RESIDENTIAL
RESEARCH

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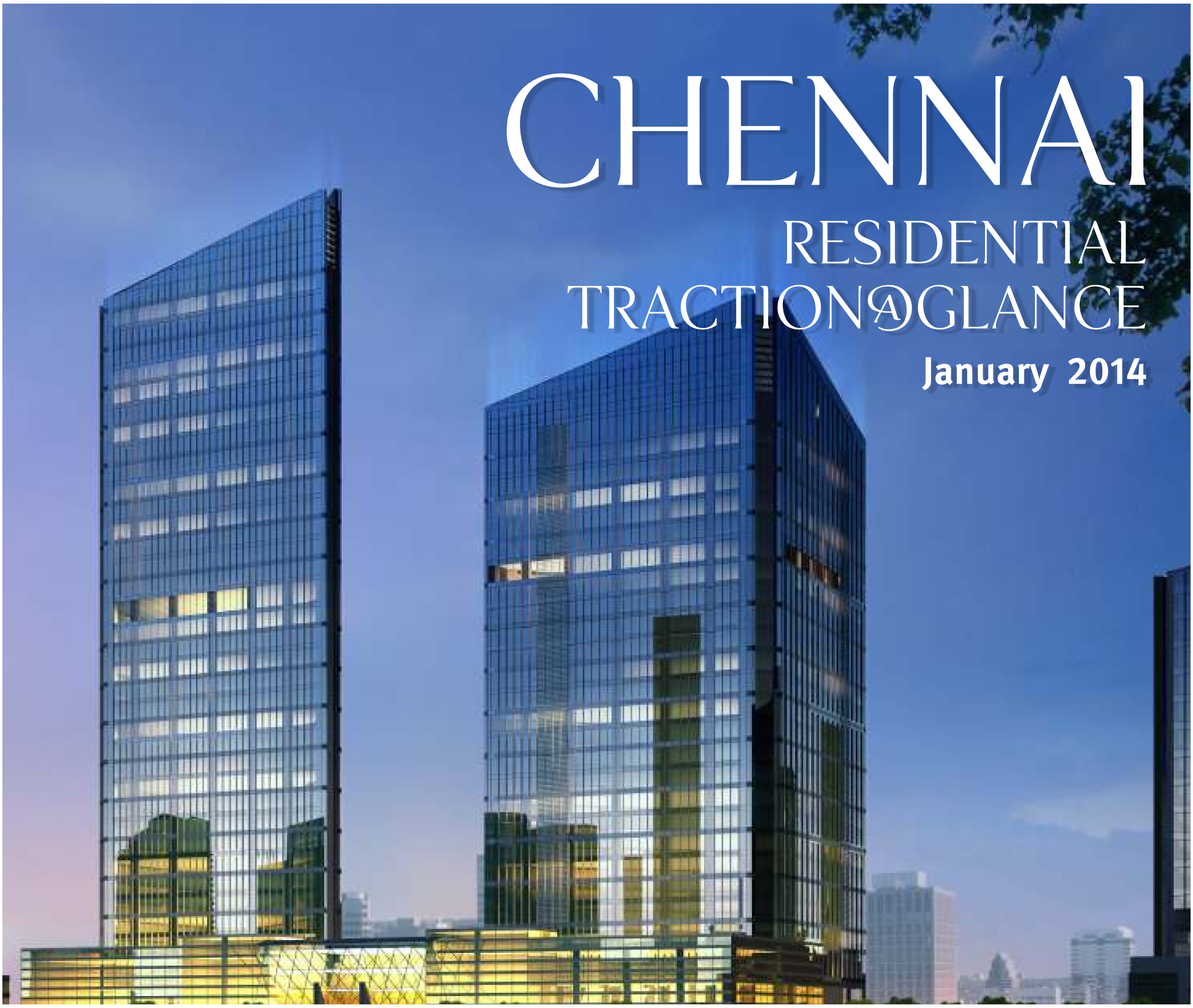


CHENNAI

RESIDENTIAL TRACTION@GLANCE

January 2014

The Residential Traction@Glance series analyzes the residential market of a city with regards to new supply, absorption, ticket size split of launched units, unsold stock, price trend, major project launches and future outlook.

MAIN HIGHLIGHTS OF THE REPORT

- Chennai suffers the onslaught of the current slowdown in the real estate sector
- The city witnessed a drop in sales volume to the tune of 33% in 2013
- Sluggish buyer sentiments resulted in decelerating sales over the last four quarters

The Chennai residential market is known for its resilience even in the toughest times and this was proved during the 2008-09 period when it remained relatively stable in terms of sales and price as compared to cities like Mumbai, NCR, Bengaluru and Hyderabad. With 75%-80% of the total demand coming from end-users, scope for erratic price movement is much less in this market. Additionally, the developer community in the city has historically been cautious in their approach towards buyer's sentiment and has time and again resisted the temptation of increasing prices sharply even during buoyant times. This has resulted in the Chennai market being recognised as one of the most stable residential markets in the country.

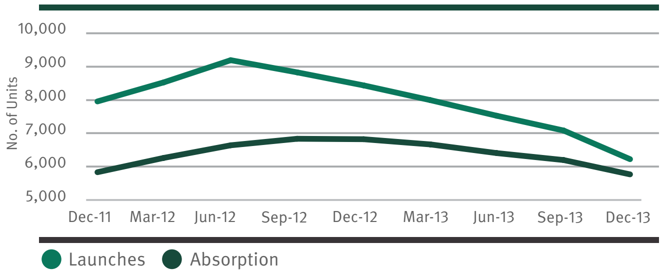
Market Overview

The year 2013 has not been very kind to the Chennai market and like all the other major cities in the country even Chennai has suffered the onslaught of the current slowdown in the real estate sector. Factors such as slowing economic growth, rising interest rates by banks, high inflation and the weak rupee among others have contributed towards building a negative sentiment among home buyers. A large number of home buyers have delayed their purchasing decision and are waiting for some sort of positive signal on these fronts before committing their life's saving in buying a house.

The poor sentiment among home buyers has resulted in a decelerating trend in terms of sales over the last four quarters. Since January 2013, absorption levels have been gradually declining with each passing quarter reporting a lower level than the previous quarter. Sales volume has dipped from 27,000 units in 2012 to 18,200 units in 2013 resulting in a fall of 33%. The latest quarter, that is October – December 2013, has been one of the worst quarters in terms of sales and has recorded its lowest volume since 2008-09. However, developers in Chennai have been smart enough to take cognizance of such a trend and have cautiously reduced the number of new launches in the preceding 12 months. New launches in Chennai have come down from 30,900 units in 2012 to 20,100 units in 2013 resulting in a fall of 35%. Drop in new launches, in line with sales volume, has primarily happened during the second half of the year. This can be further explained in Chart 1 where a comparison between the moving average of launches and absorption has been drawn. This analysis has been done on a long term (8 quarters) moving average basis in order to eliminate any volatility due to seasonal factors and study the long term trend in launches and absorption.

The lines in Chart 1 clearly indicate that the gap between new launches and absorption has gradually reduced since June 2012 and reached the minimum level in December 2013. The narrowing gap between these two lines shows that the developer community has reacted swiftly and reduced the pace of new launches in line with the slowdown in absorption. Even the short term (4 quarters moving average) movement of both launches and absorption confirms this trend. Although this may give a false sense of improving market condition, the true picture cannot be gauged without understanding the impact of the existing unsold inventory in the market.

LONG TERM (8 QUARTERS) MOVING AVERAGE TREND OF LAUNCHES & ABSORPTION



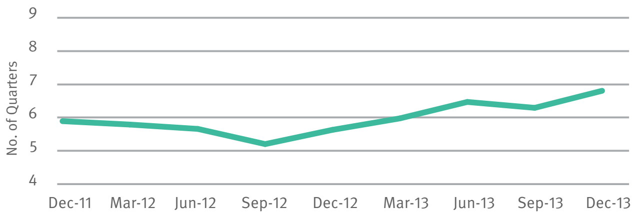
Source: Knight Frank Research

During 2010-2012, more than 94,000 units were launched in Chennai on the back of a strong demand scenario. Although absorption remained steady during this period, it was still not able to keep pace with the number of new launches. This resulted in a gradual build-up in unsold inventory which has reached a historic high with more than 40% of the total under-construction units remaining unsold. This could be better understood by analysing Chart 2 which depicts the number of Quarters to Sell Unsold Inventory (QTS) in the Chennai market. QTS is the number of quarters required to exhaust the existing unsold inventory in the market. The existing unsold inventory is divided by the average sales velocity of the preceding eight quarters in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market.

The QTS line in Chart 2 evidently shows how unsold inventory has moved from less than 5 in September 2012 to 7 in December 2013. This means that while it would have taken only 5 quarters (15 months) for the market to absorb the unsold inventory as of September 2012, it will take 7 quarters (21 months) for the same to happen as of December 2013. Although 2013 witnessed a fall in both absorption as well as new launches, the fall in absorption during the last quarter (October-December 2013) was at a much sharper rate than that of new launches during this period. This has resulted in further building up of unsold inventory and hence a sudden spike in the QTS number during October-December 2013.

The above analysis points towards a weakening trend in the health of the market which could have a direct bearing on the prices of residential properties in the city. However, it would be unfair to bundle the entire city into a single market and draw conclusions from such an analysis. Since each micro-market is driven by a different set of demand-supply dynamics, the movement in prices could vary across locations. Hence it is important to delve deeper into each micro-market in order to understand their respective demand-supply scenario and its impact on price movement.

QUARTERS TO SELL UNSOLD INVENTORY (QTS)



Source: Knight Frank Research

Chennai residential market can be broadly classified into four micro-markets with locations within each micro-market sharing similar characteristics in terms of price, quality of projects, buyer segment, infrastructure development and distance from the city centre among others.

Currently, South Chennai has the largest share of under-construction units at 60% followed by West Chennai at 30%. These two markets together account for 90% of the total market with the remaining two micro-markets sharing a miniscule size of 10%. Since Chennai is land locked from the eastern side, its development has spread to the other three sides. However, North Chennai still lags behind in terms of residential development as non-availability of vacant land, narrow arterial roads and lack of employment opportunities have restricted its real estate growth as compared to other parts of the city. Apart from a few locations such as Tondiarpet, Perambur, Ayanavaram and Madhavaram among others, buyer interest in residential projects in the north has remained subdued.

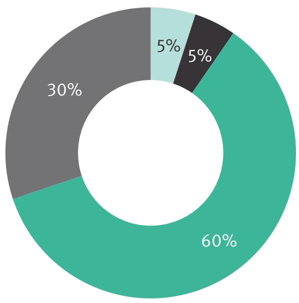
CENTRAL CHENNAI HAS BEEN THE HARDEST HIT IN TERMS OF ABSORPTION DURING 2013 WITH SALES VOLUME DIPPING BY MORE THAN 49% COMPARED TO 2012.

MICRO-MARKET DEFINITION

Micro-Markets	**Locations**
Central	Nungambakkam, Boat Club, Anna Nagar, Kilpauk, T Nagar, Mylapore, R.A Puram, Adyar
West	Sriperumbudur, Ambattur, Poonamallee, Korattur, Mogappair, Porur, Manppakam
North	Tondiarpet, Madhavaram, Perambur, Ayanavaram, Puzhal
South	Old Mahabalipuram Road (OMR), GST Road, East Coast Road

Source: Knight Frank Research

MICRO-MARKET SPLIT OF UNDER CONSTRUCTION UNITS AS ON DECEMBER 2013



Central North South West

Source: Knight Frank Research

New Launches

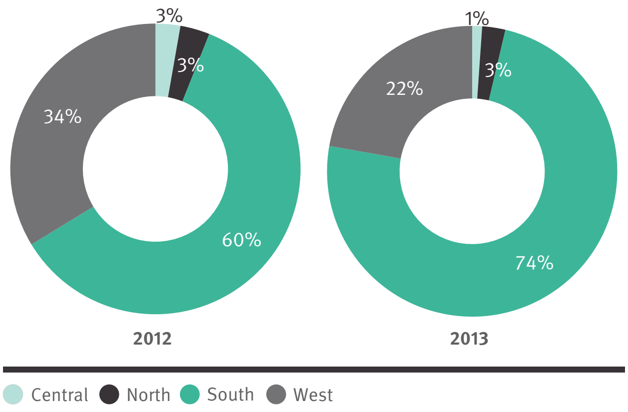
Old Mahabalipuram Road (OMR), GST Road and the various locations between these two roads in South Chennai have continued to witness the largest number of new launches during 2013. The share of South Chennai in new launches has increased from 60% in 2012 to 74% in 2013. The focus of Tamil Nadu government over the last decade in promoting OMR as an IT/ITeS destination along with the setting up of Mahindra World City on GST Road has created immense employment opportunities in South Chennai. Additionally, the proximity to Chennai airport, presence of arterial roads and availability of vast vacant land parcels has enabled this zone to rapidly grow into an emerging residential market. Preference of employees in staying close to their work place and affordable pricing as compared to Central Chennai has sustained the interest of home buyers in this market. During 2013, South Chennai witnessed a diversified mix of launches in all the ticket size ranges. Some of the prominent launches during 2013 are Jain housing's La Verde at Perungudi, Vijayshanthi Love at Mambakkam and Mahindra Nova at Singaperumalkoil.

CHENNAI WITNESSED A DROP IN SALES VOLUME TO THE TUNE OF 33% DURING 2013, MARKING IT AS ONE OF THE WORST PERFORMING YEARS FOR THE RESIDENTIAL SECTOR IN THE HISTORY OF THE CITY. NEW LAUNCHES IN CHENNAI HAVE COME DOWN FROM 30,900 UNITS IN 2012 TO 20,100 UNITS IN 2013 RESULTING IN A FALL OF 35%.

Share of West Chennai in new launches has drastically come down from 34% in 2012 to 22% in 2013. Unaffordable prices in Central Chennai, proximity to the city centre, presence of employment hubs like DLF IT Park and Ambattur Industrial Estate and relatively developed social infrastructure had attracted immense buyer interest in certain pockets of West Chennai that were located closer to the city centre. This led to a large number of project launches during 2012 in locations such as Porur, Ambattur and Korattur resulting in an oversupply situation. Taking cognizance of such a scenario, developers seem to have deliberately restricted the flow of new supply during 2013 with new launches falling by 59% during the year. Some of the prominent launches during 2013 are Republic by Akshaya at Kovur, Dynasty by VGN at Poonamallee-Avadi High Road and Prestige Downtown at KK Nagar.

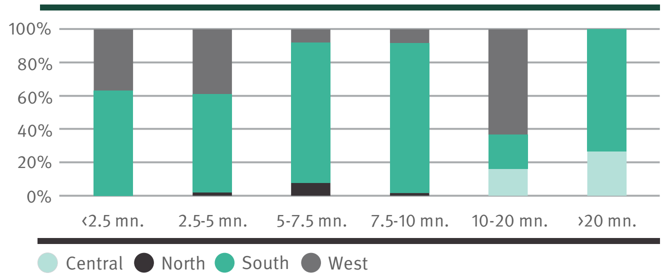
Central Chennai's share in new launches has reduced to a miniscule level of 1% in 2013 against 3% in 2012. Non-availability of vacant land, home buyer's resistance towards unaffordable prices and poor sales conversion in the existing projects despite the huge number of enquires have refrained developers from venturing into new projects in this micro-market. Apart from a select premium projects which are under construction by developers such as Akshaya, Jain Housing, True Value Homes, VGN Group, ETA Star, Ceebros and Appaswamy among others, new launches have remained fairly subdued here.

MICRO-MARKET SPLIT OF UNITS LAUNCHED IN 2012 & 2013



Source: Knight Frank Research

MICRO-MARKET WISE TICKET SIZE SPLIT OF LAUNCHED UNITS DURING 2013



Source: Knight Frank Research

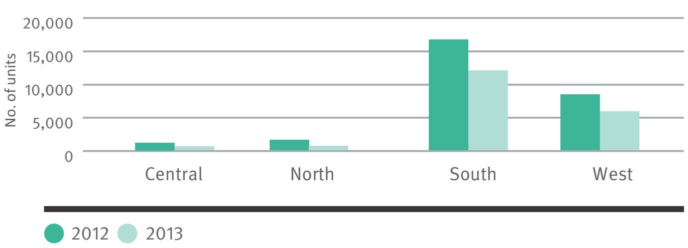
Absorption

Chennai witnessed drop in sales volume to the tune of 33% during 2013 marking it as one of the worst performing years for the residential sector in the history of the city. South Chennai, which constitutes the largest micro-market of the city, witnessed a sharp fall in absorption of 25% during the year. Although this fall is relatively smaller than what the other micro-markets have observed in 2013, the sheer size in absolute number drags down the overall market activity in the city. The slowdown in sales is primarily being observed in projects with a relatively higher ticket size due to larger apartment configuration. Projects with compact 2 & 3 BHKs (650-1300 sq.ft.) are witnessing better traction compared to those with larger configurations. Additionally, buyer interest is still low in locations that are away from the city centre on the OMR & GST Road with lack of social & physical infrastructure being citied as the key reasons.

Absorption in West Chennai, after a stellar performance in 2012 with 24% growth, has fallen down by 38% in 2013.The unprecedented price rise in the range of 10%-15% per annum during the last two years in locations such as Porur, Mogappair and Manapakkam among others has resulted in various projects breaching the affordability level of the target segment here. Such a sharp appreciation in prices seems to have negated the positive traction that the market observed until last year. However, projects offered by small developers which are less than 15 units in size with minimal amenities are still witnessing good traction as they are offered at a relatively lower price than their large-sized counterparts.

Central Chennai has been the hardest hit in terms of absorption during 2013 with sales volume dipping by more than 49% compared to 2012. Although the number of units available for sale in this market is very small as compared to other micro-markets, developers are finding it difficult to sell even this inventory. Prices in Central Chennai have been on a continuous upswing since 2011 and ₹9,000/sq.ft. has become the new benchmark for even the cheapest location within this micro-market. Additionally, the minimum area of any newly launched apartment starts from 1,500 sq.ft. thereby taking the smallest available ticket size upwards of ₹10 mn. Appetite for such large investment is limited in Chennai and this is reflected in the dwindling sales number.

MICRO-MARKET LEVEL ABSORPTION IN 2012 & 2013



Source: Knight Frank Research

Prices

The demand supply dynamics have a direct bearing on the price movement and the Chennai residential market is no exception to this. Primarily driven by end-users, the volatility in prices is limited with a steady year-on-year appreciation. Since 2010, both new launches and absorption have been moving in a similar fashion resulting in a relatively balanced market. This led to a steady increase in prices which have moved up by 33% during the last 3 years. In continuance to this, prices during 2013 too have increased by 5%-7% despite sales volume falling by 33%. A relatively sharper fall in new launches by 35% during the year is the key reason behind such a trend. Although prices have witnessed an upward trend for the entire city, not all locations have been privy to this.

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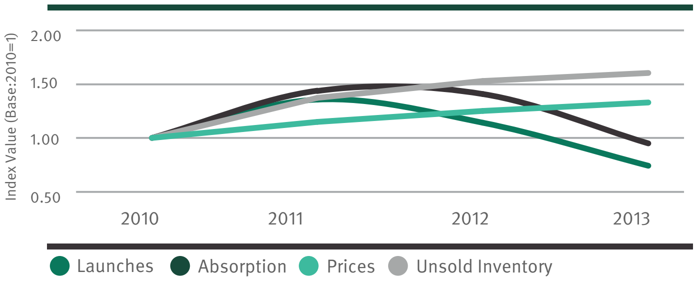


Source: Knight Frank Research

PRICES IN CENTRAL CHENNAI HAVE BEEN ON A CONTINUOUS UPSWING SINCE 2011 AND ₹ 9,000/SQ.FT. HAS BECOME THE NEW BENCHMARK FOR EVEN THE CHEAPEST LOCATION WITHIN THIS MICRO-MARKET.
PRICES DURING 2013 HAVE INCREASED BY 5%-7% IN CHENNAI DESPITE SALES VOLUME FALLING BY 33%. 75% OF THE TOTAL UNITS LAUNCHED DURING 2013 IN CHENNAI COST LESS THAN ₹5 MN. WHICH IS SIGNIFICANTLY HIGHER THAN THE 64% FIGURE CORRESPONDING TO 2010.

Pace of price rise in the various locations of South Chennai has been relatively slow compared to the other micro-markets of the city. The continuous flow of new supply over the previous four years has created sufficient competition among the various projects located here thereby limiting the scope of sharp appreciation in prices. In addition to this, the abrupt drop in sales volume since July 2013 has amplified the unsold inventory available in the micro-market making developers jittery about the sustainability of the current price level. This has compelled various developers to introduce schemes such as free car parking, stamp duty exemption and free furnishing among others in order to push sales volume. Certain developers have even used a more direct approach by reducing the selling price in the range of 5%-10%.

Property prices in West and North Chennai have been holding steady especially in locations that are closer to the city centre. While the first half of 2013 witnessed a steady price rise in locations such as Porur, Korattur, Mogappair and Manapakkam among others, slowdown in absorption during the second half had put a brake on this. However, prices in locations away from the city centre are observing a downward pressure as buyer interest in these locations has declined dramatically in the last six months.

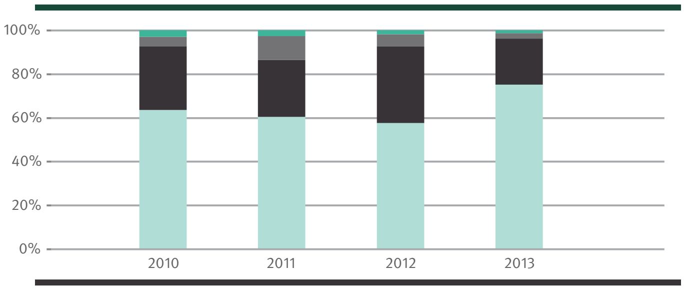
Locations such as Tondiarpet, Madhavaram, Perambur and Ayanavaram have witnessed significant price increase in the last two years backed by the limited supply of new projects. Additionally, the existing residents of the area that largely constitutes of the business community having offices in the nearby localities are generally averse to the idea of shifting to other locations within the city. This has ensured steady demand for new projects that have been launched in North Chennai.

Central Chennai has been able to hold on to the existing price level with certain locations witnessing marginal appreciation despite slowing sales volume. Since most of the projects on offer cater to the luxury segment with ticket size upwards of ₹10 mn., developers are willing to hold on to the unsold inventory in expectation of achieving higher prices at a later date rather than selling currently at a discount. In addition to this, only a handful of new projects have been launched in the last six months limiting the options available to home buyers.

While residential prices in Chennai have been gradually increasing over the last four years, it is interesting to note that the affordability level of the market has also moved in a similar fashion. The share of apartments below ₹5 mn. in the total units launched has been on a constant rise moving from 64% in 2010 to more than 75% in 2013. In other words, 75% of the total units launched during 2013 in Chennai cost less than ₹5 mn. which is significantly higher than the 64% figure corresponding to 2010. This indicates the rise in supply of affordable homes despite prices moving up. Increasing number of new launches happening in the peripheral markets where the prices are still below ₹4,000/sq.ft. is an obvious reason for such a trend. However, there are other factors too at play that are contributing to this.

Resistance of home buyers towards large-sized apartments in the peripheral markets over the years has compelled developers to rethink on the ideal size of an apartment. The average size of a 2 & 3 BHK has been brought down to 650-1300 sq.ft during the last couple of years from the earlier 900-1800 sq.ft. Additionally, Development Control Regulations (DCR) of Chennai mandate residential projects of more than 1 hectare in land area to construct a minimum of 10% of the project size for lower income group with unit size not exceeding 484 sq.ft. Since most of the new projects in the peripheral markets are being developed on land area above 1 hectare, supply of smaller sized apartments has been rising consistently since 2008 when this rule came into effect. These factors have ensured a steady flow of affordable homes in Chennai and such a trend is expected to continue going forward.

MOVEMENT IN TICKET SIZE RANGE OF LAUNCHED UNITS IN CHENNAI



‹5 mn. 5-10 mn. 10-20 mn. › 20 mn.

Source: Knight Frank Research

Outlook

The drop in absorption and launches during 2013 has drastically shrunk the size of Chennai market. Although such a trend was already being witnessed in other major cities like Mumbai and NCR since the beginning of 2013, in Chennai the actual signs of a slowdown begin only after July 2013. The negative sentiment prevailing among home buyers across the country seems to have finally trickled down in this market too. However, the swift reaction from developers in terms of decrease in new launches, marginal reduction in prices and introduction of innovative schemes such as stamp duty exemption, free furnishing and free car parking among others is expected to revive sales volume in the coming months. Prices in most of the South Chennai locations will continue to remain subdued due to the huge amount of unsold inventory available here. Additionally, absence of any mass rapid transit system on the OMR is leading to heavy traffic snarls on the existing roads. This has reduced the attractiveness of residential locations along the OMR with buyers preferring projects that are closer to the city centre. Although there is a proposal to build an elevated road corridor along the existing OMR to ease the traffic congestion, it will take another 2-3 years for the project to become a reality. These factors will continue to hinder the growth of this micro-market and we expect prices to remain flat with marginal appreciation in locations closer to the city centre.

West Chennai will continue to attract buyer interest in the coming quarters on the back of emerging employment hubs of DLF IT Park and Ambattur Industrial Park. With locations closer to the city centre such as Porur, Manapakkam and Mogappair among others breaching the affordability level, traction in emerging locations such as Poonamalle, Ambattur and Kattupakkam has increased during the last two years and is expected to continue in the coming quarters as well. Going forward, we expect prices to increase moderately in West Chennai.

STRONG PREFERENCE OF THE EXISTING RESIDENTS OF NORTH CHENNAI TO RELOCATE IN NEW PROJECTS WITH BETTER AMENITIES WITHIN THE SAME MICRO-MARKET WILL ENSURE MODERATE APPRECIATION IN PROPERTY PRICES GOING FORWARD.

Strong preference of the existing residents of North Chennai to relocate in new projects with better amenities within the same micro-market will ensure moderate appreciation in property prices going forward. However, such a trend will be more relevant in locations that are closer to the city centre while the remaining locations will continue to witness pricing pressure in the coming quarters.

With the first phase of the metro corridor expected to be commissioned over the next two years, attractiveness of the various locations within Central Chennai is set to increase among home buyers. This will further encourage developers to hold on to the current price level despite slowing sales volume. Additionally, absence of any new major project launch during the second half of 2013 will support this during 2014.

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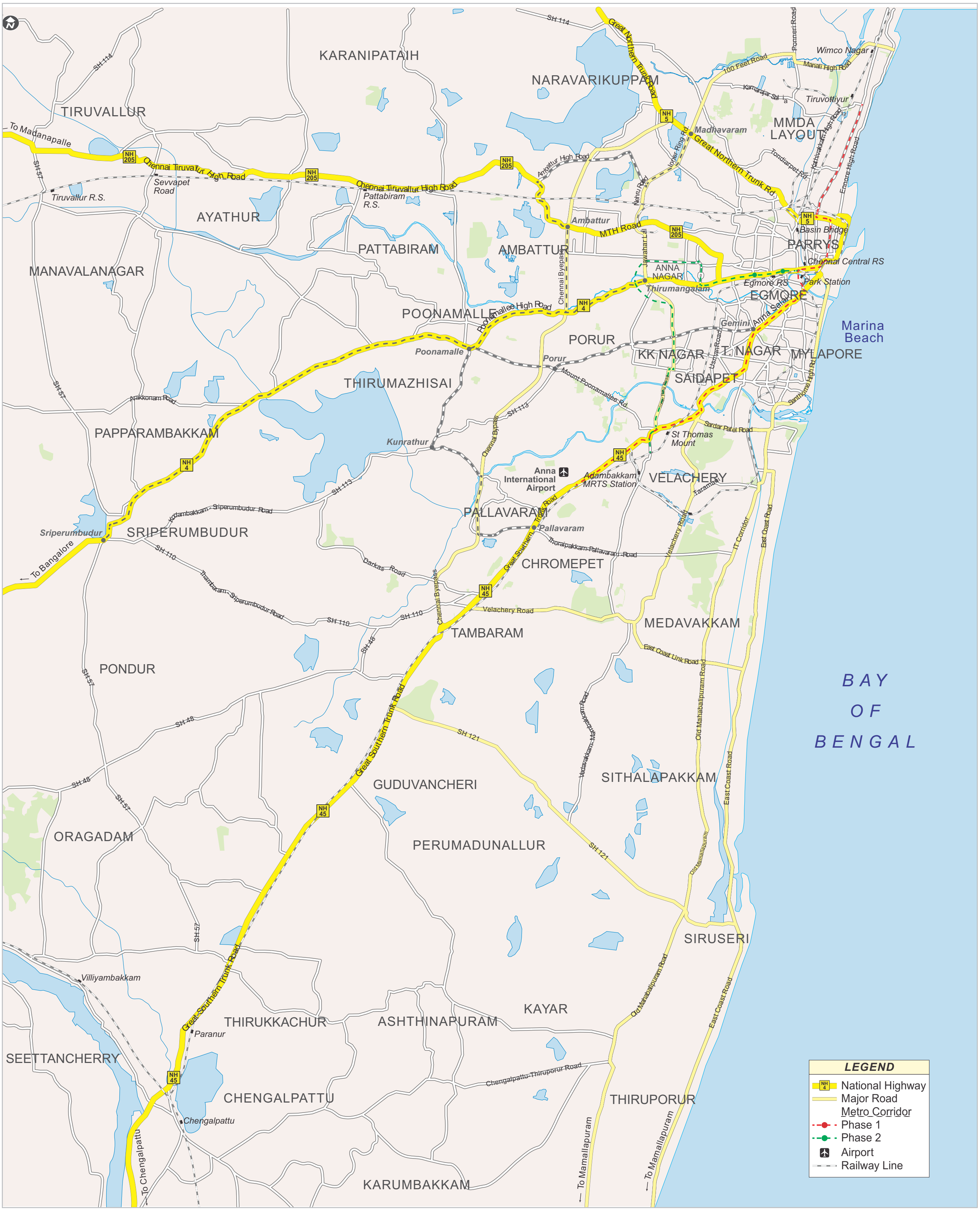
Map



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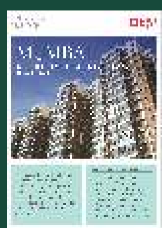

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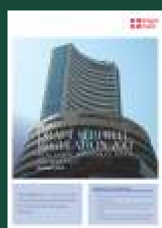

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