Knight Frank

India Real Estate

RESIDENTIAL AND OFFICE - JULY - SEPTEMBER 2021

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RESIDENTIAL MARKET

The COVID-19 pandemic has had a debilitating impact on most sectors by causing overall demand to wilt with excess capacities, debt traps and even bankruptcies. However, its ultimate impact on the real estate residential market has been quite paradoxical as it has reignited the need for personal space and housing in the homebuyers' mind. The acute loss of security felt by the masses during the worst of the pandemic has reinforced this sentiment. The pandemic imposed severe restrictions on human mobility and people had to stay indoors for the better part of the past 18 months. This vastly increased the perceived value of one's home in the overall scheme of things. The enhanced need of the homebuyer to own a home, lower house prices, interest rates at a record low of under 7% and stamp duty cuts in some of the key markets, have been the primary drivers of increased sales traction in 2021.

Even as the second wave of the pandemic slowed the momentum of the residential market during the April - June 2021 period, the market saw a smart rebound in Q3 2021 as mobility restrictions were relaxed and business started to return to normal. Sales grew by a considerable 92% YoY to 64,010 units during Q3 2021. Residential sales in this quarter even exceeded the pre-pandemic 2019 average quarterly sales by 4%, signifying a return to normalcy. Demand momentum was strong across markets in Q3 2021 with all markets reporting a YoY growth in sales. Mumbai and Bengaluru, which account for over half the inventory in the market, saw sales grow by 109% and 131% YoY respectively during this quarter.

The share of sales in the ticket size INR 5 - 10 mn grew to 35% in Q3 2021 compared to 32% a year ago. This can be attributed to the homebuyers' need to upgrade to larger living spaces with better amenities. The share of home sales in the <INR 5 mn ticket size category dropped to 43% in Q3 2021 from 45% a year ago as the income disruptions caused by the pandemic were more keenly felt by the lower income demographic.

Stamp duty cuts were a significant intervention applied by the state governments of Maharashtra, Karnataka and West Bengal to boost residential sales. The stamp duty cut in Maharashtra was effective till March 2021 and sparked a sharp recovery in sales volumes in Mumbai and Pune in the given period. After a lull in Q2 2021, sales have started

Key Takeaways

Hyderabad and Kolkata have seen the strongest recovery to pre-pandemic levels in terms of sales as well as launches.

The stamp duty cut in West Bengal caused sales in Kolkata to spike 75% YoY to 6,861 units in Q3 2021.

Bengaluru, India's IT-hub, has also seen a strong bounce back, in line with healthy growth in the IT sector.

The Mumbai and Pune markets which benefited from stamp duty cuts, have already crossed the quarterly average pre-pandemic sales levels of 2019.

Pricing power is gradually coming back based on the QoQ price growth rate in Q3 2021. None of the markets saw average prices fall QoQ during this period.

bouncing back in these two cities of Maharashtra in Q3 2021. The 2% cut in stamp duty in West Bengal which has been put into effect for the July 7th – October 30th period has proved to be an effective driver for sales in the Kolkata market. Sales traction was particularly strong in Kolkata during Q3 2021 as it recorded the highest level of quarterly sales since 2018. The stamp duty cut in Karnataka (in force since April 2020) differs in scope compared to those in Maharashtra and West Bengal as it is applicable only to housing with ticket sizes under INR 4.5 mn in the current version.

Developers have responded well to the shift in homebuyer sentiment, launching new projects to capitalize on this surge in demand. New launches have grown at a brisk 90% YoY during Q3 2021 with all markets showing a healthy growth in supply. As with sales, the units launched in Q3 2021 exceeded the 2019 pre-pandemic quarterly average by 6%.

In order to push sales, developers had pursued an aggressive pricing strategy over the year with spot discounts, finance deals, stamp duty waivers and other freebies to entice buyers. This incidence has been observed to have reduced in Q3 2021 as the price decline in most markets has been arrested. Markets such as Chennai, Hyderabad and Kolkata have seen prices increase marginally during the quarter.

Table 1:
Launches

Market	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q3 2021 YoY Growth %	Q3 2021 as % of 2019 Qtr Average
Hyderabad	7,170	9,349	7,363	9,256	650%	274%
Kolkata	1,356	1,439	756	3,128	62%	221%
NCR	4,292	1,626	1,317	8,983	119%	157%
Ahmedabad	3,294	3,977	2,249	4,257	193%	148%
Chennai	1,167	2,981	2,443	3,795	49%	132%
Bengaluru	4403	7467	5922	8797	86%	104%
Pune	14,836	18,042	2,435	8,615	28%	77%
Mumbai	18,515	31,125	4,747	12,136	45%	61%
Total	55,033	76,006	27,232	58,967	90%	106%

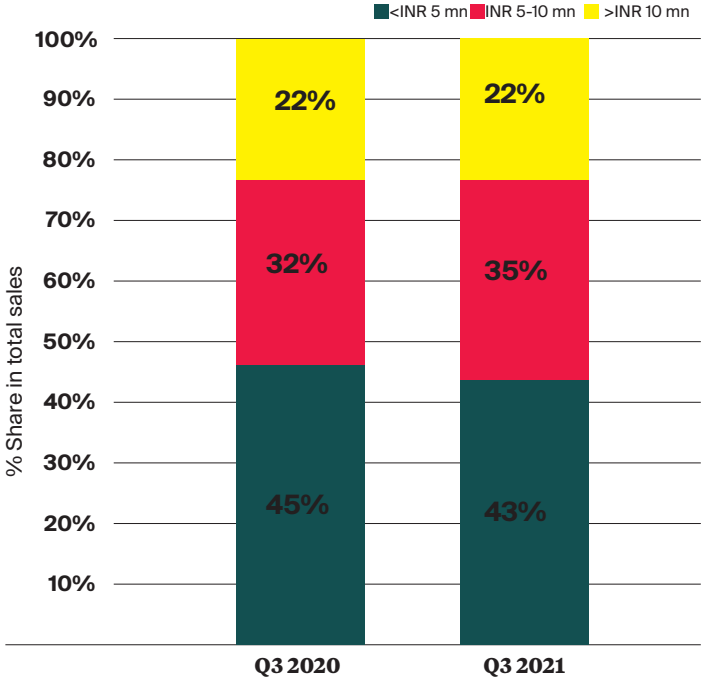
Source: knight Frank Research Note: Blanks denote negligible numbers

Table 2:
Sales

Market	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q3 2021 YoY Growth %	Q3 2021 as % of 2019 Qtr Average
Kolkata	2,054	3,596	1,519	6,861	75%	244%
Hyderabad	3,651	6,909	5,065	5,987	272%	147%
Pune	11,952	13,653	3,821	9,565	94%	117%
Mumbai	22,407	23,752	4,855	15,942	109%	105%
Bengaluru	6490	10219	4593	11337	131%	94%
Chennai	2,588	4,058	1,693	3,610	17%	85%
NCR	9,641	6,731	4,743	9,101	48%	85%
Ahmedabad	2,810	3,045	1,163	1,607	37%	38%
Total	61,593	71,963	27,453	64,010	92%	104%

Source: knight Frank Research Note: Blanks denote negligible numbers

Ticket size split comparison of sales during Q3 2020 and Q3 2021



Source: knight Frank Research

Table 3:
Average price change across markets during Q3 2021

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

Source: knight Frank Research

Homebuyers are more inclined to acquire ready or near-ready inventory to minimise completion risk. This is reflected in the average age of inventory reducing to 16.1 quarters in Q3 2021 from 17.1 quarters in the year ago period. This is also in line with developers focusing on liquidating older inventory before launching new products which has helped reduce unsold inventory levels to 0.44 mn units in Q3 2021, 2% less than a year ago.

The sales momentum that had picked up in the beginning of the year has sustained in Q3 2021. The market seems to have factored in the very low likelihood of a complete lockdown as was seen last year, due to the ample availability of the COVID vaccine. Comparatively lower residential prices, attractive interest rates and higher household savings rate over the past year should support housing demand going forward. While financial stress remains a significant factor for developers across markets, homebuyers' preference for grade A developers and their access to cheaper credit has positioned them well in this recovering market.

OFFICE MARKET

The office market has consolidated well in 2021 so far, despite a severe second wave of COVID infections and the looming threat of a third wave. Q3 2021 has been the strongest quarter of the year with 1.2 mn sq m (12.5 mn sq ft) of office space transacted, a 168% growth in YoY terms. The January – September period in 2021 saw 13% more transaction activity compared to the previous year. Corporate India started taking significant steps toward resuming work from office during this quarter with some Information Technology (IT) majors announcing their intention of returning to the workplace.

The increasing rate of vaccinations along with fewer restrictions on mobility have improved the business environment and aided a recovery to market traction levels seen in pre-pandemic times. The space transacted during Q3 2021 is 83% of the average quarterly volume transacted during 2019, the pre-pandemic year which incidentally, was a record year for office transactions. Among the larger markets, transacted volumes in Q3 2021 in Bengaluru and Chennai have exceeded their 2019 quarterly average.

The Information Technology sector was the largest consumer of space during the quarter and took up 34% of the area transacted. The heightened transaction activity from this sector is an extremely encouraging indicator and driver for office demand as it is the most prolific occupier category in the office market. The manufacturing sector accounted for 0.3 mn sq m (3.7 mn sq ft) or 29% of the total area transacted during Q3 2021. This can be attributed largely to a 1.5 mn sq ft transaction by a wireless technology hardware manufacturer.

The increased transaction volumes during Q3 2021 can be attributed in part to landlords' strategy of alluding to relaxed lease terms such as increased rent-free periods or rent discounts, which is reflected in the fall in rentals on YoY basis across most markets. However, the fall in rentals has reduced in the last few months.

New completions also picked up significantly with 1.1 mn sq m (11.9 mn sq ft) getting delivered in Q3 2021, a 67% growth YoY. Bengaluru, Pune and Hyderabad accounted for 73% of the new completions with Bengaluru seeing the most space delivered at 0.4 mn sq m (4 mn sq ft). For January - September 2021, new completions have grown by 6% compared to corresponding period of the previous year.

Key Takeaways

At 0.4 mn sq m (4.3 mn sq ft), the transaction volume in Bengaluru accounted for 34% of the space taken up during Q3 2021.

Rents remained stagnant in sequential terms for 4 of the 8 markets. For the remaining markets, the fall in rentals has reduced in the last few months.

NCR was the only market that experienced rent growth in YoY and sequential terms

Table 4:
Average rent growth across markets during Q3 2021

Market	YoY Change	QoQ Change
Bengaluru	-13%	0%
Pune	-11%	-2%
Mumbai	-9%	-3%
Ahmedabad	-5%	0%
Chennai	-3%	-3%
Kolkata	-2%	0%
Hyderabad	-2%	-1%
NCR	1%	1%

Source: knight Frank Research

Table 4:
Transactions in mn sq m (mn sq ft)

Market	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q3 2021 YoY Growth %	Q3 2021 as % of 2019 Qtr Average
Chennai	0.23 (2.4)	0.04 (0.4)	0.07 (0.8)	0.15 (1.6)	115%	123%
Bengaluru	0.59 (6.4)	0.31 (3.3)	0.02 (0.2)	0.4 (4.3)	273%	112%
NCR	0.16 (1.7)	0.15 (1.7)	0.07 (0.8)	0.18 (2)	123%	93%
Ahmedabad	0.07 (0.8)	0.02 (0.2)	0.02 (0.2)	0.03 (0.3)	420%	80%
Hyderabad	0.31 (3.3)	0.08 (0.9)	0.06 (0.7)	0.19 (2.1)	363%	65%
Pune	0.14 (1.5)	0.07 (0.8)	0.04 (0.4)	0.09 (1)	549%	63%
Mumbai	0.1 (1.1)	0.11 (1.2)	0.04 (0.4)	0.11 (1.2)	13%	48%
Kolkata	0.02 (0.2)	0.01 (0.1)	0.01 (0.1)	0.01 (0.1)	-40%	37%
All cities	1.63 (17.5)	0.8 (8.6)	0.34 (3.6)	1.16 (12.5)	168%	83%

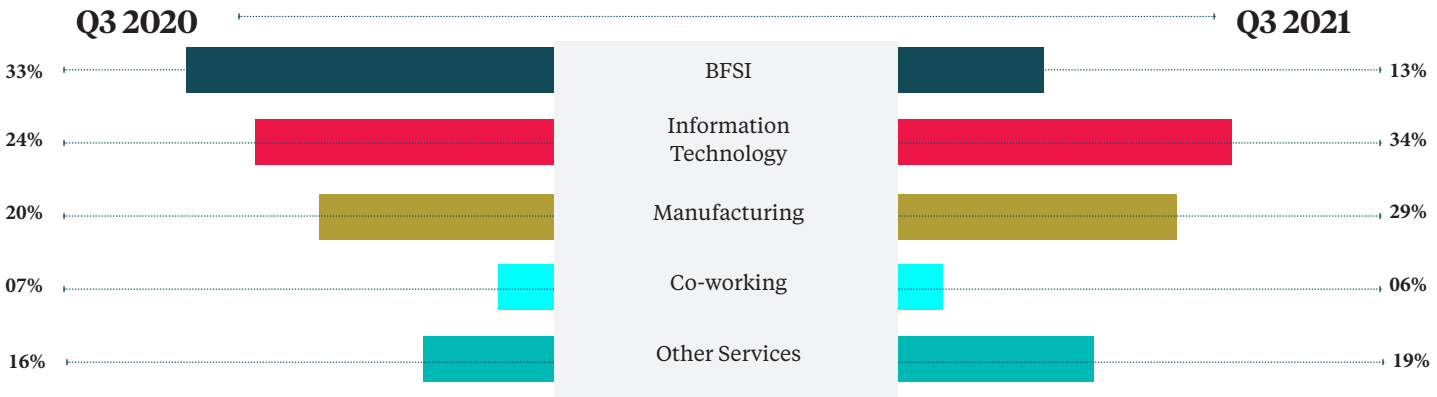
Source: knight Frank Research Note: Blanks denote negligible numbers

Table 5:
New Completions mn sq m (mn sq ft)

Market	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q3 2021 YoY Growth %	Q3 2021 as % of 2019 Qtr Average
Pune	0.05 (0.5)	0.16 (1.7)	0.11 (1.1)	0.23 (2.5)		240%
Bengaluru	0.4 (4.4)	0.31 (3.4)	0.17 (1.8)	0.38 (4)	277%	101%
Ahmedabad	0.09 (1)	0.1 (1.1)	0 (0)	0.1 (1.1)	-26%	92%
Hyderabad	0.12 (1.3)	0.07 (0.8)	0 (0)	0.2 (2.2)	-38%	81%
Chennai	0 (0)	0.01 (0.1)	0.06 (0.7)	0.02 (0.2)	258%	54%
Kolkata	0 (0)	0 (0)	0 (0)	0.06 (0.6)		43%
NCR	0.14 (1.5)	0.21 (2.3)	0.07 (0.8)	0.1 (1.1)	77%	34%
Mumbai	0.13 (1.4)	0.11 (1.2)	0.01 (0.1)	0.01 (0.2)	-50%	11%
All cities	0.93 (10)	0.98 (10.5)	0.42 (4.5)	1.11 (11.9)	67%	78%

Source: knight Frank Research Note: Blanks denote negligible numbers

SECTOR-WISE TRANSACTIONS SPLIT



Note: BFSI includes BFSI support services
Source: Knight Frank Research

Transaction volumes have been inversely correlated with the perceived intensity of the pandemic. Market activity peaked in Q4 2020, as new COVID-19 cases trended lower and the near-term visibility of a viable vaccine increased. Similarly, the second wave of infections impacted transacted volumes during Q2 2021 and the current recovery reflects the comparative easing of the impact of the pandemic. As things stand now, close to 17% of the population is already fully vaccinated and our vastly increased understanding of the pandemic should help avoid a panic situation in the market as was seen in 2020. Thus, it is quite plausible that the fourth quarter of 2021 could see heightened traction as seen in 2020, provided infection levels continue to remain low.

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Co-working

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