# India Real Estate

RESIDENTIAL AND OFFICE | Q3 July - September 2023 | knightfrank.co.in/research


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- It is particularly noteworthy considering that it also constitutes an almost six-year high in quarterly sales volumes. Sales traction was higher across all markets in YoY terms.
- Price levels have also grown in tandem with demand across all markets in YoY terms. Price levels in Hyderabad saw the most significant rise at 11% YoY as focus increasingly shifts toward the development of premium high-rise properties.

The Indian economy continues to gain strength even as the outlook for the global economy remains ambivalent. Sentiments in the residential market have also improved dramatically since the beginning of 2022 with sales volumes during the year scaling a nine-year high. While low interest rates and comparatively low residential prices sparked a surge in demand in the beginning, the momentum in residential sales has sustained even as an inflationary environment forced the RBI to push up the Repo Rate by 250 bps to 6.5%, a level not exceeded since 2016.

Residential demand in Q3 2023 trended up significantly to 82,612 units, 12% higher in YoY terms and 7% higher compared to the preceding quarter. This is particularly noteworthy considering that it constitutes an almost six-year high in quarterly sales volumes. Sales traction was higher across all markets in YoY terms. Among the larger markets, the NCR stood out with a 27% growth in sales during the quarter. Kolkata was the market with the highest growth at 105% YoY, largely due to a pronounced base effect caused by the market transitioning into the RERA environment during Q3 2022. Sales volumes in Pune grew by 20% YoY while the rest of the markets experienced steady single digit growth during the quarter.

Consistent with the upward trend seen in the past seven quarters, the share of sales in the INR 10 mn and above ticket-size grew significantly to 35% in Q3 2023 compared to 28% 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 remained steady at 36% in Q3 2023. The share of the INR 5 mn and below ticket-size, however, deteriorated from 36% in Q3 2022 to 29% in Q3 2023, as increasing prices, home loan rates and the comparatively adverse impact of the pandemic on homebuyers in this segment continued to weigh on demand. In another first, the mid-size and premium segments each constituted a larger slice of the sales pie than the INR 5 mn and below category.

Supply levels at 85,549 units were

significantly elevated compared to sales, 23% higher in YoY terms during Q3 2023, as developers continued to capitalize on the steady homebuyer demand and consistently launched new projects to match the contemporary needs of the homebuyer.

Price levels have also grown in tandem with demand across all markets in YoY terms. Even in sequential terms, prices have held steady or grown in all markets. Price levels in Hyderabad saw the most significant rise at 11% YoY as focus increasingly shifts toward the development of premium high-rise properties.

Homebuyers have been more inclined to acquire ready or near-ready inventory to minimise completion risk seen 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 16.1 quarters in Q3 2023 from 17.6 quarters during the year ago period. The unsold inventory level has increased 8% in YoY terms as fresh development activity has intensified. However, this must be read in conjunction with the sales momentum to arrive at a better assessment of market health. 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. The current QTS level of 6.5 quarters which is significantly better than the 7.1 level a year ago, signifies that the overall market traction has improved despite the increase in unsold inventory levels.

### Table 1: Launches

| Market | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q3 2023 YoY Growth % | Q3 2023 as % of 2019 Qtr Average |
|---|---|---|---|---|---|---|
| Mumbai | 24,889 | 25,735 | 24,811 | 19,512 | 8% | 98% |
| NCR | 24,242 | 14,486 | 15,252 | 16,108 | 57% | 281% |
| Bengaluru | 10,947 | 12,073 | 11,469 | 13,353 | 19% | 158% |
| Hyderabad | 11,491 | 10,986 | 11,865 | 11,034 | 0% | 327% |
| Pune | 13,784 | 11,540 | 9,694 | 10,568 | 42% | 95% |
| Ahmedabad | 4,236 | 5,349 | 5,207 | 5,996 | -3% | 209% |
| Kolkata | 4,113 | 3,178 | 3,598 | 4,978 | 225% | 352% |
| Chennai | 3,934 | 3,952 | 4,170 | 4,000 | 2% | 139% |
| Total | 97,636 | 87,299 | 86,065 | 85,549 | 23% | 153% |

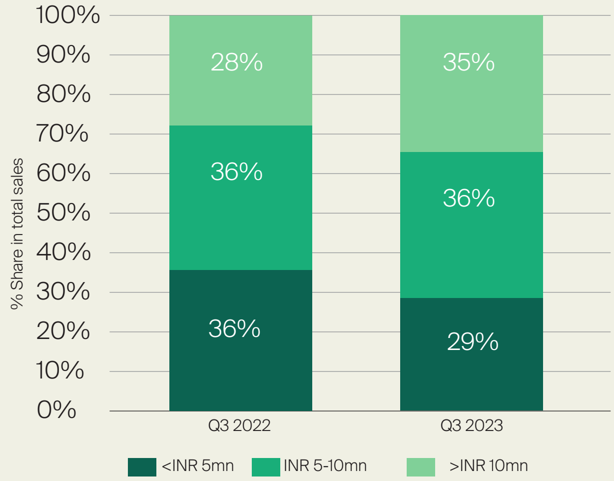
Source: Knight Frank Research,

### Table 2: Sales

| Market | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q3 2023 YoY Growth % | Q3 2023 as % of 2019 Qtr Average |
|---|---|---|---|---|---|---|
| Mumbai | 19,519 | 20,300 | 20,498 | 22,308 | 4% | 146% |
| NCR | 18,345 | 15,392 | 14,722 | 13,981 | 27% | 131% |
| Bengaluru | 13,673 | 13,390 | 12,857 | 13,169 | 1% | 110% |
| Pune | 10,714 | 10,368 | 11,302 | 13,079 | 20% | 159% |
| Hyderabad | 8,453 | 8,300 | 7,055 | 8,325 | 5% | 205% |
| Ahmedabad | 1,978 | 4,225 | 3,757 | 4,108 | 6% | 98% |
| Chennai | 3,612 | 3,650 | 3,500 | 3,870 | 5% | 91% |
| Kolkata | 3,976 | 3,501 | 3,823 | 3,772 | 105% | 134% |
| Total | 80,270 | 79,126 | 77,514 | 82,612 | 12% | 134% |

Source: Knight Frank Research,

Ticket size split comparison of sales during Q3 2022 and Q3 2023




Source: Knight Frank Research,

Average price change across markets during Q3 2023

| Market | YoY Change | QoQ Change |
|---|---|---|
| Hyderabad | 11% | 2% |
| Kolkata | 7% | 5% |
| Bengaluru | 6% | 2% |
| Mumbai | 6% | 0% |
| Pune | 5% | 2% |
| Ahmedabad | 4% | 0% |
| NCR | 4% | 1% |
| Chennai | 3% | 2% |

Source: Knight Frank Research,

While homebuyer demand has grown consistently over the past few quarters, home loan rates which presently equal those existing in 2019, are being seen as a possible impedement to demand. However, with inflationary forces subsiding, the RBI has shifted its stance to prioritise economic growth by maintaining policy rate and liquidity, which is supportive of real estate demand and bodes well for the market.

The underlying fabric of the market has altered significantly with the mid and premium segments constituting the bulk of sales and making up for the slack in demand in the affordable segment. While still evolving, we see this as a strengthening trend, with rising incomes, increasing number of nuclear families and numerous accessible and abundant financing options available to the homebuyer and the general consumer today.

While there are instances of developers enticing homebuyers with financing schemes and other freebies such as zero floor rise etc, their ability to move inventory remains strong, especially at the top-end of the market. Given the steady economic outlook and the improbability of further rate hikes, we do not believe that there are significant impediments to demand today. YTD sales till Q3 2023 point toward higher annual sales compared to the record levels seen in 2022, and the increasing volume of enquiries or pre-bookings as we head into the festive season bode well for the market.

# Office

Almost all office markets around the world are bearing the brunt of the slowdown in economic growth and the still persistent phenomenon of remote working which took root during the pandemic. While the Indian economy has not been completely insulated from the economic turbulence, timely interventions by the Central Bank and the Government have ensured that inflation has not spiraled out of control and the economy has stayed on the growth path. India has emerged as the fastest growing large economy in the world with the GDP growing at 7.2% YoY in FY 2023, and the RBI's estimate of a 6.5% growth for FY 2024 is expected to ensure that it continues to remain in a bright spot in a still uncertain global economic environment. This undercurrent of economic stability and growth is also reflected in the relatively strong occupier activity seen in the Indian office market.

The 1.50 mn sq m (16.1 mn sq ft) area transacted during Q3 2023 represents a healthy 17% YoY growth. With a transacted volume of 0.30 mn sq m (3.2 mn sq ft), Mumbai was the most active market during Q3 2023 and accounted for 20% of the total area transacted during the period. Notably, Mumbai, along with Pune, reached their highest quarterly transacted volumes since 2018, at 0.30 mn sq m (3.2 mn sq ft) and 0.28 mn sq m (3 mn sq ft) respectively.

While all the larger markets saw a growth in transacted volumes, demand in the Bengaluru market took a pause after a relatively strong showing in the first two quarters of the year. In Q3 2023, 0.19 sq m (2.1 mn sq ft) area was transacted in Bengaluru, translating to a YoY drop of 59%. The Hyderabad market also scaled a near three-year high in terms of quarterly transacted volumes on the back of the long-awaited supply which came online during the quarter. 0.27 mn sq m (2.9 mn sq ft) of office space was transacted in the Hyderabad market during Q3 2023.

While total transacted volumes have grown significantly, the underlying drivers have changed substantially during Q3 2023. The demand for flex spaces has contributed significantly to the recovery and stability of overall transaction volumes since the pandemic, however, the share of flex spaces has dropped to 11% in the current quarter. While operators refrained from taking up speculative spaces during Q3 2023, the need for an office space productivity specialist remains a strong premise for the flex space offering.

This vacuum in demand left by flex spaces was filled with heightened activity by occupiers setting up Global Capability

- Mumbai along with Pune reached their highest quarterly transacted volumes since 2018, at 0.30 mn sq m (3.2 mn sq ft) and 0.28 mn sq m (3 mn sq ft) respectively.
- Hyderabad market also scaled a near three-year high in terms of quarterly transacted volumes on the back of the long-awaited supply which came online during the quarter. 0.27 mn sq m (2.9 mn sq ft) of office space was transacted in the Hyderabad market during Q3 2023.
- GCCs constituted 44% of the demand during the quarter as opposed to an average of 21% since Q1 2022. Occupier activity in this segment was particularly strong in Pune and Hyderabad where as much as 81% and 75% of the total area transacted in these markets respectively, was accounted for by GCCs.

Centers (GCC) across markets. GCCs constituted 44% of the demand during the quarter as opposed to an average of 21% since Q1 2022. Occupier activity in this segment was particularly strong in Pune and Hyderabad where as much as 81% and 75% of the total area transacted was accounted for by GCCs. India-facing businesses continue to anchor the market and constituted 37% of the area transacted during Q3 2023.

While transaction volumes have grown, rental levels have also continued to stabilize or grow in YoY and sequential terms across all markets in Q3 2023. Rental levels in the larger office markets of Bengaluru, Mumbai and NCR grew by 5%, 3% and 2% YoY respectively. More significantly, this is the sixth consecutive quarter where YoY rent growth has been stable or positive for all markets.

1.1 mn sq m (11.5 mn sq ft) of office space attained completion during Q3 2023. Hyderabad with 0.49 mn sq m (5.3 mn sq ft) accounted for 46% of the office space delivered during the quarter. The only other market which saw significant volume of office space come online was Bengaluru at 0.37 mn sq m (4.0 mn sq ft). The vacancy level was marginally lower at 16.4% in Q3 2023 across the eight markets compared to 16.5% a year ago.

### Average rent growth across markets during Q3 2023

| Market | YoY Change | QoQ Change |
|---|---|---|
| Kolkata | 10% | 0% |
| Bengaluru | 5% | 2% |
| Chennai | 3% | 2% |
| Mumbai | 3% | 2% |
| Pune | 2% | 0% |
| NCR | 2% | 0% |
| Ahmedabad | 2% | 1% |
| Hyderabad | 0% | 0% |

Source: Knight Frank Research,

### Table 3: Transactions in mn sq m (mn sq ft)

| Market | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q3 2023 YoY Change % | Q3 2023 as % of 2019 Qtr Average |
|---|---|---|---|---|---|---|
| Mumbai | 0.12 (1.3) | 0.2 (2.2) | 0.1 (1.1) | 0.3 (3.2) | 52% | 132% |
| Pune | 0.2 (2.1) | 0.07 (0.8) | 0.14 (1.5) | 0.28 (3) | 319% | 193% |
| Hyderabad | 0.25 (2.7) | 0.08 (0.8) | 0.2 (2.1) | 0.27 (2.9) | 255% | 92% |
| NCR | 0.22 (2.4) | 0.24 (2.6) | 0.23 (2.5) | 0.23 (2.5) | 3% | 118% |
| Bengaluru | 0.17 (1.8) | 0.33 (3.5) | 0.32 (3.4) | 0.19 (2.1) | -59% | 54% |
| Chennai | 0.15 (1.7) | 0.08 (0.8) | 0.34 (3.7) | 0.18 (1.9) | 6% | 146% |
| Kolkata | 0.03 (0.3) | 0.02 (0.2) | 0.03 (0.4) | 0.03 (0.3) | 13% | 87% |
| Ahmedabad | 0.02 (0.2) | 0.04 (0.4) | 0.01 (0.1) | 0.02 (0.2) | -72% | 49% |
| All cities | 1.16 (12.5) | 1.05 (11.3) | 1.38 (14.8) | 1.5 (16.1) | 17% | 106% |

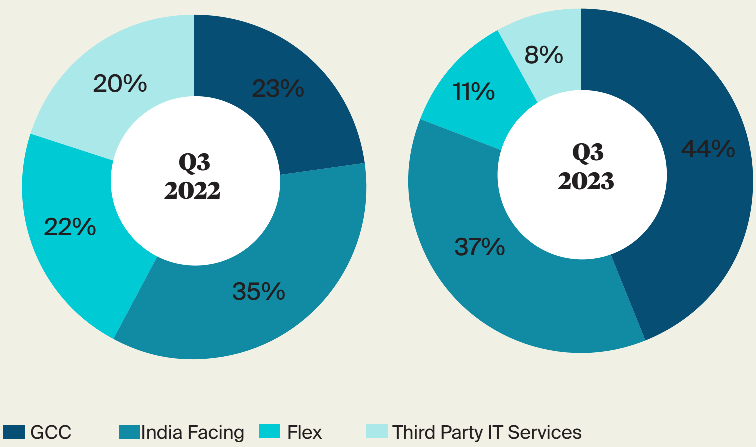
Source: Knight Frank Research,

### Table 4: New completions in mn sq m (mn sq ft)

| Market | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q3 2023 YoY Change % | Q3 2023 as % of 2019 Qtr Average |
|---|---|---|---|---|---|---|
| Hyderabad | 0.25 (2.6) | 0 (0) | 0.12 (1.3) | 0.49 (5.3) | 58% | 194% |
| Bengaluru | 0.58 (6.3) | 0.12 (1.3) | 0.47 (5) | 0.37 (4) | 14% | 99% |
| Kolkata | 0 (0) | 0 (0) | 0 (0) | 0.08 (0.8) | NA | 55% |
| Pune | 0.03 (0.3) | 0.06 (0.6) | 0.18 (1.9) | 0.04 (0.4) | -68% | 42% |
| Ahmedabad | 0.01 (0.1) | 0.02 (0.3) | 0 (0) | 0.03 (0.3) | 463% | 26% |
| Mumbai | 0.04 (0.4) | 0 (0) | 0.13 (1.4) | 0.03 (0.3) | -46% | 22% |
| NCR | 0.34 (3.6) | 0.19 (2) | 0.18 (1.9) | 0.02 (0.2) | -88% | 7% |
| Chennai | 0.03 (0.3) | 0.03 (0.3) | 0.18 (2) | 0.01 (0.1) | -87% | 33% |
| All cities | 1.27 (13.7) | 0.42 (4.6) | 1.25 (13.5) | 1.07 (11.5) | -1% | 75% |

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

### End-use split of transactions in Q3 2023




Source: Knight Frank Research

Notes:

1. India Facing: These refer to such transactions whose lessees/buyers are businesses which have an India focused business, i.e., no export or import.
2. Third Party IT services: These refer to transactions whose lessees/buyers are focused on providing IT and IT enabled services to offshore clients. They service multiple clients and are not necessarily owned by any of their clientele.
3. Global Capability Center (GCC): These refer to transactions whose lessees/buyers are focused on providing various services to a single offshore company. The offshore company has complete ownership of the entity that has transacted the space.
4. Flex Space: These refer to transactions by companies that specialise in providing comprehensive office space solutions for other businesses along with the benefits of flexibility of tenure, extent of services provided and the ability to scale higher or lower as required.

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. Transaction volumes during the January to September 2023 period have exceeded January to September 2022 levels by 8%. Given the strengthening sentiments in the office market and improving physical occupancy levels, transaction volumes should be on course to close out the calendar year on a positive note as well.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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INDIA WAREHOUSING REPORT


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