



MAY 2012

RESIDENTIAL TRACTION @ GLANCE

Knight Frank

Bangalore

Market Overview

Bangalore has long been one of the preferred destinations for people to reside in India. Favourable socio-economic conditions and a salubrious climate were the prime reasons behind the demand for housing sector in the city. With the advent of the IT sector in the region in the recent years Bangalore has evolved from being a 'Garden City' to the 'Silicon Valley of India'. At present, the city is home to about 60% of US-based MNCs.

Influx of multinational companies as well as expansion of domestic firms has largely contributed to the growth of the city's population. Bangalore also attracts a large number of floating population, further augmenting the demand for housing. The choices for housing in Bangalore range from traditional villas and flats for sale at economic prices, to high-end penthouses and customized apartments that include attractive waterfront residential layouts with luxurious amenities.

INFLUX OF MULTINATIONAL COMPANIES AS WELL AS EXPANSION OF DOMESTIC FIRMS HAS LARGELY CONTRIBUTED TO THE GROWTH OF THE CITY'S POPULATION

The city has been expanding radially to meet the residential demands of the increasing populace. Its residential market can be divided based on geographical pattern into Central Bangalore, North Bangalore, South Bangalore, East Bangalore and West Bangalore. Central Bangalore encompasses locations like Lavelle Road, Richmond Road

and Langford Town while the northern part of the city includes Banaswadi, Hebbal, Bellary Road, Yelahanka and Jakkur amongst others. South Bangalore comprises micro-market of Koramangala, Sarjapur Road, HSR Layout, Jayanagar, JP Nagar, Bannerghatta Road, Kanakapura Road, et al. On the other hand, locations like Malleswaram, Rajajinagar, Tumkur Road, Vijayanagar and Yeshwanthpur form West Bangalore. On the eastern front, Old Airport Road, Old Madras Road, KR Puram and Whitefield are the prime residential locations in the region.

At present, most of the residential projects are concentrated towards the northern and the southern part of the city. South Bangalore has been abuzz with construction activity across all the fronts – residential, commercial and retail. The availability of land, strong infrastructure development and presence of the middle-income segment has contributed to the development of this zone. This region has generally been a preferred residential destination for employees of the IT sector due to the presence of a large number of IT companies in the vicinity. The cosmopolitan nature of the southern micro-market like Koramangala, Jayanagar and Bannerghatta Road has attracted a large number of NRI settlers. Social infrastructure like availability of quality hospitals and popular retail malls are some of the major reasons behind residential demand in this part of Bangalore. Majority of the projects launched in this region falls under the mid-end category with a slew of affordable housing projects by reputed developers being undertaken in the emerging micro-market of Kanakapura Road.

Meanwhile, in the northern region of the city, the Hebbal-Devanahalli stretch is considered to be one of the fast emerging commercial and residential hubs. Availability of land and improving infrastructure has spurred

AT PRESENT, MOST OF THE RESIDENTIAL PROJECTS ARE CONCENTRATED TOWARDS THE NORTHERN AND THE SOUTHERN PART OF THE CITY

developers to launch premium projects in this region. Announcement of mega projects such as KIADB Park, Aerotropolis, ITIR Region, Devanahalli Business Park as well as improving connectivity to the international airport has triggered the rush to the northern corridor. The scope for capital value appreciation in this stretch is also attracting a lot of attention from buyers. At present several residential projects by high profile developers have been launched in Hebbal and Yelahanka. Proposed malls and hospitality projects are expected to increase the development potential in the region.

In the eastern part of the city, Whitefield is one of the most preferred residential locations, primarily for the IT employees. Over the years, Whitefield has evolved into a self sufficient micro-market. Besides the IT sector, which entered the market in the recent years, public sector companies such as HAL, BEML, ITI and NGEF were instrumental in the growth of the eastern zone of the city. With the development of the region as an office district, residential development commenced in locations like KR Puram, Mahadevpura, Whitefield, Sai Baba Ashram Road and Old Madras Road. Grade A apartment developers in the micro-market include Prestige, Sobha, Brigade, Nitesh, Total Environment, Gopalan and Sterling developers.

The western part of the city has not been able to compete with the newer locations down



south or with the northern counterparts. While real estate in the south, south-eastern and eastern parts of Bangalore have flourished since the mid-1990s thanks to the IT/ITeS boom, the west has lagged behind. These western locations, which were once sought after locations, have witnessed almost stagnant residential development with relatively less interest from home buyers in the city. This may be attributed to the fact that it is predominantly an industrial hub. The area has not seen many big projects like the other regions in the city due to the dearth of large land parcels for new developments.

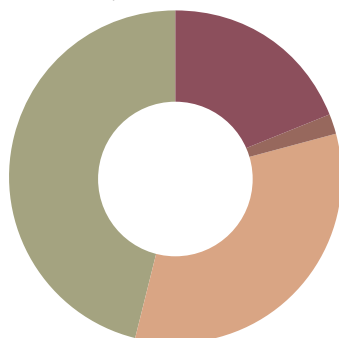
Market Activity

Bangalore has typically been an end-user driven market with moderate price appreciation. Stability in the market, as well as minimal speculation, has been driving the end-users to proceed with their purchase decisions. Demand for residential units has been more evident in the mid-end category, primarily towards the Southern and the Northern micro-market where majority of the affordable projects are located. During FY 2012, Bangalore witnessed the launch of approximately 9700 units which are scheduled to be completed in the next 2-3 years.

DURING FY 2012, BANGALORE WITNESSED THE LAUNCH OF APPROXIMATELY 9700 UNITS WHICH ARE SCHEDULED TO BE COMPLETED IN THE NEXT 2-3 YEARS

Despite global uncertainties looming large over the horizon, the city held on to the residential prices in FY 2012. As a matter of fact, a number of prominent projects were launched during the period, signifying minimal impact of the economic turmoil on the sector. Amongst the projects launched during FY 2012, mention can be made of Beau Monde by Adithya Constructions at Whitefield, Caesar's Palace by Nitesh Estates at Kanakapura Road, Ramky One North by Ramky Estates at Doddaballapur Road, Sobha City by Sobha Developers near Hebbal and HM Tropical Tree by HM Group at RT Nagar.

Micro-market Split of Launched Units FY 2012



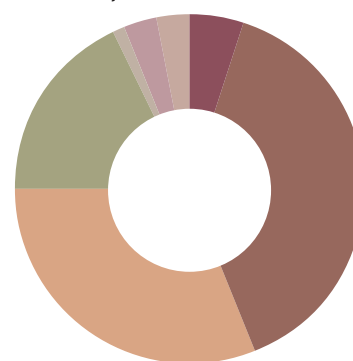
East Bangalore - 19%
West Bangalore - 2%
North Bangalore - 33%
South Bangalore - 46%

Source: eyestate

It has been observed that majority of the residential units launched during FY 2012 are concentrated towards the southern part of the city, particularly along Sarjapur Road. Developers such as LGCL, Shriram Properties, Shanders, Mahaveer and Confident Group have initiated their projects in South Bangalore. This region is followed by North Bangalore, which has seen the second highest number of new residential units during FY 2012, with projects launched by developers such as Sobha, Salarpuria and Puravankara. East Bangalore, though accounting for only 19% of the total number of new residential launched, has a number of prominent projects in its kitty as well. Mention can be made of projects like Villa Grande by Sterling Developers at Whitefield, besides the aforementioned Beau Monde in the same micro-market. The western part of the city, however, did not see much residential activity in FY 2012. Not surprisingly, no residential projects were reported to have launched in the central part of the city in FY 2012.

On the pricing front, nearly 39% of the total number of residential units launched in FY 2012 fall under the INR 2.5-5 million ticket size category, thereby emphasizing the acknowledgment of developers towards the fact that customers in the mid-end segment are the prime demand drivers of residential market in the city. As a matter of fact, residential units with ticket size ranging between INR 2.5-7.5 million were altogether responsible for around 70% of the total number of units launched during FY 2012. However, it is to be noted that the number

Ticket Size Split of Launched Units FY 2012



< 2.5 Million - 5%
2.5-5 Million - 39%
5-7.5 Million - 31%
7.5-10 Million - 18%
10-12.5 Million - 1%
15-20 Million - 3%
20-40 Million - 3%

Source: eyestate

of residential units costing less than INR 2.5 million, which may be termed as affordable housing, were relatively marginal and formed only 1% of the total number of new residential units.

Supply

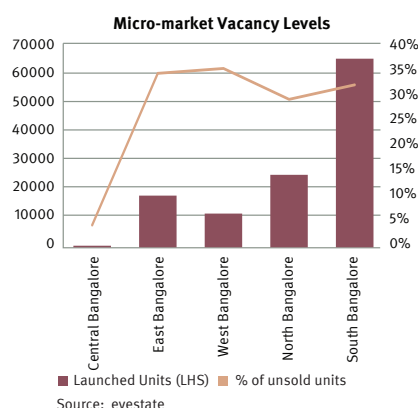
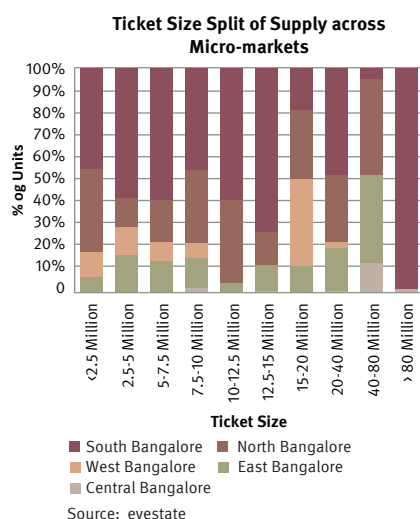
As of March 2012, nearly 119000 residential units are under various stages of construction in the Bangalore market.

About 35% of the upcoming supply in Bangalore is expected to be ready for possession by end of CY 2012, as these include completion of a bulk of projects which were launched in 2008 and some as early as 2007. The economic recession in the country had put on hold a number of projects launched during that period, thereby increasing the supply pipeline. Interestingly, of the total upcoming supply in the residential market, the southern region will account for a significant share of around 54%. Notable projects underway in the region include Forest View by Sobha Developers, Mantri Premero by Mantri Group, Purva Highland by Puravankara and Brigade

AS OF MARCH 2012, NEARLY 119000 RESIDENTIAL UNITS ARE UNDER VARIOUS STAGES OF CONSTRUCTION IN THE BANGALORE MARKET



Petunia by Brigade Group. The micro-market of Sarjapur Road shall contribute 31% to the total upcoming supply in the southern region, while another emerging micro-market Kanakapura Road shall be responsible for around 16%. Taking into consideration the glut in supply in South Bangalore, it may create a demand-supply mismatch in the near future. North Bangalore, meanwhile, will contribute 21% to the total upcoming residential supply in Bangalore, followed by the eastern region with 15% and West Bangalore with 10%. Central Bangalore has limited number of residential units under construction due to the dearth of developable space in the region. An analysis of the ticket size split of new residential supply across micro-market in the city throws up several interesting facets. South Bangalore dominates most of the ticket size ranges, which shows that the region has residential units in offer to suit all categories of income segment. Central Bangalore understandably has presence only in the higher end of the ticket size split, mainly in the INR 40-80 million ticket size. North Bangalore has a wide range of ticket size for residential units as well, particularly in the categories encompassing ticket size of INR 10-12.5 million and INR 40-80 million. Meanwhile, it has been observed that while East Bangalore has limited number of residential units to offer in the ticket size <2.5 million, its share gradually rises with an increasing ticket size. This may be attributed to the presence of premium villa projects on offer in the eastern region, particularly in Whitefield.

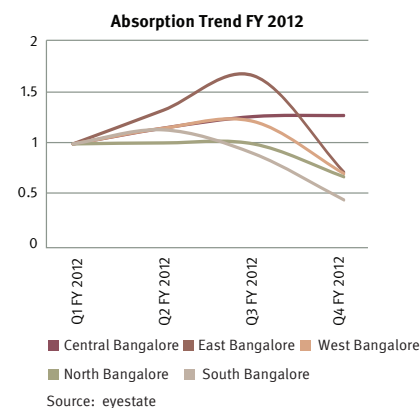


Although the threat of global economic turmoil looms large over residential property buyers, Bangalore residential market has been relatively resilient and has a somewhat healthy sales level. South Bangalore, which has the highest number of residential units up for sale, has a vacancy level of approximately 32% as of March 2012, while East and West Bangalore has vacancy levels of 34% and 35% respectively. The northern part of the city has a lower vacancy level of 29%, which reflects the saleability of the residential projects in the region. Central Bangalore has a limited number of residential units on offer, coupled with the fact that it has its own target customers, and hence has just 4% vacancy rate, despite its ticket size being on the higher side.

Absorption

As mentioned earlier, the residential projects under construction in Bangalore have met with encouraging absorption, with all the regions witnessing more than 60% of their units having been sold. However, the residential market witnessed a dip in sales velocity in Q4 FY 2012, compared to the previous three quarters. The sharpest decline in absorption level was witnessed by the southern and northern micro-market of the city. These regions have the highest number of upcoming residential units as well. Large availability of units, launched amidst the prevailing unfavourable economic situation, may have resulted in the decreasing absorption level. On the other hand, Central Bangalore was not impacted by any external factor and witnessed steady growth in absorption.

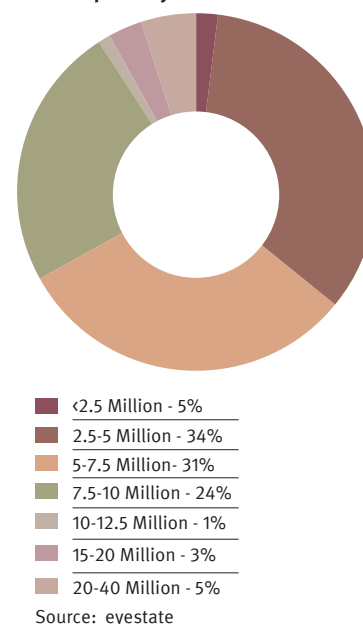
It has been observed that nearly 34% of the absorption in FY 2012 has been in the ticket size range of INR 2.5-5 million, followed by



*Base taken as Q1 FY 2012 graph only depicts the trend in absorption over the four quarters of FY 2012

the ticket size of INR 5-7.5 million at 31%. Thus, it can be inferred that the mid-end segment has been responsible for the absorption of around 65% of the residential units booked or sold, while only 5% of the absorption has taken place in the INR 20-40 million ticket size.

Absorption by Ticket Size FY 2012



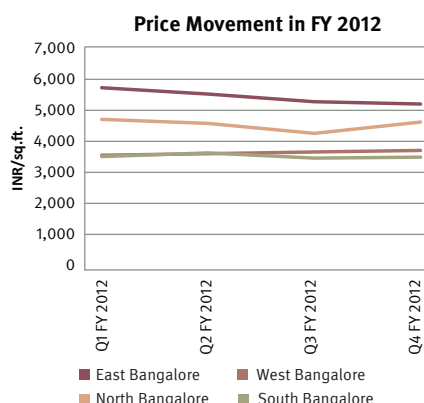
Price

Residential prices in Bangalore have moved in narrow ranges in FY 2012 without much variation which can be primarily attributed towards affordable pricing during the year. High inventory levels and availability of large tracts of developable land in the suburban and peripheral locations have aided in maintaining constancy in the residential prices in those regions. Substantial availability of properties in the market facilitated the buyers to choose from a wide range and also to avail of customized discounts and value added services.



RESIDENTIAL UNITS WITH TICKET SIZE RANGING BETWEEN INR 2.5-7.5 MILLION WERE ALTOGETHER RESPONSIBLE FOR AROUND 70% OF THE TOTAL NUMBER OF UNITS LAUNCHED DURING FY 2012

In certain micro-market of North Bangalore, weighted average prices dipped by around 5-10% in Q3 FY 2012 but regained its level in the next quarter. The eastern part of the city, however, has witnessed a decline of approximately 7-9% in its Q4 FY 2012 weighted average prices as compared to the Q1 FY 2012 prices. This does not surmise that residential prices are on the decline in the eastern part, as we have taken the weighted average of prices. The decline observed can be due to the launch of more projects in the area with relatively larger unit sizes at competitive rates. Meanwhile, the southern and northern regions of the city had a stable run of weighted average prices in the four quarters of FY 2012.



Source: eyestate

** Prices are weighted average prices of under construction residential units and do not take into account the secondary market.

Outlook

Bangalore residential market is expected to witness continued buyer interest, despite the lull in absorption level in the last quarter of FY 2012. At present, while increasing trade deficit and falling rupee is a major concern for the Indian economy, this period can be deduced to be a favourable time for NRIs looking to invest in Bangalore with the rupee having depreciated significantly. New launches by reputed developers continue to be the norm with their project portfolio consisting of a balanced mix of both high-end and mid-end developments. Post recession, developers in the city have realized that demand exists for those properties which offer quality, value for money and transparency in deals. Majority of the upcoming supply will be concentrated in the

suburban and peripheral locations towards North and South Bangalore, with gated sustainable communities offering various amenities and facilities. On the price front, capital values of properties are not expected to increase considerably due to slowing down of the economy, though marginal appreciation is projected in a few micro-market like Hebbal and Sarjapura Road. On a positive note, the announcement of Phase-II of Metro Rail will provide an impetus to the residential micro-market along those nodes. Developers are expected to include this development as a stratagem to further sell their residential products.

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