR	NR	NR	NR	1	1	1
TOTAL SCORE	10	6	13	NR	NR	NR	NR	15	11	15

Source: Knight Frank Research, State RERA websites

Notes:
Scoring is done only based on the information available on the regulators' websites as of 30 November 2017. They are subject to change as different states update their RERA portals. Cities where documents may have been collected by authorities but not made available on the regulator website have also suffered on the scoring.
States where RERA portals are not functional have been denoted as "Not Rated" (NR).
1Haryana is yet to set up the Real Estate Regulatory Authority's portal.
2The Telangana government has notified the RERA rules and is in the process of setting up the authority.
3The West Bengal state assembly passed the West Bengal Housing Industry Regulation Bill 2017 in August 2017 but the website is yet to go live.

MOVING TOWARDS FULL TRANSPARENCY IN REAL ESTATE TRANSACTIONS

MahaRERA leads the country in terms of dissemination of real estate information to consumers as it is the first state in India to adopt RERA. For other states, Maharashtra has evolved as a benchmark in gradual and seamless transition to the new order of the day. One that is moving towards full transparency in real estate transactions. In a span of less than 18 months, it has completed the entire cycle of the RERA implementation process. However, for several other states, which have failed to keep pace in terms of RERA compliance, the newly formed (interim) authorities are struggling to process the vast number of applications received from real estate developers and agents and instantly generate RERA registration numbers. While homebuyers in Hyderabad, Kolkata, Delhi and Gurugram will have to wait longer for accessing state level regulator data, those in Ahmedabad, Noida, Chennai and Bengaluru will largely benefit once available information is supplemented with additional data to provide a holistic project level overview.

Though things are falling into place, the pace of creating physical infrastructure like setting up regulator's offices and hiring officials can be quickened. All states need to invest heavily to create technically superior and information-rich portals, which will serve as a primary source of real estate information to all stakeholders. Until date, ambiguity remains as to when this exercise will be completed and the next one year is crucial to the speedy implementation on all aspects. In the current scenario, homebuyers will have to wait a little longer before rejoicing.

"For consumers used to accessing real estate information through third party sources in the public domain, state level real estate regulatory portals are of little use in their current form."

INDIA
RESIDENTIAL MARKET

While the de-growth in residential supply has been getting progressively worse, that of demand has been relatively muted. Down 7% YoY, approximately 0.23 Mn units were sold during 2017 compared to a little over 0.1 Mn units launched

-38%

Decline in Sales in 2017, since the peak in 2011

-78%

Decline in Launches in 2017, since the peak in 2010

INDIA MARKET SNAPSHOT

PARAMETER	H2 2017	Change YoY	2016	2017	Change YoY
Launches (housing units)	40,832	-41%	1,75,822	1,03,570	-41%
Sales (housing units)	1,07,316	-2%	2,44,686	2,28,072	-7%
Unsold inventory (housing units)	5,28,494	-19%	6,52,996	5,28,494	-19%
Quarters to sell	11.2	-	11.3	11.2	-

Source: Knight Frank Research

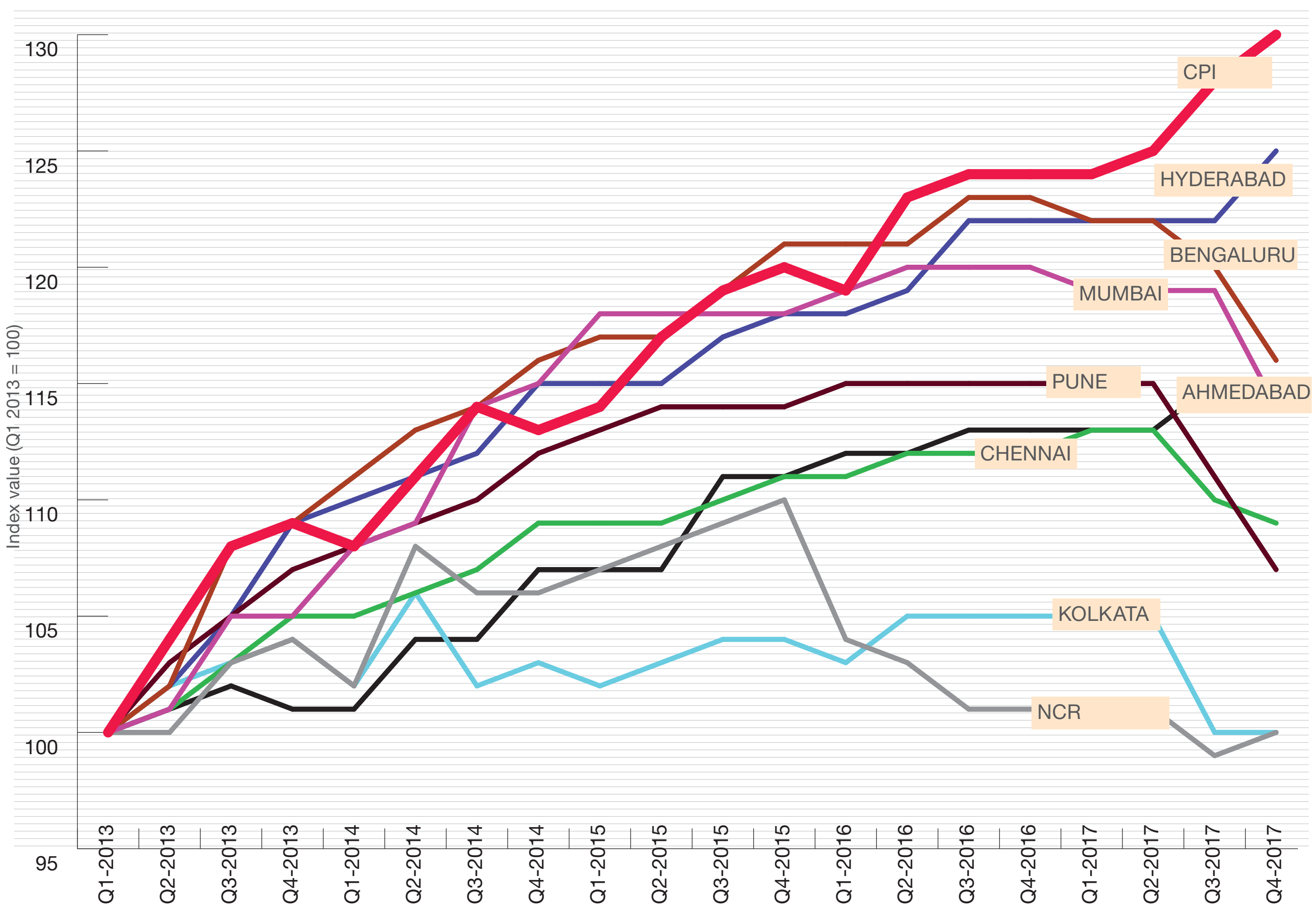
- Deep in the grip of a market downturn, the Indian residential market has breached new lows in terms of supply and sales for every successive year of this decade. Despite the massive need for housing that India is facing, huge unsold inventories caused by a prolonged focus of the developers on the wrong apartment ticket sizes have brought the residential real estate industry to its knees.
- Vast unsold inventory levels that peaked in 2014 at 0.72 Mn units forced developers to curtail supplies in a bid to lighten this inventory load. This course of action has seen reasonable success even in the face of lacklustre demand as unsold inventory levels have fallen 24% since H2 2015. However, tumultuous events over the past 14 months that saw the government aggressively push a culture of transparency through measures such as Demonetisation, Goods and Services Tax (GST) and the Real Estate (Regulation and Development) Act, 2017 (RERA) have irrevocably altered the course of the industry.
- Measures such as the RERA and the Pradhan Mantri Awas Yojana (PMAY) that were expected to boost sentiments of the home-buyer, have yet to make any significant market impact on the buyer who has little incentive to buy now as the unaffordably high prices continue to weaken and fall.
- Clocking the largest percentage drop in supply volumes during this decade, 2017 has definitely turned out to be a seminal year for the Indian residential real estate market. The scale of the meltdown in market volumes can be gauged from the fact that annual supply levels in the Indian real estate residential market are now just one fourth of those in 2015. The NCR is the most affected market with its annual supply volume at just 7% of its decadal high.
- While the de-growth in residential supply has been getting progressively worse, that of demand has been relatively muted. Down 7% YoY, approximately 0.23 Mn units were sold during 2017 compared to a little over 0.1 Mn units launched. Notably, Mumbai and Pune saw marginal growth in sales which can be attributed to the 5% and 7% drop YoY in prices for 2017. Also, the fact that Maharashtra is the only state that has applied the RERA in letter and spirit has played a part in boosting consumer confidence.
- NCR and Mumbai saw sales numbers increase by 21% and 19% YoY respectively during H2 2017 but this can be attributed to the extremely low sales during H2 2016 caused by the Demonetisation drive carried out by the government. The H2 2017 sales numbers of these cities are still significantly lower than previous periods of H2 2015 and H2 2014 clearly depicting an underlying declining trend.
- The current QTS level stands marginally lower at 11.2 quarters at the end of 2017 compared to 11.3 quarters for the previous year; however this is more a function of the severe curtailment in housing units launched rather than an uptick in sales and hence cannot be interpreted as a sign of a healthy market. This is further substantiated when seen in conjunction with the age of unsold inventory that has been progressively increasing across the 8 major cities.
- Weighted average prices have fallen an average of 3% across cities with Pune seeing the most decline at 7% YoY. Even Mumbai residential prices have finally cracked and fallen 5% in 2017. Hyderabad and Ahmedabad saw prices move up 3% and 2% respectively due to the high proportion of ready inventory in these markets and a more exacerbated supply crunch caused by a 70% and 66% YoY fall in units launched during 2017 respectively.
- During the last four years, the growth in residential prices in most of the top eight cities of India has been below retail inflation growth and the gap has progressively increased since H1 2016. This has in fact significantly improved home affordability and average ticket sizes of housing units in most cities are now inching closer or are below the Knight Frank Affordability Benchmark of 4.5 times the annual household income of the city.
- The long awaited drop in prices is a healthy step toward market recovery as this along with other measures such as reduction in unit sizes across cities will boost home-buyer affordability and eventually get buyers back to the market. The pace at which developers align themselves to the new regulatory norms and launch new products in the right ticket sizes that appeal to the homebuyer's interests, will determine the trajectory of the market going forward.

HOUSE PRICE TO INCOME RATIO

HOUSE PRICE TO INCOME RATIO		
CITY	2010	2017
Mumbai	11.0	7.8
NCR	6.0	5.0
Bengaluru	5.6	4.4
Pune	4.6	3.4
Chennai	5.4	4.7
Hyderabad	5.7	5.0
Kolkata	5.7	3.5
Ahmedabad	4.3	3.5

Note: Knight Frank Affordability Benchmark is 4.5 times household income
Source: MOSPI, Knight Frank Research

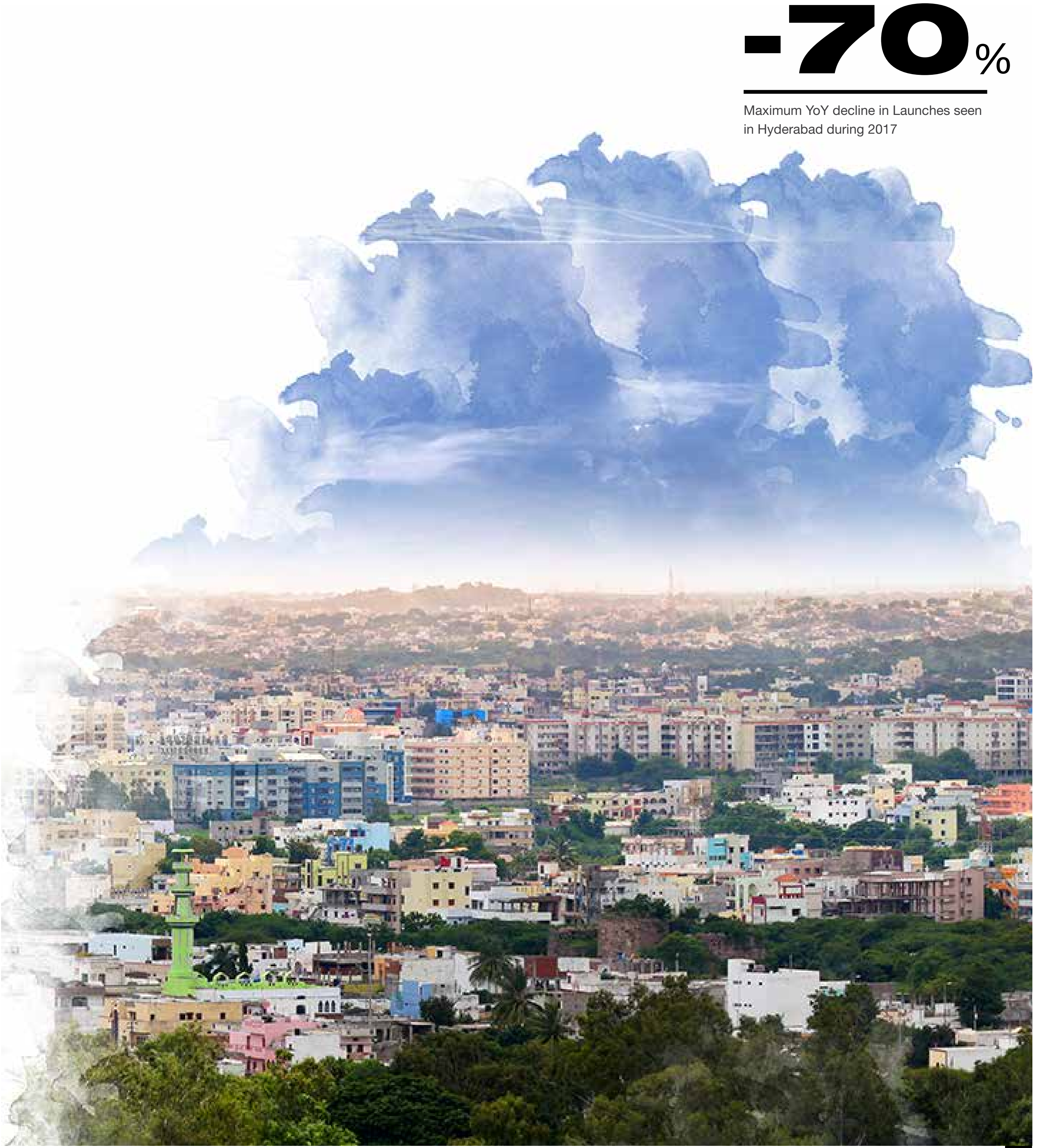
CONSUMER PRICE INFLATION WELL ABOVE REAL ESTATE PRICE GROWTH



Note: November CPI used for Q4 2017

-70%

Maximum YoY decline in Launches seen in Hyderabad during 2017

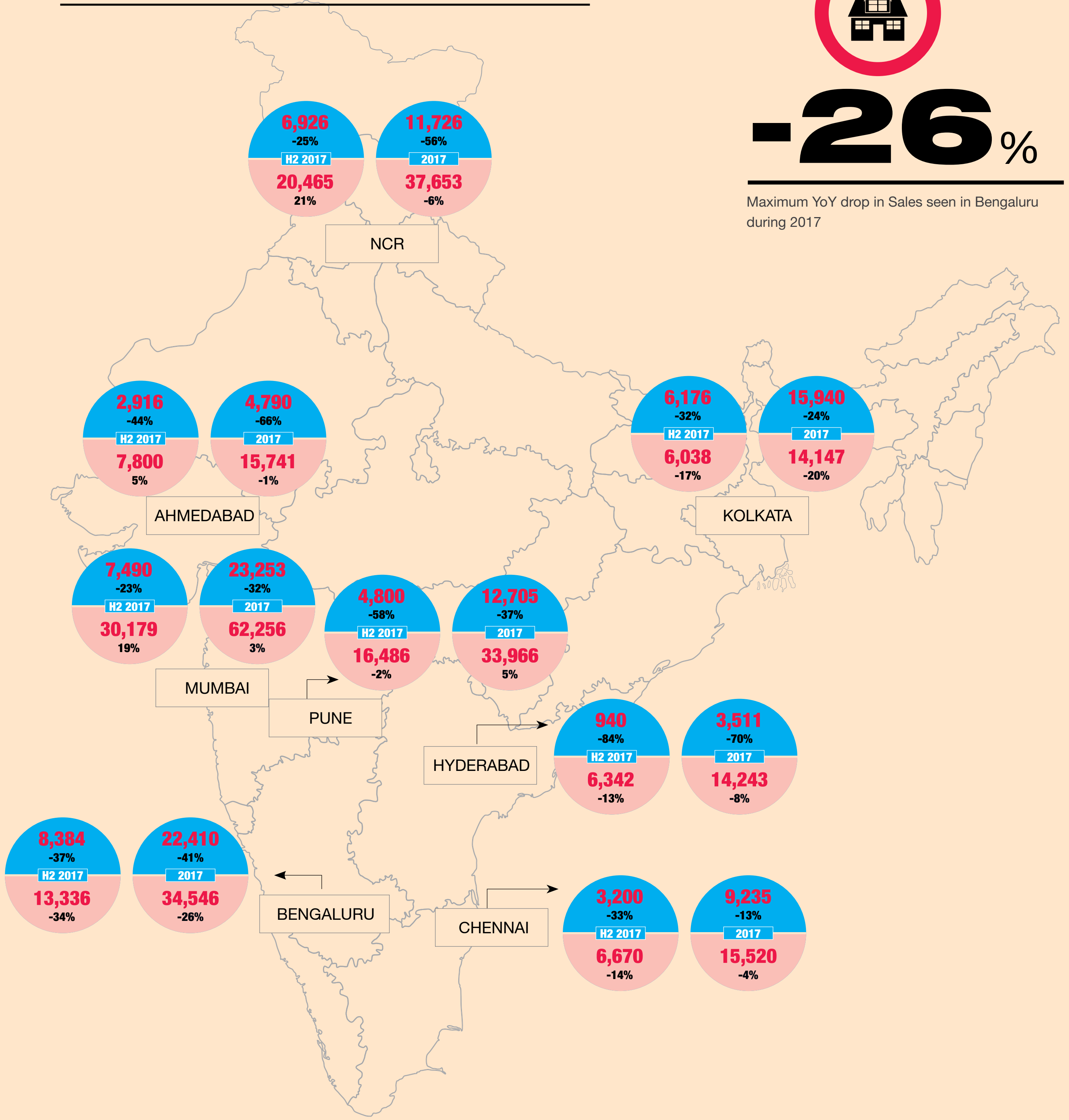


RESIDENTIAL LAUNCHES AND SALES

LAUNCHES (IN UNITS) SALES (IN UNITS) % CHANGE (YOY)

-26%

Maximum YoY drop in Sales seen in Bengaluru during 2017



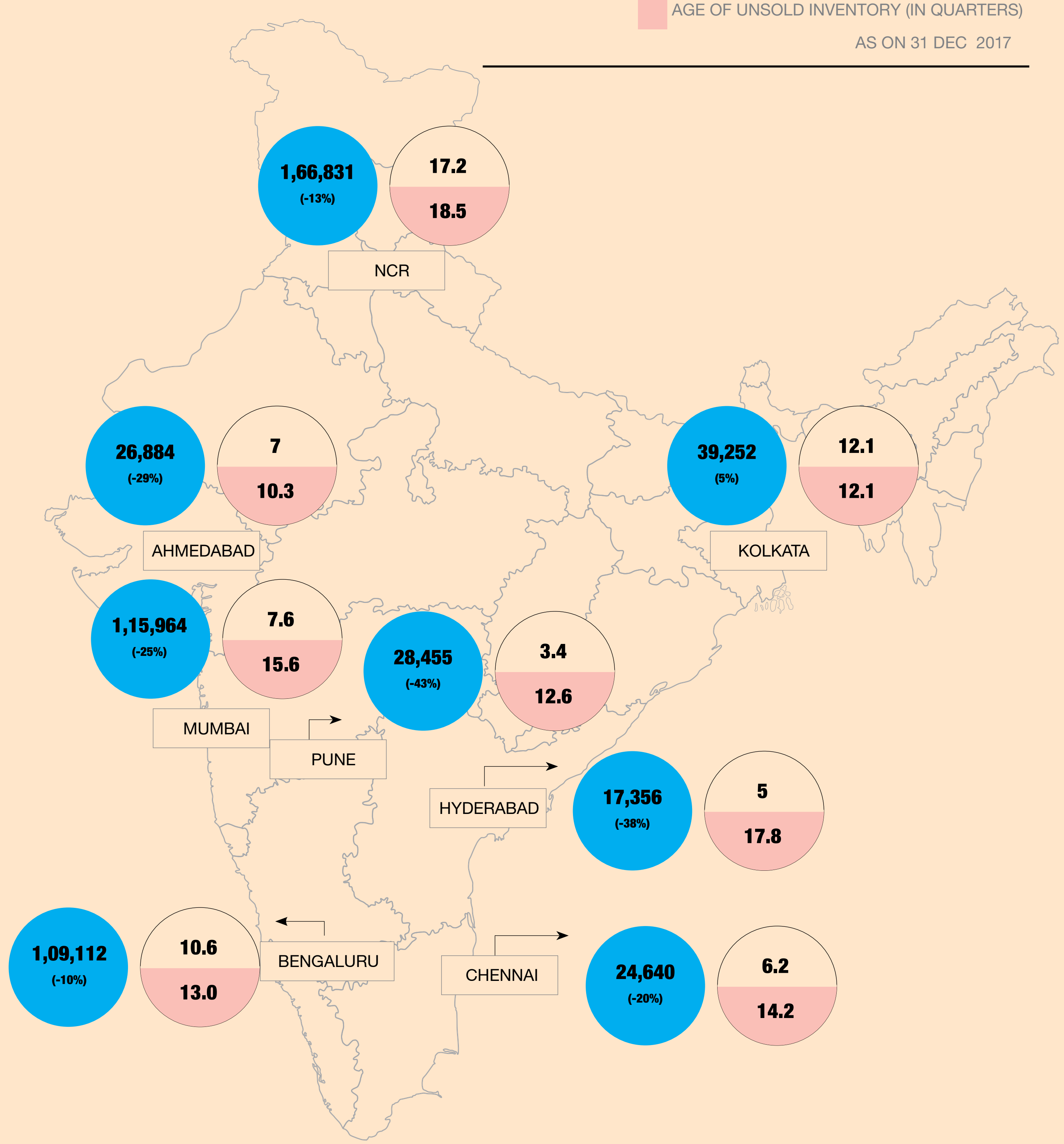
All maps are for representational purpose not to scale

RESIDENTIAL UNSOLD INVENTORY

UNSOLD INVENTORY (IN UNITS) QUARTERS TO SELL

AGE OF UNSOLD INVENTORY (IN QUARTERS)

AS ON 31 DEC 2017



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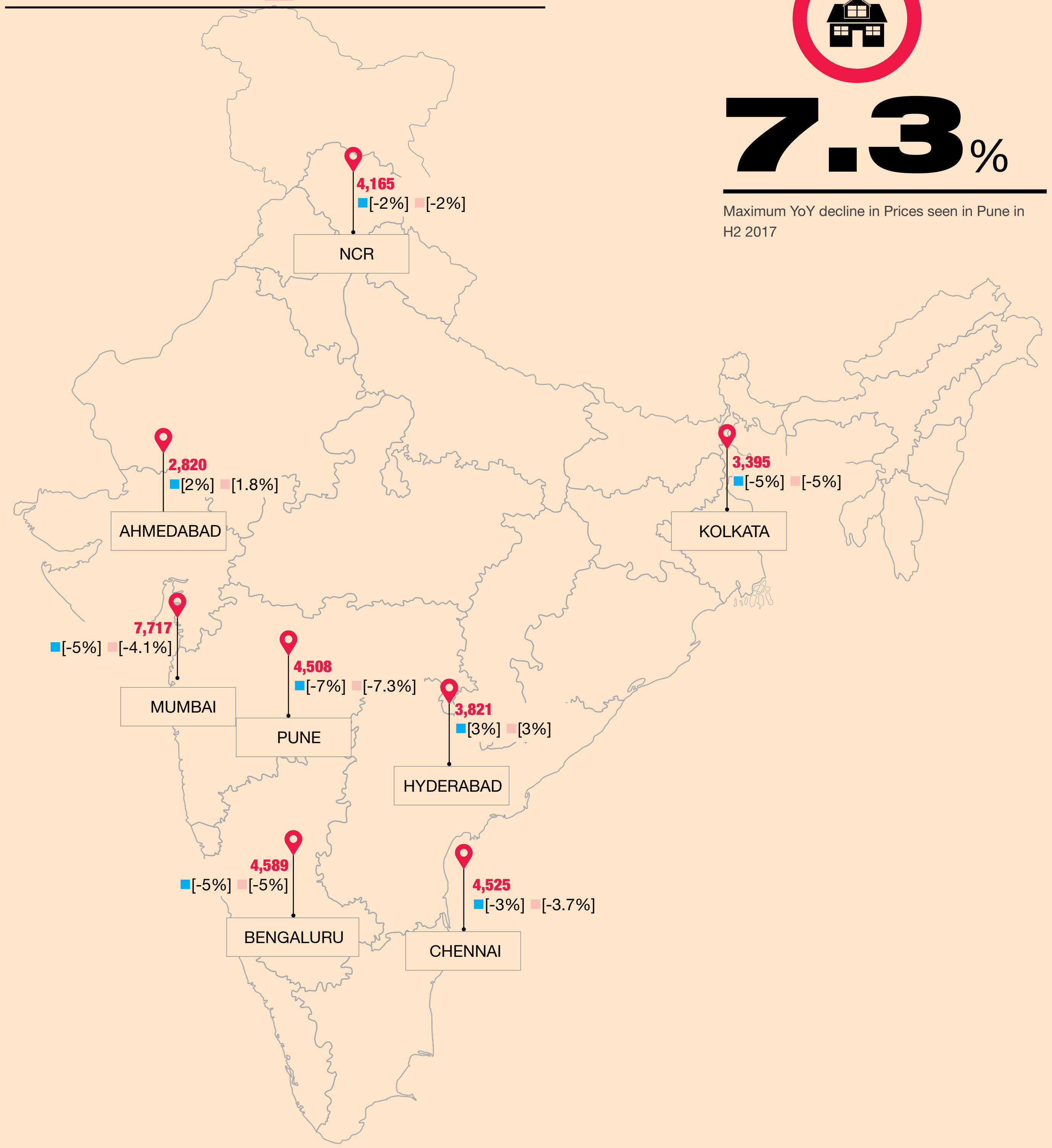
RESIDENTIAL PRICING

WEIGHTED AVERAGE PRICE IN H2 2017 (INR/SQ.FT.)

12 MONTH CHANGE (YOY) 6 MONTH CHANGE (YOY)



7.3%

Maximum YoY decline in Prices seen in Pune in H2 2017

All maps are for representational purpose not to scale

OFFICE MARKET

INDIA MARKET SNAPSHOT

PARAMETER	H2 2017	Change YoY	2016	2017	Change YoY
New completions (mn sq ft)	12.5	13%	30.7	32.7	7%
Transactions (mn sq ft)	22.5	9%	41.6	41.7	0.1%
Weighted Average Rental (INR/sq ft/month)	-	-	68	72	3%
Stock (Mn sq ft)	-	-	599	631	5%
Vacancy (%)	-	-	13.5%	11.6%	-

Source: Knight Frank Research

- The Indian office space market has been plagued by an abject lack of viable office space over the past four years while demand has stayed dogged-ly steady. This slide in office space development has been arrested in 2017 with supply growing by 7% in annual terms with a much more pronounced 13% growth YoY during H2 2017. However, overall transactions continue to substantially exceed supply and this has pulled down the vacancy levels to 11.6% from 13.5% a year ago.

- Consistently falling since H1 2012, the vacancy level is at a decadal low. The abject lack of fresh office space is most visible in the IT/ITeS sector dominated markets of Bengaluru, Pune and Hyderabad that currently have single digit vacancy levels at 3%, 6% and 5% respectively while Chennai stands precariously poised at 10%.

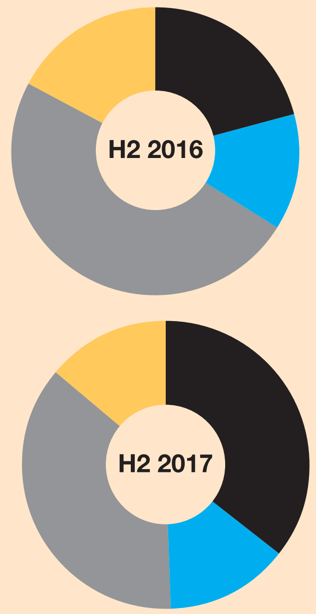
- The IT/ITeS sector share in transactions has increasingly been showing signs of weakening in recent periods due to macro headwinds in the form of a slowdown in spending as well as an inclination to insource by the USA and several European countries. Losing ground since H2 2016, it accounted for 37% of the transacted volume compared to the 49% in the previous period.

- The Other Services sector share has jumped up from 21% in H2 2016 to almost that of the IT/ITeS sector at 36% in the recently concluded period, on the back of increased take up by ecommerce and Co-working companies.

- The Co-working phenomenon is gathering speed in India and this can be observed in the increasing quantum of space companies such as Coworks, Wework, Daftar India and Awfis which have been taking up space in Mumbai, Bengaluru, Pune and the NCR. Across the top 7 cities, such co-working space providers have taken up around approximately 1.3 Mn sqft of office space during H2 2017, a significant growth over H2 2017.

- Rental growth has been strong across markets with the exception of Mumbai which experienced a 5% de-growth due to increasing supply and vacancy levels. Average rental values across the seven cities grew at 3% YOY during H2 2017. While Mumbai saw flat YoY rental growth, Hyderabad and Bengaluru experienced the strongest rental growth at 8.5% and 9.2% YoY respectively.

SECTOR-WISE SPLIT OF TRANSACTIONS

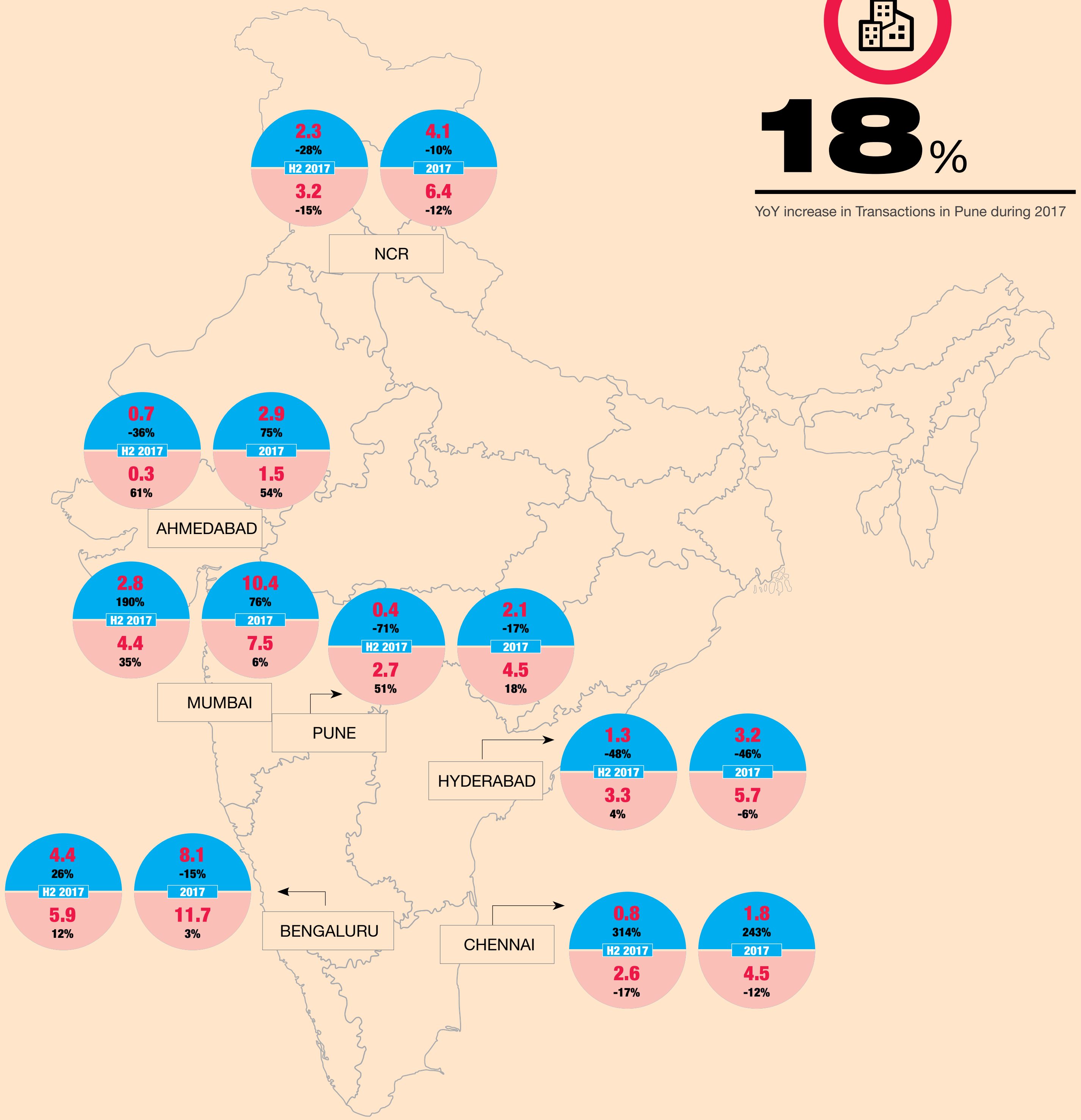


Industry	H2 2016	H2 2017
BFSI	13%	14%
IT/ITeS	49%	37%
Manufacturing	17%	14%
Other Services	21%	36%

Note: BFSI includes BFSI support services

OFFICE TRANSACTIONS

COMPLETIONS (MN SQ FT) TRANSACTIONS (MN SQ FT) % CHANGE (YOY)



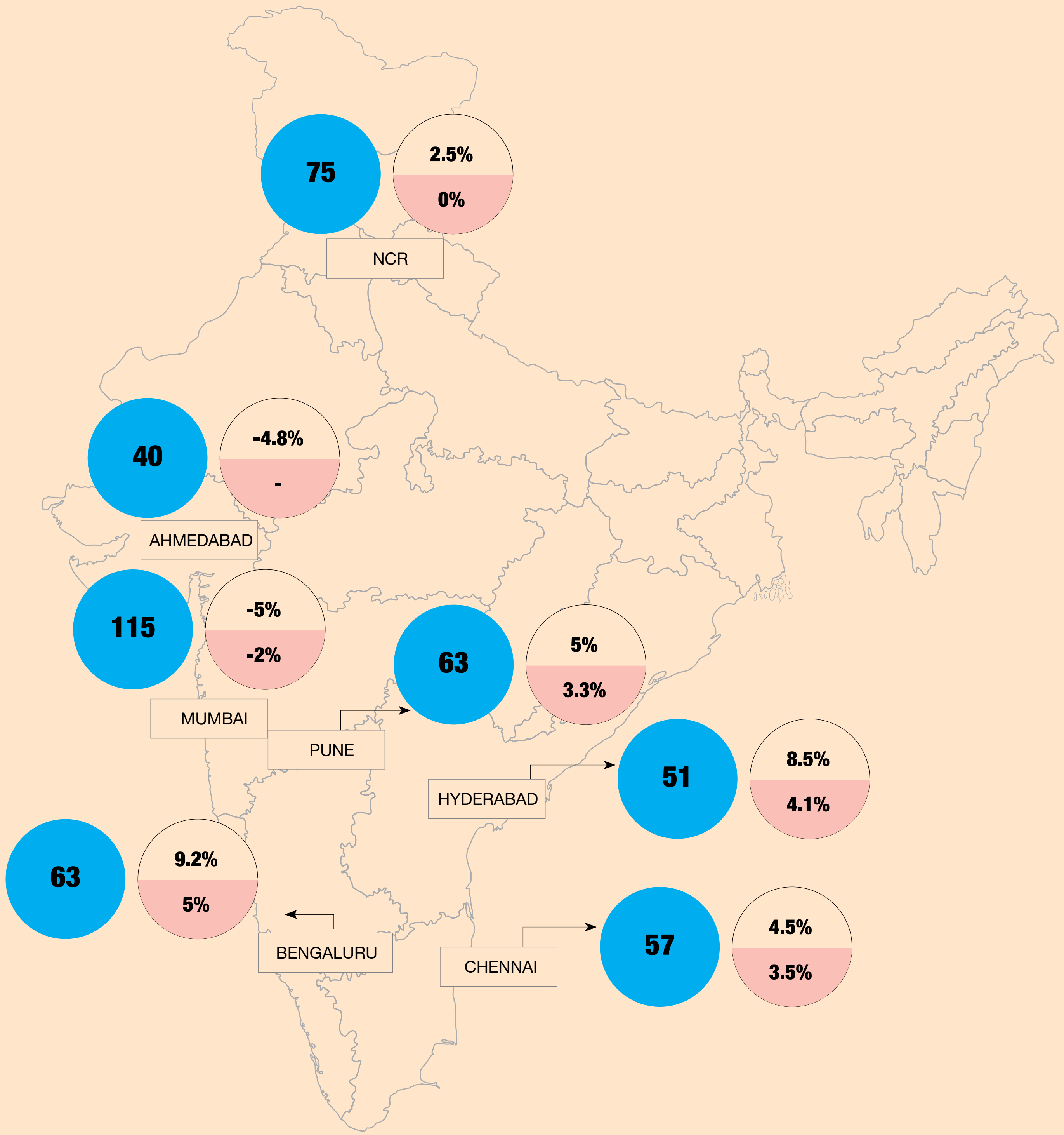
18%

YoY increase in Transactions in Pune during 2017

OFFICE RENTAL

WEIGHTED AVERAGE RENT IN H2 2017 (INR/SQ.FT./MONTH)

12 MONTH CHANGE 6 MONTH CHANGE



All maps are for representational purpose not to scale

All maps are for representational purpose not to scale

ONLY A MINOR NIGGLE

-By Pankaj Anup Toppo

"The recent past has not been too generous towards Gujarat. The present moment and the future is however, the time for Gujarat to move forward and Ahmedabad will lead that march," quipped one of the leading developers of Ahmedabad. Some may dismiss these tall claims as the voice of a passionate citizen of Ahmedabad but one cannot deny the fact in the recent past Ahmedabad has emerged as one of the major urban centres to have received undivided attention when it comes to urban development. All this to a great extent has helped in the rapid growth of real estate in the commercial capital of Gujarat. What makes the real estate growth in the city more special is that it is not fuelled by the IT industry but by industries like pharmaceuticals, financial services, textiles and of late, automobiles. The industrial push that Ahmedabad has witnessed has however, run into a minor niggle and we hope that those issues will soon be ironed out before it starts to affect the real estate in the city. There is however, a bright spark for the real estate sector in Ahmedabad.

44%

Dip in new launches in H2 2017 over H2 2016

THE GIFT DREAM

The Gujarat Finance Tec-City, more commonly known as GIFT City, is India's first global financial services and IT hub coming up near the Ahmedabad airport. This dream project coming up in the north of Ahmedabad has run in trouble over height of some of its buildings and may need to trim down the height of some of them. A study done by the International Civil Aviation Organisation recommended heights ranging from 74 metres and 191 metres for 52 high rises in GIFT City against requests for heights from 68 metres to 474 metres. A committee of the aviation ministry has also approved the findings of this six-month study. The need to trim down the height of some of the buildings in GIFT City comes as curbs on high rises need to be maintained near airports in the interests of aviation safety. We still await clarity on the matter and hope that this issue will get resolved soon, as it is one of the pet projects of Prime Minister Narendra Modi. Scaling down the size of GIFT City will however, dent the image of this international financial hub as was envisioned. If that happens then the real estate sector will have to bear the brunt as not only within GIFT City but also in Ahmedabad. While the issue affecting GIFT is a technical one, the flourishing real estate sector in west Ahmedabad may start feeling the heat for a very different reason.

SOCIAL UNREST

The automobile industry is one of the major drivers of real estate in Ahmedabad, especially in western part of the city. The Sanand-Viramgam-Hansalpur belt has emerged as a major auto hub in the western periphery of Ahmedabad. The drive through this automobile belt is dotted with dozens of companies manufacturing auto components and restaurants serving Japanese cuisine. "They even have menu cards printed in Japanese language," stated one of the developers. While growth of the automobile industry in this belt has opened up a plethora of jobs—but not for the local population—which is their major grouse. It is largely the migrant population that has benefitted from the boom in the automobile industry in this belt. In the recent past many protests have been organized by the local population demanding to be included in the automobile boom that the region is undergoing. This issue also made headlines during the campaigns in the recently concluded Gujarat elections. The state has no doubt taken great strides in attracting automobile giants to this stretch, it now needs to walk the extra mile to ensure that this niggle gets resolved before it gets out of control.

> **"The hard work put in by the state in this department is evident from the fact that till the end of November around 800 projects and 300 real estate agents were registered with the state authority."**

GEARED UP FOR RERA

For a state that is so efficiently managed, we believe that the above-mentioned issues should get settled soon. This efficient management has thrown up a bright spark for the real estate sector, in an otherwise dull period. Apart from Maharashtra and Madhya Pradesh, Gujarat has been the front runner in putting in place systems and processes for the smooth implementation of the Real Estate (Regulation and Development) Act, 2016 in the state. The hard work put in by the state in this department is evident from the fact that till end November around 800 projects and 300 real estate agents were registered with the state authority. Most developers did speak about the teething problems that they faced in getting their projects registered. They did take time to understand the details of the rules but are happy that this new system will benefit the now sector in the long run.

While the sector took time to understand the policy measures introduced in 2017, and Ahmedabad was no different, most stakeholders in the city are of the view that the future of the real estate sector in Ahmedabad is going to be bright. The necessary systems and processes are there in place and the fundamentals of the market are sound so there should be no looking back. What makes the deal sweet and attractive for Ahmedabad is that compared to other urban markets it offers a plethora of real estate options and that too at very competitive rates. As regards the minor niggles that have cropped up, we believe should get solved before they make any serious dent on the flourishing real estate sector in the city.

5%

Increase in sales in H2 2017 over H2 2016

AHMEDABAD

RESIDENTIAL MARKET

49%

Decline in sales in 2017, since the peak in 2012

89%

Decline in launches in 2017, since the peak in 2011

- "This festive season has not been festive for us," stated one of the developers during our meetings with them in the city. The sentiments echoed by the concerned gentlemen, in short, gives a fair idea of what the performance of the residential property market was in Ahmedabad in H2 2017.

- Even though the spark was missing in the residential property market in Ahmedabad, there is a glimmer of hope. From a high of 27,246 units launched in H1 2011, new launches were at its nadir in H1 2017 as only 1,874 units were launched. New launches had taken a hit in H1 2017 due to lack of clarity on the Real Estate (Regulation and Development) Act, 2016 (RERA). From a low of 1,874 units in H1 2017 new launches in H2 2017 moved to 2,916 units, an increase of 55%.

- Gujarat had put in place systems for smooth implementation of RERA by 1 July 2017. There were teething problems and it took developers sometime to understand the new law. In most cases, it did take time for developers to get their projects registered, especially in the months of July and August. Things have however, now started to move at a much smoother pace post September.

- This explains the 55% spike in new launches in H2 2017 compared to H1 2017. Compared to H2 2016 however, new launches are down 44% and compared to 2016, are down by 66%.

- Bulk of the launches in Ahmedabad happened in South Ahmedabad in locations like Kankaria and Juhapura. In fact, South Ahmedabad saw 35% of the new launches in Ahmedabad city

AHMEDABAD MARKET SNAPSHOT

PARAMETER	H2 2017	Change YoY	2016	2017	Change YoY
Launches (housing units)	2,916	(44%)	14,009	4,790	(66%)
Sales (housing units)	7,800	5%	15,956	15,741	(1%)
Price (wt. avg.)	-	2%	2,770	2,820	2%
Unsold inventory (housing units)	-	(29%)	37,835	26,884	(29%)
Quarters to sell	-	-	8.6	7	-
Age of unsold inventory (in quarters)	-	-	10.6	10.3	-

Source: Knight Frank Research

in H2 2017. Apart from the 2 above-mentioned locations in the south, micro markets like Vastrapur and Shilaj in West Ahmedabad and Chandkheda in North Ahmedabad saw the maximum launches in the city.

- While South Ahmedabad saw the bulk of new launches, West Ahmedabad came a close second followed by East Ahmedabad and North Ahmedabad. In H2 2017, there were few large scale new launches of close to 1,000 units in South Ahmedabad, which tilted the scales in favour of this region.

- Of the total units launched in H2 2017, over 75% of the new launches happened below the ticket size of ₹5 mn.

- The lack of available spaces and high capital values in central Ahmedabad did not infuse much confidence in developers in this micro market.

- While there is nothing much to cheer about, new launches, sales in Ahmedabad painted a very different picture. Sales remained largely steady. When compared to 2016, sales were marginally down in 2017, compared to H2 2016, were 5% and higher. In fact, the sales in H2 2017 is down 19% compared to the average sales of 9,677 units recorded across H2 2013, H2 2014 and H2 2015.

- The affinity of homebuyers towards affordable housing projects is very evident in Ahmedabad. Markets of East and North Ahmedabad, which are largely considered hubs for affordable housing projects witnessed close to 60% of the sales in H2 2017. Even in case of the entire year (2017), sales from these 2 micro markets were close to 60%. This trend is in line with those witnessed in H2 2016 and for the entire year (2016).

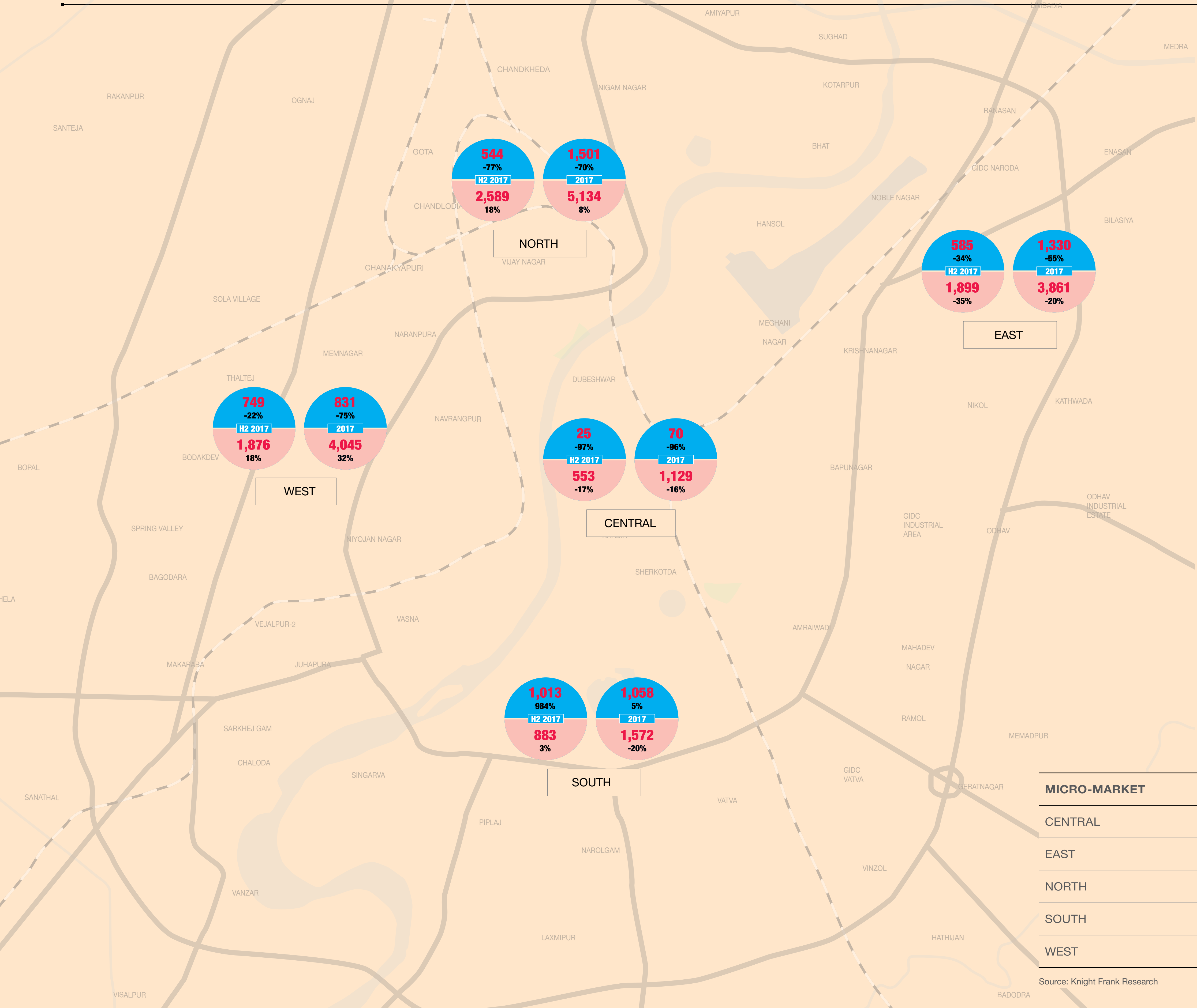
- Due to its proximity to business districts along SG Highway and Sanand, West Ahmedabad in recent years has been a favourite among homebuyers, especially from those with white collar jobs. Over the past one year, the sales in West Ahmedabad have significantly improved. Of the total sales in the city, the share of West Ahmedabad in H2 2017 was 24% compared to 21% during the same period last year. On a year-on-year (YoY) comparison, the share of West Ahmedabad, in 2017, increased to 26% compared to 19% in 2016.

- Even though sales have been steady in H2 2017, the months of July and August were hard for developers, especially in case of under-construction projects. This was largely because of higher tax rate under GST, something that the developers were trying to understand and their inability to communicate the same in a manner that the homebuyer could understand. Explaining the situation one of the developers aptly put it. "Previously we used to get around 600 walk-ins during the months of July and August, this number went down to below 300," stated the gentleman.

- As already mentioned, even though new launches are higher than what Ahmedabad witnessed in H1 2017, it is still way below the historic high witnessed in H1 2011 and is 44% down compared to H2 2016. The low level of new launches and steady sales has had a bearing on the quarters to sell (QTS) and the existing unsold inventory. In H2 2016, the QTS stood at 8.6 and this has come down to 7 in H2 2017. At present, the city has more than 26,800 unsold units, which are in various stages of construction. The unsold inventory in Ahmedabad is less than two years old, which is a sign of a very healthy market.

- East Ahmedabad is one of the better performing markets in the city, which attests the homebuyers' affinity towards affordable houses. This micro market has a low QTS of 7 and its age of inventory is 9.6. Affordable pricing coupled with easy access to major employment hubs and integrated development has helped this micro market in attracting homebuyers.

- In H2 2017, North Ahmedabad has the highest level of inventory. This however, should not be much of a concern because its QTS is only 7.7 and the age of inventory is only 9.6.



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RESIDENTIAL LAUNCHES AND SALES

LAUNCHES (IN UNITS) SALES (IN UNITS) % CHANGE (YOY)

"In fact, the sales in H2 2017 is down 19% compared to the average sales of 9,677 units recorded across H2 2013, H2 2014 and H2 2015."

32%

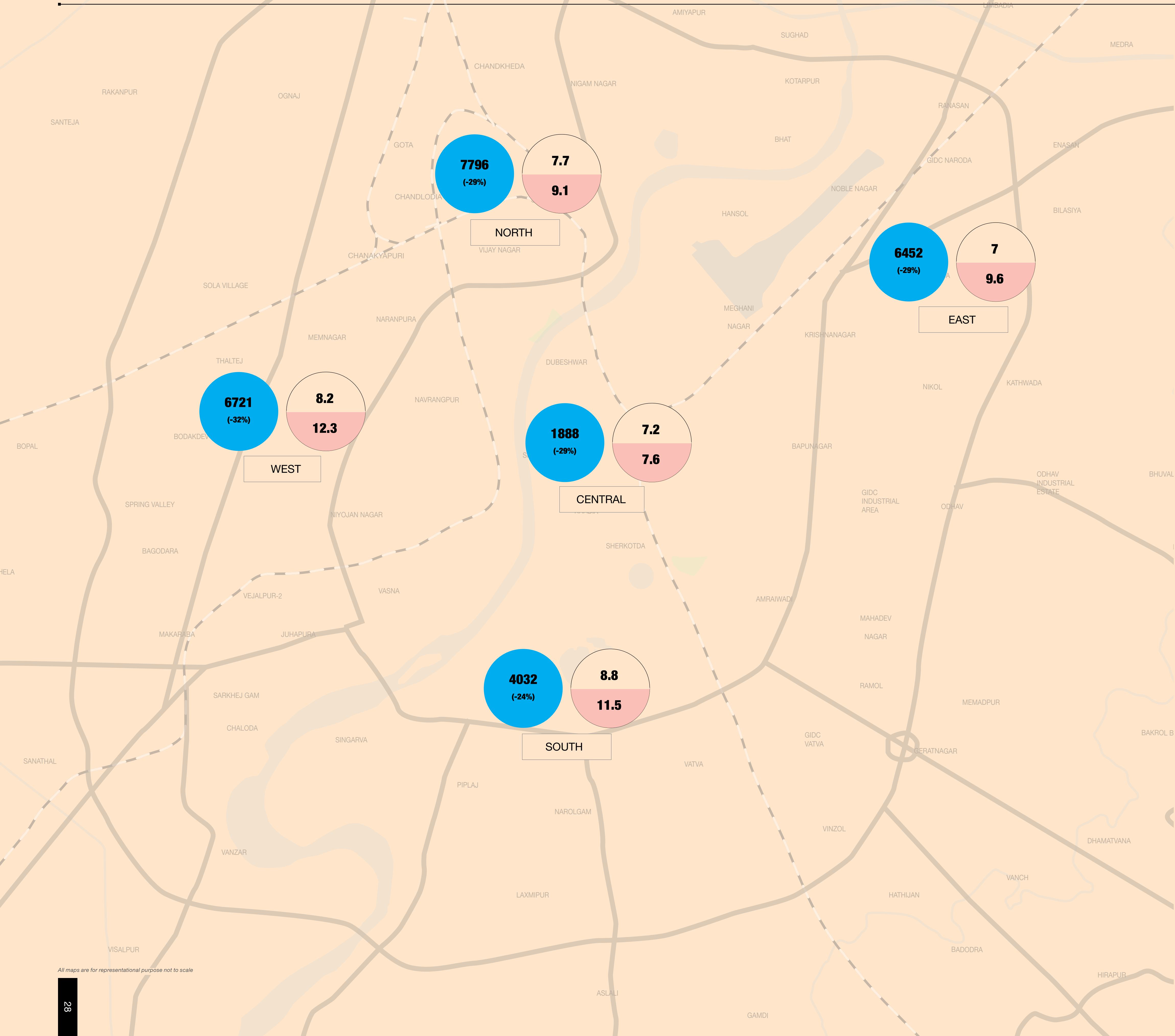
Increase in sales in West Ahmedabad in 2017

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

Source: Knight Frank Research

RESIDENTIAL UNSOLD INVENTORY

UNSOLD INVENTORY (IN UNITS) QUARTERS TO SELL
AGE OF UNSOLD INVENTORY (IN QUARTERS)
AS ON 31 DEC 2017



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29%

Movement in unsold inventory in H2 2017 alone

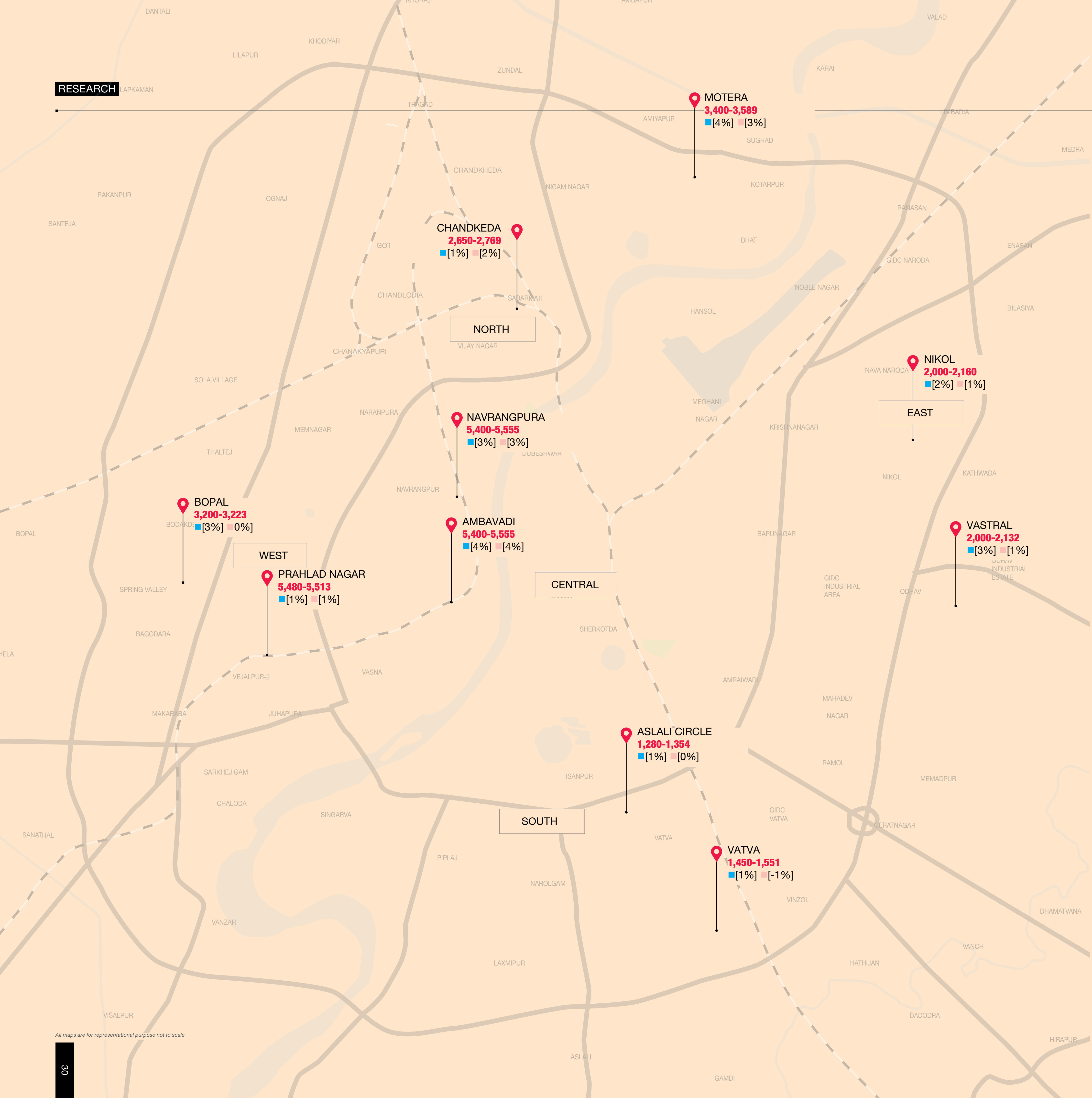
7

Quarters to exhaust unsold inventory

RESIDENTIAL PRICING

PRICE RANGE (IN ₹ SQ.FT.) 12 MONTH CHANGE (YOY)

6 MONTH CHANGE (YOY)



All maps are for representational purpose not to scale

4%

Price change in H2 2017 in Ambavadi

4%

Price movement in 2017 in Motera

OFFICE MARKET

AHMEDABAD MARKET SNAPSHOT

PARAMETER	H2 2017	Change YoY	2016	2017	Change YoY
New completions (mn sq ft)	0.69	-36%	1.67	2.92	75%
Transactions (mn sq ft)	.32	61%	.95	1.46	53%
Weighted Average Rental (INR/sq ft/month)	-	-	42	40	5%
Stock (Mn sq ft)	-	-	15.54	18.46	19%
Vacancy (%)	-	-	19.6%	23.6%	-

Source: Knight Frank Research

> **Among the prominent landmarks in the Ahmedabad office market is the Gujarat International Finance Tec-City or GIFT, which has witnessed office space pick up by companies from BFSI, IT/ITeS and Other Services sectors in**
>
> **H2 2017.**

- The Ahmedabad office market witnessed office space transaction of 0.32 mn sq ft in H2 2017, which is 61% higher than the space transacted in H2 2016. Compared to 2016, office space transaction grew by 53%.

- This massive jump in transacted space can be attributed to availability of good quality office space at competitive rates. Among the prominent landmarks in the Ahmedabad office market is the Gujarat International Finance Tec-City or GIFT, which has witnessed office space pick up by companies from BFSI, IT/ITeS and Other Services sectors in H2 2017. Offering state-of-the-art world class technology, GIFT will change the dynamics of the office market in Ahmedabad.

- Signs of the growing Ahmedabad office space market can also be gauged from the fact that for the first time transacted office space in the city crossed 1 mn sq ft. In 2016, 0.95 mn sq ft of space was transacted and in 2015, the figure stood at 0.8 mn sq ft.

- New completions on the other hand witnessed a dip of 36% in H2 2017 compared to H2 2016. During H2 2017, only 0.32 mn sq ft of office space entered the market compared to 1.08 mn sq ft space in H2 2016. During H2 2017, new office completions were done in only three projects, one each on SG Highway, Science City Road and Satellite Road. All of this supply was in Grade-B office buildings.

- Compared to 2017 however, new completions moved up by 53%. During 2017, 86% of the supply came in CBD West in the micro markets along SG Highway, Anandnagar Road, CG Road, Bopal Ambli Road, Keshav Baug, Science City Road and Satellite Road. The balance 14% space entered the Ahmedabad office market in PBD (GIFT).

- The office market in Ahmedabad is still in its infancy, compared to urban centres like Mumbai, Bengaluru and Delhi NCR. The necessary infrastructure is in place, and of late, developers have moved in to meet the requirements of companies either moving into the city or expanding their presence in the city. In the present day, this has led to a situation where the supply outstrips demand. This explains the double digit vacancy rates in the city, which has increased slightly since H1 2016. In H2 2017, the vacancy rate in the city is 23.6%, up from 19.6% in H2 2016.

- Unlike other real estate markets, like Bengaluru and Hyderabad, the office market in Ahmedabad is not driven by the IT/ITeS sector. In fact, in H2 2016, the IT/ITeS sector did not pick up any space in the city. However, in H2 2017 the IT/ITeS sector picked up 14% of the transacted space in the city. Oracle India is the only major IT company that picked up space in GIFT City in H2 2017.

- The office market in Ahmedabad is largely driven by BFSI, Other Services and manufacturing. In H2 2017, the largest share of the pie went to BFSI followed by Other Services, IT/ITeS and manufacturing. When compared to H2 2016, after IT/ITeS sector, the share of BFSI in transacted office space has grown in H2 2017. The share of Other Services has dipped marginally in H2 2017 compared to H2 2016. The manufacturing sector is the biggest loser, in terms of transacted office space, in H2 2017 compared to H2 2016. The sector had picked up 26% of the transacted office space in H2 2016 and in H2 2017 its share fell to only 8%. In fact, the share of the manufacturing sector was at its highest in H1 2015, when it picked up 40% of the transacted office space in the city. The falling share of the manufacturing sector could be attributed to the increased attention Ahmedabad is receiving from companies in the services sector.

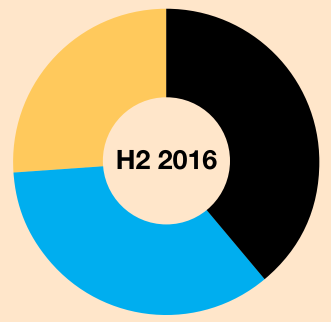
- The average deal size in H2 2017 is reported to be 19,062 sq ft, which is 42% higher than in H2 2016. The average deal size in H2 2017 is however, 11% lower than in H1 2017. The deal size is also 64% lower than what the city witnessed in H1 2016. During H1 2016, Ahmedabad reported its largest deal size of 53,607 sq ft.

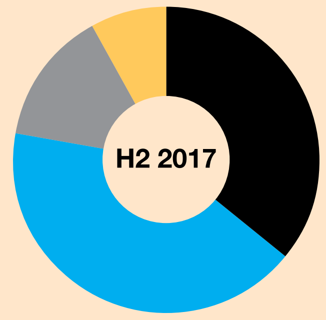
- H2 2017 witnessed the completion of 17 deals, which is marginally higher than what Ahmedabad witnessed in H2 2016. The increase in number of deals from 15, in 2016, to 17, in H2 2017, should be viewed in the light of a 42% increase in average deal size in H2 2017 compared to the same period last year. The small increase in the number of deals in H2 2017, compared to H2 2016, coupled with a massive increase in average deal size can be attributed to companies taking up large spaces in the city. The Bombay Stock Exchange and Oracle India picked up considerable office space in GIFT, in H2 2017.

- Of the total transacted office space in the city, the share of CBD West and PBD were almost equal. Among the micro markets, GIFT in PBD accounted for all office space transacted in H2 2017, thereby becoming the most important office market location in Ahmedabad. Other important micro markets that witnessed major transactions are SG Highway and CG Road in CBD West.

- Even though the office market in Ahmedabad is in its infancy, among the early signs of this market steadily growing is that rentals are firming up both in CBD West and PBD, more so in PBD. Compared to H2 2016, rentals in PBD have moved up by 9% in H2 2017, and in comparison to H1 2017 have increased by 4%, in H2 2017. Rental movement, however, has been more muted in CBD West. In H2 2017, rentals have remained stable compared to H1 2017 and moved up by 1% compared to H2 2016.

SECTOR-WISE SPLIT OF TRANSACTIONS





Industry	H2 2016	H2 2017
BFSI	35%	42%
IT/ITeS	-	14%
Manufacturing	26%	8%
Other Services	39%	36%

Note: BFSI includes BFSI support services

AVERAGE DEAL SIZE AND NUMBER OF DEALS

H2 2016

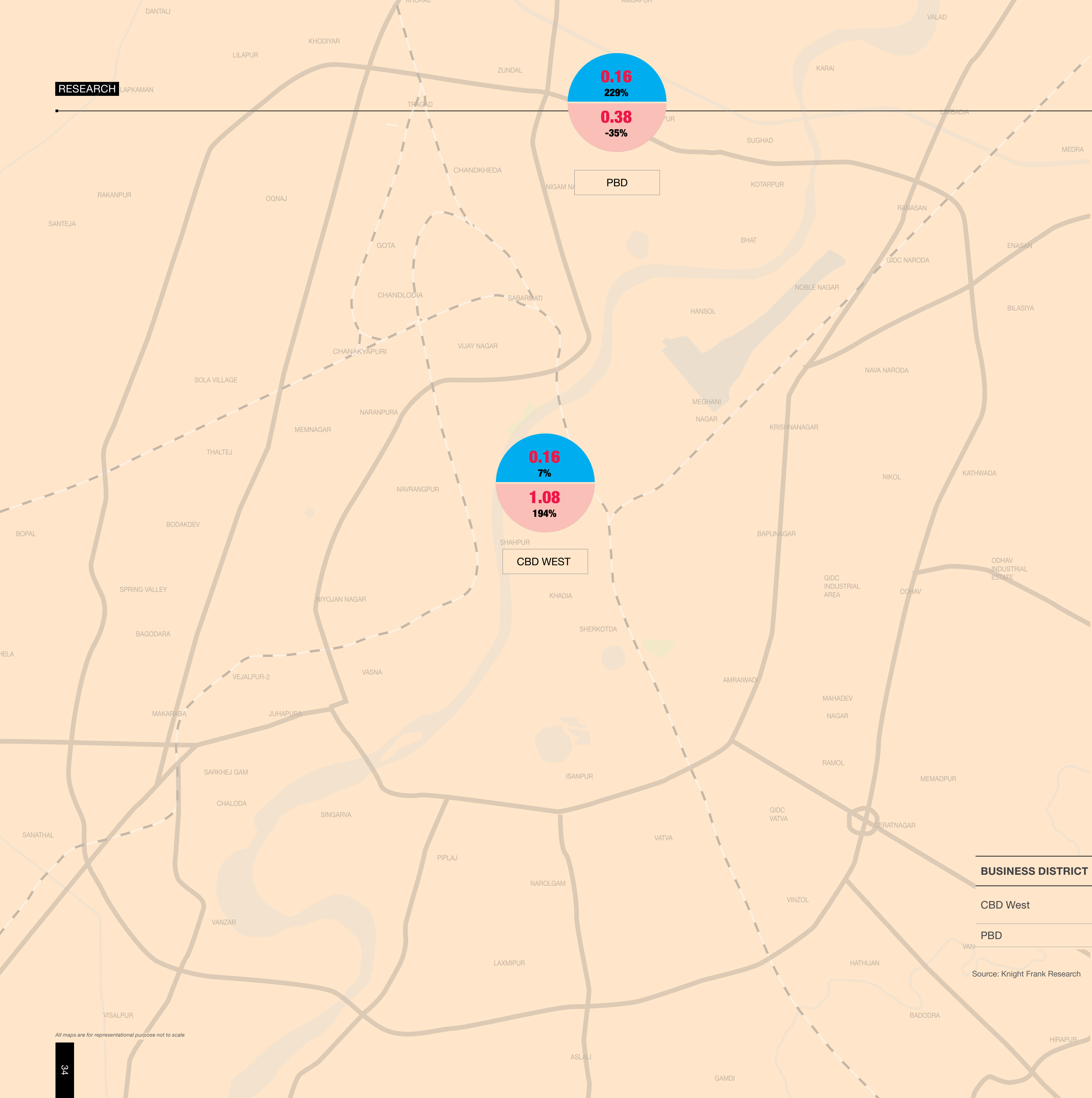
13,380
Average deal size (sq ft)

15
Number of deals

H2 2017

19,062
Average deal size (sq ft)

17
Number of deals



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OFFICE TRANSACTIONS

H2 2017 | 2017 | % CHANGE (YOY)

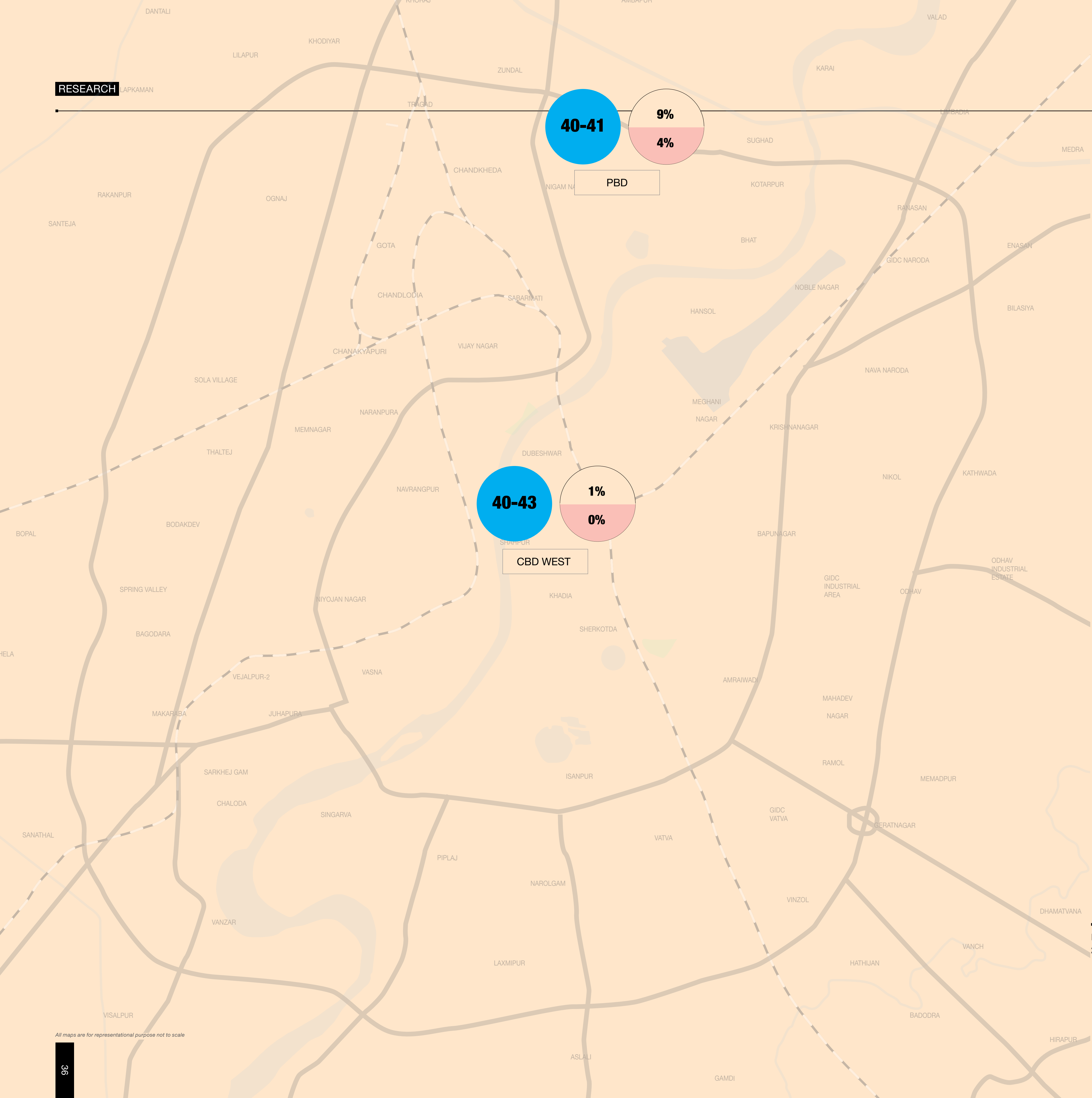
IN MN SQ FT

23.6%

Vacancy rate in Ahmedabad office market in H2 2017

BUSINESS DISTRICT	MICRO MARKETS
CBD West	Bodakdev, Keshav Baug, Prahladnagar, Satellite, SG Highway, Thaltej
PBD	Gandhinagar, Gift City

Source: Knight Frank Research



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OFFICE RENTAL

RENTAL VALUE RANGE IN H2 2017 (INR/SQ FT/MONTH)

12 MONTH CHANGE 6 MONTH CHANGE

"Of the total transacted office space in the city, the share of CBD West and PBD were almost equal. Among the micro markets, GIFT in PBD accounted for all office space transacted in H2 2017, thereby becoming the most important office market location in Ahmedabad."

4%

Increase in rentals in PBD in H2 2017 alone

9%

Increase in rentals in PBD in 2017

Provisional Revised MASTER PLAN 2031 envisions decongesting Bengaluru

-By Divya Grover

Bengaluru experienced unprecedented economic and spatial growth as a result of rapid in-migration and growth of the IT/ITeS sector. With 42% population growth in 2001–2011 decade, the population in the city accounts for nearly 14.60% of total state population concentrated in merely 0.64% of land area. Against this backdrop, the Bangalore Development Authority (BDA) recently notified the Revised Master Plan (RMP) 2031 (Provisional) for public suggestions on 26 November 2017. With ecological sustainability, inclusive growth and mobility as the guiding principles, it is envisaged as a spatial policy framework to tackle the key challenges of

a) rapid population explosion b) development led infrastructure rather than infrastructure led development c) protecting the lake and valley system d) inadequate affordable housing stock
e) integration of traffic & transportation and infrastructure f) uneven spatial distribution of economic activities, infrastructure, social amenities and open spaces.

FOLLOWING ARE THE KEY HIGHLIGHTS OF DRAFT RMP 2031 AND THEIR IMPLICATIONS:

A) EXTENSION OF CONSURABATION LIMITS OF RMP 2031

over RMP 2015 is to the extent of 80 sq km (from 804 sq km to 884 sq km with a gross density of 210 persons per hectare) mainly due to availability of large vacant tracts of land within the existing conurbation limits. This is in line with the strategy to promote compact high density developments

CONURBATION OF RMP 2031

Description	Extent
Area of Conurbation	884.31 sq km
Area of Agriculture	322.66 sq km
Area of Local Planning Area (LPA) of BDA	1206.97 sq km

Source: Knight Frank Research, Provisional Revised Master Plan 2031

supported with a targeted shift of public transport share from existing 48% to 68–70%.

B) CHANGES IN PROPOSED LAND USE AS PER RMP 2031

i) More land for residential usage – It has been proposed to increase the residential land use category from 17.63% of total area of LPA of BDA to 424.77 sq km or 48.03% of total area of LPA of BDA. This is a significant departure from RMP 2015 and recognises the planning authority's commitment towards creation of more residential zones, most of which are demarcated in the outskirts where new special development zones (SDZ) are being envisaged.

ii) Provision for an NGT buffer is a new introduction in % to total developable land area – A new category NGT Buffer stipulates 88.49 sq km or 10.01% of total developable area to comply with an NGT judgment dated 4 May 2016, which had rendered the buffer zones assigned by RMP 2015 as unscientific. This 88.49 sq km includes 46 sq km apportioned as vacant land in RMP 2015.
RMP 2031 has taken into account the objections raised by NGT in general and classifies the streams (rajkaluves) with respect to primary, secondary and tertiary, which will be treated as no construction zones for all intent and purposes.
If implemented systematically, this clear distinction of NGT Buffer will render approximately 21,866 acres as no construction zones limiting land availability for new construction activities. In the long term, land prices for parcels adjacent to NGT buffers might a witness steep upsurge due to this change.

C) IDENTIFICATION OF 5 SPECIAL DEVELOPMENT ZONES (SDZ) AS BELOW:

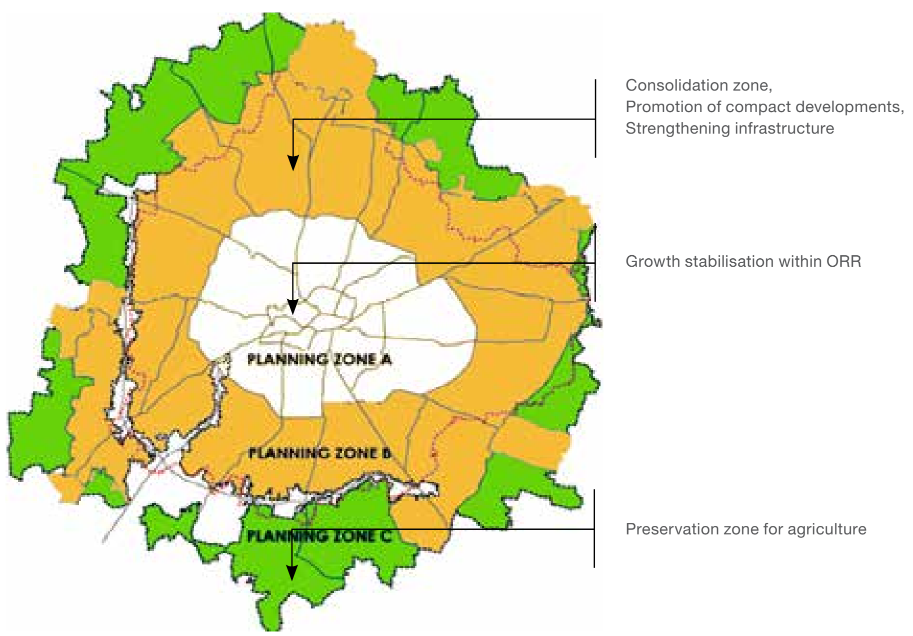
	PROPOSED SDZ	EMERGING ECONOMIC ACTIVITIES TO FUEL GROWTH
1	Bellary Road	Hubs of IT
2	Sarjapur Road	Other related Hi-Tech industries
3	Hosur Road	Supporting service sector offices
4	Mysuru Road	Hub for knowledge driven economy
5	Old Madras Road	Creation of new opportunities through light and service industries

Proposed as part of a differential strategy to minimise commercialisation of city core and promote additional economic activities along Bangalore Metropolitan Area (BMA)'s periphery, these clusters will define the direction of real estate growth in the next decade. These five SDZs depict a possible growth scenario in the north, north-eastern, southern and south-western regions and are also the major peripheral arteries where residential land use has now been increased and conurbation limits extended. The changes in zoning regulations complement this vision by prescribing a higher base Floor Area Ratio (FAR) for promoting high density compact development and integrated townships. The existing level of development in these corridors and capacity of major road networks coupled with RMP 2031 provisions is a welcome move to accelerate real estate activity in these belts.

DEVELOPMENT TYPE	PLOT SIZE	BASE FAR*	ALLOWABLE THROUGH TDR/ANY OTHER RULES	TOTAL ALLOWABLE FAR
Residential	Above 40,000 sq metres	2.25	0.50–1.25	2.75–3.50
Non-residential	Above 24,000 sq metres	2.50	0.50–1.50	3.00–4.00

**Subject to road width, setbacks and ground coverage*
Source: Knight Frank Research

D) ZONING REGULATIONS HIGHLIGHTS AS PER RMP 2031



Source: Knight Frank Research, Bangalore Development Authority (BDA)

PLANNING ZONE A –

areas falling within Outer Ring Road (ORR)

PLANNING ZONE B –

areas outside ORR and up to the conurbation limit of RMP 2031

PLANNING ZONE C –

areas beyond conurbation limit and up to boundary of LPA

PROPOSED CHANGES IN RESIDENTIAL ZONING (ZONE A AND B)

ZONE	TYPE	PLOT SIZE	BASE FAR	ALLOWABLE THROUGH TDR/ANY OTHER RULES	TOTAL ALLOWABLE FAR AS PER RMP 2031
Zone A	Residential	Up to 20,000 sq m	1.50–1.80	0.45–0.90	1.50–2.70
Zone B	Residential	Up to 20,000 sq m	1.50–2.00	0.40–1.20	1.50–3.20
Zone A & B	Residential	Above 20,000 sq m	2.00	0.40–1.20	2.40–3.20

**Subject to road width, setbacks and ground coverage*
Source: Knight Frank Research

According to RMP 2015, FAR in these zones ranged between 1.75 to 3.25 with a higher base FAR component. When clubbed with TDRs, the high cumulative FARs generated before were often not realisable on average land parcels within the city. The newly proposed changes reduce the base FAR, which will have a direct impact on the development potential for new units within these zones. This will restrict the height, built-up area and number of new units planned for future developments.

E) EWS HOUSING QUOTA IN SUB-DIVISION REGULATIONS FOR RESIDENTIAL LAYOUTS:

The new norms stipulate earmarking 2.5% of total plot area for EWS housing under government schemes at a single location across all zones. The minimum area requiring layout approval for residential projects is proposed as 2 hectares in Zone A and Zone B, whereas it is 4 hectares for SDZ. This translates into approximately 5,300 sq ft (Zone A and B) and nearly 10,700 sq ft (SDZ) plot area demarcated for EWS housing. Though it is premature to expect this proposed development to stimulate EWS housing, it will certainly enhance the development potential of EWS dwellings as approvals for new layouts are now linked to mandatory EWS quota. Per the existing housing situation in city, nearly 60% housing demand is estimated to emerge in affordable housing range, of which, 47% is in EWS category. If this provision is implemented, we can at least hope for an evenly distributed EWS stock development as part of new projects across zones.

F) OTHERS

i) For non-residential developments, the FAR is even lower for Zone A and Zone B, which will further push development to SDZs.

ii) Banning all commercial activity within residential main and residential mixed-use zones for road width less than 40 feet should also push commercial activities to newer precincts and help decongest the city core.

iii) The older RMP provided higher FAR of 4.00 for all permissible uses along 150 metres radius from the metro terminals but lower road width given the average plot sizes within the city prohibited transit oriented developments. That said, the new plan only provisions for 1.00–1.50 FAR in transportation zones and the concept of mutation corridors has been completely removed.

iv) Grading of heritage buildings and clear extents of heritage zones has been mapped to demarcate prohibited zones (100 metres radius) and regulated areas (within 200 metres radius) within which construction cannot be undertaken or has to be regulated closely as per stipulated norms.

While the RMP 2031 is up for scrutiny and suggestions until 23 January 2018, exclusion of the western arc from future growth strategy will put further pressure on the crumbling physical infrastructure in other belts such as the northern and south-eastern regions. The need to preserve this water-rich belt is a good example of containing development within this quadrant and must be replicated for the other zones where the ground water table has depleted due to excessive development. Incentivising development in SDZ via higher base FAR and restricting FAR within Zone A and Zone B are welcome steps towards concentrating future development in far off peripheral clusters, as it will help decongest the overcrowded city core, off central locations and Outer Ring Road belt. However, until public transport is augmented in tandem in the planned SDZs, lack of connectivity to these belts may hamper growth plans. It remains to be seen how citizen bodies, the real estate community and other stakeholders respond to RMP 2031 and the growth direction that the city will take going forward.

Note: RMP 2031 in this entire article denotes the Provisional Revised Master Plan 2031, which is now made public by BDA for suggestions. RMP 2015 denotes the Revised Master Plan introduced in 2015.

> **"Incentivising development in SDZ via higher base Floor area ratio(FAR) and restricting FAR within Zone A and Zone B are welcome steps as it will help decongest the overcrowded city core."**

14.6%

of total state population concentrated in merely 0.64% of land area

THANISANDRA

A PROMISING NEIGHBOURHOOD UP NORTH

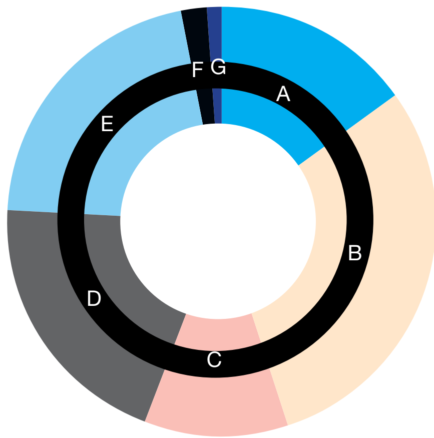
-By Divya Grover

India's emergence as a major outsourcing hub, back-end and Y2K projects, paved the way for immense employment opportunities in Bengaluru. As the pensioner's paradise metamorphosed to earn the sobriquet "India's IT capital", the southern and eastern conurbations of Bengaluru developed much faster than the northern zone. With sprawling IT parks, special economic zones (SEZs) and modern office spaces, the changing skyline of Whitefield, Outer Ring Road and suburban business districts soon made Bengaluru a cosmopolitan hub.

It was only after the opening of Kempegowda International Airport in Devanahalli in 2008 that North Bengaluru attracted widespread attention. The presence of numerous employment hubs such as Embassy Manyata Business Park, Kirloskar IT Park, Brigade Magnum, RMZ Galleria and Ecopolis spurred residential estate development in this belt. Upcoming office blocks in some of these IT parks have put the spotlight on Thanisandra, an emerging hotspot where residential real estate demand is intensifying due to the incremental employment opportunities being generated. Government, in association with private players has also committed investments for Devanahalli Business Park, Information Technology Investment Region (ITIR), Aerotropolis and Karnataka Industrial Areas Development Board Park to boost employment generation, which will underpin Thanisandra' s upcoming real estate landscape.

Thanisandra is situated near multiple employment hubs and has access to both physical and social infrastructure. Coupled with competitive residential prices, Thanisandra's residential real estate attractiveness scores high on many aspects making it a preferred locality

RESIDENTIAL LAUNCHES SPLIT – THANISANDRA (2011–17)



A	2011	**15%**
B	2012	**30%**
C	2013	**11%**
D	2014	**20%**
E	2015	**21%**
F	2016	**2%**
G	2017	**1%**

Source: Knight Frank Research

for high-flying millennials and nuclear families. Located strategically just off the Outer Ring Road and in proximity to Hebbal places Thanisandra at a vantage point in terms of connectivity. The nearby six-lane elevated road from Hebbal to the airport ensures seamless connectivity to the airport as well as the city centre via Bellary Road. This elevated corridor provides easy accessibility to Devanahalli and Yelahanka too. The nearest railway station is in Hebbal, which is 9–11 km away and connects to nearby towns like Hosur and Salem apart from Yeshwantpur. Passengers can also interchange at Yeshwantpur Junction railway station to travel to other interstate and intrastate towns. Public transport bus services also connect the micro market to other major parts of the city.

In addition to easy connectivity, infrastructure development in Thanisandra complements its location attractiveness. Road widening of Thanisandra Main Road to a 100 feet road has eased traffic bottlenecks and helped in the growth of this micro market. Within 4–8 km distance from Thanisandra, one can reach numerous education institutions and healthcare facilities such as Fortis Hospital, Columbia Asia Multispecialty Hospital, Motherhood, Vidya Niketan Academy and Presidency College. Two shopping malls – Elements Malls and Esteem Mall are located on Thanisandra Main Road and Hebbal, respectively, while another mall, The Galleria, is set to become operational soon in nearby Yelahanka. However, some parts of Thanisandra have irregular water supply which is supplemented through private water tankers. The state government must focus on strict implementation of the rainwater harvesting policy and recharging of groundwater table to ensure there is no scarcity in future.

In Thanisandra, the residential construction activity has picked up pace since 2011. Before 2011, hardly any developers had launched projects in this micro market. Since 2011, 14,323 residential units have been launched, of which 2012 accounted for the maximum share (30%). The pace of new launches has only slowed down in the last two years as the real estate sector moves towards a new regulatory regime. Though new unit launches slowed down during 2016 and 2017, large township developments from developers such as Bhartiya Group and Sobha Limited have been well received by end-users due to the many lifestyle amenities they offer. Community living aspects when coupled with proximity to workplace have made these residential products much sought after in Thanisandra.

As of H2 2017, nearly 30 residential projects were currently under various stages of construction in Thanisandra. Keeping in mind the affordability bracket of the end-user base comprising professionals employed in nearby IT parks, developers have come up with 2BHK and 3BHK apartments, which are available from INR 40–90 lakhs for many size ranges.

With completion dates of many projects scheduled for the next 1–2 years, fence sitters are expected to fast track property buying decisions now that the Real Estate (Regulation and Development) Act, 2016 has been implemented. With dust settling on the aftermath of demonetisation and statewide progress with registration of real estate projects and agents, confidence is slowly returning to residential real estate transactions. Ready-to-occupy properties in this belt will attract buyers due to their low prices compared to neighbouring residential clusters like Hebbal, Yelahanka and RMV 2nd stage where capital value growth happened much sooner due to early real estate development.

Upcoming infrastructure projects near Thanisandra have already made it a cynosure of all eyes. The proposed 65 km Peripheral Ring Road (PRR), once completed, will connect all the four highways – Bellary Road, Tumkur Road, Old Madras Road and Hosur Road and will ease traffic congestion on the Outer Ring Road. The upcoming north–south line of Bengaluru Metro Rail Phase II connecting Nagwara with Gottigere will further boost connectivity to other parts of the city. Additionally, an alternate route to the Kempegowda International airport via Thanisandra Main Road is being planned, which will ease access to the airport for local residents. A village once upon a time, Thanisandra's evolution to a hotbed of residential real estate will continue to keep it on end-users' radar. With physical infrastructure in place, it is only a matter of time before it develops a self-sustaining ecosystem like Whitefield.

“Since 2011, 14,323 residential units have been launched, of which 2012 accounted for the maximum share (30%).”

BENGALURU

RESIDENTIAL MARKET

The slew of simultaneous policy reforms in the form of RERA and GST implementation have increased the gestation period for sales closures though buyers remain positive about ready to occupy products.

-40%

Decline in sales in 2017, since the peak in 2013

-71%

Decline in launches in 2017, since the peak in 2013

BENGALURU MARKET SNAPSHOT

PARAMETER	H2 2017	Change YoY	2016	2017	Change YoY
Launches (housing units)	8,384	-37%	37,676	22,410	-41%
Sales (housing units)	13,336	-34%	46,529	34,546	-26%
Price (wt. avg.)	4,589	-5%	4,850	4,589	-5%
Unsold inventory (housing units)	1,09,112	-10%	1,21,248	1,09,112	-10%
Quarters to sell	10.6	-	9.3	10.6	-
Age of unsold inventory (in quarters)	13	-	10.4	13	-

Source: Knight Frank Research

- In 2017, Bengaluru's residential market surrendered to the pressures of crumbling sales volume. From a peak of 57,366 units sold in 2013, the sales volume noted a stark 40% decline at the end of 2017, albeit green shoots of recovery were visible in the latter half of H2 2017. No longer bucking the trend, Bengaluru's residential market has been impacted by a variety of factors impacting both demand and supply. The stress in the market is also captured in the age of unsold inventory, which has progressively increased from 7.5 quarters in 2014 to 13 quarters in 2017.

- The slew of simultaneous policy reforms in the form of Real Estate (Regulation and Development) Act, 2016 (RERA) and GST implementation have increased the gestation period for sales closures though buyers remain positive about ready to occupy products. However, the tech-oriented and reskilling demands of the IT/ITeS sector amidst several IT companies resizing their business verticals have overcast the end-user sentiment prolonging home buying decisions.

- Residential sales are witnessing a different sales curve than what the city has traditionally seen with 2017 witnessing a 34% YoY decline in H2 2017 over H2 2016. This huge sales decline is attributed to a decline of 43% and 27% in sales volume in the South and North zones, respectively, over the same period.

- To gain traction from fence sitters, developers robustly invested in marketing campaigns in IT parks, homefests, discounts on base selling prices, freebies during the festive period and widespread promotion of RERA registered projects during H2 2017. Despite that, the weighted average residential prices contracted by 5% in 2017 over 2016 as heavy discounts on base selling prices are available from developers in the wake of pre-sales bookings having come to a halt.

- For Bengaluru's residential market, 2017 was a landmark year, which also redefined the supply dynamics, as the city embraced RERA in July 2017. Whilst Bengaluru started witnessing a declining trend of new launches since 2014, the rate of decline was never as marked as in 2017 as the new supply nosedived by a mammoth 71% from the peak witnessed in 2013.

- North and South zones have witnessed maximum curtailment of new launches registering a YoY decline of 66% and 52%, respectively, in H2 2017, as developers have put new project launches on the backburner whilst they prioritise RERA compliance. On a YoY basis too, overall city launches declined by 37% in H2 2017.

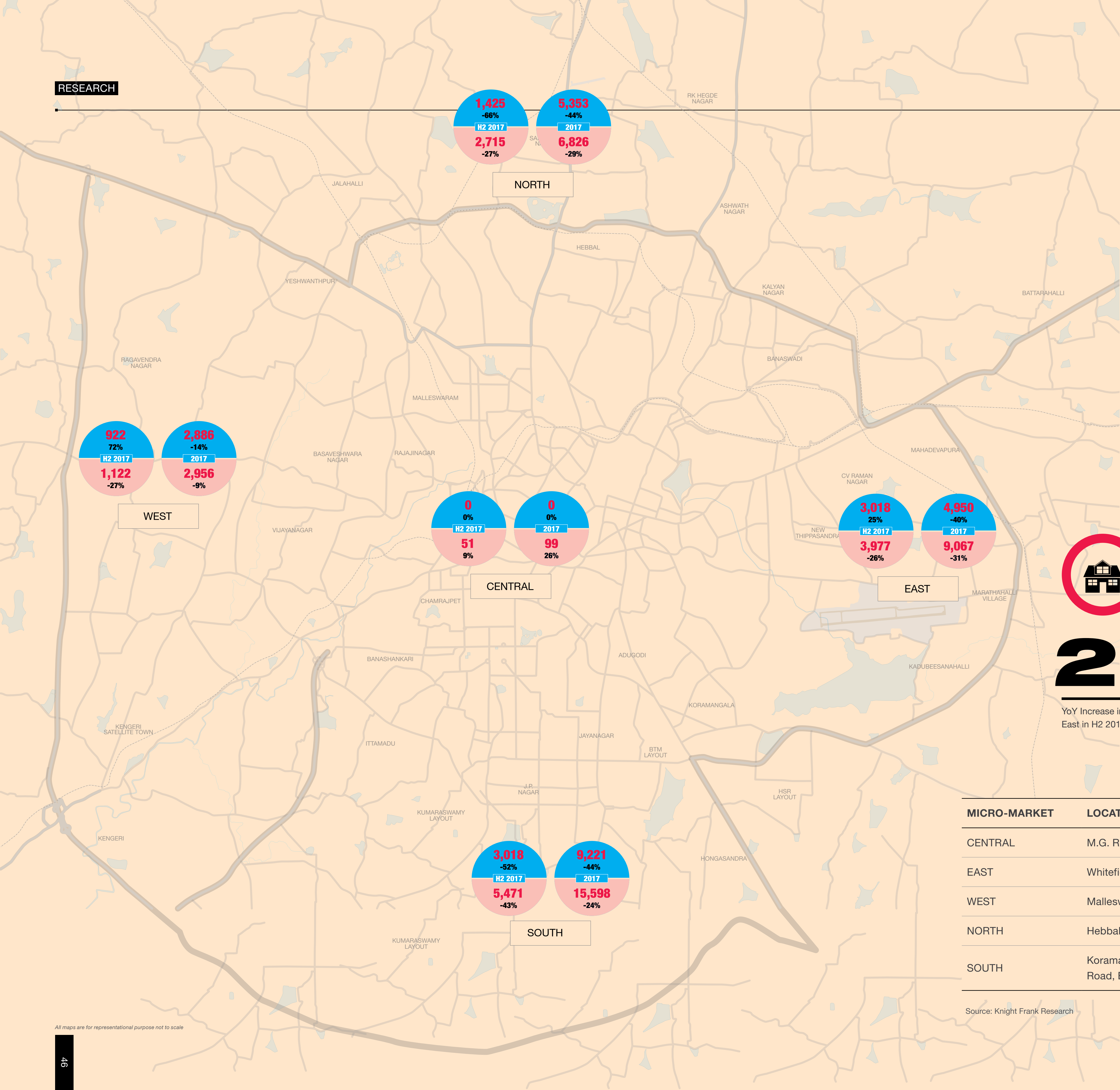
- In line with past trends in H2 2016 and H1 2017, a large chunk of new launches took place in the INR 2.5 mn-INR 5 mn ticket size bracket.

- Competitive pricing coupled with a sharp decline in new launches in 2017 has worked in the favour of Bengaluru developers; as a result, the unsold inventory has gradually declined by 10% YoY in H2 2017. Ready to occupy properties from reputed builders and projects with assured rental schemes have contributed to better sales velocity in selected locations.

- Sarjapur Road, Kanakpura Road, Thanisandra and Devanahalli have fared well in enticing buyers. Absorption of residential supply has also picked up pace in Whitefield, as metro construction is in full swing.

- As per the recently released Q2 FY 2018 financial results of some listed developers in Bengaluru, gross sales have been consistent in affordable brands while the mid-segment has registered a decline in number of units sold over the corresponding period last year in some cases. Also, fewer launches are emerging as the new barometer of overall market health and developer's credibility.

- With GST input tax credit planning underway, the stage is set for the residential market's recovery to strengthen in 2018, as the market has bottomed out and can only move northwards from here.



All maps are for representational purpose not to scale

RESIDENTIAL LAUNCHES AND SALES

LAUNCHES (IN UNITS) SALES (IN UNITS) % CHANGE (YOY)

25%

YoY Increase in launches in East in H2 2017

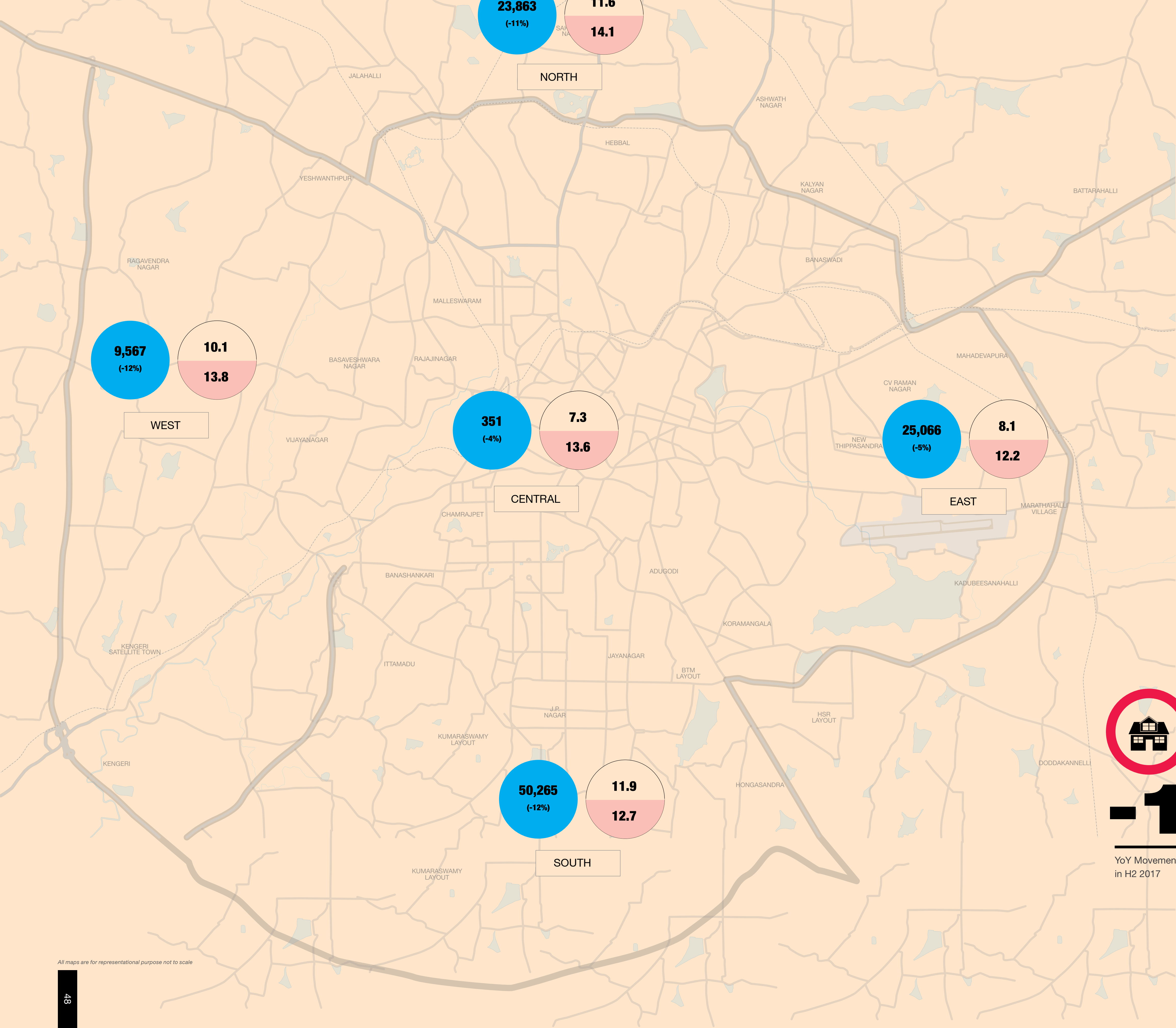
-26%

YoY Decrease in sales in East in H2 2017

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

Source: Knight Frank Research

RESIDENTIAL UNSOLD INVENTORY



UNSOLD INVENTORY (IN UNITS) QUARTERS TO SELL

AGE OF UNSOLD INVENTORY (IN QUARTERS)

AS ON 31 DEC 2017

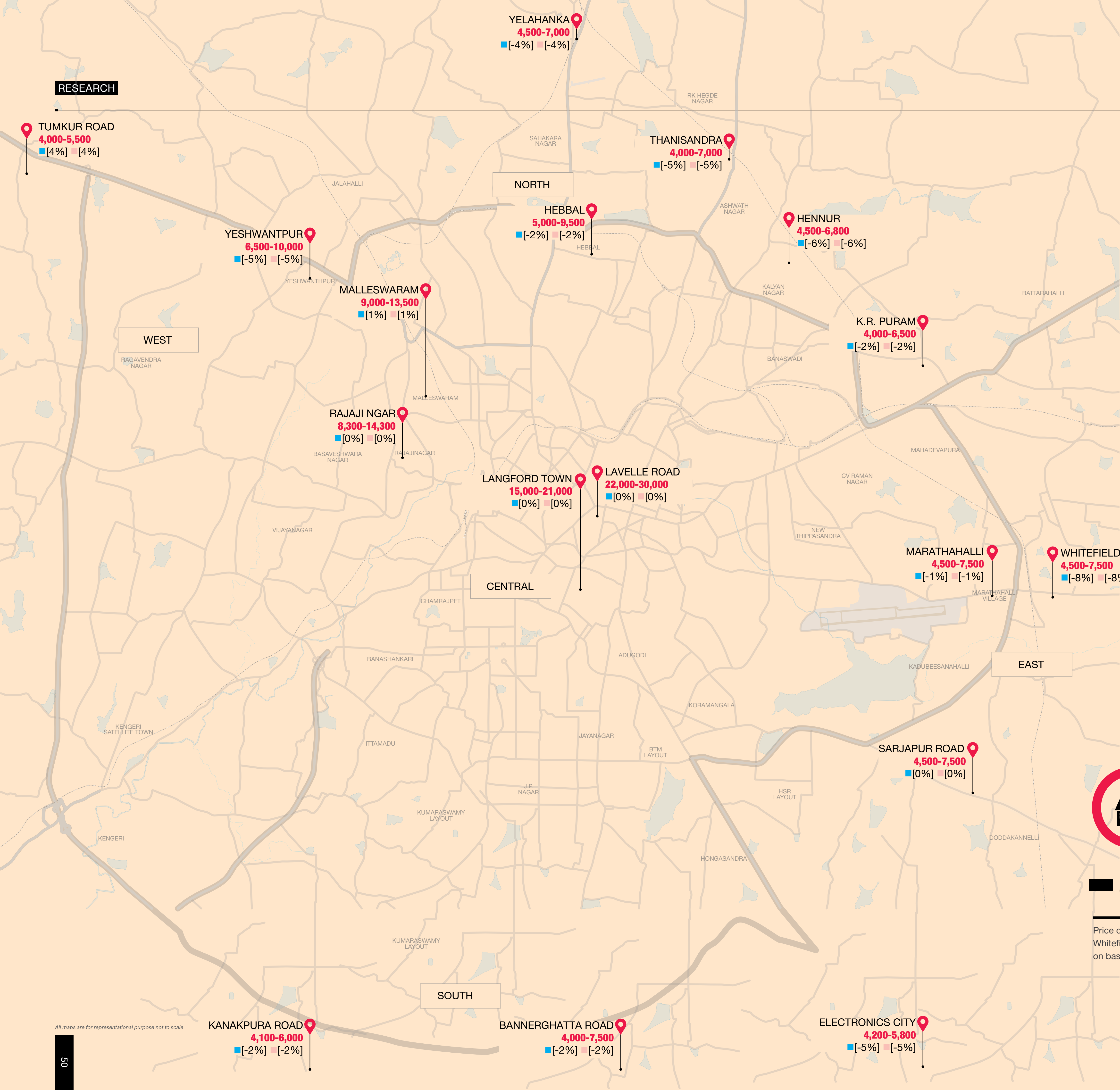
-10%

YoY Movement in unsold inventory in H2 2017

10.6

Quarters to exhaust unsold inventory

All maps are for representational purpose not to scale



RESIDENTIAL PRICING

PRICE RANGE (IN INR PER SQ)

12 MONTH CHANGE (YOY)

6 MONTH CHANGE (YOY)

-8%

Price change in H2 2017 in Whitefield. Freebies and discount on base selling price

4%

Price movement in 2017 in Tumkur Road

OFFICE MARKET

BENGALURU MARKET SNAPSHOT

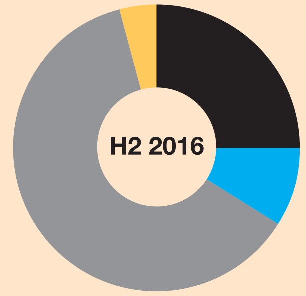
PARAMETER	H2 2017	Change YoY	2016	2017	Change YoY
New completions (mn sq ft)	4.4	24%	9.5	8.1	-15%
Transactions (mn sq ft)	5.9	12%	11.4	11.7	3%
Weighted Average Rental (INR/sq ft/month)	63.1	9%	57.8	63.1	9%
Stock (mn sq ft)	140	6%	132	140	6%
Vacancy (%)	3%	-	6%	3%	-

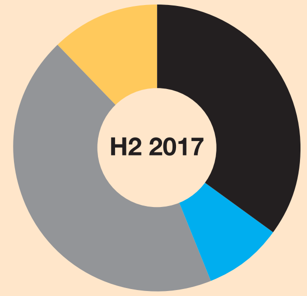
Source: Knight Frank Research

> **"In 2017, Bengaluru's gross leasing maintained its sequential year-on-year (YoY) uptrend recording its highest ever gross leasing in the past one decade."**

- In 2017, Bengaluru's gross leasing maintained its sequential year-on-year (YoY) uptrend recording its highest ever gross leasing in the past one decade. Though Bengaluru recorded 11.7 million sq ft leasing volume, the rate of growth in transactions remained only marginally higher at 3% over 2016.
- In H2 2017, the total transaction volume was noted at 5.91 million sq ft registering a 12% YoY growth over H2 2016. This high transaction volume reaffirms Bengaluru's top position as the leading office market across the top eight cities.
- Of all the micro markets, Outer Ring Road (ORR) continued to fare well in terms of occupier stickiness accounting for 47% of total transactions in H2 2017. Compared to H2 2016, this is a massive YoY growth of 83%. Despite limited new supply and low vacancy, the absolute quality of office assets kept occupiers interested in leasing any new spaces that became available in this micro market.
- An interesting trend that emerged during H2 2017 was the dominance of smaller deal sizes in the total transaction volume. Of the total number of deals, 82% belonged to the space take up of less than 50,000 sq ft.
- In comparison to H2 2016, the average deal size shrunk by 37% YoY in H2 2017 but there was no impact on overall transaction volume as it is complemented by the rise in total number of deals, which rose by more than 80% during the same period.
- The IT/ITeS sector accounted for 44% of gross leasing in H2 2017, which is 20% lower than the space consumed in H2 2016. Amidst automation and reskilling challenges, cautious hiring prevailed in the IT/ITeS sector, which deterred the expansion momentum during the period under review.
- E-commerce emerged as a surprise frontrunner for space consumption accounting for a 16% share in total transaction volume. In H2 2017, the share of e-commerce companies surged massively over H2 2016 as occupiers such as Amazon and Paypal leased large office spaces.
- Co-working spaces, on the other hand, accounted for 6% of the total transaction volume in H2 2017. Many organized co-working operators continued expanding footprint as shared offices concept gains prominence in Bengaluru. WeWork, a leading global operator of co-working spaces forayed in India in 2017 with their first workspace on Residency Road.
- In H2 2017, 4.4 million sq ft of new supply came on the block, of which 69% was in ORR. This new supply influx in ORR was well received by occupiers and eased the supply crunch in this belt momentarily. Since occupier demand far exceeds the available supply in this belt, ORR vacancy is at an all-time low of sub 5% levels.
- As of H2 2017, only 3% vacancy exists in the city's office market. From 17% in H2 2012, this is a massive drop and unless new supply improves, especially in the much sought after ORR and alternate peripherals, it may likely force occupiers to opt for other IT hubs over the long haul.
- Continual occupier interest coupled with restricted new supply led to a 15% YoY rental growth over H2 2016 in ORR. In CBD, the rentals strengthened by 9% over the same period due to no supply and lack of new land parcels for future development of office stock. As a result, the weighted average rentals in the city climbed up by 9% YoY.
- Going forward, we expect rental growth to continue on the back of strong demand for office spaces by a multitude of sectors. Whilst the IT/ITeS sector is facing headwinds in the form of single digit export growth forecast for software services and slowdown in hiring in traditional services, focus on automation and artificial intelligence (AI) will pave the way for more opportunities for office space consumption by technology driven companies.
- Companies specialising in automation, AI, data analytics, cloud computing and robotics will continue to establish and expand footprint keeping Bengaluru's overall occupier demand healthy. The real challenge will be to ensure adequate and timely supply in prominent micro markets of ORR as well as PBD East, failing which, rentals are likely to rise steeply in 2018.

SECTOR-WISE SPLIT OF TRANSACTIONS





Industry	H2 2016	H2 2017
BFSI	9%	9%
IT/ITeS	62%	44%
Manufacturing	4%	12%
Other Services	25%	35%

Note: BFSI includes BFSI support services

AVERAGE DEAL SIZE AND NUMBER OF DEALS

H2 2016

62,424
Average deal size (sq ft)

83
Number of deals

H2 2017

39,163
Average deal size (sq ft)

151
Number of deals

> **"An interesting trend that emerged during H2 2017 was the dominance of smaller deal sizes in the total transaction volume."**

Ecommerce -

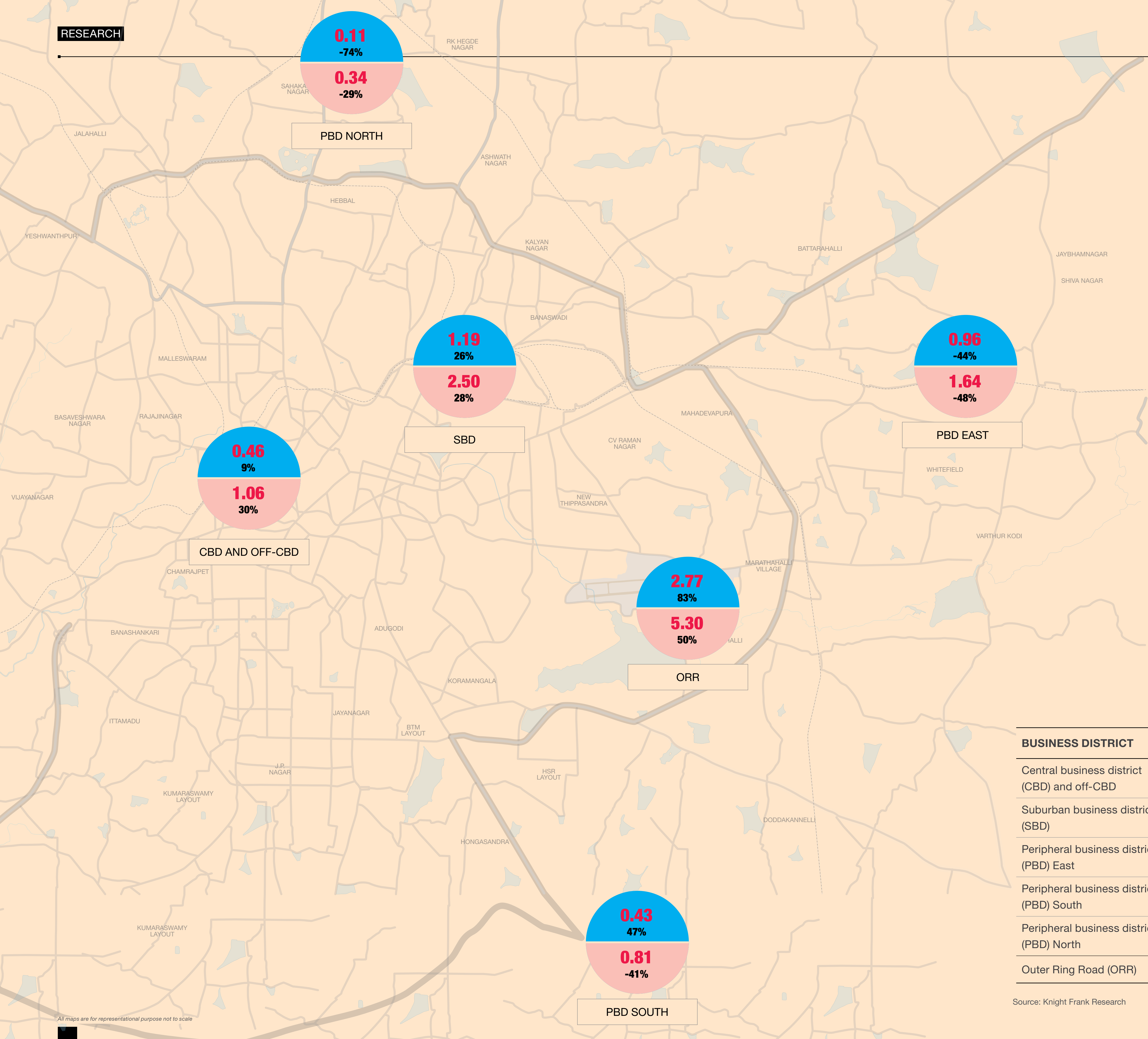
16%

share is total transactions in H2 2017

OFFICE TRANSACTIONS

H2 2017 | 2017 | % CHANGE (YOY)

IN MN SQ FT



50%

Increase in leasing on Outer Ring Road in 2017

BUSINESS DISTRICT	MICRO MARKETS
Central business district (CBD) and off-CBD	MG Road, Residency Road, Cunningham Road, Lavelle Road, Richmond Road, Infantry Road
Suburban business district (SBD)	Indiranagar, Koramangala, 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

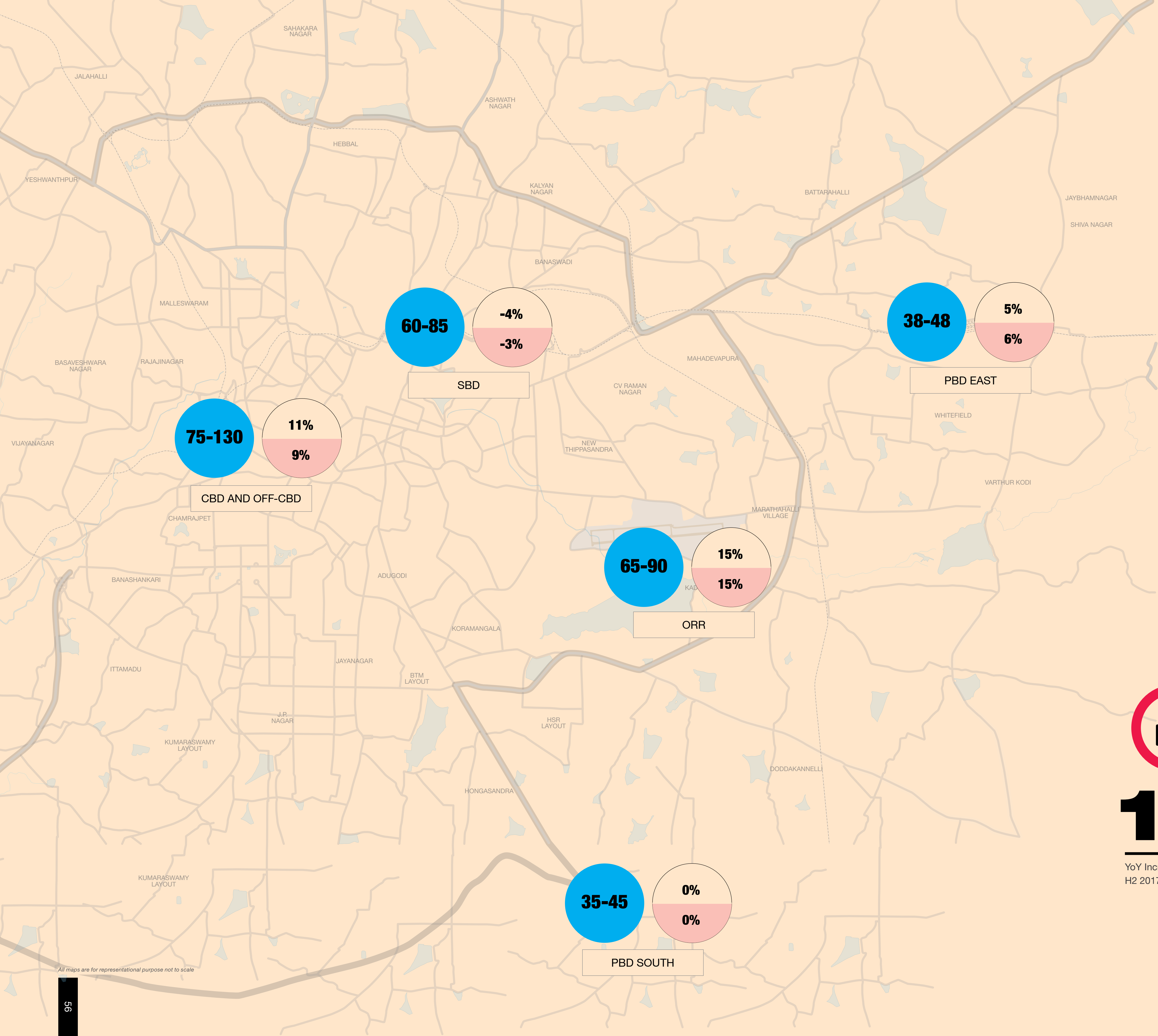
Source: Knight Frank Research

OFFICE RENTAL

RENTAL VALUE RANGE IN H2 2017 (INR/SQ FT/MONTH)

12 MONTH CHANGE

6 MONTH CHANGE



All maps are for representational purpose not to scale

15%

YoY Increase in rentals on ORR in H2 2017 alone

5%

Increase in rentals in PBD East in 2017

AMBITIOUS

METRO DEVELOPMENT PLAN

TO BOOST CHENNAI'S FORTUNES

-By Yashwin Bangera

The city of Chennai has always been a powerful economic growth engine for the country, be it as an automobile industry powerhouse that has earned it the moniker of "Detroit of Asia" or its undeniable status as a frontline IT city, which is the second largest exporter of IT and IT enabled services in India after Bengaluru. The new millennium ushered in an era of growth for the city with manufacturing and IT companies such as BMW, Hyundai, Ford, IBM, Oracle and Infosys setting up shop here. Recent big ticket office space acquisitions of ETA Technopark at Navalur and Shriram Gateway SEZ at Perungulathur by Uniply Industries and Xander Group, respectively, and office space development interest by K. Raheja Corp indicate that the growth momentum is still strong. The development potential of just these three projects could add up to 8.7 Mn sqft or 12% to the existing office stock of the city over the next 3-5 years.

The real estate market of the city has also grown at a breakneck pace with development continually pushing back the urban area's boundaries and stretching the city's infrastructure capacity to its limits. This is manifested in phenomena that range from the tiresome and time consuming traffic jams to the life-threatening floods that have been hitting the city with alarming regularity in recent times. While these persistent limitations of the city are issues that its corporate citizens have learnt to live with thus far, it might not be the same case in years to come.

Competition arising from the Central Government's push to have states contest for business and investments with measures such as the GST and the sustained focus on improving the ease of doing business, will provide more choice for new industries. Tamil Nadu, especially, will have to up the ante in the face of increasing competition from Andhra Pradesh and Telangana. These states have vast tracts of land available and can bid aggressively for new industry with the promise of ground up planned development that can easily address and bypass infrastructure bottlenecks that are the bane of old cities such as Chennai. The fact that Amaravati, the capital of Andhra Pradesh, is being conceived as a Singapore-styled Fintech city, albeit far from fruition, is still an indicator of the scale at which future development is being planned and Chennai stands to lose its corporate base if it does not improve its infrastructure soon. Sri City in Andhra Pradesh is a good example of the competition Chennai faces even today.

Transport infrastructure and connectivity is the biggest challenge that the city faces as the bulk of its office spaces are located toward its southern periphery and it lacks an efficient and seamless public transport system that connect the city's workforce to these employment hubs in the south. The Outer Ring Road and Phase 1 of the Metro are measures that alleviated this issue to a certain extent but vast expanses of the OMR are still underserved by the Metro or the MRTS as things stand now. Chennai Metro Rail Ltd. had submitted plans for Phase 2 of the Metro late last year to address this connectivity issue.

The 108 km Phase-2 project, which is over twice the length of Phase 1, will have three corridors connected by 104 stations and will bring the total Metro Rail length in Chennai to approximately 170 km by 2028, when it is estimated to be complete. Currently, the suburban rail network extends only till Perungudi on the OMR but the Phase 2 plan of the metro has envisaged a route that will start at Madhavaram Milk Colony in the north and pass through dense residential catchments of Perambur, Luz, Adyar and end at Shollinganallur on the OMR. While this metro line will run along the OMR and connect it to central locations, the Phase 2 of the metro also has plans of a metro corridor that will start at Madhavaram Milk Colony and traverse through Padi, Valasaravakkam, Medavakkam and end at SIPCOT to the west of the OMR line. Though the second phase of the city metro rail project is still awaiting the Centre's approval, Chennai Metro Rail Ltd. has begun field surveys and initiated talks to acquire lands for building the metro lines.

"The 108 km Phase-2 project, which is over twice the length of Phase 1, will have three corridors connected by 104 stations and will bring the total Metro Rail length in Chennai to approximately 170 km by 2028, when it is estimated to be complete."

CHENNAI

RESIDENTIAL MARKET

Both supply and sales for the Chennai residential market came in at their lowest levels since 2011 in terms of yearly and half-yearly numbers.

-56%

Drop in Sales in 2017, from the peak levels during H1 2011

-86%

Drop in Launches in 2017, from the peak levels in H1 2011

CHENNAI MARKET SNAPSHOT

PARAMETER	H2 2017	Change YoY	2016	2017	Change YoY
Launches (housing units)	3,200	-33%	10,615	9,235	-13%
Sales (housing units)	6,670	-14%	16,187	15,520	-4%
Price (wt. avg.)	-	-3%	4,665	4,525	-3%
Unsold inventory (housing units)	-	-20%	30,925	24,640	-20%
Quarters to sell	-	-	7.3	6.2	-
Age of unsold inventory (in quarters)	-	-	12.9	14.2	-

Source: Knight Frank Research

- The Chennai residential market that had just begun to show some promise of a recovery during H1 2017, once again broke new lows in terms of sales and supply numbers during H2 2017.

- Bogged down by the ongoing slowdown in the country in addition to its own issues ranging from political uncertainty, building collapses (due to flouting development norms), to the near catastrophic floods, the Chennai residential market had been in a downward spiral over the past three years.

- The implementation of RERA and the launch of buyer-friendly schemes such as the Pradhan Mantri Awas Yojana were expected to boost buyer sentiments in 2017; however, the Chennai homebuyer has also stayed away from the market as the weakening prices and shaky employment scenario, especially in the IT sector, have hurt sentiments and encouraged the deferment of their purchase decision.

- This lacklustre demand scenario in addition to the implementation of the Real Estate Regulation Act and the GST Act spooked the already skittish developer's community into a virtual stasis, which has caused a 33% year-on-year (YoY) drop in H2 2017 residential supply levels, and pushed down the annual supply number under 10,000 units for the first time during this decade.

- Both supply and sales for the Chennai residential market came in at their lowest levels since 2011 in terms of yearly and half-yearly numbers. The half yearly launches and absorption represent an 86% and 56% drop, respectively, from peak levels during H1 2011.

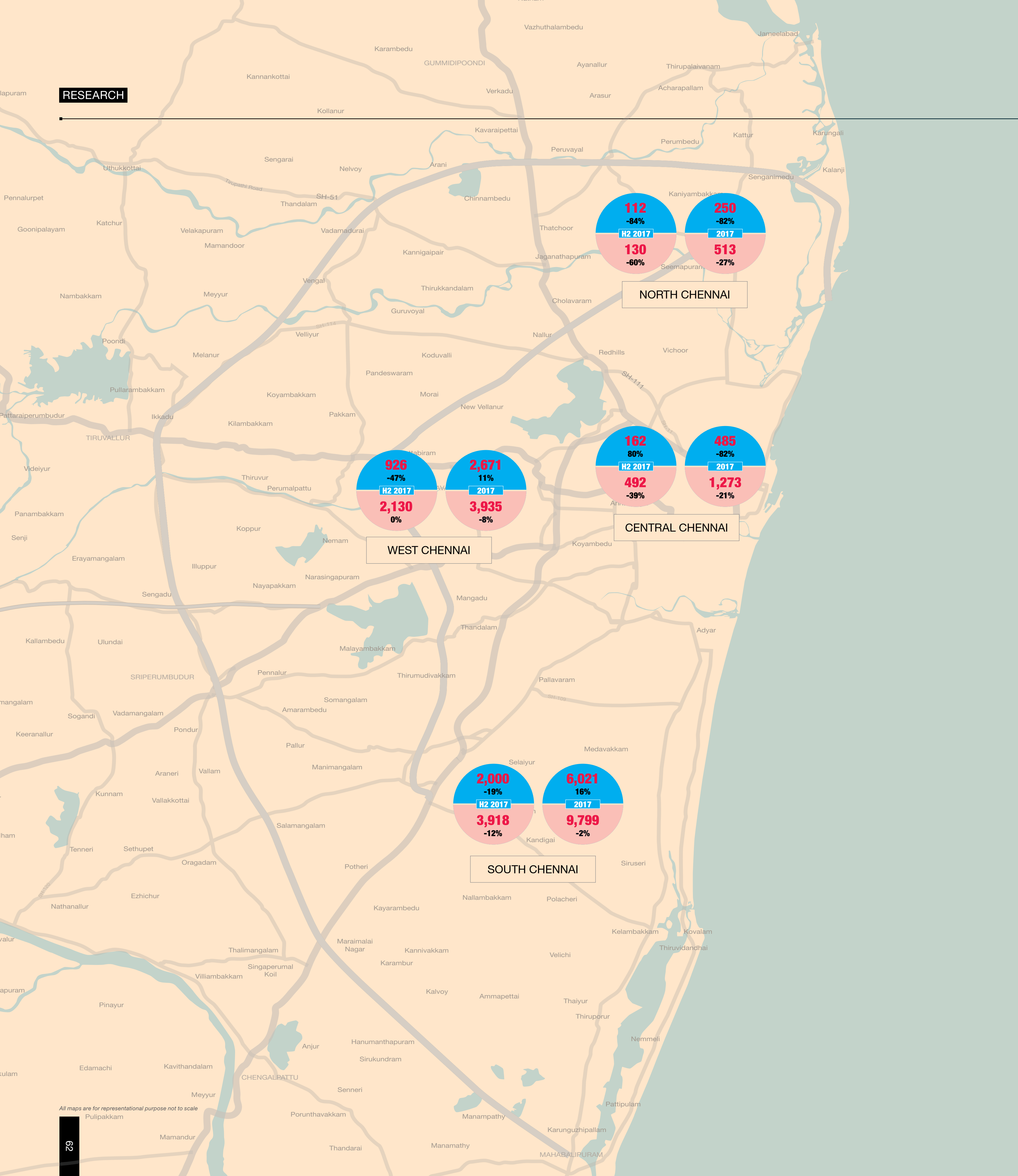
- Developers continued to focus on offloading existing inventories during H2 2017 by re-launching old products at lower prices and smaller configurations wherever possible, to entice the buyer by bringing down the ticket size. This has resulted in a 3% YoY reduction in the average asking prices in the Chennai residential real estate market and a further 10-15% reduction on the negotiating table for the aggressive buyer.

- Notwithstanding the depressed sentiments during the period, market volumes did seem to stabilise with many developers reporting a progressive increase in enquiries during the fourth quarter of the year. Home loan approvals have also been steady if not increasing, according to major retail banks in the city, signifying a latent interest from the homebuyer who has not yet committed to purchase yet.

- Buying interest was definitely more inclined toward properties that are closer to completion and significantly more so in the more affordably priced properties priced between ₹2.5 mn to ₹4 mn in locations such as Kolapakkam, Madhuravoyal, Kelambakkam and Siruseri toward the western and southern periphery of the Chennai residential market.

- The Chennai residential market now effectively holds a little over 6 quarters of inventory compared to the 7.2 quarters previously, which seems like a reasonably healthy scenario on the face of it, however this is more a function of the curtailment in housing units launched rather than an uptick in sales and hence cannot be interpreted as a sign of a healthy market. This is further substantiated when seen in conjunction with the age of unsold inventory that has been progressively increasing over the past 4 years.

- Massive structural changes ranging from the demonetisation drive to the GST Act and RERA have irrevocably altered the fabric of the market. The pace at which developers align themselves to the new regulatory norms and launch new products in the right ticket sizes that appeal to the homebuyer's interests, will determine the trajectory of the market going forward.



RESIDENTIAL LAUNCHES AND SALES

LAUNCHES (IN UNITS) SALES (IN UNITS) % CHANGE (YOY)

-47%

Decrease in unit launches in West Chennai in H2 2017

-39%

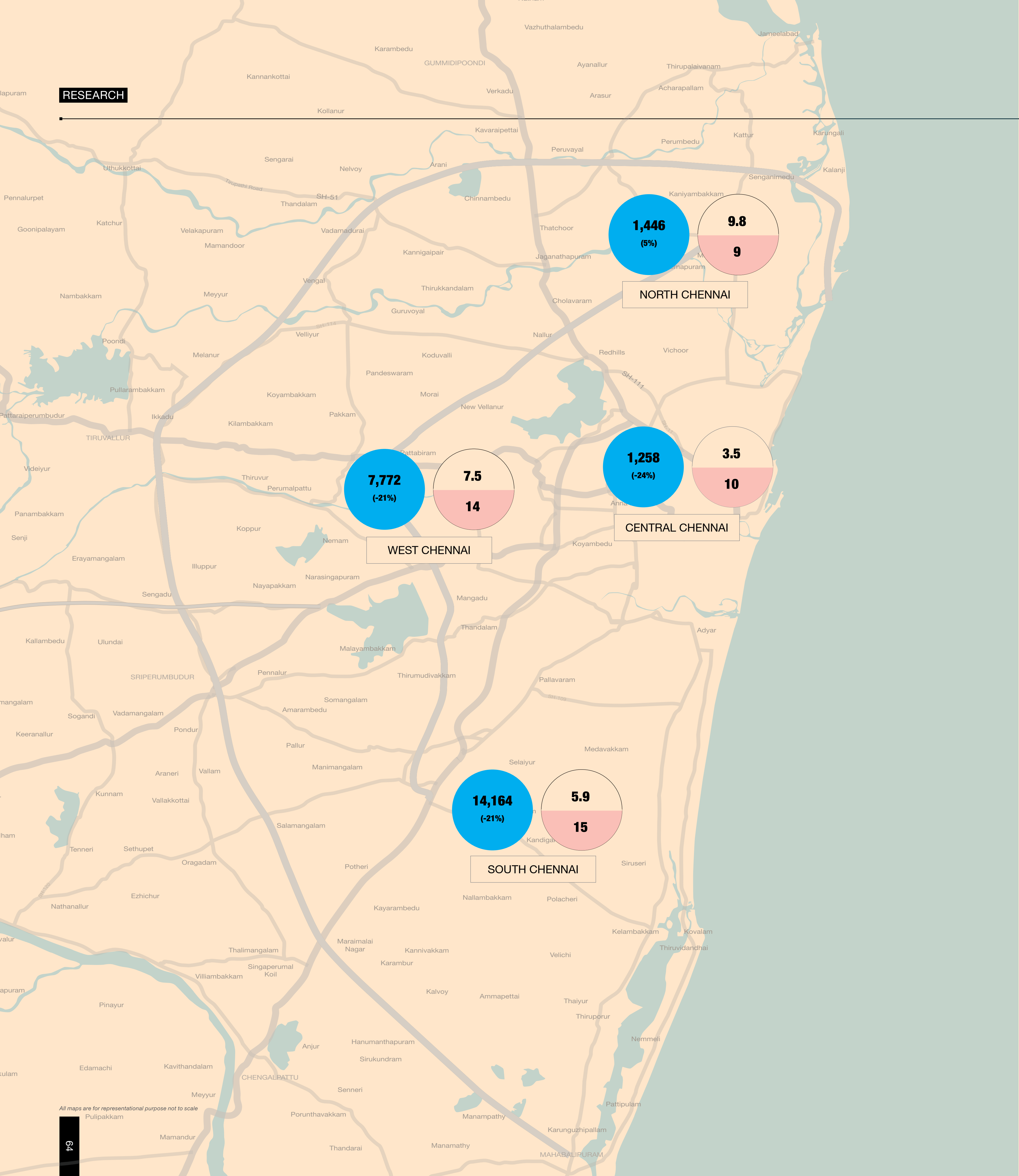
Drop in Sales in Central Chennai in H2 2017

MICRO MARKET	LOCATIONS
CENTRAL CHENNAI	T. Nagar, Alandur, Nungambakkam, Kodambakkam, Kilpauk
WEST CHENNAI	Porur, Ambattur, Mogappair, Iyyappanthangal, Sriperumbudur
SOUTH CHENNAI	Perumbakkam, Chrompet, Sholinganallur, Guduvancheri, Kelambakkam
NORTH CHENNAI	Tondiarpet, Kolathur, Madhavaram, Perambur

Source: Knight Frank Research

RESIDENTIAL UNSOLD INVENTORY

UNSOLD INVENTORY (IN UNITS)(YoY)
QUARTERS TO SELL
AGE OF UNSOLD INVENTORY (IN QUARTERS)
AS ON 31 DEC 2017



All maps are for representational purpose not to scale

-20%

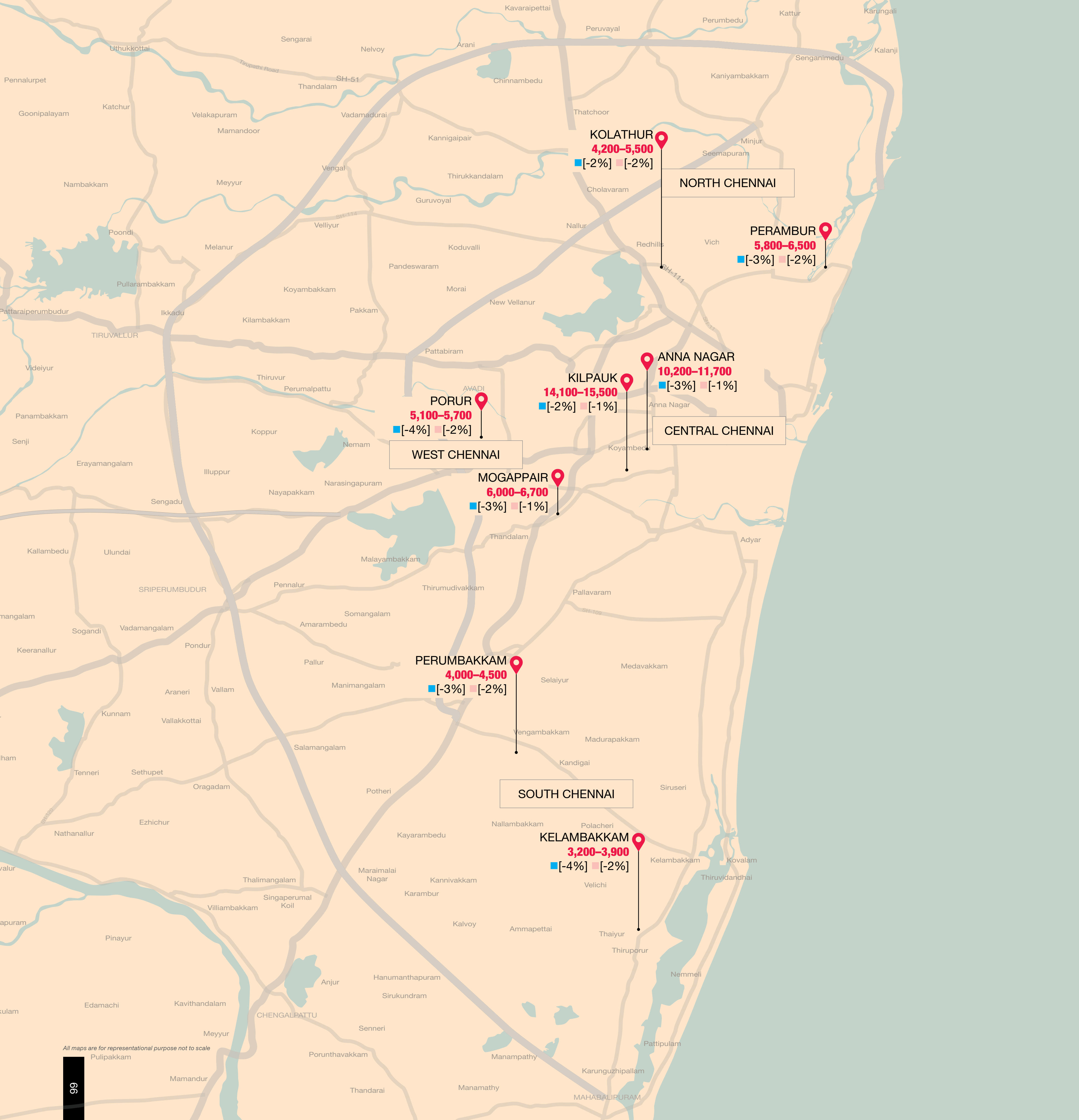
YoY drop in unsold inventory during H2 2017

6.2

Quarters to exhaust unsold inventory

RESIDENTIAL PRICING

PRICE RANGE (IN ₹ SQ.FT.) | 12 MONTH CHANGE (YOY) | 6 MONTH CHANGE (YOY)



All maps are for representational purpose not to scale

-3%

YoY reduction in average asking prices

-10%

Probable discounts on negotiations

OFFICE MARKET

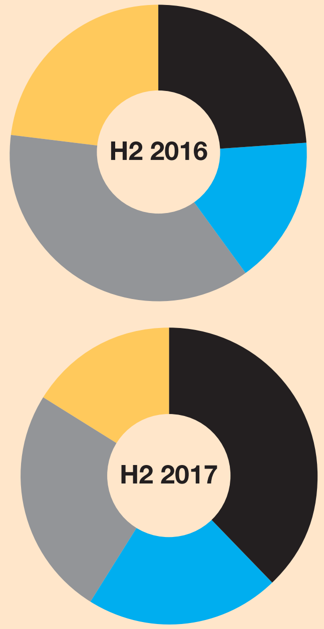
CHENNAI MARKET SNAPSHOT

PARAMETER	H2 2017	Change YoY	2016	2017	Change YoY
New completions (Mn sq ft)	0.8	313%	0.5	1.8	243%
Transactions (Mn sq ft)	2.6	-17%	5.1	4.5	-12%
Weighted Average Rental (INR/sq ft/month)	57	4.5%	54.5	57	4.5%
Stock (Mn sq ft)	-	-	68	69.9	2.7%
Vacancy (%)	-	-	12.4%	10.2%	-

Source: Knight Frank Research

- An acute shortage of viable, good quality office stock continued to plague the Chennai office space market, resulting in a 17% YoY decline in transactions volume during H2 2017 and a 12% decline for the entire year.
- The fact that the city saw just 4.5 mn sq ft of supply since H1 2015, compared to the 14.6 mn sq ft of transaction volume, has pushed down vacancy levels from 22.5% in H1 2015 to 10.2% H2 2017. Although 2017 saw a 243% increase in terms of office space supply, it is still quite limited in comparison with the average transaction volumes that the market needs to cater to.
- The total office space transaction volume in H2 2017 was 2.6 mn sq ft, while only 0.8 mn sq ft of new office space came online.
- The IT/ITeS sector that has been the largest consumer of office space in the city, is currently undergoing a slowdown in growth and the effects are apparent in it's consistently reducing share of the total transactions pie.
- H2 2017 saw the IT/ITeS sector take up only 0.66 Mn sqft which translates to 25% of the total space transacted during H2 2017, a significant and consistent drop from the from the 43% during H2 2016.
- However, the BFSI and Other Services Sector have consistently taken up an increasing amount of space over the past 18 months and virtually doubled their share of transactions, filling up the vacuum left by the IT/ITeS sector.
- The Other Services Sector accounted for almost 1 Mn Sqft of the total office space transacted during H2 2017 thanks largely to e-commerce major Amazon which inked a massive lease of 0.39 Mn sqft lease in Ramanujan IT SEZ at Taramani and another comparatively modest 0.04 Mn sqft lease at SP Infocity at Kandanchavadi.
- Notwithstanding the lack of large format office spaces required by the back offices of BFSI sector companies, the current analysis period saw its share increase substantially due to two large leases being taken up by BNY Mellon and BNP Paribas amounting to nearly half of the 0.54 mn sq ft space transacted by this sector.
- The two SBD business districts experienced bulk of the market activity in terms of supply as well as transaction numbers. While almost all of the 0.8 Mn sqft of office space supply that came online during H2 2017 was in the SBD, the SBD and the SBD OMR also accounted for nearly 70% or 1.8 Mn sqft of the entire transacted volume during the period. This firmly reiterates the case for the SBD business districts being the most sought after office locations in the city that are hampered only by the lack of supply.
- The PBD OMR and GST business district that had cornered the largest share of the transacted volume in the preceding two periods by virtue of having a substantially larger and lower priced stock of vacant office space, only attracted 14% of the transacted volume during H2 2017.
- The sustained decline in vacancy levels along with a steady interest by lessors looking to consolidate or expand their real estate footprint within the city, has kept rental growth strong at 4.5% YoY in 2017. Rental growth was healthy across micro-markets, and SBD locations such as Perungudi, Guindy and Taramani continued to witness above-average rental growth, particularly as vacancy levels drop to as low as 5% in the SBD and 11% on the SBD OMR. Weighted average rentals now stand at ₹ 57/ sqft/ month for the Chennai office space market.

SECTOR-WISE SPLIT OF TRANSACTIONS



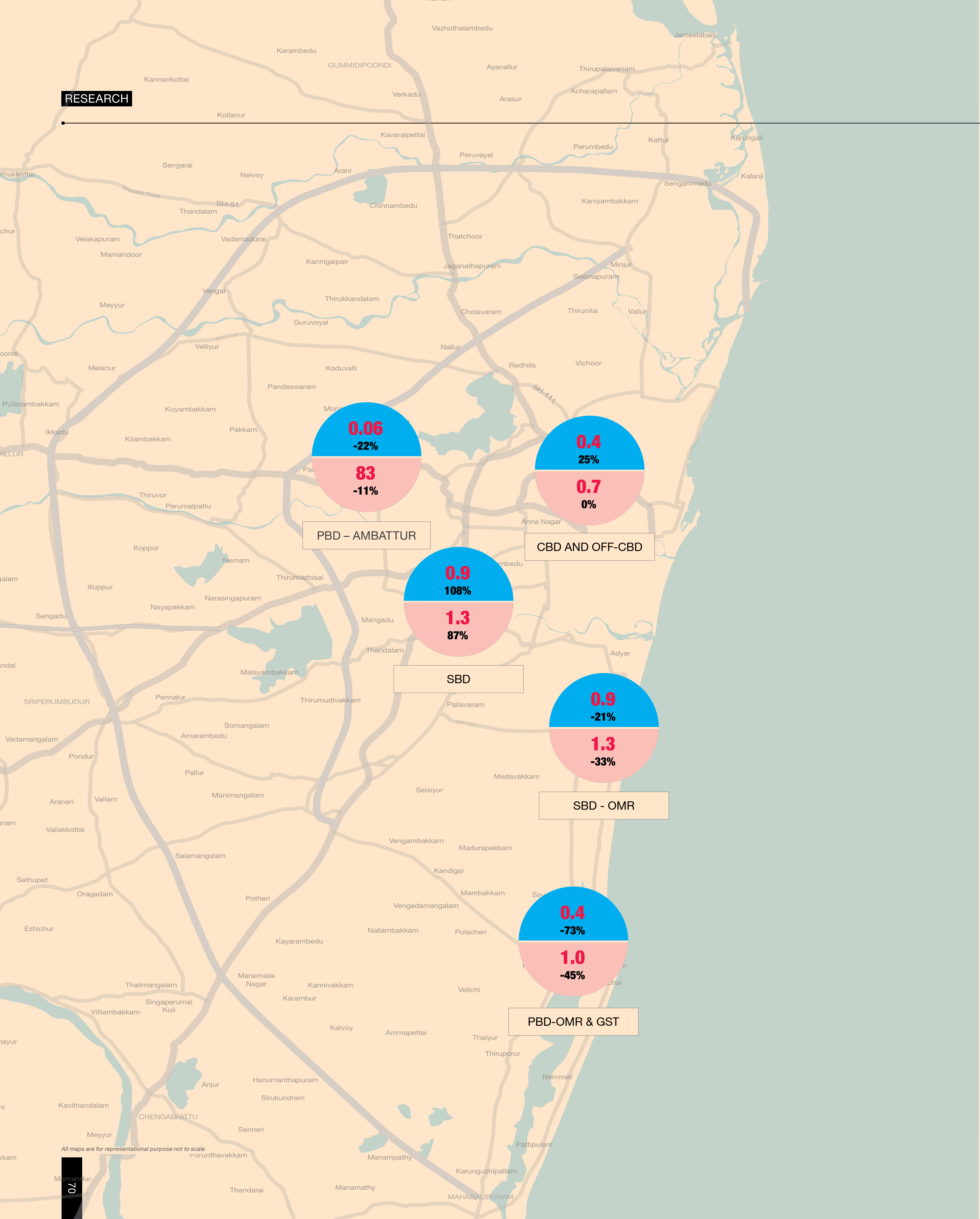
Industry	H2 2016	H2 2017
BFSI	16%	21%
IT/ITES	37%	25%
Manufacturing	23%	16%
Other Services	24%	38%

Note: BFSI includes BFSI support services

AVERAGE DEAL SIZE AND NUMBER OF DEALS

H2 2016	
31,125	Average Deal Size (sq ft)
105	Number of Deals

H2 2017	
22,194	Average Deal Size (sq ft)
116	Number of Deals



OFFICE TRANSACTIONS

H2 2017 | 2017 | % CHANGE (YOY)

IN MN SQ FT

108%

Increase in Transactions in SBD in H2 2017

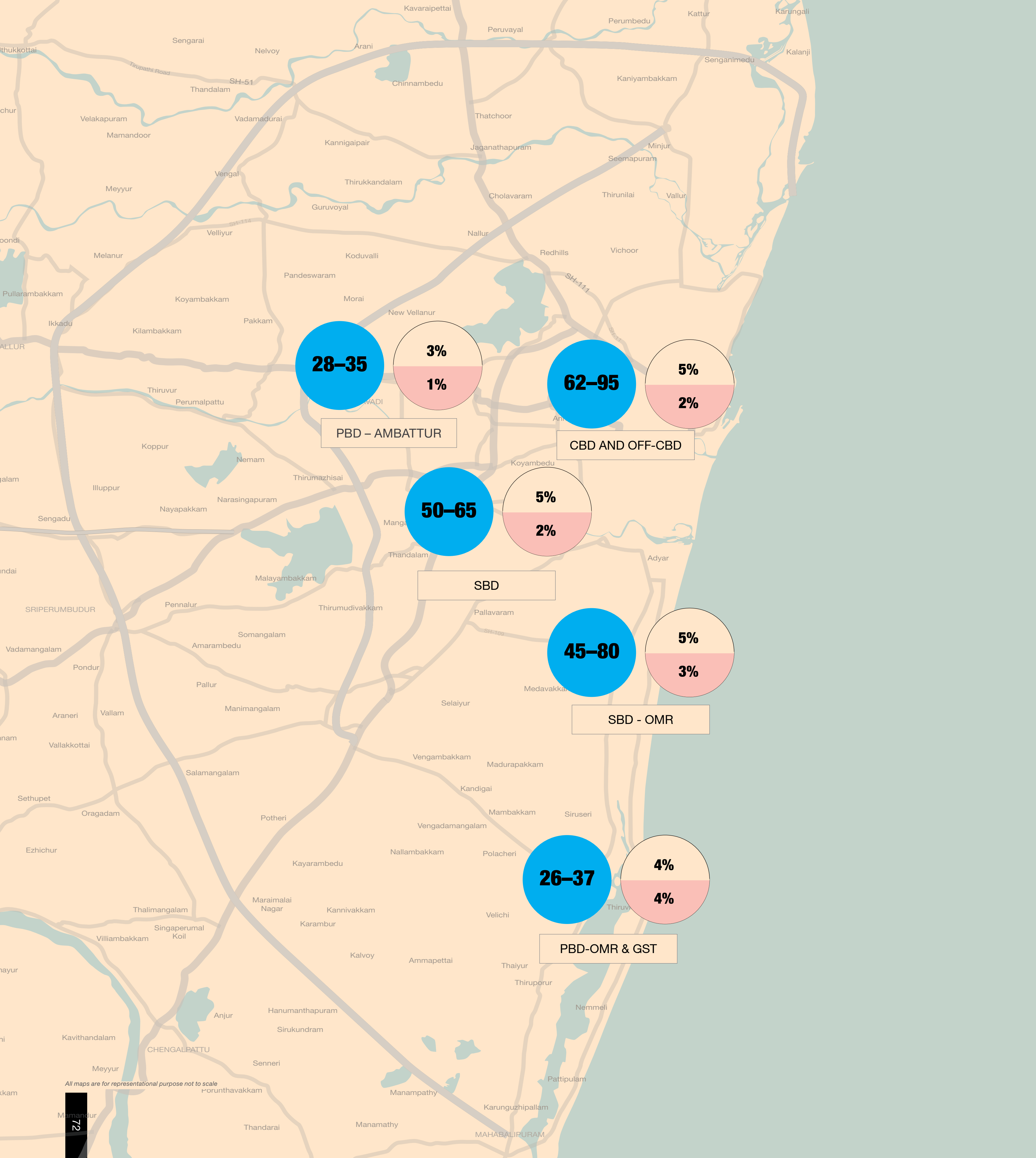
BUSINESS DISTRICT	MICROMARKETS
Central business district (CBD and off-CBD)	Anna Salai, RK Salai, Nungambakkam, Greams Road, Egmore, T. Nagar
Suburban business district (SBD)	Mount–Poonamallee Road, Porur, Guindy, Nandanam
SBD – Old Mahabalipuram Road (OMR)	Perungudi, Taramani
Peripheral business district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

Source: Knight Frank Research

OFFICE RENTAL

RENTAL VALUE RANGE IN H2 2017 (INR/SQ FT/MONTH)

12 MONTH CHANGE 6 MONTH CHANGE



All maps are for representational purpose not to scale

5%

Increase in rentals in SBD and SBD OMR during H2 2017

JUST A PASSING PHASE

-By Pankaj Anup Toppo

The number of newly launched units, in Hyderabad, in the second half of 2017, certainly does not look promising, but the fact remains that it is just a passing phase. Ever since the city of the erstwhile Nizams left the birth pangs of the new state behind it, the real estate market in the capital city—Hyderabad—has been on an upward growth curve. The drastic dip in the number of newly launched units is a result of lack of proper implementation of RERA rather than any fundamental flaw in the real estate market of the city. Broadly speaking, the present day does not look good but the future certainly is promising for the real estate sector of Hyderabad. What works to the advantage of Hyderabad is that the corporates find it as an attractive city, and for professionals, the city scores high on providing a quality lifestyle; the biryani is an additional bonus.

ROBUST INFRASTRUCTURE

While other cities are battling with issues like traffic jams, water woes and the inability of the urban transport systems to keep pace with the increasing population of the city, Hyderabad is at a very different level. It will not be wrong to say that compared to other cities, Hyderabad already has the necessary infrastructure at least for the next few years. The vast network of well-maintained roads makes movement within the city a breeze. As an illustration, even during peak office hours one can reach from Hitech City to Kondapur, a distance of around 5 kilometres, in about 15 minutes. The urban infrastructure so laid down, is also being augmented from time to time. A prime example of this has been the metro that made its debut in the city, in november 2017. The metro is now functional only in a section of the city. but in the future it will spread across the city. What this will do is increase smooth faster movement across the city and also ease the pressure on the existing road network. While robust infrastructure will make the city more livable, it will also add to the real estate of the city. Generally, it has been seen that real estate benefits in the areas falling in the impact zone of an infrastructure project and the Hyderabad real estate market is no different. For example, most of the development in the present day is happening in areas like Narsingi and Kokapet along the Outer Ring Road.

STABLE POLITICAL LEADERSHIP

Since the new government has been in power, the good work that it has done, especially in promoting Hyderabad as an attractive investment destination, is commendable. For starters, the state as a whole and Hyderabad in particular has been marketed well to the right audiences. Apart from ensuring that the city has a robust infrastructure among other things, the state government has also ensured that the city gets uninterrupted power supply, something a rarity in most urban centres in India. "The manner in which the state government is working, the city's water woes too will soon be taken care of," said one of the developers. It cannot be denied that the marketing efforts of the state government to the right audience at the right fora are slowly transforming Hyderabad into a preferred destination for corporates as well as developers from other cities, especially from Bengaluru.

ENTRY OF DEVELOPERS FROM BENGALURU

This trend started a few years ago but is expected to gain strength in the future. It has been seen that developers who have been facing issues in getting land, and that too at competitive rates in Bengaluru, have started to focus their energies towards Hyderabad. Land rates in Hyderabad are cheaper compared to Bengaluru and the erstwhile city of the Nizams has of late seen an increased interest from corporates. This is evident from the strong performance of the office market in the city which is expected to further gain strength in the future. The fact that Hyderabad has the necessary talent and is able to attract new talent to meet the requirements of corporates only adds to the attractiveness of the city.

THE EVER WELCOMING CITY

Apart from the excellent quality of life that the city offers, by nature Hyderabad has been a very welcoming city. This is something that is not being talked about much but the fact remains that for people not conversant with the local language, living in Hyderabad is a comfortable proposition. For anyone coming to live in the city "there are no language barriers." There is no visible linguistic patriotism being pushed within the city. This by far is one of the major catalysts that is instrumental in pulling people, especially from North India, to the city. What makes the deal sweeter is that even in upcoming locations, near the IT corridor in West Hyderabad, capital values of housing units are still between ₹4,000–5,000 sq ft.

The only factor that mars the real estate sector in Hyderabad is the drastic dip in new launches. That however, is just a passing phase. The fundamentals of the market are right. Once systems and processes to implement RERA are put in place and are functional, it will not take much time for the real estate market in Hyderabad to overcome the minor niggle that it is presently facing, it is just a passing phase.

> **"While robust infrastructure will make the city more livable, it will also add to the real estate of the city. Generally, it has been seen that real estate benefits in the areas falling in the impact zone of an infrastructure project and the Hyderabad real estate market is no different."**

84%

Dip in new launches in Hyderabad in H2 2017

HYDERABAD

RESIDENTIAL MARKET

- “There have hardly been any launches in the city between July and November,” stated most developers. When it comes to new project launches this could probably be the worst time for the city. From a high of 12,168 launches in H1 2011 only 940 units were launched in H2 2017. Our surveys suggest that most of these launches were done by very small developers.

- The city that used to witness half-yearly launches of above 5,000 units, witnessed the launch of only 2,571 units in H1 2017, which till that time was the lowest for the city. In H2 2017, it has hit its nadir. Compared to H2 2016 launches are down 84%. On a year-on-year (YoY) comparison, they are down 70% in 2017.

- The only reason for this massive drop in launches is the lack of systems and processes for the smooth implementation of the Real Estate (Regulation and Development) Act, 2016 (RERA). While Telangana notified its RERA rules on 31 July 2017, post that, development on the matter has been moving at a snail’s pace. As of December end, the chairman of the Authority, to be established under RERA, was yet to be appointed and the website of the Authority was not yet functional. In a new development, the state government has written to the High Court to suggest the name of a retired judge for the post of chairman of the state Authority. During our surveys, it was evident as well that offline registration of new projects was also not happening.

- Further, the RERA rules for Telengana clearly stated that all projects that have received building permission before 1 January 2017 will not be covered under RERA. As a result, most developers were concentrating on finishing their ongoing projects and were hopeful that the Authority will soon start functioning in the state. In fact, most of the developers did inform us that they have many projects lined up, to be launched, and were waiting for the Authority to take final shape.

- All micro markets witnessed a massive drop in new launches, except for South Hyderabad, which typically does not see too many launches. In H2 2017, a major project was launched in this micro market in the sub ₹7.5 mn price bracket. The share of South Hyderabad, in new launches, was below 3% in 2016 but in H2 2017 this has shot up to 15%.

- West Hyderabad witnessed the maximum fall in new launches followed by Central Hyderabad, East Hyderabad and North Hyderabad. As already stated, RERA is the single reason for this massive drop in launches; high land prices also took its toll in Central Hyderabad.

- The noticeable trend in launches, in the city, has been the advent of affordable housing. In Narsingi, one of the booming markets in West Hyderabad, a housing project was launched with a ticket size of less than ₹5 mn.

HYDERABAD MARKET SNAPSHOT

PARAMETER	H2 2017	Change YoY	2016	2017	Change YoY
Launches (housing units)	940	-84%	11,600	3,511	-70%
Sales (housing units)	6,342	-13%	15,500	14,243	-8%
Price (wt. avg.)	-	3%	3,710	3,821	3%
Unsold inventory (housing units)	-	-38%	28,088	17,356	-38%
Quarters to sell	-	-	8	5	-
Age of unsold inventory (in quarters)	-	-	15.6	17.8	-

Source: Knight Frank Research

- Hyderabad, which is an IT driven market, is typically not known for affordable housing projects but this a new beginning, especially in West Hyderabad. In fact, close to 40% of the launches that happened in the city were under ₹5 mn. Further, there are developers waiting in the wings to launch projects in the city in the sub ₹3 mn ticket size.

- Sales in the city too were hit but that was not as severe compared to new launches. Sales in H2 2017 were down 13% compared to H2 2016 and on a YoY comparison were down 8% in 2017.

- Lack of clarity on GST and unavailability of ready to move in homes brought down sales in H2 2017. The preferred choice of homebuyers in this market has been ready to move in homes. Further, it emerged in our surveys that the homebuyers had a preference for ready to move in units that had received a completion certificate before 1 July 2017.

- West zone continues to be the preferred market largely because buyers have a preference for ready to move in properties close to their place of work. More than 69% of sales happened in this micro market in H2 2017, which is the same level witnessed in H1 2017. The share of sales of West Hyderabad has however increased compared to H2 2016 when the figure stood at 63%.

- The share of sales of East and North Hyderabad, which are the more affordable markets, has remained steady in H2 2017 compared to H2 2016. The share of South Hyderabad has however increased to 7% due to the availability of housing units at attractive price points and the metro is expected to unlock the real estate potential of this market in future.

- 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 8 preceding quarters in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market.

- With drastic reduction in launches and steady sales, the QTS has further gone down in H2 2017 compared to H2 2016. In H2 2016, the QTS was 8 quarters and now it stands at 5 quarters. However, the QTS number of 5 cannot be interpreted as a sign of a healthy market as they have come on back of reduction in launches rather than any uptick in sales and also the age of unsold inventory has progressively increased from 13.5 quarters in 2014 to 17.8 quarters in 2017.

- The markets of the north and south are however, under pressure as their QTS and age of inventory is very high. The age of inventory of the west and east are also high but they have a healthy sales velocity. The high sales velocity could be attributed to the fact that it is the preferred market in the city. A high sales velocity in the east could be an indication of a certain section of homebuyers looking for more affordable options.

- With preference for ready to move in homes and that too for those that have a completion certificate prior to 1 July 2017 gave developers the opportunity to increase houses of such units by as much as 5–6%. Ready to move in homes certainly came at a premium in H2 2017, in Hyderabad.

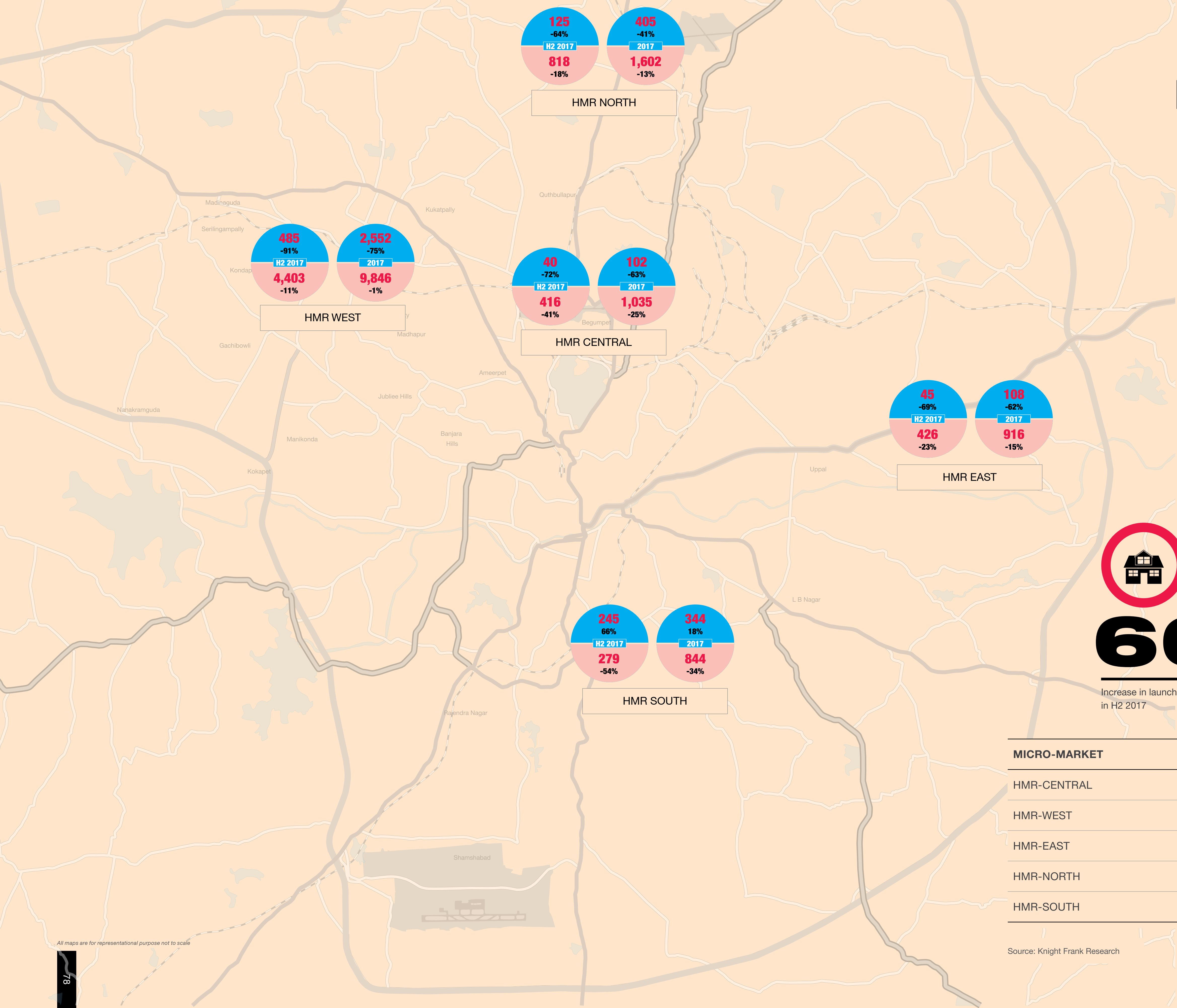
- The mismatch created in demand and supply because of new launches is further expected very few to push up prices, of residential units, in Hyderabad in the coming days.

85%

Decline in launches in 2017, since the peak in 2012

RESIDENTIAL LAUNCHES AND SALES

LAUNCHES (IN UNITS) SALES (IN UNITS) % CHANGE (YOY)



All maps are for representational purpose not to scale

66%

Increase in launches in HMR South in H2 2017

41%

Dip in sales in HMR Central in H2 2017

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, Quthbullanpur
HMR-SOUTH	Rajendra Nagar, Shamshabad

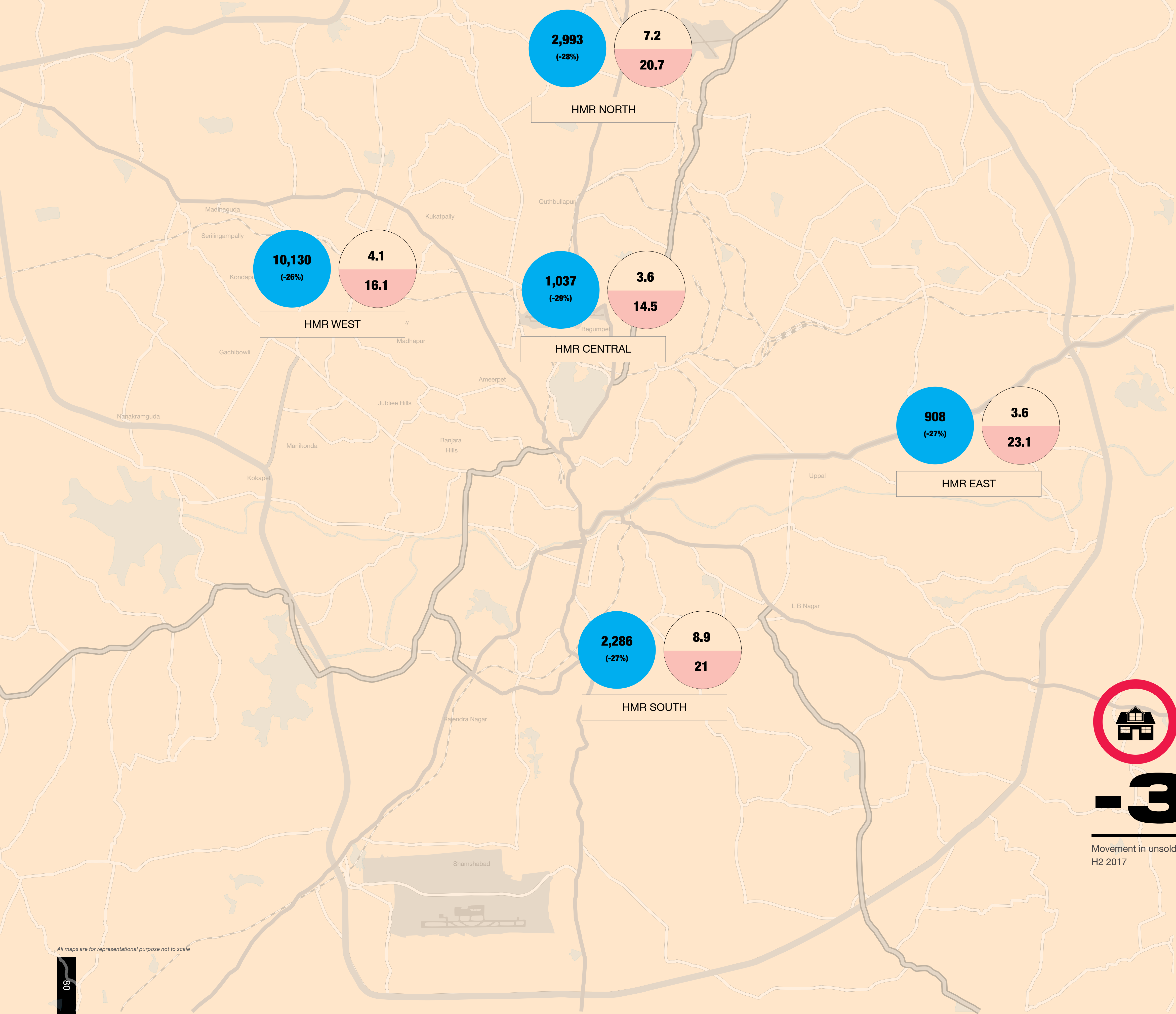
Source: Knight Frank Research

RESIDENTIAL UNSOLD INVENTORY

UNSOLD INVENTORY (IN UNITS) QUARTERS TO SELL

AGE OF UNSOLD INVENTORY (IN QUARTERS)

AS ON 31 DEC 2017



All maps are for representational purpose not to scale

-38%

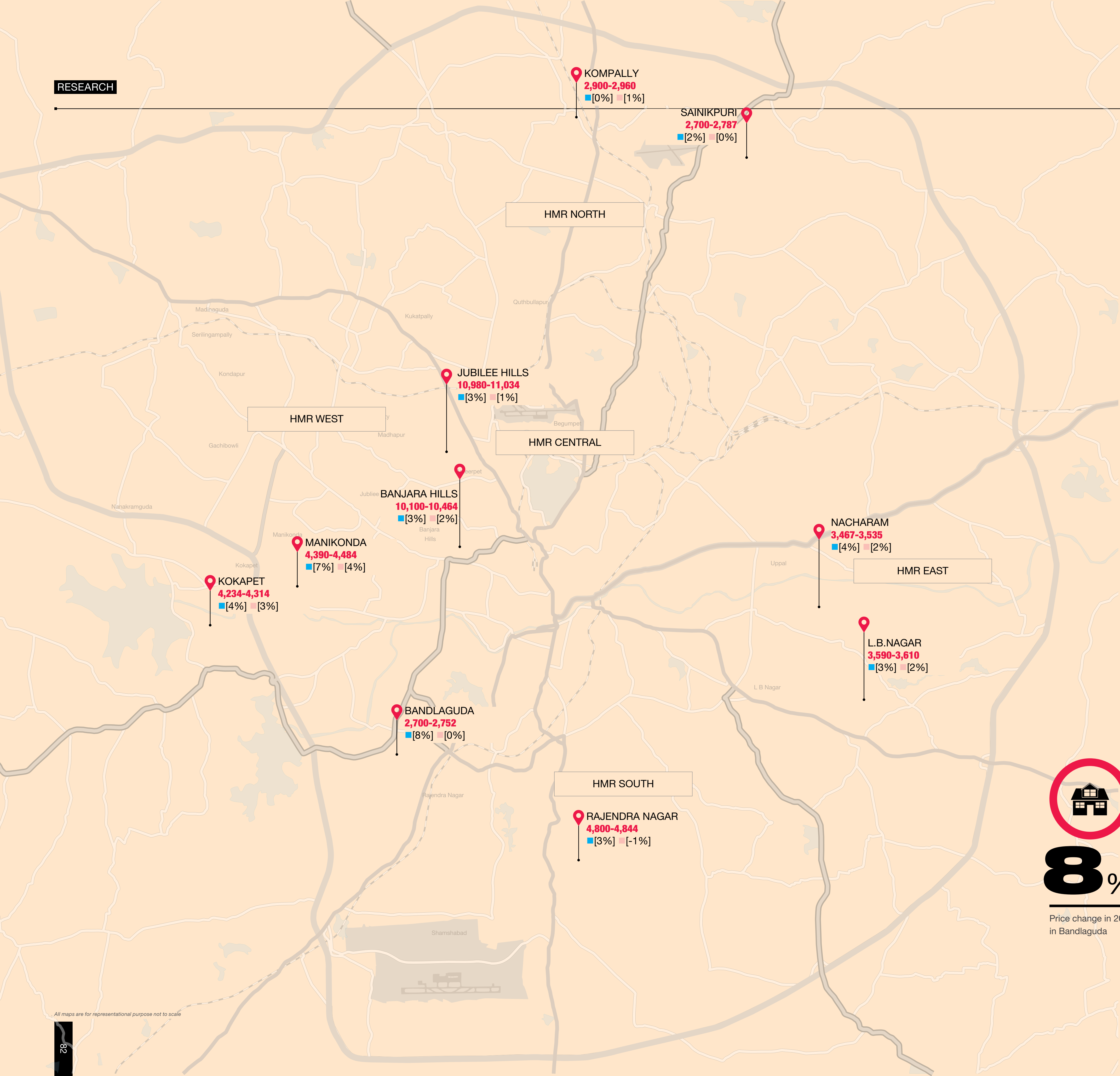
Movement in unsold inventory in H2 2017

17.8

Quarters to exhaust unsold inventory

RESIDENTIAL PRICING

PRICE RANGE (IN ₹ SQ.FT.)
12 MONTH CHANGE (YOY)
6 MONTH CHANGE (YOY)



All maps are for representational purpose not to scale

8%

Price change in 2017, in Bandlaguda

7%

Price movement in 2017 in Manikonda

OFFICE MARKET

HYDERABAD MARKET SNAPSHOT

PARAMETER	H2 2017	Change YoY	2016	2017	Change YoY
New completions (Mn sq ft)	1.25	-48%	6.00	3.25	-46%
Transactions (Mn sq ft)	3.34	5%	5.92	5.67	-4%
Weighted Average Rental (INR/sq ft/month)	-	-	47	51	9%
Stock (mn sq ft)	-	-	57.28	60.53	6%
Vacancy (%)	-	-	5.93%	5.05%	-

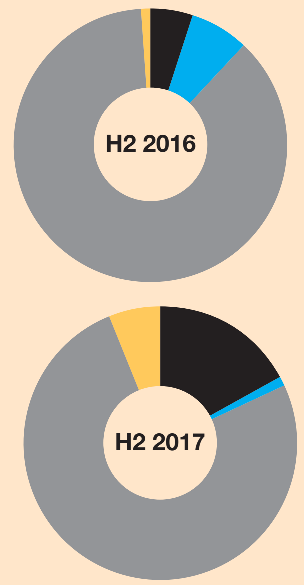
Source: Knight Frank Research

"The marginal fall in transacted space in 2017 can be attributed to the lack of quality supply coming into the market. In H2 2017 only 1.25 mn sq ft of office space was delivered which is a drop of 48% compared to H2 2016. On a YoY comparison the office supply in Hyderabad dropped by 46% in 2017."

- The Hyderabad office market witnessed office space transaction of 3.34 mn sq ft in H2 2017 which is a new record for the city. This much of space was never taken up in six monthly trends in Hyderabad earlier. Compared to H2 2016, office space transaction grew by 5% in H2 2017. However, on a YoY comparison it fell by 4% in 2017.
- The yearly dip in office transaction space in 2017 should not be looked in isolation. The previous year witnessed the highest amount of office space pick up in the city.
- The marginal fall in transacted space in 2017 can be attributed to the lack of quality supply coming into the market. In H2 2017 only 1.25 mn sq ft of office space was delivered which is a drop of 48% compared to H2 2016. On a YoY comparison the office supply in Hyderabad dropped by 46% in 2017. The dip in new completions is a result of many projects being in the pipeline.
- With new completions unable to keep supply with the demand for quality office space, vacancy levels in the city recorded a historic low of 5%.
- Low vacancy is one of the biggest challenges for Hyderabad as occupier interest continues to be on the rise and there is not enough supply in the pipeline. Vacancy levels in markets like Madhapur, HITECH City, Gachibowli and Nanakramguda area as low as 2-4%.
- Another visible trend in Hyderabad is that companies have now started to make their own campus.
- The IT/ITeS sector has traditionally dominated the office transaction pie in Hyderabad. While the share of the IT/ITeS sector had fallen to 51% in H1 2017 it reovered up to 75% in the susbsequent six month period. . This is however; lower than the share of the sector in H2 2016 when it accounted for 87% of the transacted space in the city. Amazon and Google were some of the major players from the IT/ITeS sector to have taken up space in Hyderabad, in H1 2017.
- The share of BFSI which had moved to a high of 21% , in H1 2017, moved to single digits in H2 2017, occupying only 1% of the transacted space. In H2 2016 BFSI had taken up 7% of the transacted space.
- The share of manufacturing sector has been steadily moving up in the city since H2 2016, when it took up just 1% of the transacted space. In H2 2017 manufacturing sector had taken up 7% of the transacted space in the city.
- The share of other services has fallen in H2 2017 to 17% from 23% in H1 2017. The share of manufacturing sector is still way higher in H2 2017 compared to H2 2016.
- The average deal size in H2 2017 was reported to be 43,882 sq ft which is 8% higher than in H2 2016. The average deal size in H2 2017 is also 137% higher than in H1 2017.
- H2 2017 witnessed 76 deals which is marginally lower than H2 2016 which had recorded 78 deals. The marginal fall in the number of deals and the rise in average deal size can be attributed to companies like Google and Amazon taking up large amount of space in the city.
- The business district that witnessed the largest share of transactions in H2 2017 was SBD. The attractiveness of SBD is due to comparatively greater availability of good quality office spaces in locations like Madhapur, Raidurgam and Kothaguda. Nearly 72% of office space transactions in Hyderabad took place in SBD.
- Within SBD, Madhapur garnered the lion's share of transactions. Of the total transacted space in SBD, 95% took place in Madhapur. Even at the city level, Madhapur was the undisputed leader. It accounted for 71% of the office space transacted in the city.
- After SBD, PBD West occupied the second largest share of transacted space in H2 2017. However, the share of PBD West has fallen from 30% in H2 2016 to 24% in H2 2017.
- It is worth noting PBD East did not witness any transactions in H2 2017.
- Lack of vacant office stock coupled with steady demand has pushed the weighted average rentals in the Hyderabad office market to ₹51 per sq ft per month at the end of H1 2017, a growth of 9% YoY.
- H2 2017 witnessed rentals move up across micro markets compared to H1 2017. The upward movement in rentals can be gauged from the fact that rentals in Madhapur in SBD witnessed transactions at ₹68 per sq ft per month. Rentals in Somajiguda, in CBD and off CBD reached ₹60 per sq ft per month. Elsewhere in Kukatpally in SBD there were a couple of transactions at ₹58 per sq ft per month.

"The attractiveness of SBD is due to comparatively greater availability of good quality office spaces in locations like Madhapur, Raidurgam and Kothaguda. Nearly 72% of office space transactions in Hyderabad took place in SBD."

SECTOR-WISE SPLIT OF TRANSACTIONS



Industry	H2 2016	H2 2017
BFSI	7%	1%
IT/ITES	87%	75%
Manufacturing	1%	6%
Other Services	5%	17%

Note: BFSI includes BFSI support services

AVERAGE DEAL SIZE AND NUMBER OF DEALS

H2 2016

40,626
Average Deal Size (sq ft)

78
Number of Deals

H2 2017

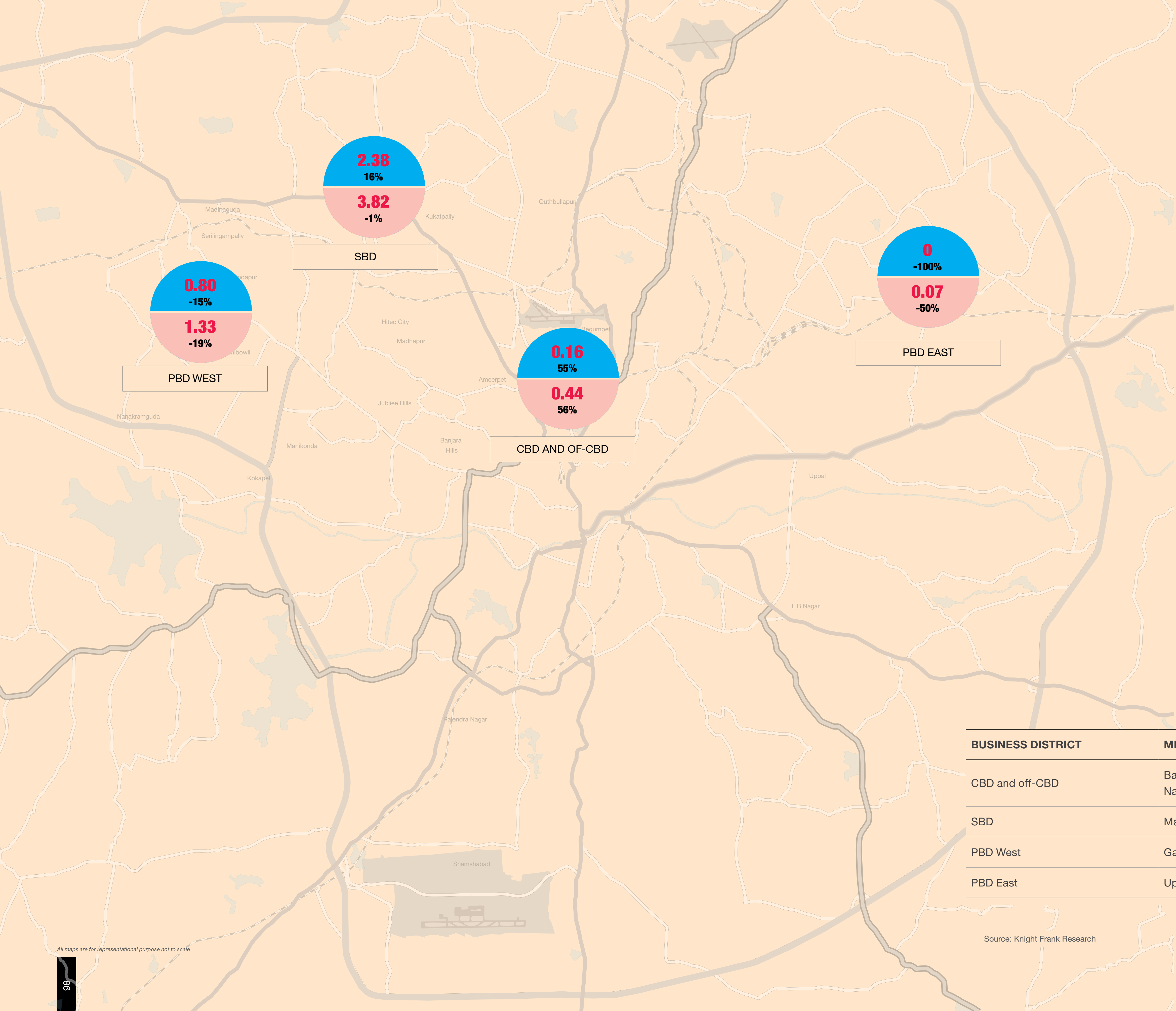
43,882
Average Deal Size (sq ft)

76
Number of Deals

OFFICE TRANSACTIONS

H2 2017 | 2017 | % CHANGE (YOY)

IN MN SQ FT



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5.05

Vacancy in Hyderabad in H2 2017

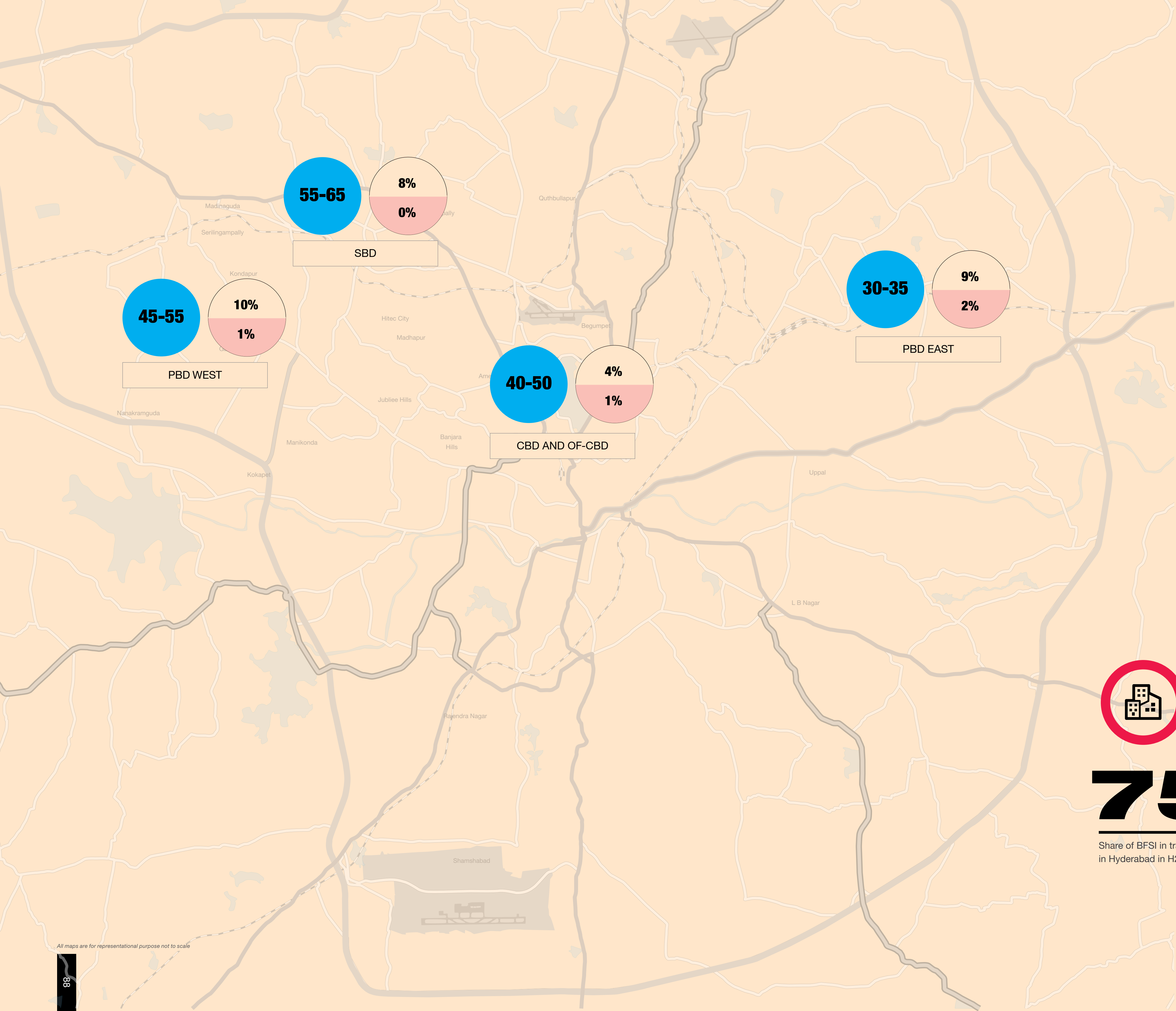
BUSINESS DISTRICT	MICROMARKETS
CBD and off-CBD	Banjara Hills, Jubilee Hills, Begumpet, Ameerpet, Somajiguda, Himayat Nagar, Raj Bhavan Road, Punjagutta
SBD	Madhapur, Manikonda, Kukatpally, Raidurg
PBD West	Gachibowli, Kokapet, Madinaguda, Nanakramguda, Serilingampally
PBD East	Uppal, Pocharam

Source: Knight Frank Research

OFFICE RENTAL

RENTAL VALUE RANGE IN H2 2017 (INR/SQ FT/MONTH)

12 MONTH CHANGE 6 MONTH CHANGE



75%

Share of BFSI in transacted space in Hyderabad in H2 2017

76

Number of deals in Hyderabad in H2 2017

All maps are for representational purpose not to scale

NEW MICRO MARKETS REDEFINING

RESIDENTIAL LUXURY

- By Divya Grover

For Kolkata's "richie rich", Alipore and Ballygune have always been synonymous with the most luxurious locations of the city. These locations are lined with upscale bungalows and mansions amongst which reside the city's top industrialists, bureaucrats and families of high net worth individuals. Alipore, in particular, is as old as Kolkata itself and gained prominence as an elite locality as it was the Governor's residence in the early 19th century. After independence, the who's who of the business world and Kolkata based industrialists set up homes here. Ballygunge, with its stately mansions, and a mixed profile of residents including famous poets, novelists, singers, politicians, physicians, film makers and civil servants has an unmatched vibe which exudes affluence.

However, today location is not the sole predefining factor of premium real estate. The new millennia of the city's wealthy want a taste of opulence but draped in contemporary "luxury" amenities. Whilst the wealthy business community comprising Bengalis, Marwaris, Gujaratis and Punjabis preferred to have independent houses as their luxury abodes, western concepts of penthouses, condominiums and contemporary residences are fast catching on amongst their children. Wealth accumulation early on in life coupled with exposure to cosmopolitan Indian cities and western shores through education, travel and work has been instrumental in shaping the housing preferences of these end-users who seek modern environs, community living and vast amenity spaces at their fingertips. Such evolving tastes for home ownership have caught the frenzy of real estate developers to come up with diverse residential formats to cater to this class of new age affluent buyers. Through market sources, we have also learnt that NRIs settled in United Kingdom, Oman and Dubai have also evinced interest to invest in such projects in an attempt to remain connected to their roots.

In particular, the Eastern Metropolitan Bypass (EM Bypass) has witnessed the proliferation of some residential projects in the past few years which boast of several plush lifestyle amenities for end-users. EM Bypass is strategically located to connect Bidhannagar with Sonarpur and lessen the traffic bottlenecks on Gariahat Road. Covering a distance of 21 kms, this beltway is one of the important economic hubs of Kolkata. Whilst some regional developers started experimenting with such residential products in the Maniktala region near the EM Bypass early on, a wave of upmarket properties are coming up on the southern stretch near the JBS Haldane Avenue and beyond.

Both national and regional players are pumping huge investments in residential projects with ticket sizes ranging between INR 1 crore – INR 5 crores for this category. Renowned regional developers have some great examples in this segment on this belt. The Trump Tower, recently launched near Science City saw a healthy response according to market sources. Similarly, ultra-premium projects such as Forum Atmosphere, are offering spacious units with state-of-the-art amenities unheard of in the residential market.

Luxury has a new definition along the EM Bypass now in the form of sky clubs, infinity pools, private yachts, cigar and wine lounges, lifestyle concierge, landscaped decks, built-in Jacuzzis and ample sports and health related facilities. The aforementioned residential projects are aimed at filling the vacuum in the super luxury residential segment in Kolkata and some are even priced upwards of INR 10 crores. The influx of such projects has taken the luxury quotient of EM Bypass up by several notches. Given the exclusivity they offer, EM Bypass is poised to be the new Park Street of Kolkata per some market sources.

With upscale boutique hotels such as ITC Sonar and JW Marriott in the vicinity, several food and beverage chains and retail stores are coming up on this belt giving a fillip to its social infrastructure. Another location which is in nascent stages of developing high-end residential stock is Rajarhat New Town where national and regional developers are active with such under construction projects. A prominent developer is coming up with a residential complex with interiors from an Italian luxury fashion company, which is the first of its kind in the branded residential category in Kolkata.

Whilst it is premature to allude to the success of these projects, the fact that they are gaining popularity from the targeted end-user segments cannot be ignored. In the absence of any branded, themed or lifestyle amenity focused residential projects in Kolkata, this new wave of sophisticated residences have set the ball rolling for more developments like these to be envisaged. At a time when real estate sector in India is going through a transition in terms of operation and conducting business, the timing of introduction of such projects in Kolkata couldn't have been better. Once the Housing Industry Regulatory Authority (HIRA) is set up in the state, it will bring comfort in real estate transactions and increase the end-user appetite for these projects.

"Today, location is not the sole predefining factor of premium real estate. The new millennia of the city's wealthy want a taste of opulence but draped in contemporary "luxury" amenities."

KOLKATA

RESIDENTIAL MARKET

-31%

Decline in sales in 2017, since the peak in 2015

-47%

Decline in launches in 2017, since the peak in 2014

The West Bengal Housing Industry Regulation Bill 2017 has been passed by the State Assembly in H2 2017 and is expected to be notified soon.

- Whilst the impact of demonetisation tapers off, Kolkata's residential sector is reeling under the pressure of slowdown in real estate activities as developers focus on realignment of operations post GST rollout and weakening sales volume.

- In the wake of mounting unsold inventory, developers in Kolkata remained cautious w.r.t. new launches which plummeted to 6,176 units in H2 2017 noting a 32% YoY decline over H2 2016. From its peak in 2014, new launches in 2017 declined by 47%.

- In line with the trend witnessed in the past few years, Rajarhat continued to account for the maximum share in the total number of new launches, although the actual number of units launched was lower by 33% YoY in H2 2017.

KOLKATA MARKET SNAPSHOT

PARAMETER	H2 2017	Change YoY	2016	2017	Change YoY
Launches (housing units)	6,176	-32%	20,984	15,940	-24%
Sales (housing units)	6,038	-17%	17,647	14,147	-20%
Price (wt. avg.)	3,395	-5%	3,575	3,395	-5%
Unsold inventory (housing units)	39,252	5%	37,459	39,252	5%
Quarters to sell	12.1	-	8.3	12.1	-
Age of unsold inventory (in quarters)	12.2	-	10.2	12.2	-

Source: Knight Frank Research

- At 40% of total launches in H2 2017, Rajarhat tops the radar of developers for infusion of new residential supply on the back of office sector development and upcoming metro connectivity. Planned infrastructure development in this zone will ensure continued interest from the developer community going forward as well.

- In line with the past trends, more than 70% of new launches catered to the below INR 5 mn ticket size bracket.

- Being an end-user driven market, the residential sales volume has remained mostly steady in Kolkata. From 2011 to 2016, nearly 9,000 units were sold every six months in the city. However, weak buyer sentiment post demonetisation impacted the overall sales volume negatively in H2 2016 bringing the total down to 7,308 units.

- H1 2017 noted 11% improvement in sales over H2 2016 but waning demand again pushed the sales volume down in H2 2017. Rising awareness amongst homebuyers about the reduced project delivery risk in RERA compliant projects in Maharashtra and Gujarat motivated many to adopt a wait and watch strategy until West Bengal establishes the Housing Industry Regulatory Authority (HIRA). Consequently, delay in HIRA implementation led to a 17% YoY absorption downtrend over H2 2016.

- Of the overall absorption, Rajarhat and South zones maintained their dominance in the overall residential sales accounting for 34% and 29% share of total H2 2017 sales, respectively.

- End-user home buying preferences are skewed in favour of ready to move in homes from pedigreed developers, resulting in waning demand for others. As a result, Kolkata's unsold residential stock increased by 5% YoY in H2 2017 to 39,252 units under various stages of construction, which will take more than 36 months to be sold, also the highest in last four years. The stress in the market is also captured in the age of unsold inventory, which has progressively increased from 8.1 quarters in 2015 to 12.2 quarters in 2017.

- North zone, in particular, has witnessed a 13% YoY uptrend in unsold inventory during H2 2017 due to large quantum of new launches in this region since 2014.

- In an attempt to push sales, many developers introduced discounts during the June–August period immediately after the GST rollout announcement. However, as per further market assessment, an additional price benefit of 7.5% on base selling price (BSP) is being passed on to buyers in the form of GST input tax credit, which brings the total discount approximately to 12% of BSP.

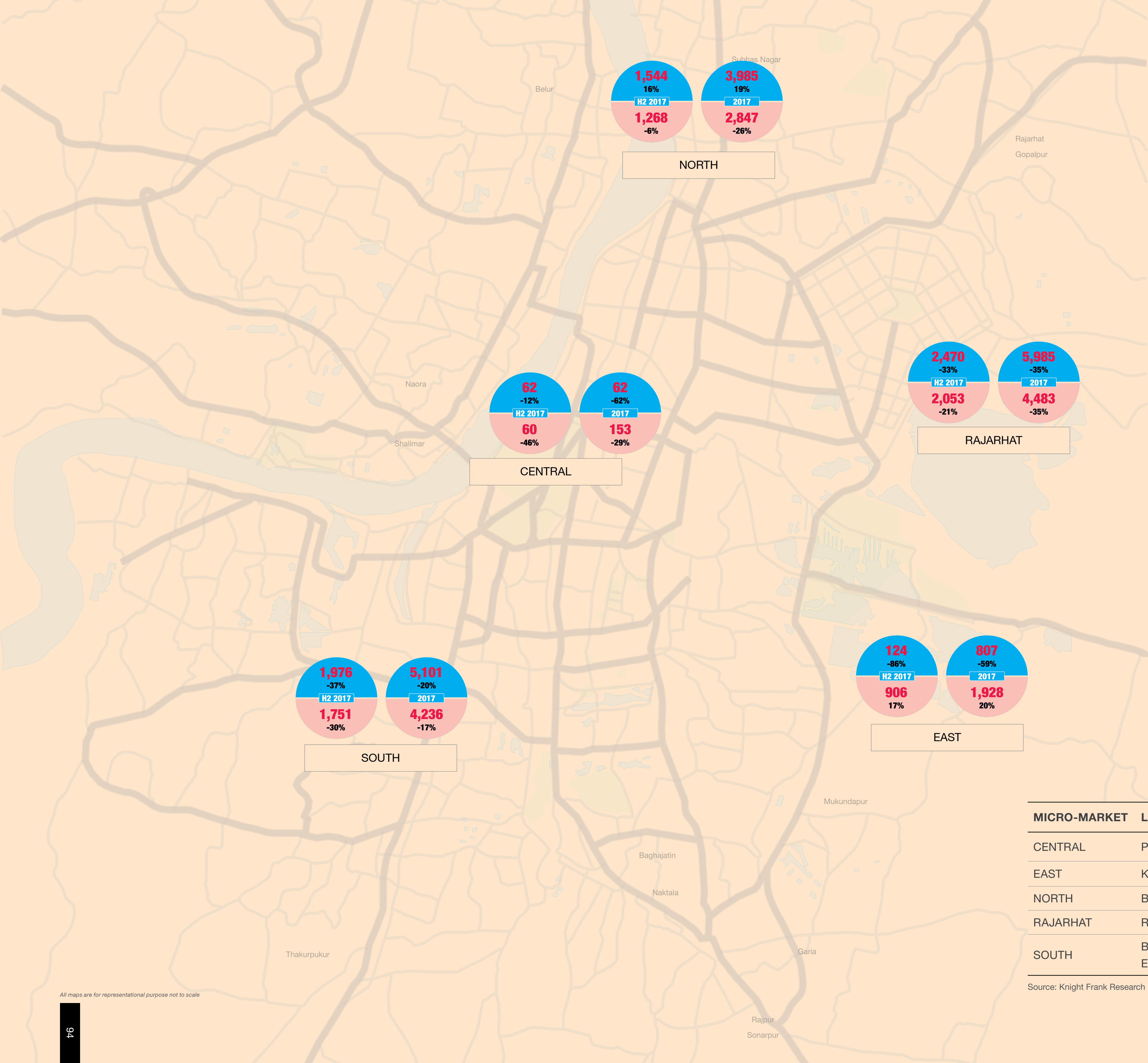
- The bright spot amidst this slowdown are the emerging locations in the northern and southern peripherals such as NSC Bose Road, Jessore Road, BT Road, Behala, Narendrapur, Jokka and Diamond Harbour Road, which are set to gain prominence as they have an abundance of mid-segment and affordable housing stock. With a renewed focus on Pradhan Mantri Awas Yojana, these belts are well positioned to thrive in future.

- The West Bengal Housing Industry Regulation Bill 2017 has been passed by the State Assembly in H2 2017 and is expected to be notified soon. Once HIRA is set up, we expect real estate developers to consolidate and business models to evolve, which should revitalise the residential segment.

- Holistically, progress on RERA implementation and its subsequent compliance in 2018 will determine the growth trajectory of Kolkata's overall residential market going forward.

RESIDENTIAL LAUNCHES AND SALES

LAUNCHES (IN UNITS) SALES (IN UNITS) % CHANGE (YOY)



All maps are for representational purpose not to scale

16%

Increase in launches in North in H2 2017

20%

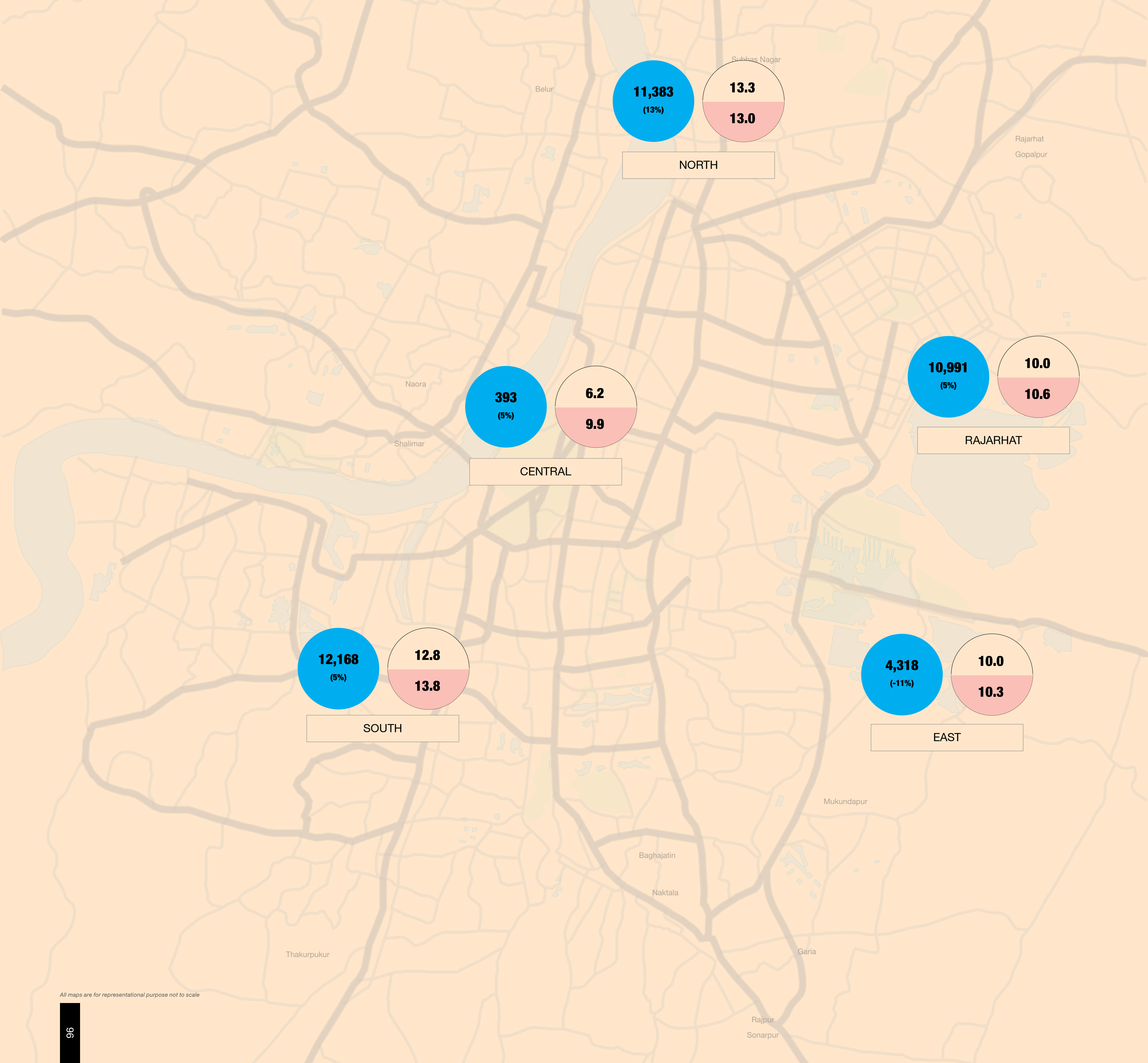
YoY increase in sales in East in 2017

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)

Source: Knight Frank Research

RESIDENTIAL UNSOLD INVENTORY

UNSOLD INVENTORY (IN UNITS)
QUARTERS TO SELL
AGE OF UNSOLD INVENTORY (IN QUARTERS)
AS ON 31 DEC 2017



All maps are for representational purpose not to scale

12.2

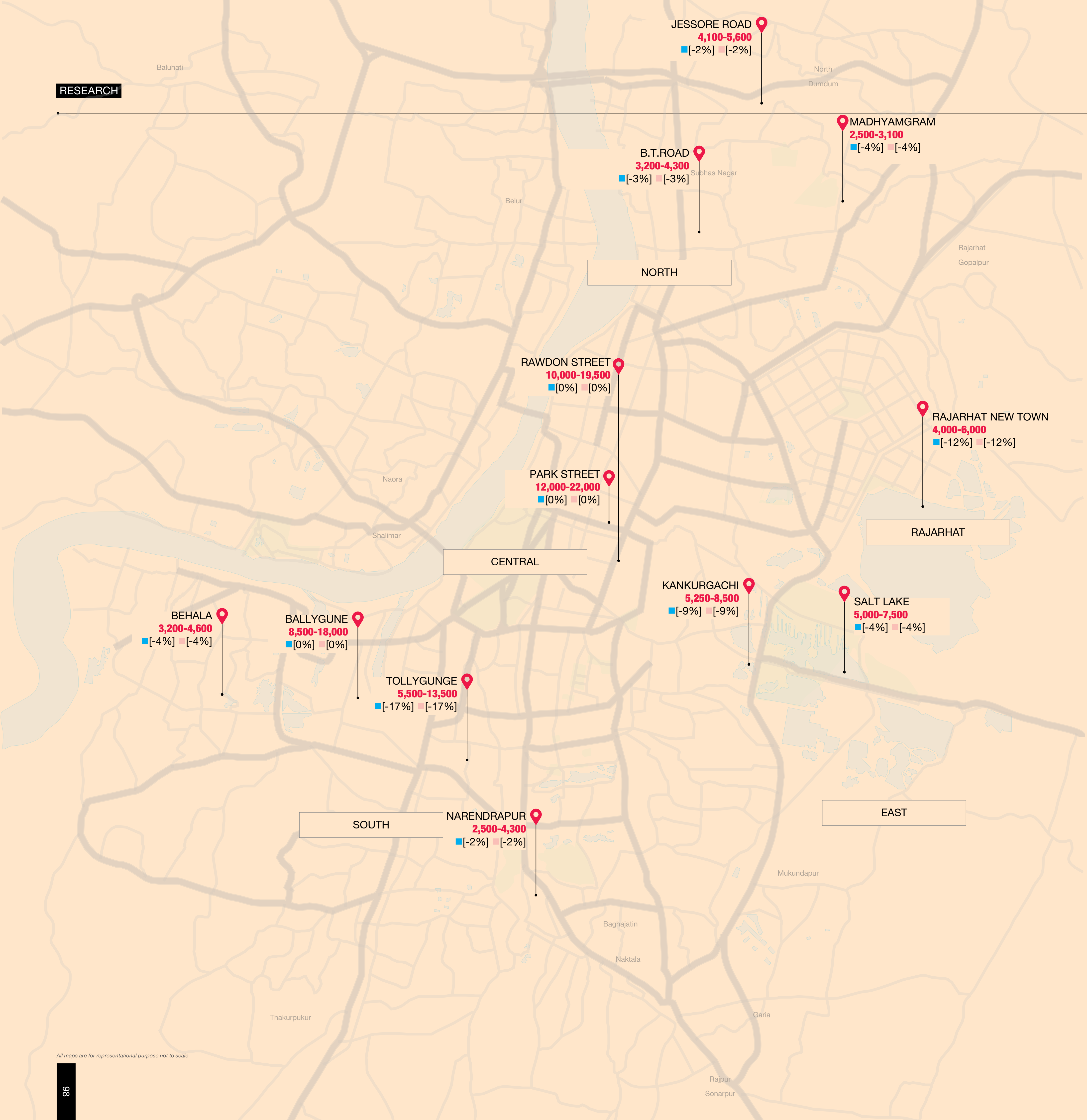
Age of unsold inventory in Kolkata at the end of 2017

12.1

Quarters to exhaust unsold inventory

RESIDENTIAL PRICING

PRICE RANGE (IN ₹ SQ.FT.)
12 MONTH CHANGE (YOY)
6 MONTH CHANGE (YOY)



-17%

Price change in 2017 in Tollygunge

-12%

Price correction in Rajarhat in 2017. GST input tax credit as discount on BSP widespread.

All maps are for representational purpose not to scale

Will the anguished home buyer RETURN TO UNDER-CONSTRUCTION properties?

- By Nibodh Shetty

For decades Indian home buyers have grappled with want of transparency and trust deficit from developers. Residential projects getting delayed was being accepted by consumers as a norm. Prior to the implementation of the Real Estate (Regulation and Development) Act, 2016 (RERA), the only source of recourse for buyers was to approach courts which used to take several years to deliver justice. Often burdened with the financial pressure of repaying home loans, buyers were left with limited resources for legal recourse. Over the past 3 years newspapers headlines have been dominated with developers going bankrupt and replete with stories of the buyers left in the lurch to recover life savings. In many cases potential dream homes turned nothing but abandoned sites.

The nightmare of such buyers could have intimidated others from investing in under construction projects. The decision to purchase a house is as driven by sentiments as much as it is driven by financial ability. The vicious cycle had severely dented consumer sentiments.

The government has been trying hard to bring back buyer confidence for committing to under-construction properties by asking states to implement RERA, which would safeguard the buyer's interests. Maharashtra has been the first state in India to have implemented RERA by notifying the Act, setting up a permanent authority and putting in place a functional portal. Only setting up of the appellate tribunal is pending and likely to be in place in January 2018. The Maharashtra-RERA became operational on 1 May 2017 and has been attending to grievances from all stakeholders, including the house buyers. The judgments of MahaRERA have started to be pronounced in many cases and throw light on important aspects of the construction development process. With the Bombay High Court clearing the air over the constitutional validity of MahaRERA, these judgments would now become the benchmark for the developer-house buyer relationship and redefine the real estate business.

In contrast to the past, these days we come across headlines about aggrieved customers are getting justice in a timely and cost effective manner through RERA.

To understand the power sharing between the developers and house buyers, we have analysed each of the 60 rulings given by the Maharashtra-RERA individually till 6 Dec 2017. The overall number of complaints cleared by MahaRERA was greater than 130; however, given the purpose, we have not considered the cases where the complainants have settled the matter amicably or withdrawn their complaints due to other reasons and complaints filed by co-promoters.

COMPLAINTS

Most of the complaints were pertaining to delay in possession of the flat and the buyers had issues with the revised deadline of the project mentioned on the RERA website. Few cases were pertaining to incorrect/incomplete information of the project on the RERA website and one case was pertaining to parking. Out of the 60 complaints, only 1 complaint till date was filed by a developer, rest all were filed by buyers.

FOR COMPLAINTS FILED BY BUYERS

There were complaints filed for variety of issues, right from the revised deadline mentioned on the website to ambiguity in regulatory approvals to slow pace of construction. Some of the unique complaints and rulings given by the authority were as follows:

- Most of the 60 complaints filed by buyers were with respect to the revised deadline mentioned on the RERA website, which was different than what was mentioned in the agreement and the buyers sought compensation for the delay or refund of booking amount. In those cases, the authority brought about a compromise between the buyers and developers by asking the developers to pre-pone their date of completion much before the one they have declared on the website, failing which, they would have to pay interest to the buyers till possession is handed over. The authority also directed developers to refund the money paid by the buyer, with interest in several cases where compromise was not possible.

- A consortium of buyers in a project had issues regarding delay in possession due to the slow pace of construction only of that particular wing, the authority noted that the developer would not be able to complete that particular wing in the complex on time, hence it directed the developer to accommodate the buyers into the other 2 wings in the same compound, which were progressing at a much better pace and asked the developer not to charge any floor rise if the movement is within 4 floors of the originally allotted floor.

- The buyers informed the authority that the developer had not updated the complete information with respect to number of flats in the project that were pledged to an NBFC and the developer was not forming the society despite selling more than 51% of the total number of flats in the society. The developer was instructed to declare the complete information of the project and also form the society.

- The buyer stated that they had got information from other sources that there are issues in regulatory approvals received for that project and hence, the buyer applied for cancellation of the booking in December 2016; but the developer informed the buyer that they are waiting for clarity on issues on those approvals from regulators and since the booking amount paid was less than 20%, they would have to forfeit it as per the terms and conditions agreed upon. The authority went through the approvals and found that when the buyer had applied for cancellation of booking, there were issues regarding the clarity on regulatory approvals; hence, the developer cannot cite terms and conditions that were signed during booking and must refund the buyer's money.

FOR COMPLAINTS FILED BY DEVELOPER

Only 1 case was filed by a developer, in which the buyer had only done part payment and wasn't agreeing to pay the remaining amount. The buyer cited 2027 as the revised deadline mentioned of the project on the RERA website and showed the proof that he had also filed an FIR since the developer was not ready to acknowledge the booking amount already paid in cash. The authority asked the developer to pre-pone the date of completion to Dec 2018, post which he would have to pay interest to the buyers and it also asked the buyer to pay the remaining amount in proportion to percentage of completion of the project (90% of the remaining amount) within 45 days to the developer.

RULINGS

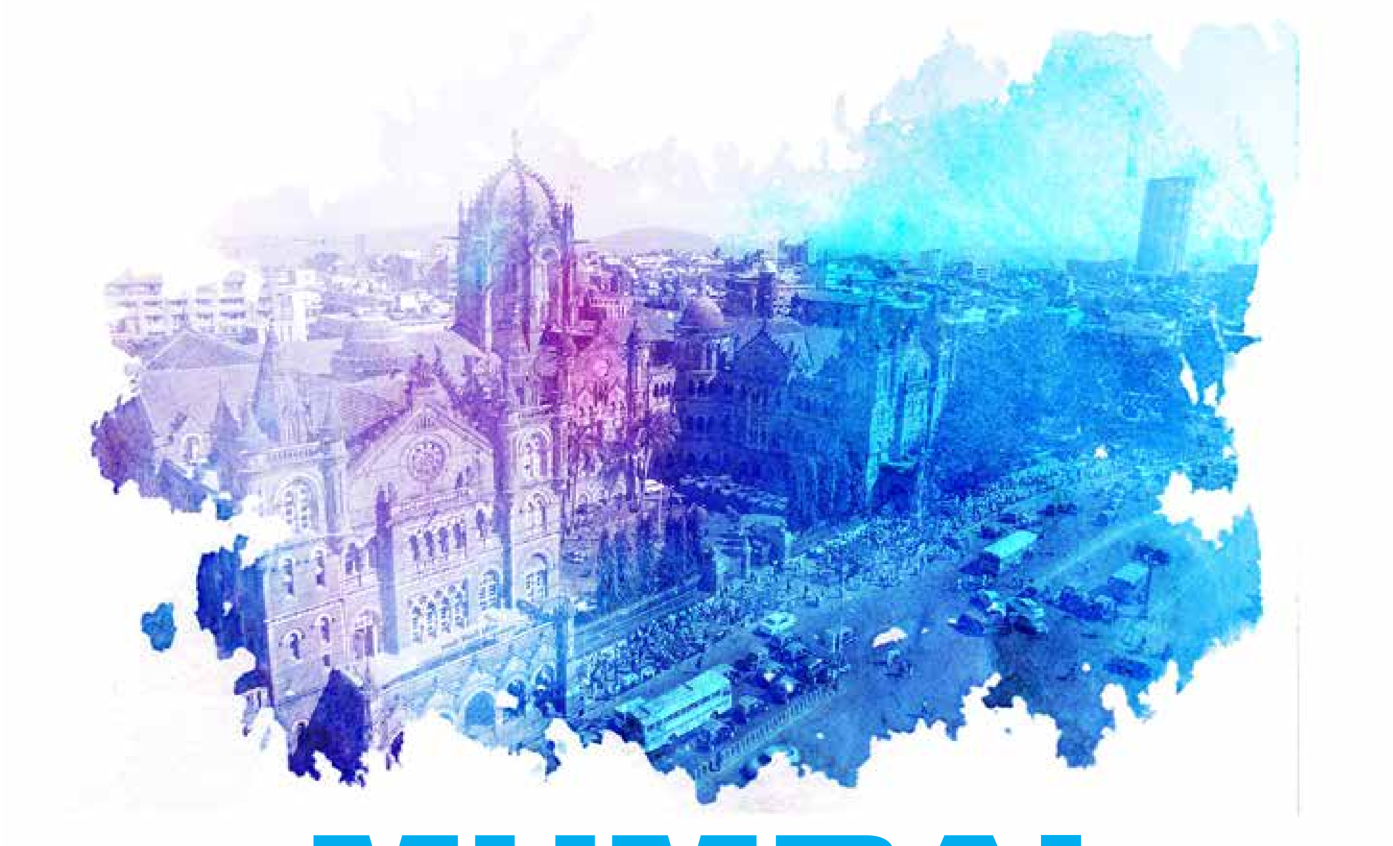
Out of the **60** rulings, **79%** (47 rulings) were in the favour of buyer, **18%** (11 rulings) in the favour of developer and **3%** (2 rulings) were neutral.

SUMMARY OF THE RULINGS

Judgment in the favour of	Count	Percentage
Consumer	47	79%
Developer	11	18%
Neutral	2	3%
Total	**60**	

IMPACT OF RULINGS

The Maharashtra government has been moving in a right direction by bringing in an effective regulator who has starting delivering on its intent. The regulator has been bringing about an unprecedented change in the attitude of real estate developers towards consumers and for the first time developers are being made accountable for delivering what has been promised. Currently, buyers prefer to purchase ready-to-move properties despite having to pay a hefty premium compared to under-construction properties. We believe that such rulings by the RERA authority where consumers are getting some amount of reprieve and assurance of regulatory oversight in case of wrongdoing by developers would go a long way in improving buyer sentiments. In medium to long term, it can bring back the confidence of buyers for investing in an under-construction property. Developers would ultimately benefit from the improved buyer confidence; hence, it would be beneficial for them if they bear the short-term pains and work towards ensuring their practices are in line with the RERA rules.



MUMBAI

RESIDENTIAL MARKET

> “The average sales volume for H2 2013, H2 2014 and H2 2015 was – 34,452 units and hence the H2 2017 numbers are lower by 12.5% at 30,179 units.”

- Maharashtra is the only state that notified the real estate rules in a timely manner and subsequently implemented it statewide by 1 May 2017. With due seriousness, the window of registration for ongoing projects ended on 31 July 2017. Post which, projects were allowed registration, albeit with payment of penalty.

- The Maharashtra government's proactive establishment of a real estate authority and an online portal has put Mumbai far ahead of other cities in terms of RERA compliance. Hence, H2 2017 (1 July 2017 to 31 December 2017) heralds a new era in the context of the city's real estate industry, which will now work in a new operating environment.

- Accordingly during H2 2017, MahaRERA become functional and developers started to attune their business operations to the regulations of MahaRERA. Further, in a short period of time since implementation of the Act, the regulator has heard and disposed of complaints from stakeholders.

- As per our study of the MahaRERA judgements, a large number of judgments (79% of the total complaints for a specified period) were in the favour of homebuyers. Earlier, buyers had to wait on an average for 5–7 years till the courts delivered verdicts on their complaints and get justice. But things have changed now. The time taken for a buyer to get his grievance addressed has now reduced to few weeks or a month. This is installing renewed confidence amongst buyers towards purchasing an under-construction property.

- Besides the regulatory transformation, clear price discounts for the first time in several years played a significant role across the Mumbai market. In this backdrop, residential sales in the Mumbai Metropolitan Region increased by 19% in H2 2017 compared to H2 2016 – a period that was marred by the decision of demonetisation of high value currency notes. This makes H2 2016 an incomparable base period. The average sales volume for H2 2013, H2 2014 and H2 2015 was – 34,452 units and hence the H2 2017 numbers are lower by 12.5% at 30,179 units. The residential sales number for the entire year of 2017 was recorded higher by 3% compared to 2016 but down 43% from the peaks of 2010.

MMR MARKET SNAPSHOT

PARAMETER	H2 2017	Change YoY	2016	2017	Change YoY
Launches (housing units)	7,490	-23%	34,190	23,253	-32%
Sales (housing units)	30,179	19%	60,374	62,256	3%
Price (wt. avg.)	-	-	8,120	7,717	-5%
Unsold inventory (housing units)	-		154,967	115,964	-25%
Quarters to sell	-	-	10.1	7.6	-
Age of unsold inventory (in quarters)	-	-	13.2	15.6	-

Source: Knight Frank Research

- In the post RERA era, developers are concentrating their resources and efforts towards completing existing projects and as a result the launches have suffered. The launches across MMR in 2017 were down 32% YoY and down 83% from the peaks of 2010.

- For H2 2017, the decline in launches for MMR was recorded at 23% YoY. The large micro markets of Peripheral Central Suburbs, Thane and Navi Mumbai have shown a significant decline in launches in H2 2017 which has brought down the overall launches whereas Central Mumbai and Central Suburbs have witnessed growth in launches. As a result, the share of launches in the INR 5-10 mn category increased from 22% during H2 2016 to 37% during H2 2017.

- For the first time in the current decade, Mumbai witnessed a decline in quoted prices. The weighted average prices were down 5% YoY in 2017. In addition to the reduction in base prices, the developers are offering discounts in the form of freebies such as 24-month rent assurance, stamp duty waivers, no floor rise charges and other preferential location charge, gifts, etc. All together with the discount on base price, these offers imply an effective discount to the tune of 11–12%.

- Prior to GST, the taxes that a residential buyer purchasing a property in an under-construction building had to pay was 4.5% VAT and 1% Service Tax. Now the buyer would have to pay 12% GST. After considering all the set-offs and tax credits, there is some upwards pressure on prices, which has also been absorbed by the developers and not passed to the buyers.

- The developers have reported surge in enquiries on account of reduction in prices. There have been instances in projects by a few developers, where the developer has reduced the prices in a certain project by 25% and sold out the entire inventory within few months. The rationale for 25% reduction in prices was that the cost of capital for developers is in the range of 18–24% and at the previous rate of sales, it would have taken them more than 3–4 years to clear their inventory and no scope for much price rise in that period. Hence, the net impact of giving 25% discount is quite comparable or much better in some cases than waiting 3–4 years, since the gains due to uptick in sales velocity is compensating the reduction in prices.

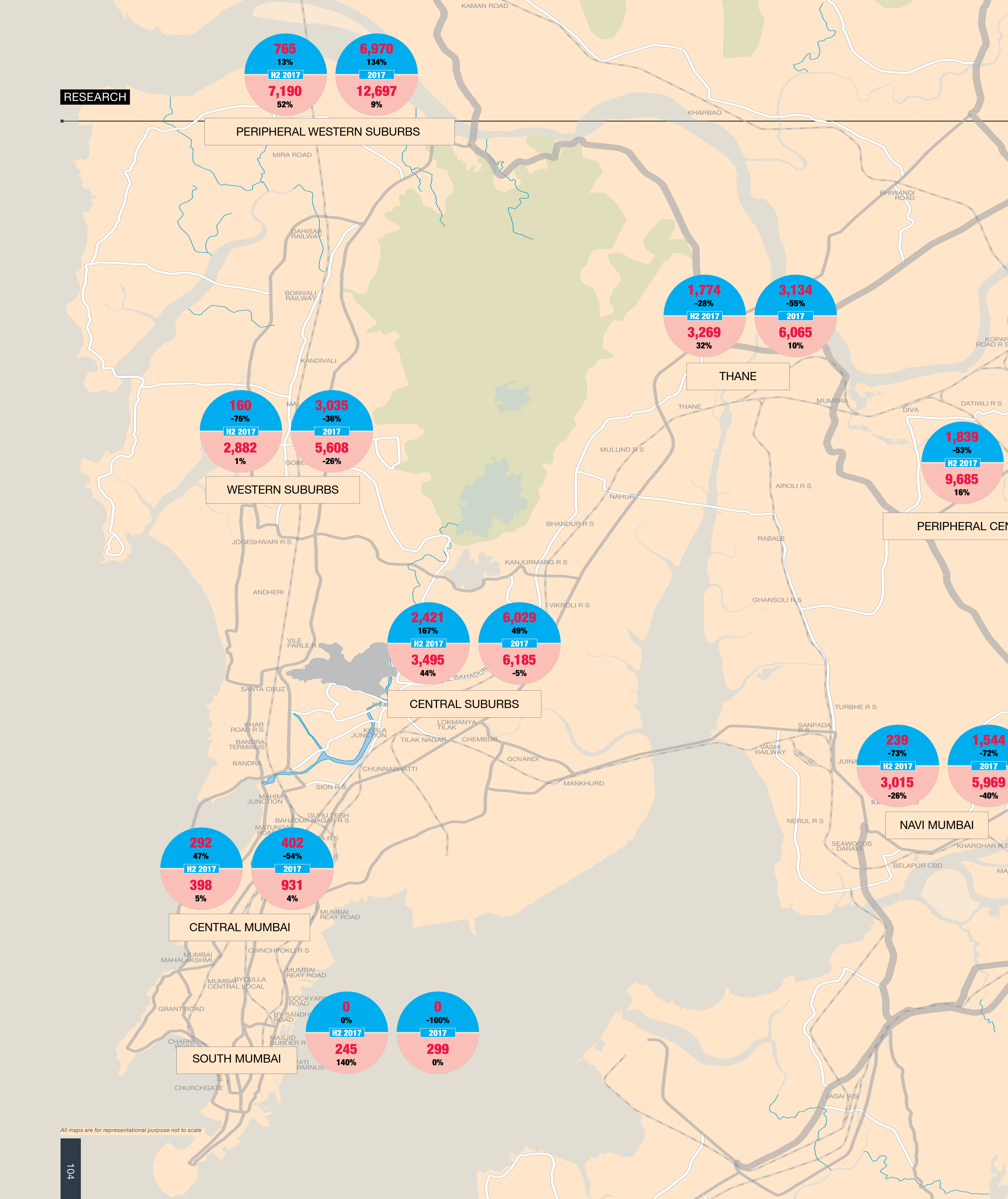
- In terms of the sales, we have seen the mid-ticket segment, which would generally be in the range of INR 5–15 million, witnessing a good response. Micro markets in the Central Suburbs, Thane and Peripheral Western Suburbs have reflected the same by recording a sales increase of 44%, 32% and 52%, respectively.

- On account of significant decline in launches over the years and while sales have been subdued, the unsold inventory levels, as of end 2017, have come down 25% YoY to 115,694 units and QTS for the MMR market stands at 7.6 quarters, down from 10.1 quarters during end of 2016. The unsold inventory levels are down 46% from the peaks of H1 2014 at 213,742. However, the QTS number to 7.6 quarters cannot be interpreted as a sign of a healthy market as they have come on back of reduction in launches rather than any major uptick in sales and also the age of inventory has progressively increased from 10.1 quarters in 2014 to 15.6 quarters in 2017.

- The implementation of RERA in full letter and spirit, and the reduction in prices have led to increase in sales in this half of the year. The increase in sales in 2017 appears to be more of a reaction of buyers to the reduction of prices than a sustained growth in demand. We will have to wait and watch to determine whether this increase in sales is sustainable.

RESIDENTIAL LAUNCHES AND SALES

LAUNCHES (IN UNITS) SALES (IN UNITS) % CHANGE (YOY)



All maps are for representational purpose not to scale

-73%

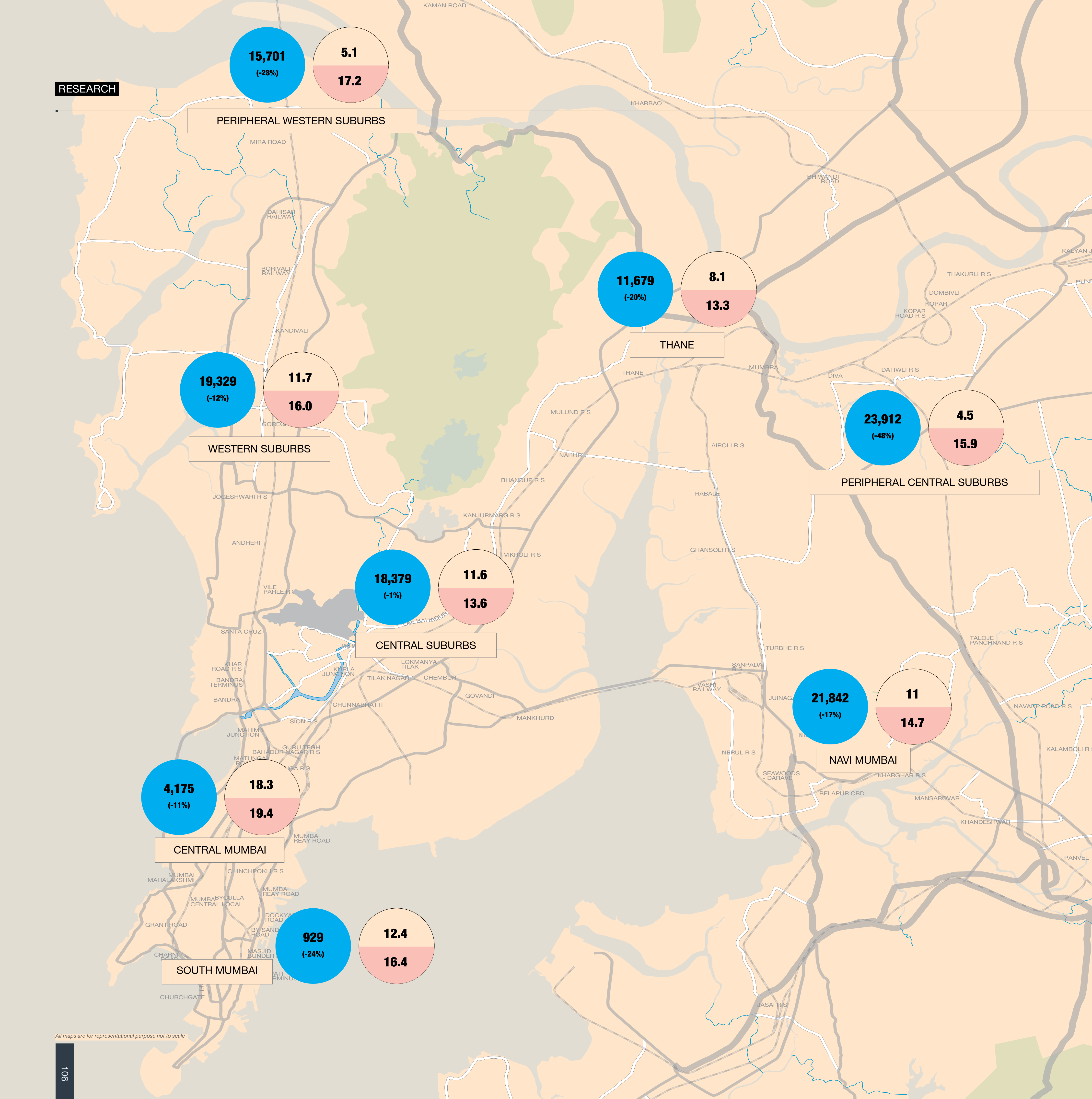
Drop in launches in Navi Mumbai in H2 2017

52%

Increase in sales in Peripheral Western Suburbs in H2 2017

MICRO-MARKET	LOCATIONS
Central Mumbai	Dadar, Lower Parel, Mahalaxmi, 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

Source: Knight Frank Research



RESIDENTIAL UNSOLD INVENTORY

UNSOLD INVENTORY (IN UNITS)(YOY)

QUARTERS TO SELL

AGE OF UNSOLD INVENTORY (IN QUARTERS)

AS ON 31 DEC 2017

-25%

Reduction in unsold inventory in 2017

7.6

Quarters to exhaust unsold inventory

All maps are for representational purpose not to scale

All maps are for representational purpose not to scale

RESIDENTIAL PRICING

PRICE RANGE (IN ₹/ SQ.FT.) 12 MONTH CHANGE (YOY)
6 MONTH CHANGE (YOY)

"For the first time in the current decade, Mumbai witnessed a decline in quoted prices. The weighted average prices were down 5% YoY in 2017. All together with the discount on base price, along with the other freebies/offers took the effective discount to the tune of 11–12%."

11-12%

Including price reduction and freebies, effective discounts on prices offered to buyers in 2017

OFFICE MARKET

MMR MARKET SNAPSHOT

PARAMETER	H2 2017	Change YoY	2016	2017	Change YoY
New completions (Mn sq ft)	2.8	190%	5.9	10.4	76%
Transactions (Mn sq ft)	4.4	36%	7.1	7.5	6%
Weighted Average Rental (INR/sq ft/month)	-	-	121	115	-5%
Stock (Mn sq ft)	-	-	124	134	8%
Vacancy (%)	-	-	19.6%	20.2%	-

Source: Knight Frank Research

- The overall office transactions for 2017 were up 6% YoY. The IT/ITeS and Other Services segments recorded significant growth in transactions in H2 2017. The demand profile from these occupier segments is in the peripheral and suburban markets and it was reflected in the growth in transactions in the business districts of – PBD, SBD Central and SBD West.

- During H2 2017, PBD recorded growth in transactions of 57% YoY, SBD Central 30% YoY and SBD West 23% YoY. The IT demand was led by bulk deals by big names of the IT industry in the buildings having rentals in sub INR 70/sq ft/ month. The top 3 deals in the IT/ITeS segment took up around 0.3 mn sq ft of office space. The demand from the Other Services segment was largely led by co-working players who transacted around 0.6 mn sq ft of space in H2 2017.

- Co-working demand had a big role to play in the jump in transactions in H2 2017. This segment has been emerging as a new occupier category and has been taking up large spaces similar to what e-commerce companies did during the e-commerce wave of 2014–15 in Bengaluru.

- The business environment for office occupiers was impacted in 2017 on account of implementation of GST and slowdown in consumer demand. As a result, the corporates focussed their attention on getting themselves GST compliant and went slow on expansion.

- The manufacturing sector would be the biggest beneficiary of implementation of GST and they were focussed on reorienting their entire manufacturing process to gain maximum benefits from GST. As a result, the share of manufacturing sector in total office transactions fell from 33% in H2 2016 to 11% in H2 2017.

- For the first time since 2012 the new office space supply hit double digits. The new completions in MMR in 2017 reached 10.4 mn sq ft, higher by 76% YoY. As a result, the vacancy rates in MMR increased from 19.6% in 2016 to 20.2% in 2017.

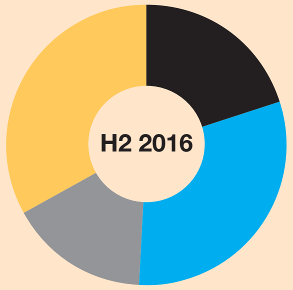
- In H2 2017, a significant amount of new supply came in SBD West and BKC and off-BKC regions, which combined accounted for 1.7 mn sq ft of new completions.

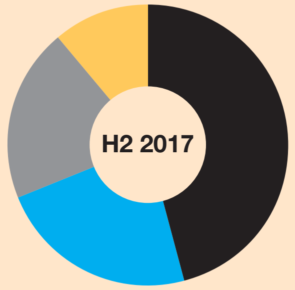
- On account of the transaction composition, which favours the relatively cheaper PBD markets of Thane and Navi Mumbai accounting for 28% in H2 2017 compared to 24% in H2 2016, the weighted average rent across MMR decreased by 5% YoY. However, some sought-after markets did witness increase in rentals.

- Business districts of BKC and central Mumbai have been witnessing growth in rentals on account of lower vacancy rates and no major upcoming supply. But this year even the business districts of SBD West and SBD Central witnessed yearly growth in rentals on account of strong occupier demand particularly from the Other Services segment that comprises of co-working, e-commerce, consulting, media, etc.

- The consolidation wave amongst occupiers continued even in 2017 with the number of deals going down but the average deal size (in sq ft) going up.

SECTOR-WISE SPLIT OF TRANSACTIONS





Industry	H2 2016	H2 2017
BFSI	31%	23%
IT/ITES	16%	20%
Manufacturing	33%	11%
Other Services	20%	46%

Note: BFSI includes BFSI support services

AVERAGE DEAL SIZE AND NUMBER OF DEALS

H2 2016

18,450
Average Deal Size (sq ft)

177
Number of Deals

H2 2017

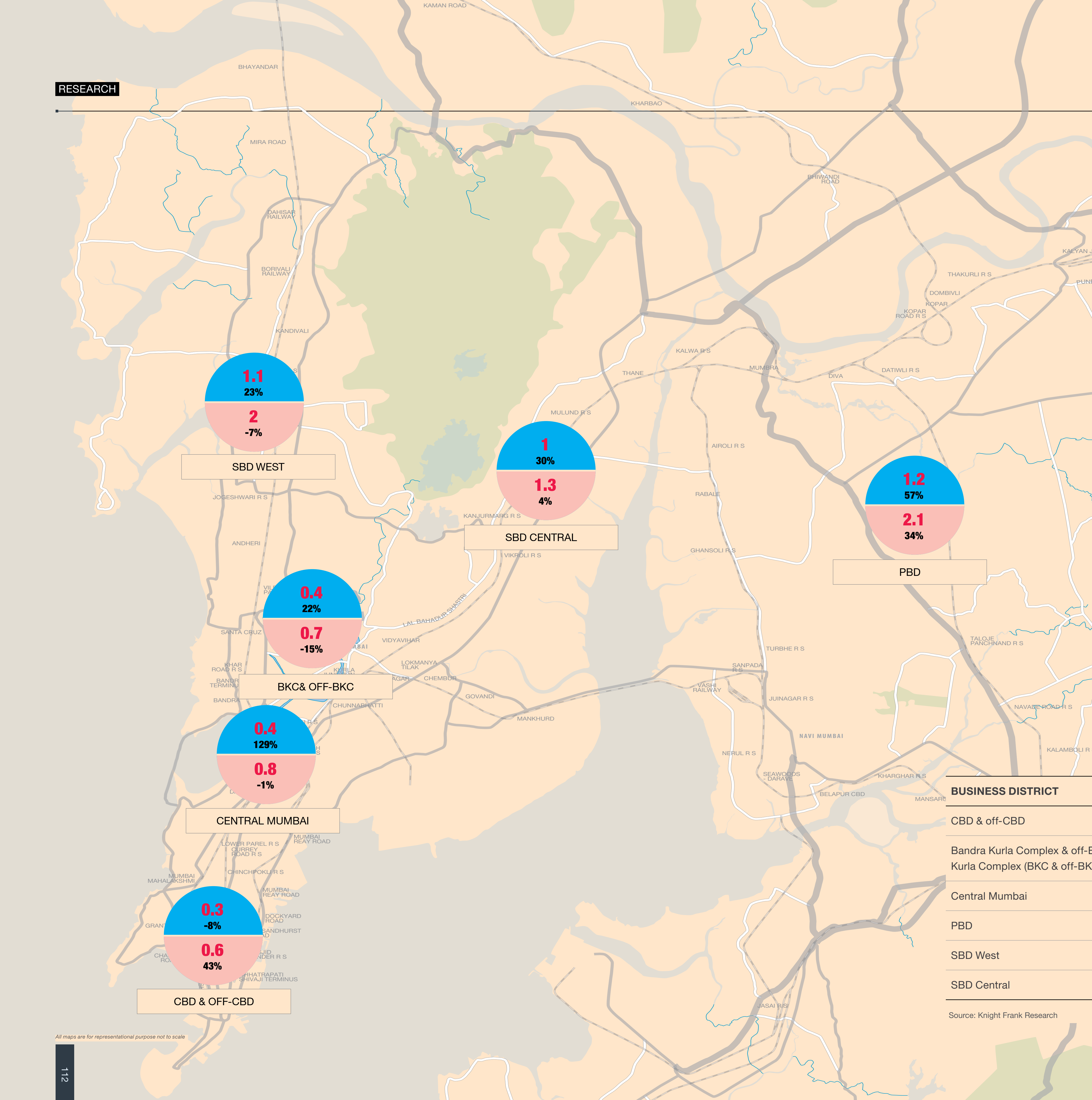
26,060
Average Deal Size (sq ft)

170
Number of Deals

OFFICE TRANSACTIONS

H2 2017 | 2017 | % CHANGE (YOY)

IN MN SQ FT



All maps are for representational purpose not to scale

34%

increase in transactions in PBD in 2017

BUSINESS DISTRICT	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
PBD	Airoli, Thane Belapur Road, Vashi, CBD Belapur,
SBD West	Andheri, Jogeshwari, Goregaon, Malad
SBD Central	Kurla, Ghatkopar, Vikhroli, Kanjurmarg, Powai, Bhandup, Chembur

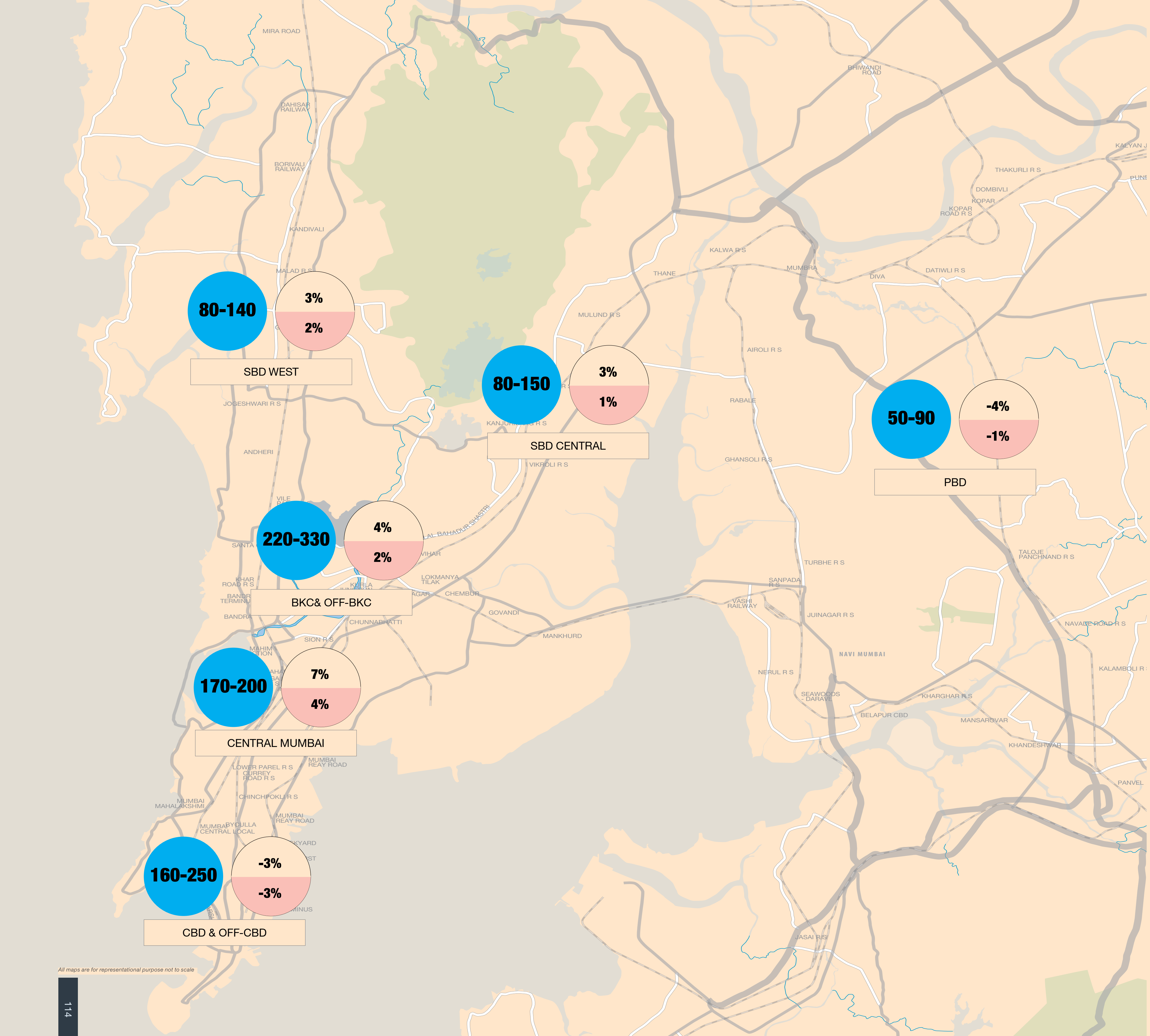
Source: Knight Frank Research

OFFICE RENTAL

RENTAL VALUE RANGE IN H2 2017 (INR/SQ FT/MONTH)

12 MONTH CHANGE

6 MONTH CHANGE



All maps are for representational purpose not to scale

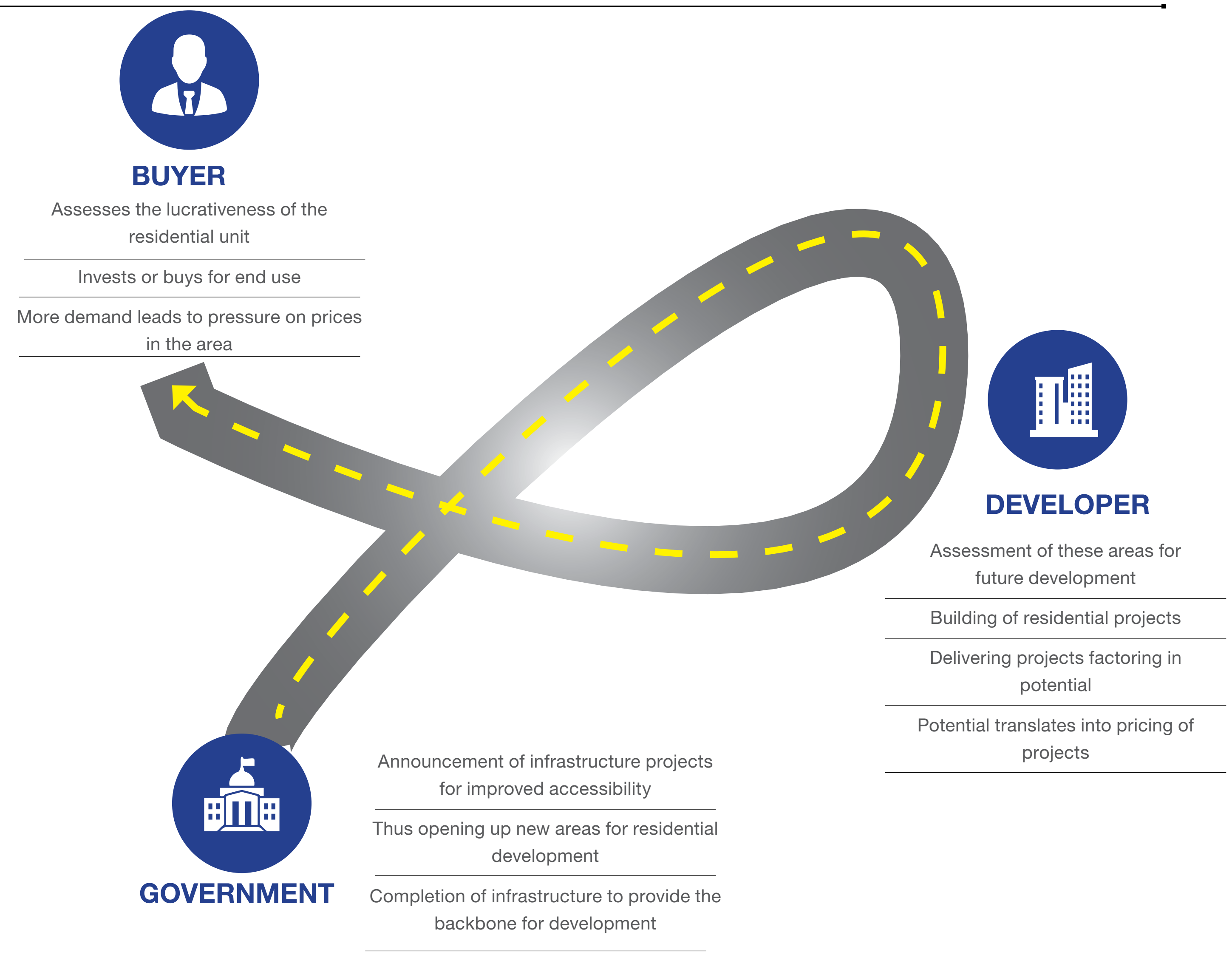
7%

Rise in rentals in Central Mumbai

Expressway that defied its name

-By Ankita Sood

The real estate cycle has three stakeholders—government, developer and the buyer. All of these have to fulfil their part of the deal for the development loop to be completed. As we know, development follows infrastructure and primarily when the government undertakes transport infrastructure development; it is done for the purpose of improving accessibility of the city at a regional or an urban level. This improvement in accessibility is then assessed by the second stakeholder (developer) for monetisation and future development. The third stakeholder (buyer) in the loop then evaluates the lucrativeness of the product offered by the government and the developer, which is then capitalised in the form of price of housing.



This basic understanding of how development should progress in a city has been put to infamy in the National Capital Region—one of the largest real estate markets in the country. NCR has examples of infrastructure projects that have been lingering on for over decades and to add to the irony have already seen capitalisation of prices by leaps and bounds without the residential projects even being delivered. One of the most important examples of such a scenario is the Dwarka Expressway or the Northern Peripheral Road (NPR) in NCR.

THE GURUGRAM IRONY – THE EXPRESSWAY THAT WENT NOWHERE

Gurugram has become a classic example of failed commitments and non-delivery of

THE BACKDROP

The Dwarka Expressway is a 27.6 km (revised from 18 km) expressway that was planned as an alternative link road between Delhi and Gurugram to ease the congestion on the NH-8. Land for the road was acquired in 2007–2008, but in 2008, writ petitions were filed, challenging the acquisition, and the road could be developed only in patches. The Punjab and Haryana High Court disposed of the petitions in May 2015.

In June 2016, the project was handed over to the National Highways Authority of India (NHAI) and was renamed 248-BB. With NHAI taking over the project, the scope of the project has been increased and the length has been revised from 18 km to 27.6 km starting from Shiv Murti in Mahilpur to Khirki Daula Toll Plaza.

With a delay of more than 7 years, approximately 9,000 units are stuck in limbo on the Dwarka Expressway due to lack of connectivity.

infrastructure projects by the government. A city that contributes the maximum to the state coffers is dotted with incomplete and unaligned roads that were to be the backbone of the new residential growth areas such as the much hyped Dwarka Expressway.

Being the IT hub, Gurugram saw an increase in population and per capita income, which then created a huge demand for housing. The government then announced the Dwarka Expressway and envisioned it as a speedy alternate link to Delhi from Gurugram and also as a parallel residential hub to house the burgeoning many. The expressway was initially planned to be 18 km long and the new sectors that opened up from this development garnered huge investor interest in 2011–2012, resulting in escalating property prices along this corridor. This ripple effect of speculative demand caused residential prices in the area to grow at a steep 13% CAGR in 2010–2012 even without the road being complete.

The situation is such that today approximately 9,000 units are in a limbo on the Dwarka Expressway due to lack of smooth connectivity. The repeated missed deadlines have tarred the image of the expressway and have made it a risky preposition for investment or end use. Insights suggest that approximately 40–50 per cent of the inventory on the expressway had been picked up by investors in 2011–2012 who are desperately trying to exit but are not getting buyers in the current slow market and incomplete expressway. Only ready to move in projects in sectors close to the NH-8 towards Gurugram, popularly referred to as New Gurugram, are garnering some interest from buyers on account of the social and physical infrastructure taking shape.

IN A NUTSHELL

The expressway is one example where the two most important stakeholders; government and developers have let down the buyers. So it becomes only fair that if we are straightjacketing the developers through policy initiatives like RERA for not keeping their promises, the government must also show accountability and take responsibility for the completion of the expressway that is the backbone around which the residential projects were planned.

Connectivity	Length	Observations	Delay	Impact	Revised expected completion
Kundli–Manesar–Palwal (KMP) Expressway	**136 km**	This controlled-access expressway will connect Kundli with Palwal via Manesar in Haryana. It will also connect important industrial centres in Haryana, and intersect four of India's busiest national highways: NH-1 near Kundli (Sonipat), NH-10 near Bahadurgarh, NH-8 at Manesar (Gurugram) and NH-2 near Palwal (Faridabad).	**8 years**	Industrial clusters around the belt affected the most	February 2019
Northern Peripheral Road (NPR)/ Dwarka Expressway or NH 248-BB	**26.6 km (revised from 18 km)**	Expressway is an eight-lane road, providing the shortest alternative between the new growth centres of Delhi and Gurugram. Starting from Dwarka, it will connect Palam Vihar and the forthcoming SEZs in Gurugram to join NH-8 near Kherki Dhaula.	**7 years**	After being awarded the national highway status, NHAI has changed the road alignment. Approximately 9,000 units stuck at different stages of construction. NHAI has written to the Delhi government to acquire 4.5 acres of land needed to complete the project on the Delhi side. Land identified near Manesar to shift the Kherki Daula Toll Plaza.	No revised date for delivery. NHAI starts acquiring land for the construction of part connecting Central Peripheral Road (CPR) that falls between NH-8 near Kherki Daula and NPR in Sector 88–90.
Southern Peripheral Road (SPR)	**16 km**	This 90 m wide road will connect Gurugram and Manesar with South Delhi through M G Road and the Faridabad Highway. It will connect with NH-8 about 1 km before the Kherki Daula Toll Plaza. The SPR has acquired the status of 'National Highway' and has been allotted number 236.	**7 years**	Approximately 20,000 units in different stages of construction affected	Expected completion 2018
Faridabad–Noida–Ghaziabad (FNG) Expressway	**56 km**	This expressway will connect Faridabad, Noida and Ghaziabad. An 8 km stretch, out of the 16 km that fall under the jurisdiction of Noida Authority, is complete.	**Work began in 1993**	After three decades and approximately 129 crores being spent, the project could be dropped by the authorities.	No clarity
16-lane Expressway	**8.3 km**	This 8.3 km, 16-lane, signal-free expressway will span between the Gateway Tower on NH-8 and Golf Course Extension in Gurugram.	**1 year**	Partially complete	Expected completion early 2018

NCR

RESIDENTIAL MARKET

68%

Decline in sales in 2017, since the peak in 2010

93%

Decline in launches in 2017, since the peak in 2010

- The year 2017 brought no cheer to the NCR residential market. New launches and sales dwindled further on the backdrop of slow sales velocity and the straightjacketing by policy initiatives such as Real Estate (Regulation and Development) Act, 2016 and the Goods and Services Tax (GST).

- Trends suggest that new launches in NCR have been on a constant decline since its peak in 2010 and have taken another nosedive in 2017. Piling up inventory, lack of consumer confidence due to litigations and infrastructure delays and policy initiatives such as RERA and GST are some of the major factors that have adversely affected market dynamics and have taken off steam of new project launches in the region.

- Having taken cognizance of the situation developers have cautiously restricted new launches in 2017, resulting in the thinnest annual supply observed in NCR. Registering a steep 56% drop in the number of units launched, NCR saw approximately 11,726 units launched in 2017 compared to 26,734 units in 2016.

- Affordable housing has been a major contributor to the new launches in NCR in 2017 indicating a move towards affordable options for homebuyers in the National Capital Region. The share of affordable housing has gone up significantly from 47% in 2016 to a steep 79% in 2017, displaying an inclination towards the less than ₹5 mn price bracket.

- On a half- yearly comparison, the new launches in NCR have come down to 6,926 units in H2 2017 from 9,273 units in H2 2016 registering a year-on-year (YoY) drop of 25%. However, there was a marked increase in the number of project launches in H2 2017 compared to H1 2017. This marginal increase

NCR MARKET SNAPSHOT

PARAMETER	H2 2017	Change YoY	2016	2017	Change YoY
Launches (housing units)	6,926	-25%	26,734	11,726	-56%
Sales (housing units)	20,465	21%	40,005	37,653	-6%
Price (wt. avg.)	-	-2%	4,250	4,165	-2%
Unsold inventory (housing units)	-	-13%	192,758	166,831	-13%
Quarters to sell	-	-	17.3	17.2	-
Age of unsold inventory (in quarters)	-	-	15	18.5	-

Source: Knight Frank Research

can be attributed to the developers cautiously releasing their supply post the readjustments made due to RERA and GST.

- Gurugram contributed significantly to the new launches in NCR in H2 2017, taking up 54% of the overall pie. Policy initiatives, such as the Haryana government's Affordable Housing Policy 2013, have incentivised developers to launch projects under ₹5 mn price bracket and Gurugram is proving to be the forerunner in this regard. 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 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. This is the second time after 2015 that affordable housing supply has entered the Gurugram market in such huge volumes, with noteworthy developers launching projects in sectors 36, 37D, 95, and 95A.

- New launches in Noida and Greater Noida have declined 77% and 76% YoY, respectively, in H2 2017 compared to the same period in 2016 even though the RERA authority in Uttar Pradesh has been instituted. Accumulating inventory and delayed projects in locations such Greater Noida West and Noida–Greater Noida Expressway have deterred developers from launching any new project. Adding to this, various developers in Noida–Greater Noida are also seeking investments from funds to complete their projects instead of launching new ones.

- Weighted average prices in the NCR residential market have corrected for the second time and have dropped by 2% in 2017 compared to 2016. The prices corrected for the first time in H1 2016 when the market registered a 4% YOY drop in quoted prices over 2015. The prices have not moved since and have touched 2013 levels, registering a significant drop of 9% from the peak in H2 2015.

- The market is slowly turning into a buyers' market, since on one hand the weighted prices have crumbled and seen time correction; on the other hand, developers are offering deep discounts in the range of 10–15% in a bid to attract the fence-sitting buyers.

- The changed market dynamics of NCR suggest that only ready to move in property have been able to attract buyers, and this proposition is made more lucrative with the implementation of GST, which is applicable on under-construction projects.

- This price reduction and discounts coupled with competitive home loan rates have helped in uplifting the market sentiments. On a yearly comparison, approximately 37,653 units were sold in NCR in 2017, registering a drop of 6% over the 2016 sales numbers. However, it is interesting to note that the second half of 2017 marks a significant uptick in sales with approximately 20,465 units being sold in H2 2017 over 16,913 units in 2016 registering a YoY increase of 21%. It is to be noted that the second half of 2016 was characterised by the effects of demonisation that had pulled down the overall sales sentiments in H2 2016; hence, it is too soon to attribute the upswing in sales as a market recovery indicator.

- In fact, the sales in H2 2017 is down 17% compared to the average sales of 24,707 units recorded across H2 2013, H2 2014 and H2 2015.

- Affordability and deep discounts have driven sales majorly in the micro markets of Greater Noida and Gurugram in H2 2017. Both these markets make up for a considerable 69% share of the overall sales in H2 2017. The 2 micro markets are offering projects that are in the sweet spot of less than ₹5 mn, which is attracting the buyers. Also, since most of the inventory is in the ready to move in stage in Gurugram and Greater Noida, the projects have garnered interest from homebuyers.

- The developers tried to push sales by way of deep discounts and offers such as "My Bid, My Home", assured return, no EMI till possession, and some developers even offered GST waivers. Other waivers include discounts on stamp duty and other statutory charges, white goods on booking, foreign trips, free maintenance and customised payment plans among others.

- Our survey findings suggest that many of the prominent developers in Gurugram have managed to clock in sales by way of these schemes that brought a decrease in the effective price of the unit. Another contributor to demand, in mainly Gurugram, is the supply coming in through the Government of Haryana's affordable housing policy, which has brought in the much needed less than 5 mn properties in the market. Demand in Greater Noida, on the other hand, was largely on the back of it being an established affordable market with majority of the properties priced below ₹5 mn.

- Demand in Noida has failed to impress in H2 2017. Though the market registers a 11% YoY increase in sales compared to H2 2016, market sentiments remain lukewarm.

- 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 8 quarters in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market.

- The QTS of NCR has moved within close ranges in the past six quarters and stands at 17 quarters at the end of 2017. This means that with the current sales velocity, the market will take close to 5 years to offload the current inventory, which is extremely high. The stress in the market is also captured in the age of unsold inventory, which has progressively increased from 10.4 quarters in 2014 to 18.5 quarters in 2017.

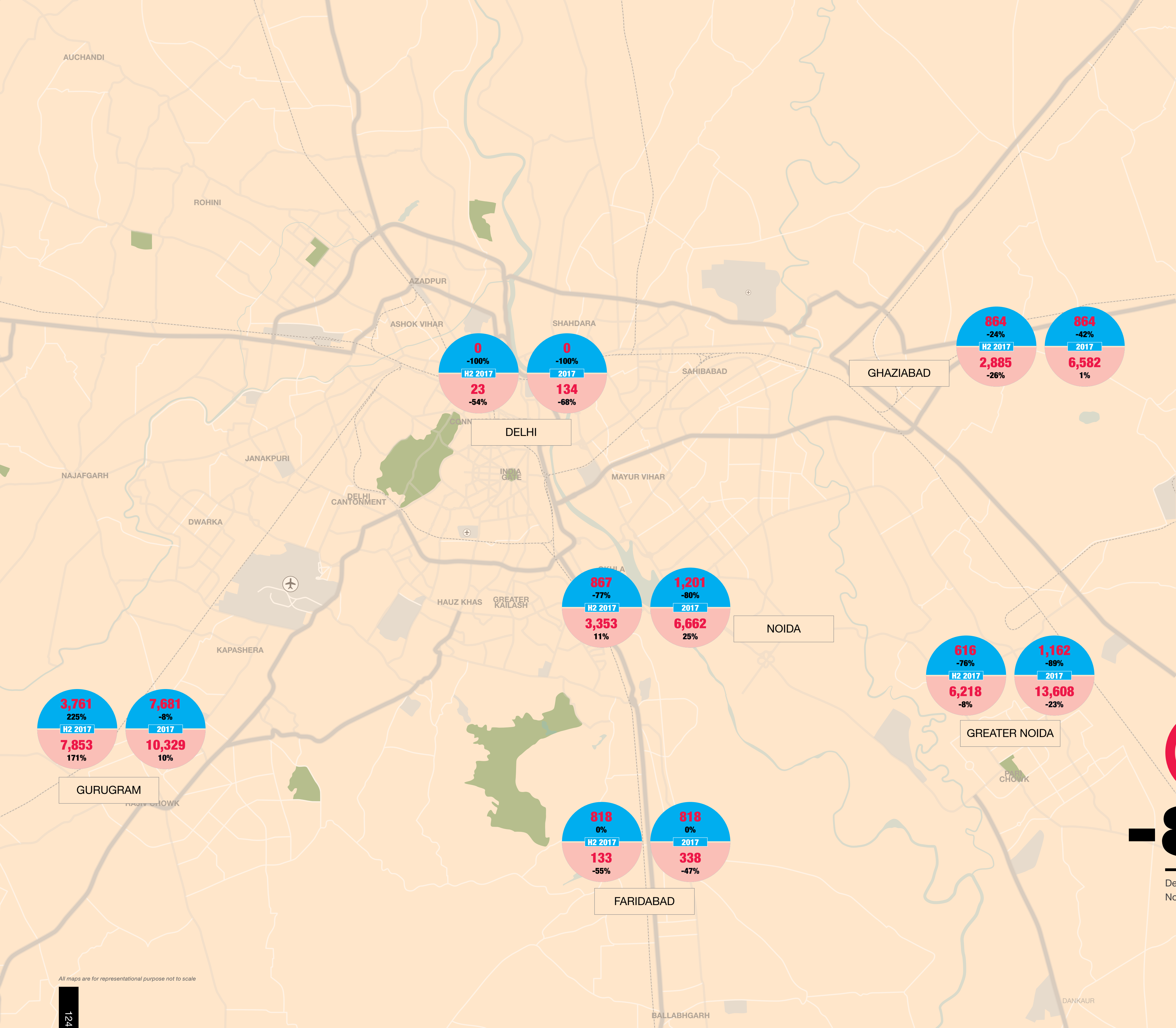
- Where previously Ghaziabad and Greater Noida were seen as NCR's better performing markets, with an NCR equivalent or less QTS, Gurugram has marked a significant improvement in its quarters to sell and has come down from 21 to 19 quarters in H2 2017. Properties less than ₹5 mn and deep discounts have all helped sales trickle in.

- This trickling sales coupled by lean new launches has consequently brought down the unsold inventory by 13% in H2 2017 compared to the same period in 2016. The unsold inventory stands at approximately 166,831 units as of December 2017. Greater Noida and Gurugram account for approximately 65% of the unsold inventory in NCR followed by Ghaziabad and Noida.

"The sales in H2 2017 is down 17% compared to the average sales of 24,707 units recorded across H2 2013, H2 2014 and H2 2015."

RESIDENTIAL LAUNCHES AND SALES

LAUNCHES (IN UNITS) SALES (IN UNITS) % CHANGE (YOY)



All maps are for representational purpose not to scale

"In the present day, developers want to concentrate on project completion to be able to sell a unit and get some liquidity. Apart from the waning demand, provisions of RERA and GST have also forced the developers to complete their ongoing projects instead of launching new ones."

-89%

Decrease in launches in Greater Noida in H2 2017

10%

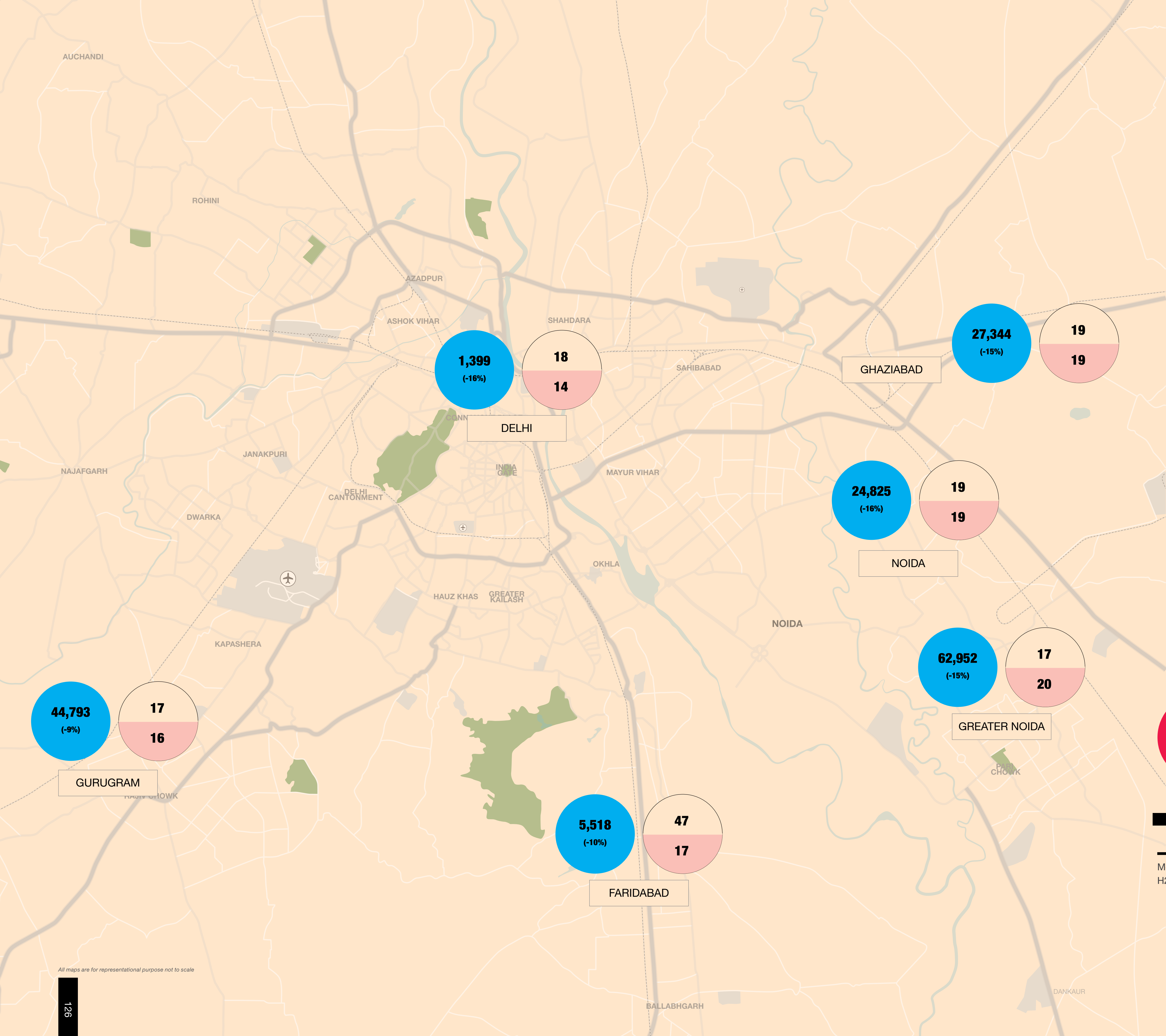
Increase in sales in Gurugram in 2017

RESIDENTIAL UNSOLD INVENTORY

UNSOLD INVENTORY (IN UNITS) QUARTERS TO SELL

AGE OF UNSOLD INVENTORY (IN QUARTERS)

AS ON 31 DEC 2017



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"Though the market saw its thinnest ever new launches, trickling sales has consequently brought down the unsold inventory by 13% in 2017 compared to the same period in 2016. The unsold inventory in NCR stands at approximately 166,831 units till December 2017 and will take more than four years to sell."

-13%

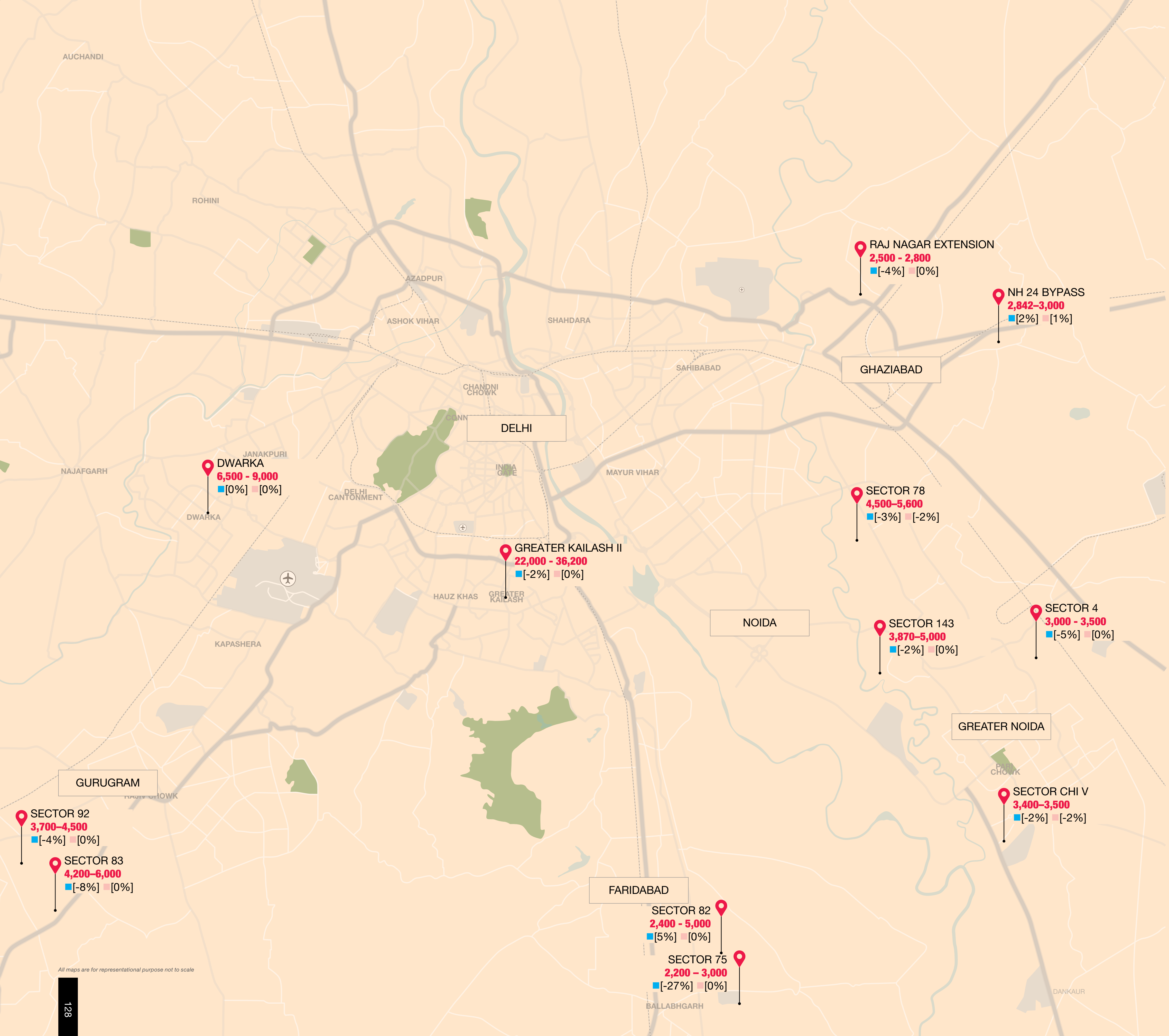
Movement in unsold inventory in H2 2017 alone

17

Quarters to exhaust unsold inventory

RESIDENTIAL PRICING

PRICE RANGE (IN ₹/ SQ.FT.) 12 MONTH CHANGE (YOY) 6 MONTH CHANGE (YOY)



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“The market is slowly turning into a buyers’ market, since on one hand the weighted prices have crumbled and seen time correction; on the other hand, developers are offering deep discounts in the range of 10–15% in a bid to attract the fence-sitting buyers.”

-8%

Price change in sector 83 in Gurugram in H2 2017

OFFICE MARKET

NCR MARKET SNAPSHOT

PARAMETER	H2 2017	Change YoY	2016	2017	Change YoY
New completions (mn sq ft)	2.3	28%	4.6	4.1	-11%
Transactions (mn sq ft)	3.2	-14%	7.3	6.5	-11%
Weighted Average Rental (INR/sq ft/month)	-	3%	72	75	4%
Stock (mn sq ft)	-	-	142	146	3%
Vacancy (%)	-	-	19%	17%	-

Source: Knight Frank Research

“Project delays were visible in the office market as well and as a result of this, new completions in NCR are at an all-time low. Only 4.1 mn sq ft of new completions hit the NCR market in 2017 registering a striking 65% decline from the peak in 2015.”

- The NCR office market failed to impress in 2017 with leasing activity pegged at 6.5 mn sq ft registering negative growth of 11 per cent compared to 2016. The overall plummet in the real estate sector has beset the office market. At the same time new completions are eluding the market. Approximately 4.1 mn sq ft of new completions entered the office market in 2017 as opposed to 4.6 mn sq ft in 2016.

- In terms of half-yearly trends, leasing saw a total of 3.2 mn sq ft of office space transactions in H2 2017, registering a YoY drop of 14 per cent compared to the same period in 2016. The second half of 2017 witnessed some new completions with approximately 2.3 mn sq ft coming in the market which marks a growth of 28% compared to the low base in the same period in 2016.

- Steady leasing and another lean year for new completions have nudged the overall vacancy levels down to 17 per cent in H2 2017 compared to 19% in H2 2016. However, vacancies in the micro-markets of Gurugram, such as DLF CyberCity and Golf Course Road have reached single digit.

- Gurugram yet again took a lion’s share from the overall leasing pie in 2017 followed by Noida and the secondary business district of Delhi. The commercial capital of NCR took up 59% of the total transaction pie of 6.5 mn sq ft, however considering the overall leasing activity, this was a YoY de-growth of 16 per cent compared to 2016. On a half-yearly comparison leasing activity in the second half of 2017 saw transactions to the tune of 2.1 mn sq ft in, which is a drop of 13 per cent compared to the same period in 2016. Some of the locations that witnessed major traction in Gurugram in H2 2017 are Golf Course Road and Golf Course Extension Road. Approximately 21% of the total transacted space of 2.1 mn sq ft was in these locations. Some of the prominent occupiers who leased space in Gurugram in H2 2017 are Amazon, CoWorks, Ernst & Young and Boston Consulting Group.

- Office leasing in Noida remained tepid in 2017 registering a de-growth of 3 per cent in 2017 compared to 2016. However, the percentage share of Noida in the total office take up remains within H2 2016 levels and stands at 22 per cent in H2 2017. Major leasing activity was observed in locations such as the Noida Greater Noida Expressway and Sector – 62. Occupiers such as NTT Data, Axtria, Datar India and Tavant Technologies were among companies that took up space in these locations.

- The share of technology sector has been on a decline in the past eight quarters, accounting for mere 18 per cent in 2017 – the lowest ever. Coupled with absence of any large deals IT sectors’ demand share has further reduced to 15 per cent in H2 2017 from an already low 28 per cent share in H2 2016. The macroeconomic change in the dynamics of the IT sector is responsible for its slowdown. The sector, which is increasingly emphasising on automation, is in turn leading to a slowdown in hiring by larger IT firms, thus translating into a dull demand and cautious moves for large office spaces. Also, it is to be noted that currently NCR does not have good quality IT supply which is also deterring demand.

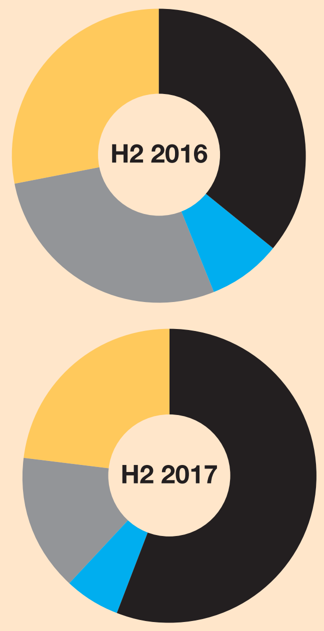
- Gaining on the back of the IT/ITeS sector, the other services sector takes up a share of 49 per cent from the overall transaction pie in 2017, a highest since 2015. Consequently the half yearly share of the sector records a 33 per cent jump in leasing in H2 2017 compared to the same period in 2016. Some of the major transactions in this sector in H2 2017 are from co-working occupiers such as WeWorks and CoWorks in Gurugram and Daftar India in Noida.

- The average transacted space in H2 2017 has come down to 25,520 sq ft compared to 35,103 sq ft in the same period in 2016. The market was characterized by small size deals in H2 2017 which is evident from the YoY 19 per cent growth in the number of deals in H2 2017 compared to the same period in 2016.

- The rental values have remained somewhat stable in most of the office markets in NCR in H2 2017. Rental values had already increased from ₹73 per sq ft per month in H2 2016 to ₹75 per sq ft per month in H1 2017 and have remained stable in the second half of 2017. However, quality office space in locations such as DLF CyberCity and Golf Course Road in Gurugram, and Noida -Greater Noida Expressway and Sector 62 in Noida witnessed a pressure on rentals due to limited supply.

“IT/ITeS share has shrunk to historical lows in NCR. Gaining on the back of the IT/ ITeS sector, the other services sector takes up a share of 49 per cent from the overall transaction pie in 2017, a highest since 2015.”

SECTOR-WISE SPLIT OF TRANSACTIONS



Industry	H2 2016	H2 2017
BFSI	8%	6%
IT/ITES	28%	15%
Manufacturing	28%	23%
Other Services	36%	56%

Note: BFSI includes BFSI support services

AVERAGE DEAL SIZE AND NUMBER OF DEALS

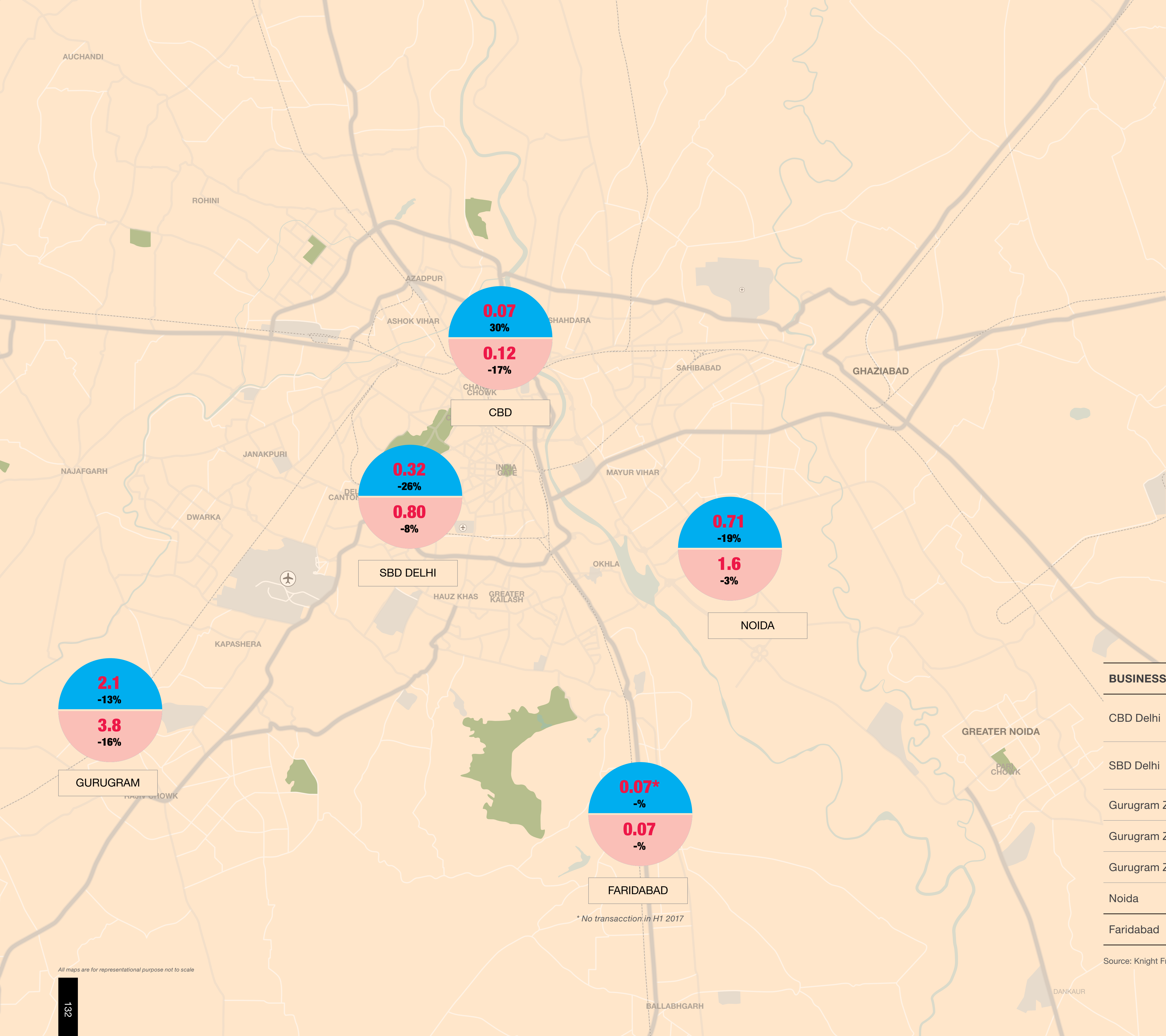
H2 2016	
35,103	Average Deal Size (sq ft)
107	Number of Deals

H2 2017	
25,520	Average Deal Size (sq ft)
127	Number of Deals

OFFICE TRANSACTIONS

H2 2017 | 2017 | % CHANGE (YOY)

IN MN SQ FT



* No transacction in H1 2017

All maps are for representational purpose not to scale

-16%

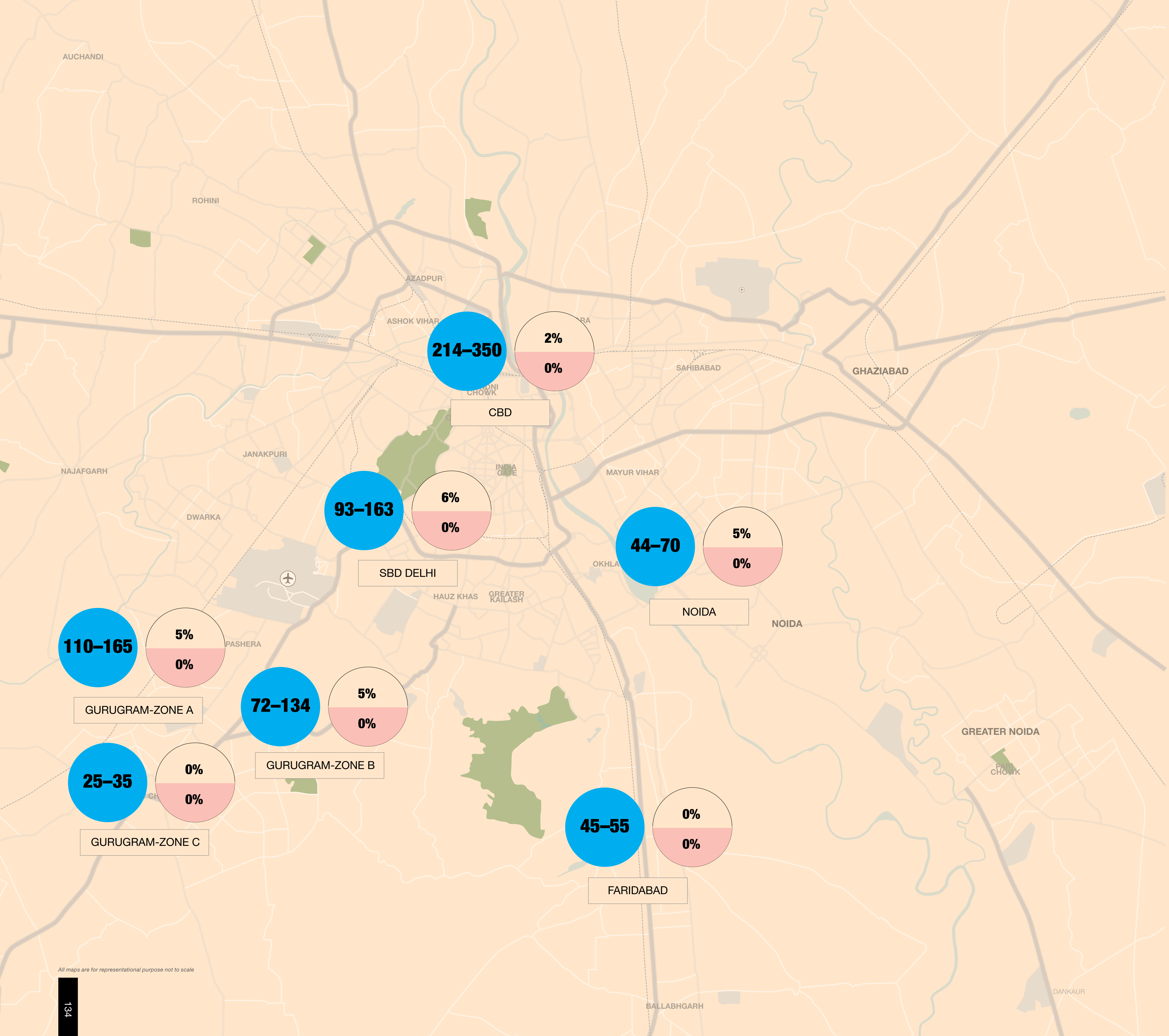
Drop in leasing activity in Gurugram in 2017

BUSINESS DISTRICT	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
Gurugram Zone A	M.G. Road, NH-8, Golf Course Road and Golf Course Extension Road
Gurugram Zone B	DLF CyberCity, Sohna Road, Udyog Vihar and Gwal Pahari
Gurugram Zone C	Manesar
Noida	Sectors 16, 18, 62, 63 and the Noida–Greater Noida Expressway
Faridabad	Sector Alpha, Beta, Gamma and Tech Zone

Source: Knight Frank Research

OFFICE RENTAL

RENTAL VALUE RANGE IN H2 2017 (INR/SQ FT/MONTH)
12 MONTH CHANGE
6 MONTH CHANGE



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"Rental values have remained stable in most of the office markets in NCR. However, lack of good quality space has put an upward pressure on rentals in key locations such as such DLF CyberCity and Golf Course Road in Gurugram and Noida -Greater Noida Expressway and Sector 62 in Noida."

5%

Increase in prices in DLF CyberCity in 2017

PUNE'S OFFICE MARKET : AN INVESTORS' PARADISE?

-By Nibodh Shetty

Pune's office market for long has been predominantly an information technology/ information technology enabled services (IT/ITES) industry-driven market. Of late, the occupiers in sectors other than IT have emerged as important consumers of office spaces. The primary reason for this has been the dearth of large office spaces as required by IT occupiers and the global headwinds faced by the IT industry. In the second half of this year, the share of IT/ ITES reduced from 44% in H2 2016 to 36% in H2 2017, there was significant growth in demand from other services sector which increased from 10% to 21% in the same period.

The office demand in Pune has been robust over the past 5 years averaging around 4.5 mn sq ft of space being transacted annually against an average annual supply of 2.7 mn sq ft. This has led to a drastic fall in vacancy levels from highs of 25% in 2012 to 5.8% in 2017. With no major supply expected to hit the market in the coming year, the vacancy levels are expected to dip further. This fall in vacancy levels is being reflected in the rental growth. The weighted average rent across the city has increased from INR 37/sq ft to INR 63/sq ft in the same period.

The city's shortage in office space supply gets accentuated further in the Grade-A office space supply. A large number of occupiers have been in the market searching for good quality buildings, but are unable to find a space suiting their requirements. This is driving the rentals in good quality buildings further up.

Not just the occupiers, even the investors are looking for such Grade-A assets having large spaces with quality tenants on long-term contracts to take position in. Due to fall in vacancy rates, increasing demand for good quality space from occupiers and rental growth, the early investors of office space in Pune who had purchased such quality assets have emerged the biggest gainers. They have started getting unprecedented exit opportunities at lucrative valuations.

According to recent media reports, a potential deal involving large office space assets in the western region of Pune is being negotiated at yields north of 7%, which was unimaginable until a few years back. This deal can set a benchmark for future deals in office space acquisitions. A large amount of office space supply is planned for 2019, but with elections due to be held in that year, the delivery timelines can be erratic. With no major large-scale supply coming up in 2018 and uncertainty of the supply coming up in 2019, the potential buyers/investors are expecting the shortage of office space to push up rents further and that rental appreciation would justify such high valuations. Declining vacancy levels, rising rentals, low upcoming supply, strong demand for space from occupiers and active interest from institutional investors are everything that an office space owner desires for and the Pune office market has started offering just that.

“According to recent media reports, a potential deal involving large office space assets in the western region of Pune is being negotiated at yields north of 7%, which was unimaginable until a few years back.”

PUNE

RESIDENTIAL MARKET

For the first time in this decade (2011–2020), there was a reduction in quoted prices in Pune. The weighted average prices in Pune residential market reduced by 7% YoY. In addition to the reduction in base prices, the developers are offering discounts in the form of freebies taking the effective discount to 12–13%.

-29%

Decline in sales in 2017 since peaks of 2012

-77%

Decline in launches in 2017 since peaks of 2012

PUNE MARKET SNAPSHOT

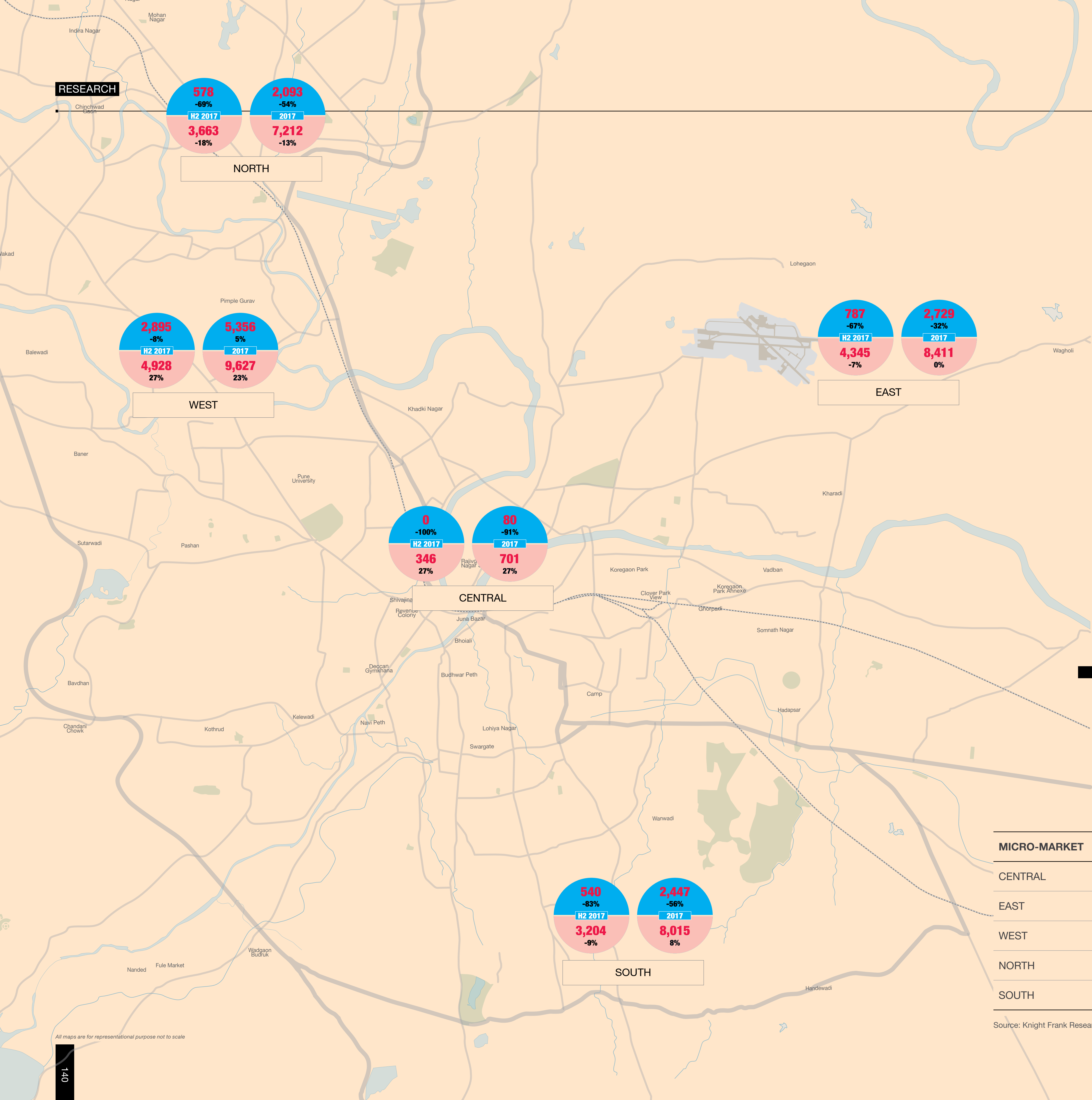
PARAMETER	H2 2017	Change YoY	2016	2017	Change YoY
Launches (housing units)	4,800	-58%	20,013	12,705	-37%
Sales (housing units)	16,486	-2%	32,488	33,966	5%
Price (wt. avg.)	-	-	4,860	4,508	-7%
Unsold inventory (housing units)	-	-	49,715	28,455	-43%
Quarters to sell	-	-	5.8	3.4	-
Age of unsold inventory (in quarters)	-	-	10.2	12.6	-

Source: Knight Frank Research

- Maharashtra is the only state that notified the RERA rules in a timely manner and subsequently implemented it statewide by 1 May 2017. With due seriousness, the window of registration for ongoing projects ended on 31 July 2017. Post which, projects were allowed registration, albeit with payment of penalty.
- RERA has created a new operating environment, which shall ensure protection of consumer interest by lifting higher the transparency and governance standards in the real estate industry. However, any meaningful positive impact on sales on account of renewed confidence has not been recorded in case of Pune in H2 2017. Sales were marginally lower at 2% year-on-year (YoY) in H2 2017. The annual trend however, is 5% increase on account of a better start in the first half. The consumer sentiment was dented by job losses in the IT industry.
- On the other hand, in the backdrop of stringent RERA regulations and lacklustre demand conditions in H2 2017, developers focussed their efforts on completing ongoing projects rather than launching new ones. Resultant impact on launches was a pronounced 58% decline in H2 2017 compared to H2 2016. This has ensured a severe contraction in the Pune residential market, where launches have now been curtailed by as much as 77% from the peak launch volume of 56,000 units recorded in 2012. During H2 2017, launches were down significantly in the mirco markets of East, North and South whereas launches in the West were down marginally. The under INR 2.5 mn category saw the maximum share of launches which happened in the North and East micro market locations like Chakan, Talegaon, Wagoli, Manjari, Hadapsar, etc.
- Further, the sales that happened in the market is mainly driven by ready to move-in or buildings nearing completion, which further deterred developers from launching new ones. With the IT industry facing significant headwinds, the demand for a second home from such professionals has suffered severely.
- For the first time in this decade (2011–2020), there was a reduction in quoted prices in Pune. The weighted average prices in Pune residential market reduced by 7% YoY. In addition to the reduction in base prices, the developers are offering discounts in the form of freebies taking the effective discount to 12–13%. Customers have responded to the price orelse the current sales numbers achieved in H2 2017 could have been lower. The upcoming IT markets of western Pune have performed better in H2 2017 recording a 27% rise in sales.
- Prior to GST, the taxes that a residential buyer purchasing a property in an under-construction building had to pay was 4.5% VAT and 1% Service Tax. Now the buyer would have to pay 12% GST. After considering all the set-offs and tax credits, there is some upwards pressure on prices, which has also been absorbed by the developers and not passed to the buyers.
- The discount offered in just launched or under-construction properties in early stages of construction were higher but the sales in those units were slow due to the preference of customers to purchase in ready to move-in or nearing completion properties.
- Faced by uncertainty of long-term job prospects in the IT industry, there was a shift in consumer preferences towards more affordable smaller ticket size units over larger ticket size units.
- Due to developers going slow on launches over the years, the developers' focus on clearing existing inventory, reduction in property prices and the customers' preference to purchase ready to move in properties, the overall unsold inventory levels during H2 2017 fell 43% YoY to 28,455 units down 60% from the peaks of H1 2014, while the QTS reduced from 5.8 quarters to 3.4 quarters. However, the QTS number to 3.4 quarters cannot be interpreted as a sign of a healthy market as they have come on back of reduction in launches rather than any uptick in sales and also the age of inventory has progressively increased from 8.5 quarters in 2014 to 12.6 quarters in 2017.

RESIDENTIAL LAUNCHES AND SALES

LAUNCHES (IN UNITS) SALES (IN UNITS) % CHANGE (YOY)



-83%

Drop in launches in South during H2 2017

27%

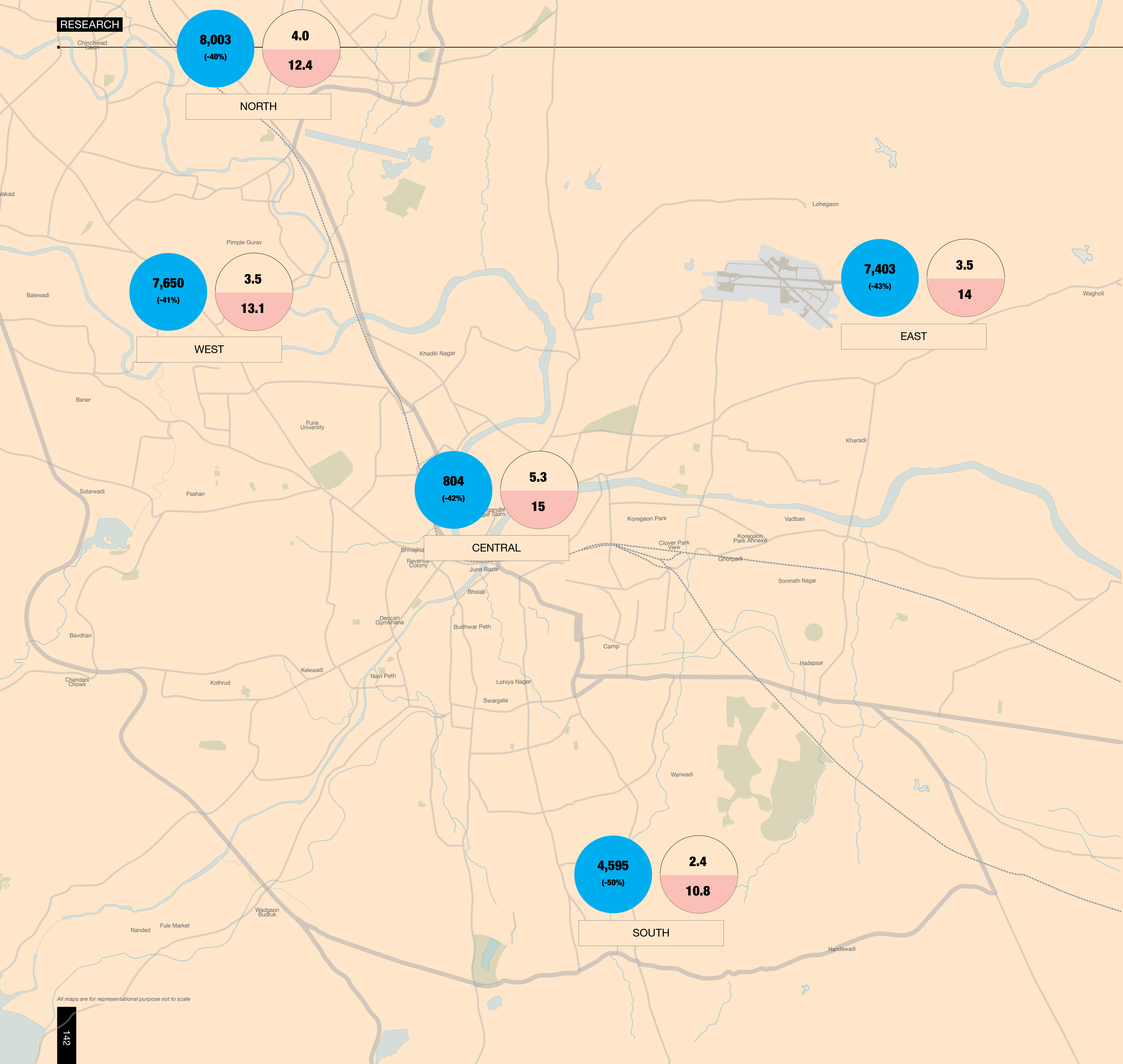
Increase in sales in West in H2 2017

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

Source: Knight Frank Research

RESIDENTIAL UNSOLD INVENTORY

UNSOLD INVENTORY (IN UNITS)(YOY)
QUARTERS TO SELL
AGE OF UNSOLD INVENTORY (IN QUARTERS)
AS ON 31 DEC 2017



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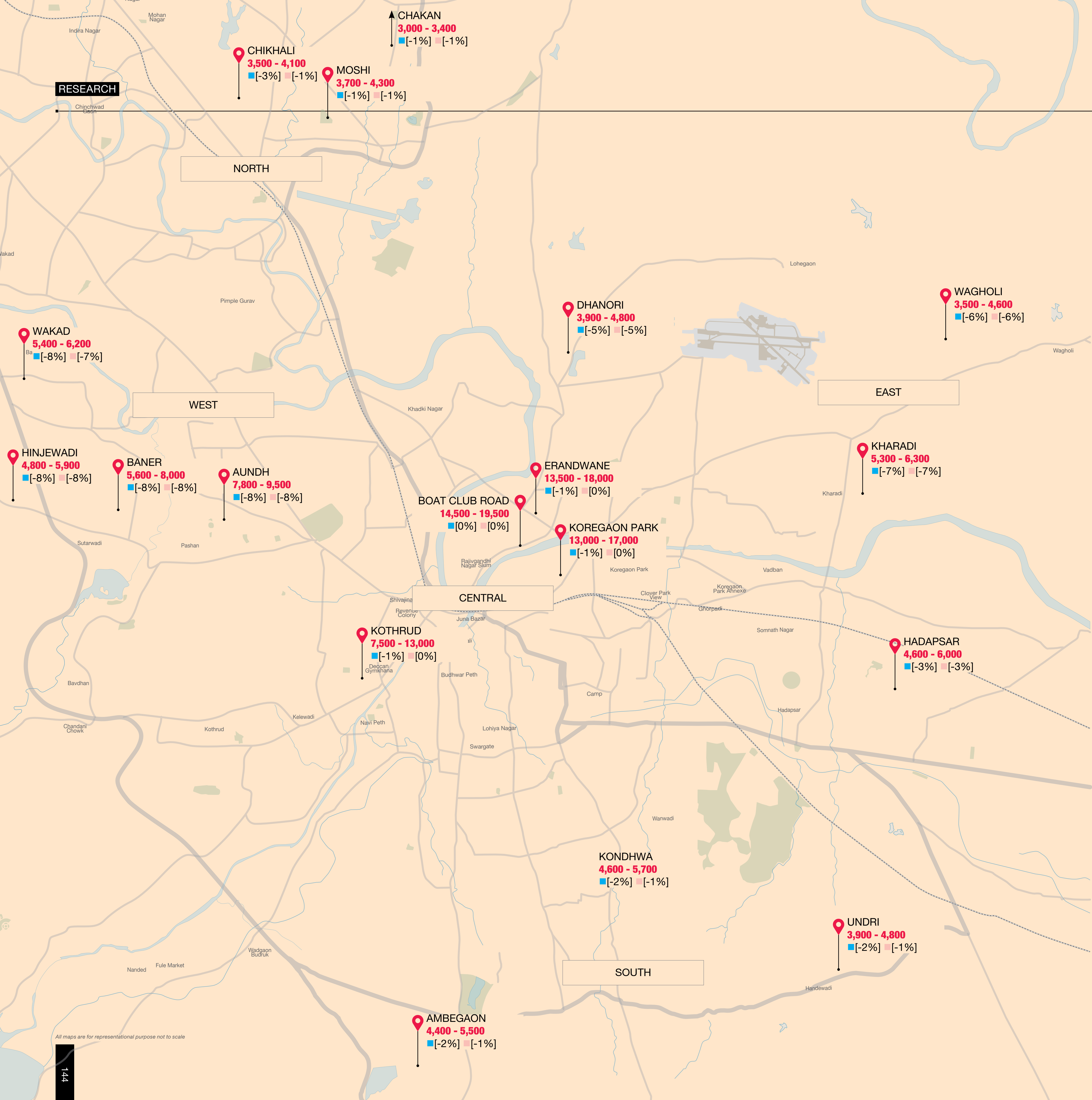
-50%

Drop in inventory in South in 2017

3.4

Quarters to exhaust unsold inventory



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RESIDENTIAL PRICING

PRICE RANGE (IN ₹/ SQ.FT.)
12 MONTH CHANGE (YOY)
6 MONTH CHANGE (YOY)

> **"Due to developers going slow on launches over the years, the developers' focus on clearing existing inventory, reduction in property prices and the customers' preference to purchase ready to move in properties, the overall unsold inventory levels during H2 2017 fell 43% YoY to 28,455 units down 60% from the peaks of H1 2014."**

-8%

Decline in prices in Hinjewadi in 2017

OFFICE MARKET

PUNE MARKET SNAPSHOT

PARAMETER	H2 2017	Change YoY	2016	2017	Change YoY
New completions (mn sq ft)	0.35	-71%	2.5	2.1	-17%
Transactions (mn sq ft)	2.73	51%	3.8	4.5	18%
Weighted Average Rental (INR/sq ft/month)	-	-	60	63	5%
Stock (mn sq ft)	-	-	60.0	62.1	3.5%
Vacancy (%)	-	-	8.2%	5.8%	-

Source: Knight Frank Research

- On the backdrop of RERA implementation in the state, developers' reorientation towards completion of residential projects ensured office space completions took a back seat. Declining by almost 71% in H2 2017, the new project completions were a meager 0.35 mn sq ft in this period. Overall, for the entire year of 2017, the decline in new project completion was 17% compared to 2016.

- However, on the demand side, transaction volumes registered a 51% growth in H2 2017 compared to H2 2016. The annual growth for 2017 was counted at 18%. This brings the Pune market back on track. Between 2013–16, the Pune office market used to record average transactions upwards of 4 mn sq ft annually. After a slight dip in 2016, the transactions have shown some resilience and have returned to those levels in 2017.

- The lower addition of new supply led to significant fall in vacancy rates from 8.2% to 5.8%. As a consequence of steady demand and slow addition of new supply, the weighted average rentals across Pune increased 5% year-on-year (YoY) to INR 63/sq ft/month in 2017.

- SBD East and SBD West witnessed the maximum growth in rentals in 2017. SBD West witnessed strong growth in transaction activity as well, followed by PBD East.

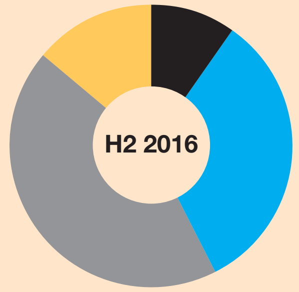
- Pune is predominantly an IT driven market. The IT industry had the largest share of transactions in H2 2017, but the slowdown in the IT industry due to global headwinds was visible in the drastic fall in share compared to the previous year. The share of IT/ITeS reduced from 44% in H2 2016 to 36% in H2 2017.

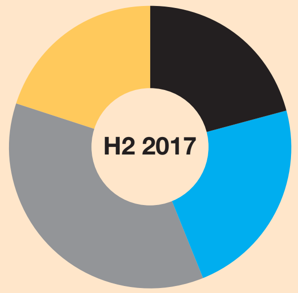
- The decline in share of IT/ITeS was compensated by growth in transactions in the Manufacturing and Other Services segments. The share of Manufacturing and Other Services increased from 14% and 10% in H2 2016 to 20% and 21%, respectively, in H2 2017.

- The number of deals increased from 44 in H2 2016 to 65 in H2 2017 and the average deal size increased from 41,136 sq ft in H2 2016 to 42,056 sq ft in H2 2017.

- There has been a shortage of good quality large office space supply in Pune. The occupiers are increasingly finding it difficult to find a space suiting their requirements and some transactions are being held up for the same reason. With no major supply expected to come up in 2018, the effects of this shortage would reflect significantly on the vacancy rates and the rental growth in Pune in 2018.

SECTOR-WISE SPLIT OF TRANSACTIONS





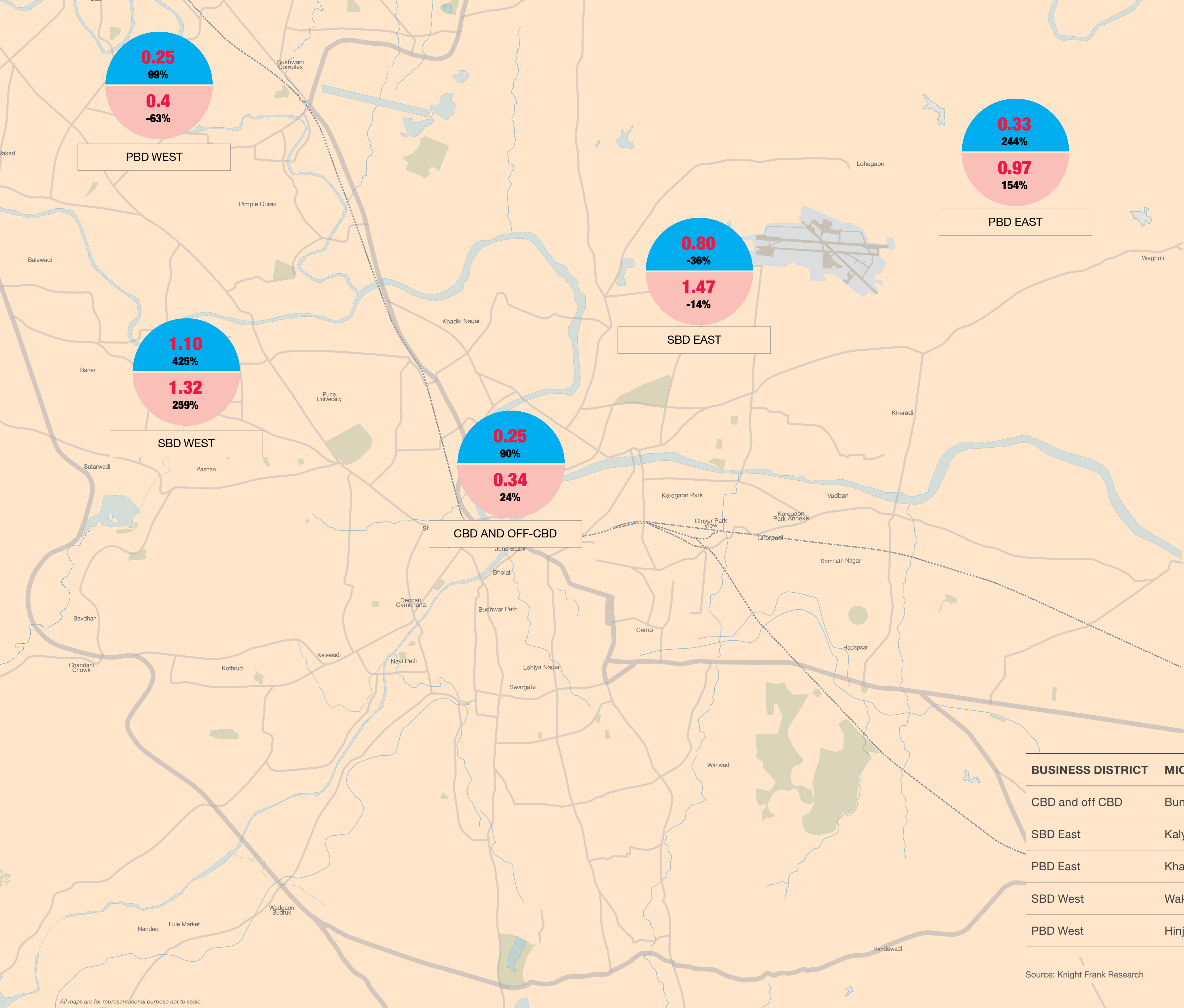
Industry	H2 2016	H2 2017
BFSI	32%	23%
IT/ITES	44%	36%
Manufacturing	14%	20%
Other Services	10%	21%

Note: BFSI includes BFSI support services

AVERAGE DEAL SIZE AND NUMBER OF DEALS

32,000
Average Deal Size (sq ft)
H2 2016
44
Number of Deals

42,086
Average Deal Size (sq ft)
H2 2017
65
Number of Deals



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OFFICE TRANSACTIONS

H2 2017 | 2017 | % CHANGE (YOY)

IN MN SQ FT

1.1 mn sq ft

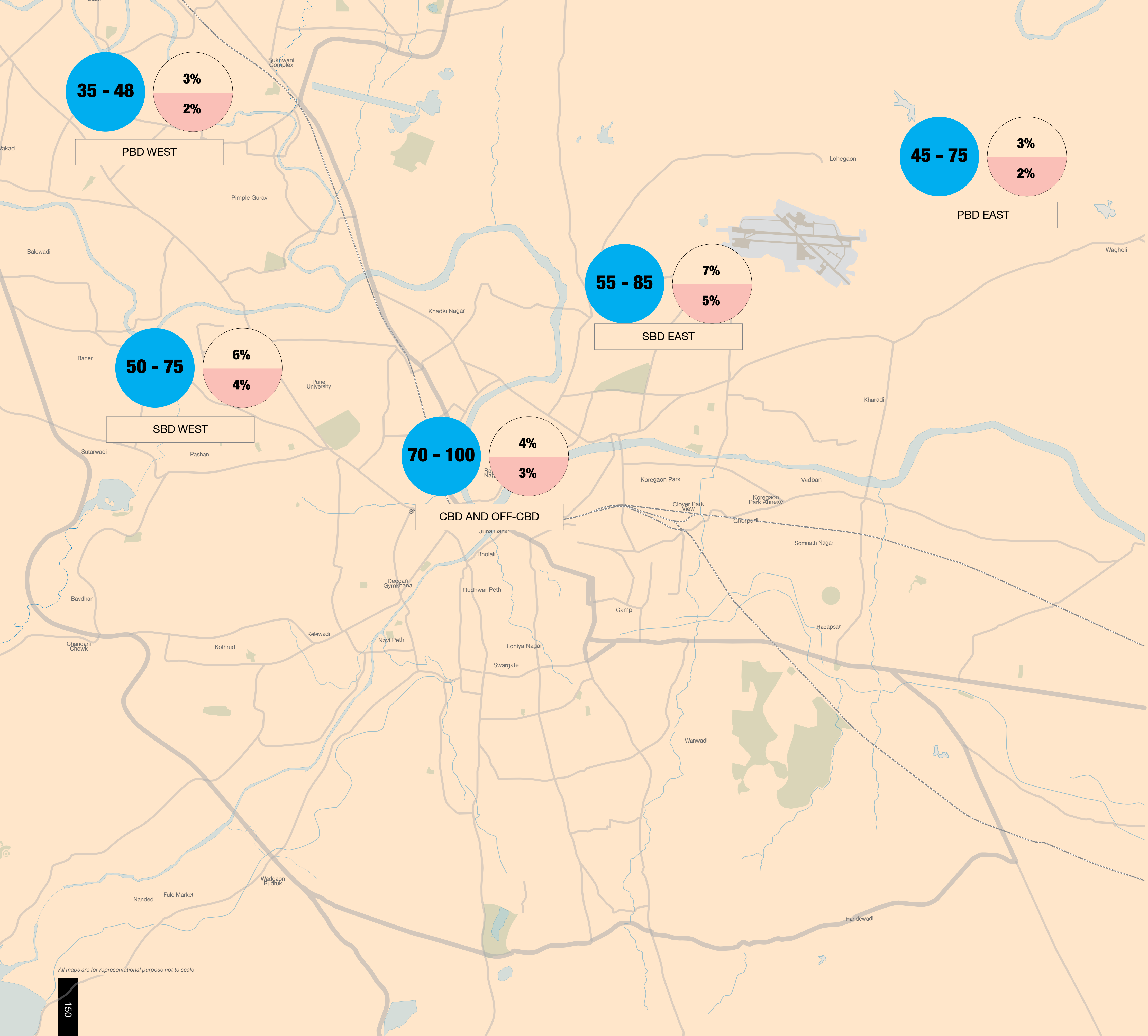
Office space transacted in SBD West in H2 2017

BUSINESS DISTRICT	MICROMARKETS
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

Source: Knight Frank Research

OFFICE RENTAL

RENTAL VALUE RANGE IN H2 2017 (INR/SQ FT/MONTH)
12 MONTH CHANGE
6 MONTH CHANGE



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6%

Growth in rentals in SBD West in 2017

7%

Growth in rentals in SBD East in 2017

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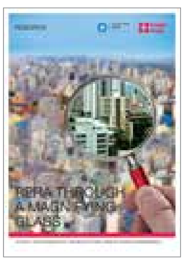
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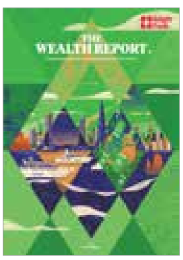
A MAGNIFYING GLASS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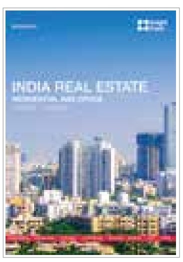
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