

India Real Estate

RESIDENTIAL AND OFFICE

Q1 JANUARY - MARCH 2023

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- ▶ The residential market has stepped into 2023 on a stable footing with the first quarter of the year registering sales of 79,126 units, 1% higher in YoY terms.
- ▶ Sales grew the most in the Hyderabad market at 19% YoY while sales in the larger markets of Mumbai and Bengaluru slipped slightly at -6% and -2% YoY.
- ▶ While sales volumes have been stable in Q1 2023, prices have grown significantly across most markets with Bengaluru, Mumbai and NCR growing by 7%, 6% and 3% YoY respectively.

The residential market has been on a strong recovery path over the past 18 months as the economy emerged from the pandemic's shadow. While low interest rates and comparatively low residential prices sparked the revival in demand, the momentum in residential sales sustained even as interest rates rose. The residential market breached a nine-year high in terms of annual residential sales in 2022 in an inflationary environment that caused increasing concerns on economic growth across the world. Thus, while the momentum looked strong, it remained to be seen if it would sustain in 2023 as well. The RBI has hiked the repo rate by 250 bps since May 2022 and the last 25 bps hike in Q1 2023 pushed home loan rates within striking distance of those existing in pre-pandemic 2019. Regardless, the residential market has stepped into 2023 on a stable footing with the first quarter of the year registering sales of 79,126 units, 1% higher in YoY terms. Sales volumes across most markets did not deviate much in YoY terms. Sales grew the

most in the Hyderabad market at 19% YoY while slipping slightly in the larger markets of Mumbai and Bengaluru at -6% and -2% YoY. Consistent with the upward trend seen in the past three quarters, the share of sales in the INR 10 mn and above ticket-size grew significantly to 29% in Q1 2023 compared to 25% 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 5-10 mn category also grew at a similar trajectory to 38% in Q1 2023 from 35% a year ago. The share of the INR 5 mn and below ticket-size, however, deteriorated from 41% in Q1 2022 to 32% in Q1 2023, as increasing prices and a comparatively more adverse impact of the pandemic on homebuyers in this segment continued to weigh on demand. Notably, the mid-size segment now constitutes a larger slice of the sales pie than the INR 5 mn and below category. Supply levels at 87,299 units were significantly elevated compared

to sales, 12% higher in YoY terms during Q1 2023 as developers continued to capitalize on the steady homebuyer demand, and consistently launched new projects to match the contemporary needs of the homebuyer.

While sales volumes have been stable in Q1 2023, prices have grown significantly across most markets with Bengaluru, Mumbai and NCR growing by 7%, 6% and 3% YoY respectively. This also marks the fifth consecutive quarter of YoY growth in prices across all markets. Even in sequential terms, prices have either remained steady

or grown across markets during the quarter. Homebuyers have been more inclined to acquire ready or near-ready inventory to minimise completion risk during past periods. However, the heightened demand over the past few quarters has depleted the stock of older inventory, and consumers are now increasingly willing to acquire newly launched properties at relatively lower prices. This is reflected in the average age of inventory decreasing to 16.7 quarters in Q1 2023 from 16.9 quarters during the year ago period. The unsold

inventory level has increased 6% in YoY terms as fresh development activity has intensified. However, this is not as much of a concern, as the Quarters to Sell (QTS) level has dropped to 7.2 quarters in Q1 2023 on the back of heightened sales, compared to 9.1 quarters a year ago. The QTS level represents the number of quarters required for the existing unsold inventory to be consumed at the current rate of sales. A reducing QTS level depicts a market where demand is gathering momentum.

Table 1: Launches

Market	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q1 2023 YoY Growth %	Q1 2023 as % of 2019 Qtr Average
Mumbai	23,908	18,079	24,889	25,735	9%	129%
NCR	15,843	10,265	24,242	14,486	12%	253%
Bengaluru	11,117	11,250	10,947	12,073	19%	143%
Pune	8,173	7,463	13,784	11,540	25%	103%
Hyderabad	11,100	11,000	11,491	10,986	7%	326%
Ahmedabad	5,428	6,188	4,236	5,349	8%	186%
Chennai	3,850	3,912	3,934	3,952	6%	137%
Kolkata	3,213	1,531	4,113	3,178	-8%	225%
Total	82,632	69,687	97,636	87,299	12%	156%

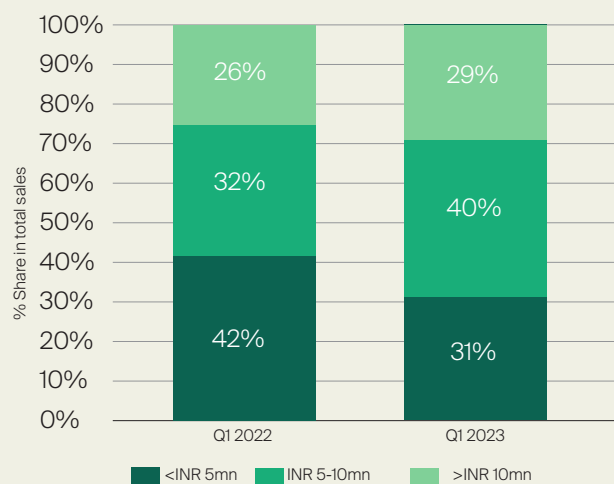
Source: Knight Frank Research,

Table 1: Sales

Market	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q1 2023 YoY Growth %	Q1 2023 as % of 2019 Qtr Average
Mumbai	22,652	21,450	19,519	20,300	-6%	133%
NCR	14,082	11,014	18,345	15,392	2%	144%
Bengaluru	13,014	13,013	13,673	13,390	-2%	111%
Pune	11,492	10,899	10,714	10,368	1%	126%
Hyderabad	7,700	7,900	8,453	8,300	19%	204%
Ahmedabad	4,092	3,887	1,978	4,225	3%	101%
Chennai	3,575	3,685	3,612	3,650	8%	86%
Kolkata	3,471	1,843	3,976	3,501	-3%	124%
Total	80,078	73,691	80,270	79,126	1%	129%

Source: Knight Frank Research,

Ticket size split comparison of sales during Q1 2022 and Q1 2023



Source: Knight Frank Research,

Average price change across markets during Q1 2023

Market	YoY Change	QoQ Change
Bengaluru	7%	2%
Mumbai	6%	1%
Chennai	5%	1%
Hyderabad	5%	0%
Pune	4%	2%
Ahmedabad	3%	3%
NCR	3%	1%
Kolkata	1%	1%

Source: Knight Frank Research,

The cumulative 250 bps repo rate hike over the past 10 months has caused banks to increase their home loan rates in the range of 150-170 bps. While significant, the prevailing median home loan rate of 8.9% as on February 2023 is still lower than the 9.2% level in pre-pandemic 2019. These hikes are no longer a shock to the market which continues to brace for further hikes as the RBI addresses inflation concerns. While India's 6.4% inflation level in February 2023 is still far from the RBI targeted 4% level, moderation in global crude and commodity prices from peak levels will lend some comfort on inflationary expectations.

Given the cautious but optimistic sentiment in the market, we do not believe that home loan rates approaching 2019 levels will be enough to subdue market momentum significantly. The performance of the broader economy and homebuyer sentiment will have a greater bearing on market momentum in 2023 as it dictates homebuyer income levels and demand much more directly.



Most office markets around the world have been grappling with the adverse impact of a slowdown in economic activity caused by unrelenting inflation and the threat of a looming recession. While the Indian economy has not been completely insulated from inflationary forces, timely rate hikes and other interventions by the Central Bank have ensured that inflation has not spiraled out of control and the economy has stayed on the growth path. With the GDP forecasted by the RBI to grow at 7% for FY 2023 and 6.4% for FY 2024, India has emerged as the fastest growing large economy in the world. This undercurrent of economic stability and growth is also reflected in the relatively stable occupier activity seen in the Indian office market.

The 1.05 mn sq m (11.3 mn sq ft) area transacted during Q1 2023 represents a modest 5% YoY growth. With a transacted volume of 0.33 mn sq m (3.5 mn sq ft), Bengaluru was the most active market during Q1 2023 and accounted for 31% of the total area transacted during the period. Occupier activity in Mumbai grew by a substantial 132% YoY in Q1 2023 backed by big-ticket leases signed by flex space, BFSI, education and e-commerce occupiers. The three largest markets accounted for 73% of the area transacted and saw positive growth in YoY terms. Information Technology dominated markets of Chennai,

► The 1.05 mn sq m (11.3 mn sq ft) transacted during Q1 2023 represents a modest 5% YoY growth.

► Occupier activity in Mumbai grew by a substantial 132% YoY in Q1 2023. The three largest markets accounted for 73% of the area transacted and saw positive growth in YoY terms.

► Flex spaces continued to find the occupier's favor and constituted 29% of the transacted space during Q1 2023. Flex space operators were particularly active in Bengaluru as the city accounted for a substantial 50% of the total space transacted by the sector.

► Rental levels have continued to stabilize or grow across all markets. Rental levels in the larger office markets of Bengaluru, Mumbai and NCR grew by 5%, 4% and 2% YoY respectively.

Hyderabad and Pune saw occupier activity decline in YoY terms during the quarter.

Flex spaces continued to find the occupier's favor and constituted 29% of the transacted space during Q1 2023. Flex space operators were particularly active in Bengaluru as the city accounted for a substantial 50% of the total space transacted by the sector. The Other Services sector companies were the most active while the Information Technology and BFSI sectors accounted for 16% each. The IT sector's 'back to office' transition continues to be supported by the sector's leadership teams, and progress in terms of increase in actual physical occupancy has been seen across markets. It is expected that the sector's share in transactions will approach its long-term quarterly average of 35-40% share, once the return to office is complete. While transaction volumes have grown, rental levels have also

continued to stabilize or grow in YoY and sequential terms across all markets in Q1 2023. Even the Kolkata office market, where rents remained stable while other markets experienced significant growth over the past three quarters, saw the rental level spike by a substantial 9% YoY during the quarter. Rental levels in the larger office markets of Bengaluru, Mumbai and NCR grew by 5%, 4% and 2% YoY respectively.

0.46 mn sq m (4.6 mn sq ft) of office space attained completion during Q1 2023. The NCR with 0.19 mn sq m (2 mn sq ft) accounted for 45% of the office space delivered during the quarter. The only other market which saw significant volume of office space come online was Bengaluru at 0.12 mn sq m (1.3 mn sq ft). The limited deliveries during the period helped keep vacancy levels across the eight markets at a healthy 16.4% compared to 17.3% a year ago.

Average rent change across markets during Q1 2023

Market	YoY Change	QoQ Change
Kolkata	9%	9%
Hyderabad	5%	0%
Bengaluru	5%	2%
Chennai	5%	0%
Pune	4%	0%
Mumbai	4%	1%
Ahmedabad	3%	3%
NCR	2%	0%

Source: Knight Frank Research,

Table 1: Transactions in mn sq m (mn sq ft)

Market	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q1 2023 YoY Change %	Q1 2023 as % of 2019 Qtr Average
Bengaluru	0.39 (4.2)	0.46 (5)	0.17 (1.8)	0.33 (3.5)	1%	93%
NCR	0.17 (1.8)	0.23 (2.4)	0.22 (2.4)	0.24 (2.6)	12%	119%
Mumbai	0.19 (2)	0.2 (2.1)	0.12 (1.3)	0.2 (2.2)	132%	89%
Hyderabad	0.15 (1.7)	0.08 (0.8)	0.25 (2.7)	0.08 (0.8)	-46%	26%
Chennai	0.11 (1.2)	0.17 (1.8)	0.15 (1.7)	0.08 (0.8)	-18%	62%
Pune	0.23 (2.4)	0.07 (0.7)	0.2 (2.1)	0.07 (0.8)	-8%	51%
Ahmedabad	0.07 (0.8)	0.06 (0.7)	0.02 (0.2)	0.04 (0.4)	-20%	103%
Kolkata	0.04 (0.4)	0.02 (0.3)	0.03 (0.3)	0.02 (0.2)	48%	64%
All cities	1.35 (14.6)	1.28 (13.8)	1.16 (12.5)	1.05 (11.3)	5%	75%

Source: Knight Frank Research,

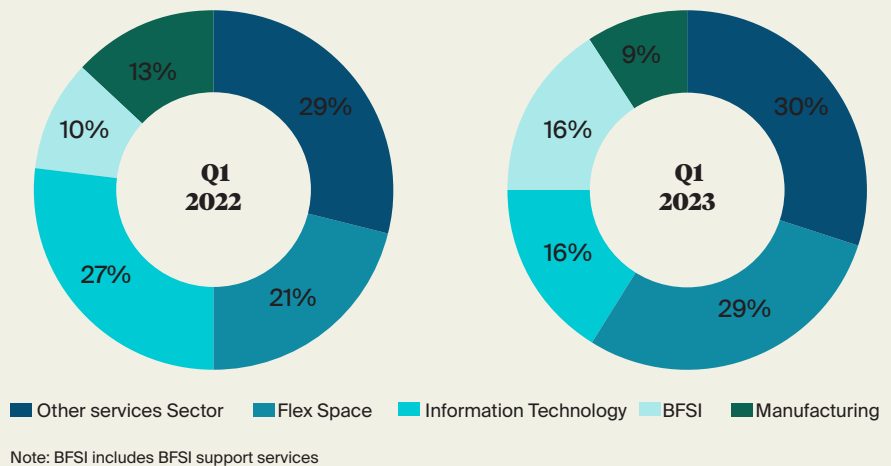
Table 1: New completions in mn sq m (mn sq ft)

Market	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q1 2023 YoY Change %	Q1 2023 as % of 2019 Qtr Average
NCR	0.14 (1.5)	0.16 (1.7)	0.34 (3.6)	0.19 (2)	99%	66%
Bengaluru	0.31 (3.3)	0.33 (3.5)	0.58 (6.3)	0.12 (1.3)	-47%	33%
Pune	0.13 (1.4)	0.13 (1.4)	0.03 (0.3)	0.06 (0.6)	-83%	61%
Chennai	0.07 (0.8)	0.1 (1.1)	0.03 (0.3)	0.03 (0.3)	-88%	64%
Ahmedabad	0.08 (0.8)	0.01 (0.1)	0.01 (0.1)	0.02 (0.3)	-50%	21%
Mumbai	0.05 (0.5)	0.05 (0.6)	0.04 (0.4)	0 (0)	-93%	3%
Hyderabad	0.36 (3.9)	0.31 (3.3)	0.25 (2.6)	0 (0)	-100%	0%
Kolkata	0.01 (0.1)	0 (0)	0 (0)	0 (0)	-100%	0%
All cities	1.14 (12.3)	1.08 (11.6)	1.27 (13.7)	0.42 (4.6)	-61%	30%

Source: Knight Frank Research. Note: Blanks denote negligible numbers.

With the pandemic almost completely in the rear-view mirror, it is the broader economic forces of inflation and GDP growth that have taken center-stage in shaping the fortunes of office markets around the world. The resilience depicted by the Indian office space market reflects the relatively stronger economic environment existing in the country today. 2023 has begun on a good note for the Indian office market, and the improving physical occupancy levels observed across the eight markets, also reported by REITs, are an encouraging portent for the year ahead.

Sector-wise transactions split in Q1 2022 and Q1 2023



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