

India Residential Market Update

–Q1 2021



2020 was the most volatile year on record as a residential market already struggling for survival was forced to deal with a collapse in residential demand caused by the pandemic induced lockdowns in Q2 2020. It seemed unlikely that the subsequent economic fallout would allow market demand to revive in any meaningful way. However, once the initial panic subsided due to our improving understanding of the fight against the pandemic, economic activity resumed, and market forces rationalized over the latter half of the year.

Measures such as the moratorium on loans and an extension of RERA completion deadlines allowed developers to survive immediate financial capitulation, but only a revival in homebuyer demand could make a material impact on developers' fortunes. The broad-based income disruption caused by the pandemic weighed heavy on market sentiment. However, homeownership has traditionally been a coveted aspiration of the average Indian and the acute loss of security felt by the masses during the worst of the pandemic only reinforced this

sentiment. That, coupled with home loan interest rates at multi-decade lows of sub 7%, a substantial correction in apartment prices and the stamp duty cuts introduced by the Maharashtra state government, eventually seem to have convinced homebuyers that this was an opportune time to buy into the market.

Quarterly sales volumes have steadily improved since Q2 2020 and have surpassed the 2019 pre-COVID quarterly sales average in Q1 2021. Considering that this is the second consecutive quarter to cross the 2019 quarterly sales average, we believe that the market is recovering well, if not having done so already. 71,963 units were sold during Q1 2021, 44% more than in Q1 2020. This healthy growth in sales also encouraged developers to launch new projects which is reflected in the 76,006 units launched during the quarter, a substantial growth of 38% YoY.

Table 1:
Launches

Market	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q1 2021 YoY Growth %	Q1 2021 as % of 2019 Qtr Average
Mumbai	1,011	8,389	18,515	31,125	39%	156%
Pune	785	6,721	14,836	18,042	43%	162%
Bengaluru	1,843	4,720	4,403	7,467	-17%	88%
Chennai	-	2,547	1,167	2,981	-15%	103%
Hyderabad	1,420	1,234	7,170	9,349	211%	277%
Ahmedabad	525	1,451	3,294	3,977	89%	138%
NCR	-	4,110	4,292	1,626	14%	28%
Kolkata	-	1,934	1,356	1,439	68%	102%
Total	5,584	31,106	55,033	76,006	38%	136%

Source: Knight Frank Research.

Note: Blanks denote negligible numbers.

Key Takeaways

Mumbai and Pune have seen a sharp resurgence in sales supported by the limited period stamp duty cut.

Wider adoption of longer-term of remote working strategies in IT dominated markets provided a further boost to sales in Q1 2021, as seen prominently in Hyderabad.

Pricing power is gradually coming back based on the QoQ price growth rate in Q1 2021. Mumbai was the only city that saw average prices fall QoQ during this period.

Table 2:
Sales

Market	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q1 2021 YoY Growth %	Q1 2021 as % of 2019 Qtr Average
Mumbai	2,687	7,635	22,407	23,752	49%	156%
Pune	2,235	4,918	11,952	13,653	75%	166%
Bengaluru	3,484	4,912	6,490	10,219	18%	85%
Hyderabad	974	1,609	3,651	6,909	81%	170%
NCR	-	6,147	9,641	6,731	24%	63%
Chennai	-	3,085	2,588	4,058	36%	96%
Kolkata	-	3,921	2,054	3,596	22%	128%
Ahmedabad	252	1,176	2,810	3,045	34%	73%
Total	9,632	33,403	61,593	71,963	44%	117%

Source: Knight Frank Research.

Note: Blanks denote negligible numbers.

The increasing sales volumes have also arrested the intensity of the YoY fall in residential prices of most markets while Hyderabad and the NCR have actually seen a marginal growth in prices compared to a year ago. The incidence of developers giving indirect discounts/freebies has been a key factor in spurring sales in 2020 but this has been observed to have reduced significantly in Q1 2021. In fact, on sequential basis (QoQ), housing prices have remained stable in most cities and recorded an increase in the case of the southern cities of Chennai and Hyderabad.

Homebuyers are more inclined to acquire ready or near-ready inventory to minimise completion risk. This is reflected in the average age of inventory staying at 16.7 quarters in Q1 2021 compared to 15.9 quarters in the year ago period. This is also in line with developers focusing on liquidating older inventory before launching new products which has consistently helped reduce unsold inventory levels to 0.44 mn units in Q4 2020, 2% less than a year ago.

We believe that the residential market has displayed a better than expected recovery in Q1 2021, given the macro-economic challenges that continued to loom large during the period. The market seems to have factored in the very low likelihood of a complete lockdown as was seen last year due to the availability of COVID vaccine. Comparatively lower residential prices, attractive interest rates and higher household savings rate over the past year should support housing demand going forward. Developers' cash flows, however, remain under pressure and their resilience will be further tested as the loan moratorium as well as the extension of RERA completion timelines have now lapsed.

Table 3:

Average price change across markets during Q1 2021

Market	YoY Change	QoQ Change
Kolkata	-4%	0%
Pune	-3%	0%
Mumbai	-3%	-1%
Ahmedabad	-2%	0%
Chennai	-2%	8%
Bengaluru	-1%	0%
NCR	1%	0%
Hyderabad	1%	5%

Source: Knight Frank Research.

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