

India Real Estate

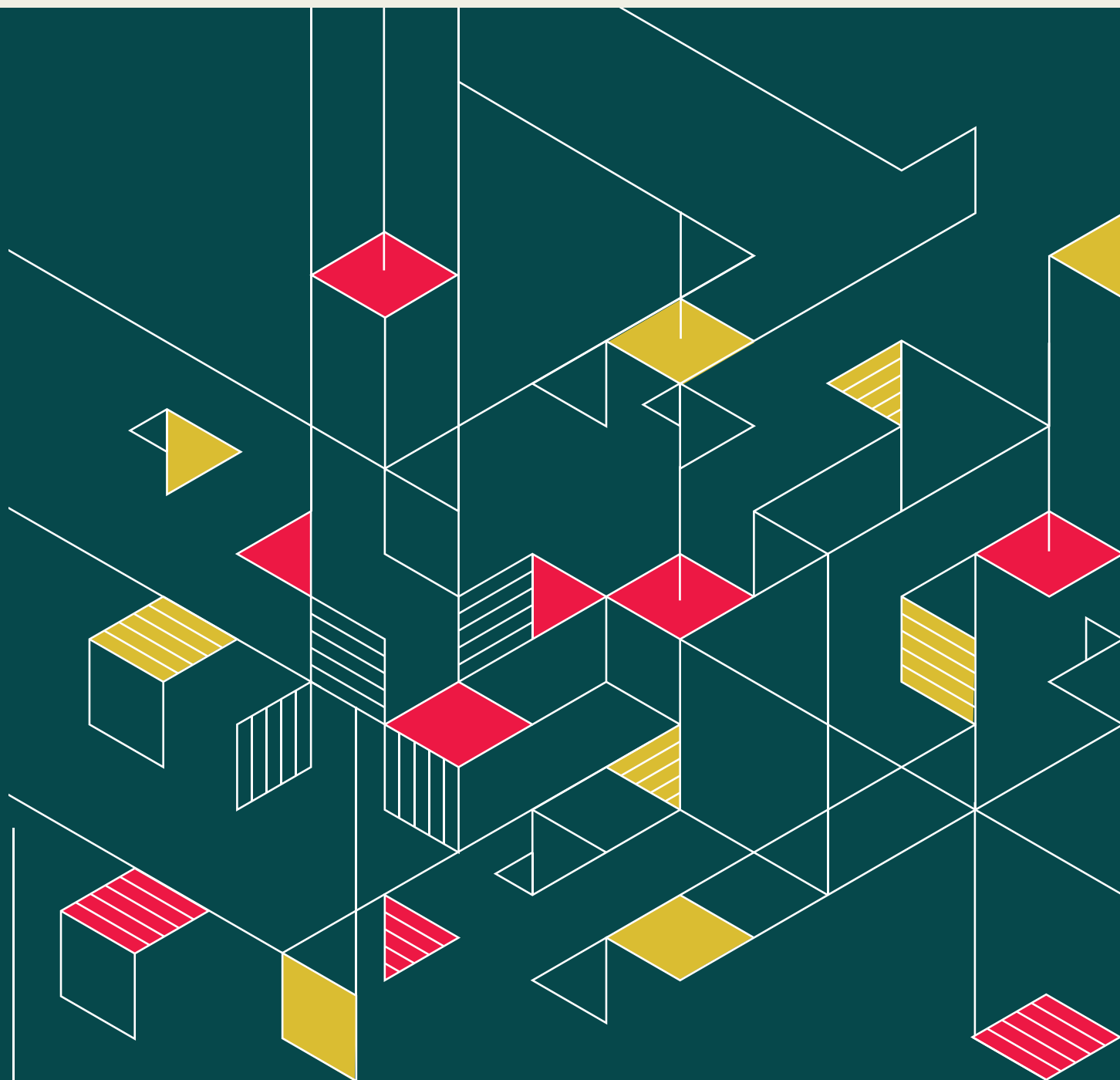


Residential and Office Market - Jan - March 2024

Q1 2024

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India Residential Market– Q1 2024

- ▶ Sales grew across all markets in YoY terms with the exception of Bengaluru which saw sales dip marginally by 2% YoY.
- ▶ The highest sales volume and YoY growth were seen in Mumbai, with 23,743 units sold and a 17% increase compared to the previous year.
- ▶ Kolkata saw the highest growth in units launched at 89% YoY and the 6,021 units that came online are a record high for the market.
- ▶ Sales in the units priced over INR 10 mn have grown by 51% YoY and have been the primary driver for overall sales growth during the quarter.

The Indian residential market has been on a steep recovery path since the pandemic, with positive homebuyer sentiments and a supportive economic environment driving market demand to successive highs in subsequent years. Sales volumes in the primary market have grown at an extremely healthy annualized rate of 29% since 2020 and culminated in a 10-year high in 2023. While rising inflation and monetary policy tightening threatened a possible recession across the world, the Indian central bank's skillful handling of the policy rates effectively curtailed the inflation level below its upper tolerance limit of 6% in H2 2023, without compromising on economic growth. India sustained its standing as the fastest growing large economy with a stable interest rate outlook at the end of 2023.

The residential market too has sustained its momentum as it stepped into 2024 with sales growing at 9% YoY in Q1 2024. 86,345 units were sold in Q1 2024, a level exceeded only in Q4 2023 over the past six years. Sales grew across all markets in YoY terms with the exception of Bengaluru which saw sales dip marginally by 2% YoY. The highest sales volume and YoY growth were seen in Mumbai, with 23,743 units sold and a 17% increase compared to the previous year. This was fueled primarily by the 259% spike in the sales of units priced over INR 10 mn compared to the same period last year (Q1 2023).

The steady growth in demand has also put residential development into overdrive with the volume of units launched exceeding that of sales for the past six quarters. Kolkata saw the highest growth in units launched at 89% YoY and the 6,021 units that came online are a record high for the market.

Consistent with the upward trend seen in the past 11 quarters, the share of sales in the INR 10 mn and above ticket-size grew significantly to 40% in Q1 2024 compared to 29% a year ago. The need for larger living spaces and an upgraded lifestyle which was sparked during the pandemic continues to fuel demand in this segment. Sales in this segment have grown by 51% YoY and it has been the primary driver for overall sales growth during the quarter. Sales in the INR 5-10 mn and <INR 5 mn categories have dropped by 10% and 6% YoY respectively as homebuyers' focus shifted to the premium priced category

during the quarter.

The drop in the mid-segment sales can be viewed as a normal correction within a longer-term upward trend, however, the deceleration in the quarterly sales of units priced under INR 5 mn has sustained for the past nine consecutive quarters and it has been the only segment that has not seen any growth in an otherwise strong market. Increasing prices, higher home loan rates and the comparatively adverse impact of the pandemic on homebuyers in this segment continued to weigh on demand.

Price levels have 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 13% YoY as focus increasingly shifted 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 15.9 quarters in Q1 2024 from 16.7 quarters during the year ago period. The unsold inventory level has increased 4% 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 5.9 quarters which is significantly better than the 6.7 level a year ago, signifies that the overall market traction has improved despite the increase in unsold inventory levels.

Table 1: Sales

Market	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q1 2024 YoY Growth %	Q1 2024 as % of 2019 Qtr Average
Mumbai	20,498	22,308	23,765	23,743	17%	156%
NCR	14,722	13,981	15,907	15,527	1%	145%
Bengaluru	12,857	13,169	14,630	13,133	-2%	109%
Pune	11,302	13,079	14,517	11,832	14%	144%
Hyderabad	7,055	8,325	9,200	9,550	15%	235%
Ahmedabad	3,757	4,108	4,023	4,673	11%	112%
Chennai	3,500	3,870	3,900	3,950	8%	93%
Kolkata	3,823	3,772	3,903	3,937	12%	140%
Total	77,514	82,612	89,845	86,345	9%	140%

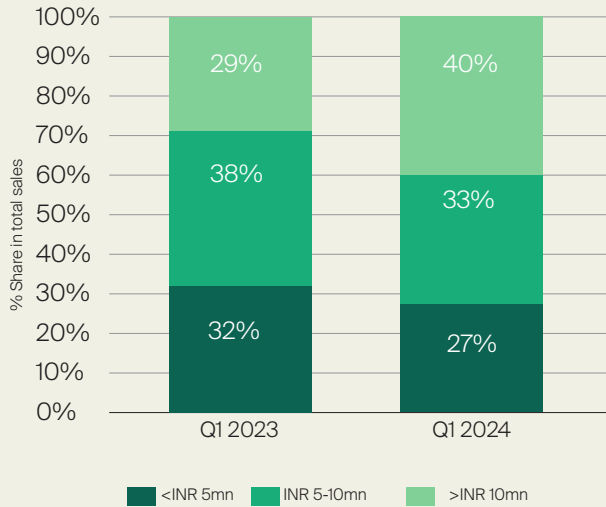
Source: Knight Frank Research,

Table 2: Launches

Market	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q1 2024 YoY Growth %	Q1 2024 as % of 2019 Qtr Average
Mumbai	24,811	19,512	22,993	25,263	-2%	127%
NCR	15,252	16,108	16,803	14,893	3%	260%
Pune	9,694	10,568	10,635	13,293	15%	119%
Bengaluru	11,469	13,353	14,231	13,135	9%	156%
Hyderabad	11,865	11,034	13,100	11,140	1%	330%
Kolkata	3,598	4,978	3,976	6,021	89%	426%
Ahmedabad	5,207	5,996	5,945	5,159	-4%	180%
Chennai	4,170	4,000	4,150	4,350	10%	151%
Total	86,065	85,549	91,833	93,254	7%	167%

Source: Knight Frank Research,

Ticket size split comparison of sales during Q1 2023 and Q1 2024



Source: Knight Frank Research,

Average price change across markets during Q1 2024

Market	YoY Change	QoQ Change
Hyderabad	13%	2%
Bengaluru	9%	4%
Kolkata	7%	1%
Mumbai	6%	0%
NCR	5%	1%
Chennai	5%	2%
Pune	4%	1%
Ahmedabad	2%	0%

Source: Knight Frank Research,

Ticket-size Segment Health

Ticket-size segment	Unsold Inventory (housing units) (YoY change)	Quarters-to-sell (QTS)
0 – 5 mn	199,121 (-8%)	7.7
5 – 10 mn	144,199 (2%)	4.9
>10 mn	137,100 (33%)	5.2
Total	480,420 (4%)	5.9

Even as the overall market remains in good health, it is important to keep track of the three ticket-size segments that we track. While unsold inventory levels in the >INR 5 mn segment have dropped 8% YoY in Q1 2024, the QTS level is higher than the market average at 7.7 quarters which is just shy of two years and still not very high considering that it takes significantly longer to complete a residential project of reasonable scale in this segment. The QTS levels for the mid and premium segments stand at 4.9 and 5.2 quarters respectively, despite the significant increases in unsold inventory levels for both segments.

With 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, despite some turbulence on account of 2024 being an election year. As things stand currently, the sales volume achieved in Q1 2024 positions the market well on course to post a healthy growth compared to the record levels seen in calendar year 2023.

India Office Market– Q1 2024

- ▶ Bengaluru with 0.33 mn sq m (3.5 mn sq ft) saw the most occupier activity followed by NCR, Hyderabad and Mumbai.
- ▶ Transaction volumes in Hyderabad have scaled up consistently over the four quarters of 2023 and reached a post-pandemic high of 0.2 mn sq m (3 mn sq ft) in Q1 2024.
- ▶ While demand for managed office spaces moderated in Q1 2024 on account of the improved business outlook, a surge in co-working space demand from small businesses caused the share of flex spaces to rebound to 23% during the quarter.
- ▶ Bengaluru and Hyderabad accounted for 75% of all the GCC transactions during Q1 2024. Notably, GCCs accounted for 51% of the total volume transacted in Bengaluru and a substantial 65% of that in Hyderabad.

India solidified its status as the fastest growing large economy in the world in 2023. The Reserve Bank of India showcased its exemplary handling of an inflationary environment by playing a balancing act, raising policy rates just enough to curtail inflation while continuing to support economic growth. The remarkably strong 8.4% GDP growth seen in Q4 2023 and the upward revision of estimates for FY 2024 and FY 2025 to 7.3% and 7% respectively, in the backdrop of an improving global growth outlook, reinforce the positive economic undertone in the country for 2024.

The positive sentiment regarding the economy has been the primary driver of occupier activity in the office market, which has sustained the momentum gathered since the pandemic. Since 2021, the transaction volume has grown at a healthy 25% annually and reached a robust 5.53 mn sq m (59.6 mn sq ft) in 2023, which is within 2% of the heights scaled during pre-pandemic times. Q1 2024 saw this momentum sustain with transaction volumes growing by a robust 43% YoY to 1.51 mn sq m (16.2 mn sq ft).

All markets with the exception of Kolkata saw transaction volumes grow or sustain during Q1 2024 compared to the year ago period. Bengaluru, with 0.33 mn sq m (3.5 mn sq ft), saw the most occupier activity followed by NCR, Hyderabad and Mumbai. Transaction volumes in Hyderabad scaled up consistently over the four quarters of 2023 and reached a post-pandemic high of 0.2 mn sq m (3 mn sq ft) in Q1 2024. The city also experienced the most growth amongst all markets at 261% YoY.

While total transacted volumes grew substantially, the underlying drivers changed significantly during Q1 2024. Even as the demand for flex spaces contributed significantly to the recovery and stability of overall transaction volumes since the pandemic, its share dropped to 11% in the past two quarters. Operators refrained from taking up speculative spaces as occupier demand seemed inclined towards long-term leases due to an increasingly positive outlook on the overall business environment. While demand for managed office spaces moderated in Q1 2024 on account of this improved business outlook, a surge in co-working space demand from small businesses caused the

share of flex spaces to rebound to 23% during the quarter. Incidentally, the 0.35 mn sq m (3.8 mn sq ft) transacted by flex operators during the quarter equaled their highest quarterly transactions tally previously seen in Q4 2021.

India Facing businesses have anchored the market in recent periods and accounted for 37% of the total transactions in Q1 2024, followed by Global Capability Centers (GCC) and Third Party IT Services which accounted for 31% and 9% respectively. Making up the bulk of transactions, India Facing businesses and GCCs have also grown the most among the four segments at 58% and 81% YoY respectively. This aptly reflects the occupier's long-term strategic interest in the Indian consumer markets and the high-quality human resources available. While India has always been known for its high quality and low-cost human resource pool, the need for friend-shoring and the China+1 trend, has intensified strategic corporate investments in India. Occupier activity was particularly strong in Bengaluru and Hyderabad and these two markets accounted for 75% of all the GCC transactions during Q1 2024. Notably, GCCs accounted for 51% of the total volume transacted in Bengaluru and a substantial 65% of the total volume transacted in Hyderabad.

While transaction volumes have grown, rental levels have continued to stabilize or grow in YoY and sequential terms across all markets in Q1 2024. Rental levels in the larger office markets of Bengaluru, Mumbai and NCR grew by 5%, 4% and 4% YoY respectively. More significantly, this is the seventh consecutive quarter where YoY rent growth has been stable or positive for all markets.

1.21 mn sq m (13.0 mn sq ft) of office space attained completion during Q1 2024. Bengaluru, with 0.47 mn sq m (5.0 mn sq ft), accounted for 39% of the office space delivered during the quarter. The only other market which saw significant volume of office space come online was Hyderabad at 0.34 mn sq m (3.7 mn sq ft). The vacancy level has dropped significantly to 15.8% in Q1 2024 compared to 16.4% previously (Q1 2023) as development activity has lagged transactions consistently over the past five quarters.

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

Market	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q1 2024 YoY Change %	Q1 2024 as % of 2019 Qtr Average
Bengaluru	0.32 (3.4)	0.19 (2.1)	0.32 (3.4)	0.33 (3.5)	0%	93%
NCR	0.23 (2.5)	0.23 (2.5)	0.23 (2.5)	0.28 (3.1)	19%	143%
Hyderabad	0.2 (2.1)	0.27 (2.9)	0.27 (2.9)	0.28 (3)	261%	95%
Mumbai	0.1 (1.1)	0.3 (3.2)	0.09 (1)	0.26 (2.8)	29%	115%
Pune	0.14 (1.5)	0.28 (3)	0.13 (1.4)	0.18 (1.9)	146%	126%
Chennai	0.34 (3.7)	0.18 (1.9)	0.41 (4.4)	0.11 (1.2)	45%	90%
Ahmedabad	0.01 (0.1)	0.02 (0.2)	0.1 (1.1)	0.04 (0.5)	18%	121%
Kolkata	0.03 (0.4)	0.03 (0.3)	0.05 (0.5)	0.02 (0.2)	-9%	58%
All cities	1.38 (14.8)	1.5 (16.1)	1.61 (17.3)	1.51 (16.2)	43%	107%

Source: Knight Frank Research,

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

Market	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q1 2024 YoY Change %	Q1 2024 as % of 2019 Qtr Average
Hyderabad	0.12 (1.3)	0.49 (5.3)	0 (0)	0.34 (3.7)	-	135%
Kolkata	0 (0)	0.08 (0.8)	0 (0)	0 (0)	-	0%
Mumbai	0.13 (1.4)	0.03 (0.3)	0.13 (1.4)	0.04 (0.4)	986%	28%
Bengaluru	0.47 (5)	0.37 (4)	0.28 (3)	0.47 (5)	275%	125%
Pune	0.18 (1.9)	0.04 (0.4)	0.06 (0.6)	0.16 (1.8)	183%	173%
Ahmedabad	0 (0)	0.03 (0.3)	0.13 (1.4)	0.05 (0.5)	119%	45%
NCR	0.18 (1.9)	0.02 (0.2)	0.27 (2.9)	0.15 (1.6)	-21%	52%
Chennai	0.18 (2)	0.01 (0.1)	0.39 (4.2)	0 (0)	-100%	0%
All cities	1.25 (13.5)	1.07 (11.5)	1.24 (13.4)	1.21 (13)	185%	85%

Source: Knight Frank Research

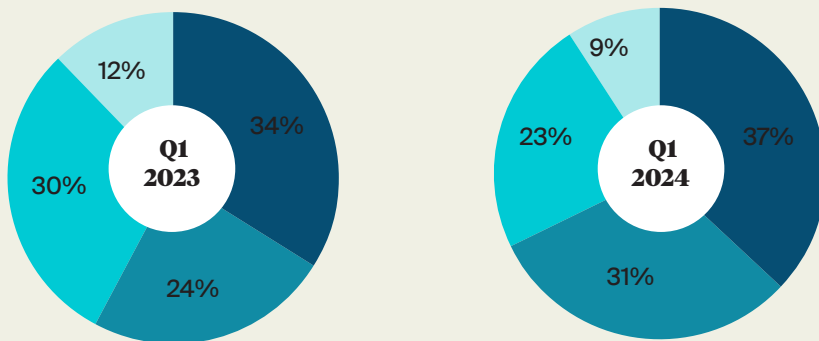
Note: Blanks denote negligible numbers.

Average rent growth across markets during Q1 2024

Market	YoY Change	QoQ Change
Chennai	9%	3%
Bengaluru	5%	1%
Pune	4%	2.0%
Mumbai	4%	1%
NCR	4%	1.9%
Hyderabad	1%	1%
Kolkata	1%	0%
Ahmedabad	1%	0%

Source: Knight Frank Research,

End-use split of transactions in Q3 2023



■ GCC ■ India Facing ■ Flex ■ Third Party IT Services

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.

The physical occupancy level has been steadily increasing across markets and is being reported at close to 60-65% levels in the REIT portfolios, compared to 50- 55% last year. Given that the inflation level is currently well within the upper tolerance band of the RBI, it is likely that the Central Bank will take a more assertive stance to support growth and consider lowering the repo rate at some point in 2024. Besides, the signals of upcoming interest rate cuts by the US Fed will pave the way for greater capital flows to markets like India. These factors should further improve office market fundamentals for the remainder of 2024

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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