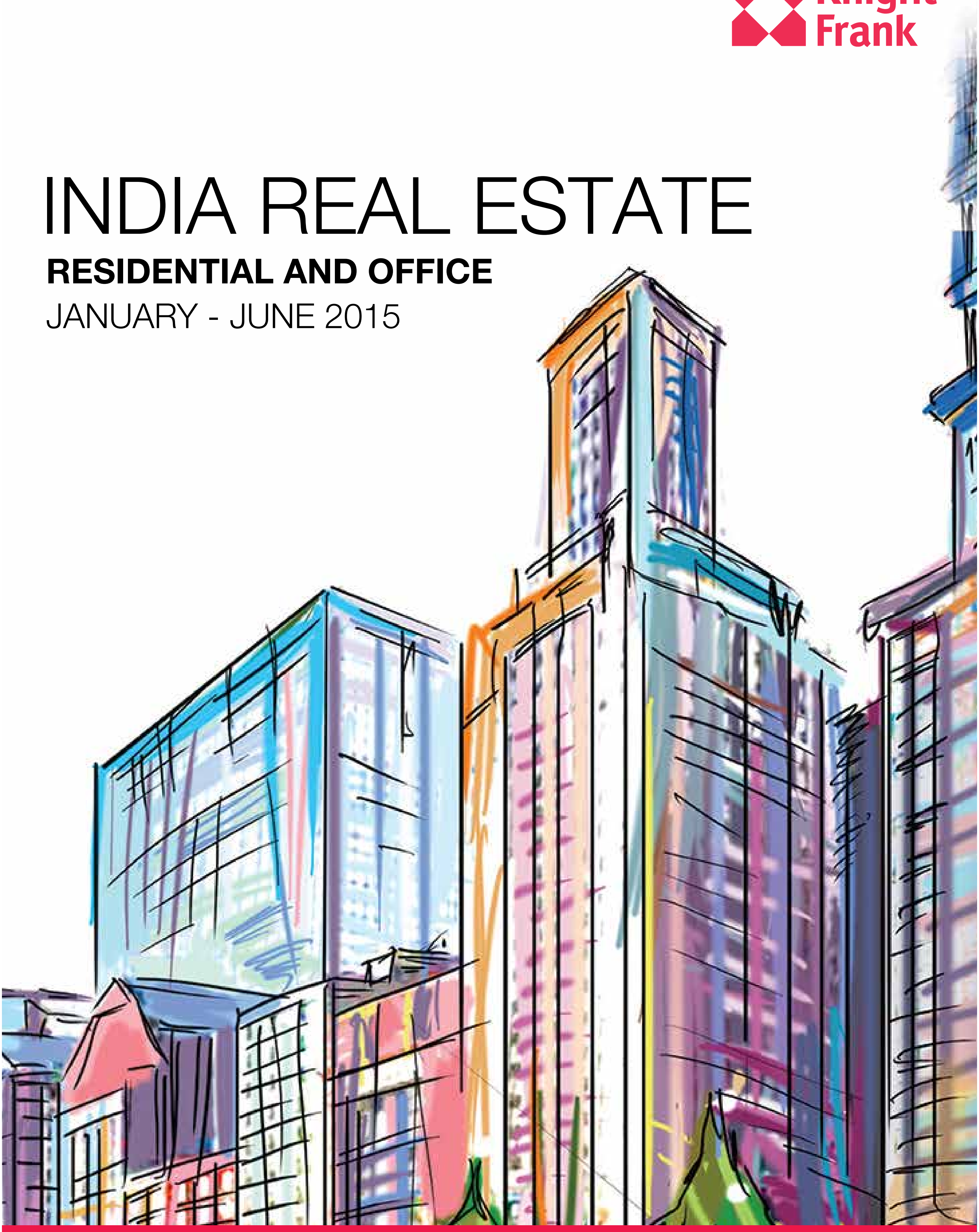
RESEARCH

INDIA REAL ESTATE

RESIDENTIAL AND OFFICE

JANUARY - JUNE 2015



AHMEDABAD | BENGALURU | CHENNAI | HYDERABAD | KOLKATA | MUMBAI | NCR | PUNE

CONTENTS

INTRODUCTION

The Indian economy grew at 7.3% during FY 2014-15, higher than the forecasted GDP rate of 6.8%, and is slated to clock a GDP growth rate in the range of 7-7.5% in 2015-16. If this momentum continues, along with a conducive business environment and policies, the country will be poised to attain a double-digit rate of growth in the coming years.

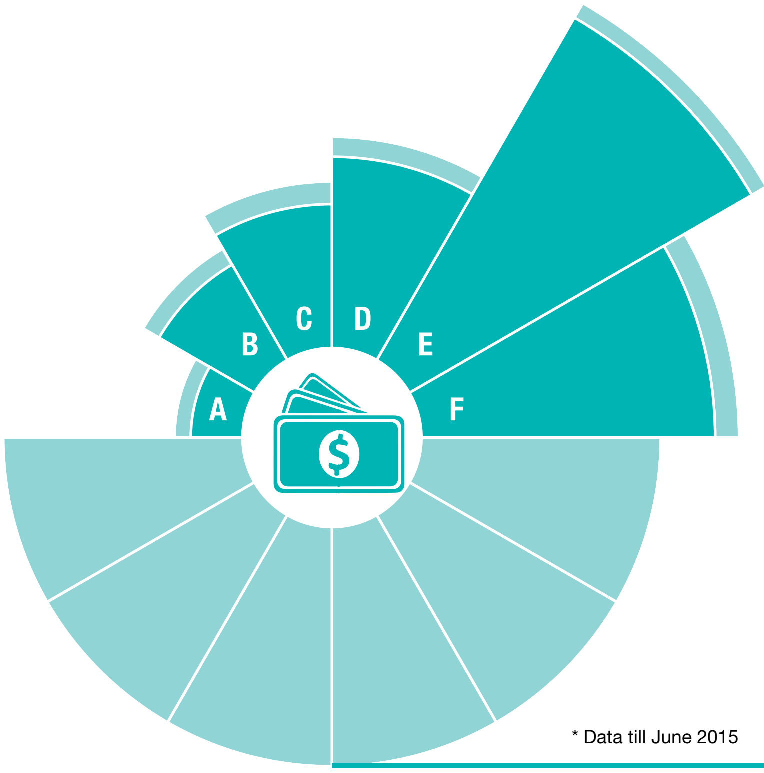
The economic fundamentals are currently showing robust trends, which substantiates the expected growth in the economy. Inflation has been tamed. The Wholesale Price Index (WPI) has stayed in the negative territory for the last eight months (-2.4% in June 2015 as compared to 5.66% in June 2014), while the Consumer Price Index (CPI) has come down to 5.4% in June 2015 from 6.77% in June 2014. Retail inflation is also expected to be well within the RBI's inflation target of less than 6% by January 2016. The current account deficit (CAD) has come down to 0.2% of GDP (Jan-March 2015) from 1.3% in 2014-15, and is expected to be 1.5% in 2015-16. The government has also aimed at bringing down the fiscal deficit from 4.1% in 2015 to 3% by 2017-18.

The investment cycle in India is showing positive growth, and consumption expenditure is improving, albeit it being a fluctuating trend. The capital goods output stayed positive despite some tapering down in May 2015. Investment in capital goods has shown an upward trend and there is significant expansion in industrial activity. Though the index of industrial production (IIP) has shown a fluctuating trend recently, it is expected to recover, supported by a strong core sector growth of 4.4% in May 2015. This growth is likely to be sustainable on the back of the government's focus on industrial activities, infrastructure development and ease of doing business.

There are, however, concerns on the global canvas, mainly with respect to the Greece crisis, China's shaky economic situation and the gradual recovery in the US. These generate a pressure on emerging economies to safeguard capital flight. However, they are not likely to have any severe implications on India, as the Indian economy is currently backed by robust forex reserves of approximately $360 billion and strong

FIGURE 1
INVESTMENT IN ECOMMERCE IN INDIA

Source: DealCurry



A	2010	85	US$ mn
B	2011	464	US$ mn
C	2012	544	US$ mn
D	2013	892	US$ mn
E	2014	4348	US$ mn
F*	2015	1869	US$ mn

* Data till June 2015

macroeconomic fundamentals of improved fiscal deficit and CAD.

With the Indian economy on a stronger foothold, the biggest beneficiary at this point seems to be the technology and ecommerce sector, apart from sectors such as IT/ITeS, manufacturing and financial services. In the last three years, technology-backed ecommerce companies, including start-ups, have attracted the maximum amount of interest from investors, both global as well as Indian. While 2014 witnessed an investment of $4.3 billion in the ecommerce sector, the first six months of 2015 have attracted investments of $1.9 billion. Setting aside the debate on the valuation of these companies – based on which the investments are coming – it can be said that the chances of a bubble formation is a remote possibility. The fundamentals of the Indian economy in the current scenario are very different from what was prevalent during the dotcom bubble that was witnessed during the 1999-2000 period. India is in a totally different paradigm pertaining to e-readiness, as all the factors that are required for a sustainable development of the ecommerce industry are on a much stronger foothold compared to the dotcom bubble period. Factors such as internet penetration, smart phone penetration, initial public offers (IPOs), ecommerce revenues and the stock market IT index, which are some of the critical barometers for gauging the preparedness of the country to sustain the ecommerce industry, seems to be in a relatively better position in the present scenario.

Factors sustaining India's ecommerce growth story

	1999-2000 period	Current period
Internet penetration	<1%	19%
Mobile penetration	<1%	71%
Number of IPOs	110	36
Stock market IT index	41,742	11,040
Ecommerce revenues	Not Available	$16.4 bn

Source: Internet live stats, World Bank, NSE, Knight Frank Research

The rapid growth in the revenue of ecommerce companies in India has fuelled the need for large-scale office space in cities such as Bengaluru and NCR in the last two years. Leading ecommerce players, such as Flipkart, Amazon and Snapdeal, have inked office space deals upwards of a million square feet each in recent months, resulting in an unprecedented upsurge in transaction activity in the office market. Additionally, the proactive measures taken by the Government of India, such as the 'Make in India' initiative, infrastructure development and ease of doing business, have led to the emergence of sectors such as aviation, energy, etc. as one of the biggest office space occupiers in markets like NCR.

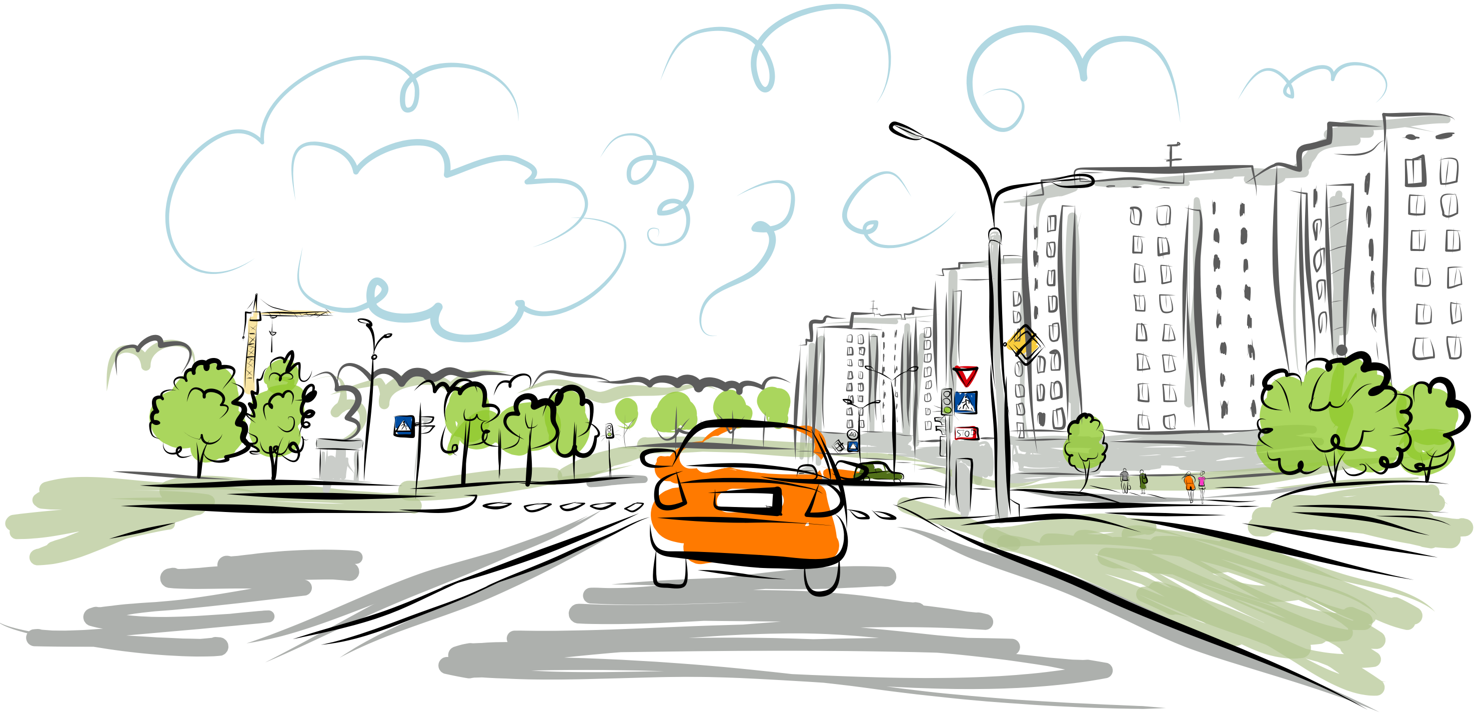
We believe that such developments will invariably have a positive rub-off effect on the residential market in terms of bringing back customer confidence, which is the biggest hurdle for home sales. However, the positive impact on the residential sector will lag till the end of 2015. 2015 will be a year wherein big markets such as NCR and Mumbai may experience volume and price discovery in the residential market. The unwinding process of the excess unsold inventory in these markets has already commenced since the first half of this year and we believe this process will continue for another six months in order to bring stability in the residential market. The deliberate slowdown in new launches undertaken by the real estate developer fraternity seems to be a pragmatic step in this direction and will hopefully lead the industry towards a path of sustainable development.

AUTHOR

Ankita Nimbekar
Lead Consultant - Research

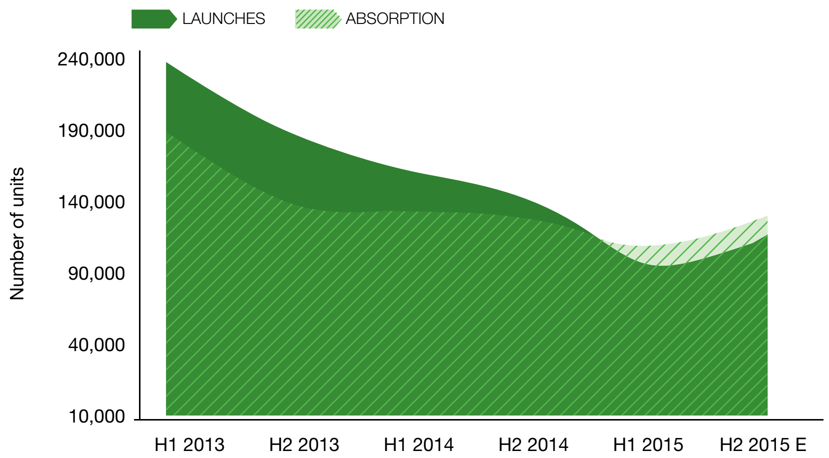
ALL INDIA

Residential & Office Market



RESIDENTIAL MARKET
LAUNCHES, ABSORPTION AND PRICE TRENDS

FIGURE 1
HALF-YEARLY LAUNCHES AND ABSORPTION TREND (TOP EIGHT CITIES)



Source: Knight Frank Research

Note: *The top eight cities are Mumbai, NCR, Bengaluru, Pune, Chennai, Hyderabad, Kolkata and Ahmedabad*

For the first time in three years, home demand has exceeded the supply, theoretically signalling a price rise in the coming quarters. However, this seems to be more of a corrective phase, heading towards a stable market.

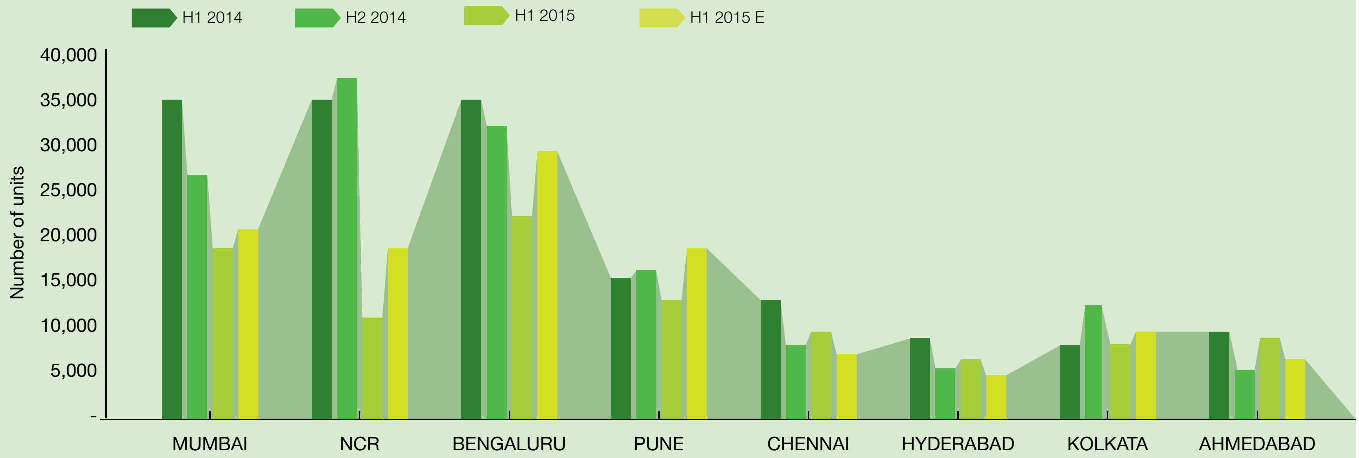
- The plummeting trend of project launches and sales volume continues in H1 2015, though the rate of the fall in new launches is much more than that of absorption, indicating that the residential market is striving for equilibrium.
- For the first time in three years, the demand for homes exceeds the supply, theoretically signalling a price rise in the coming quarters. However, this seems to be more of a corrective phase, heading towards a stable market.
- While the sales volume dropped by 19% during H1 2015 compared to H1 2014, new launches fell by a whopping 45% during the same period.
- In light of the improving economic scenario in the country and signs of capital investments picking up, we expect some improvement in the new launches and sales volumes across all markets in H2 2015. Nevertheless, they will still be a tad below the volumes attained in 2014.
- As per our projections, the sales volume will be 9 % lower in 2015 compared to 2014, and new launches are expected to fall short by 34%.

CITY-WISE SPLIT OF RESIDENTIAL LAUNCHES

- New residential launches have fallen in the top eight cities of India during H1 2015.
- The National Capital Region (NCR) witnessed the sharpest decrease in new launches, at 68% during H1 2015. A mere 11,360 residential units were launched in the NCR market during the first half of 2015. Such a low number of new launches is unprecedented, and even lower when compared to a smaller market like Pune. NCR was followed by Mumbai, with a 47% drop.
- Both Mumbai and NCR have been top markets in terms of new launches since the last five years; however, developers began tapering new projects drastically since the beginning of H1 2013, due to the increasing unsold inventory levels.
- Bengaluru has surpassed Mumbai and NCR during H1 2015 in terms of the highest number of new launches.
- Based on our interactions with developers in the top eight markets, and on analysing the pipeline, our projections for H2 2015 are slightly positive for Mumbai, NCR, Bengaluru and Pune. The number of new launches in these markets will surpass the H1 2015 level. Despite this, the yearly number of new launches during 2015 will fall short by 36%, 59%, 25% and 5%, respectively, compared to 2014.

FIGURE 2

HALF-YEARLY NEW LAUNCHES IN THE TOP EIGHT CITIES

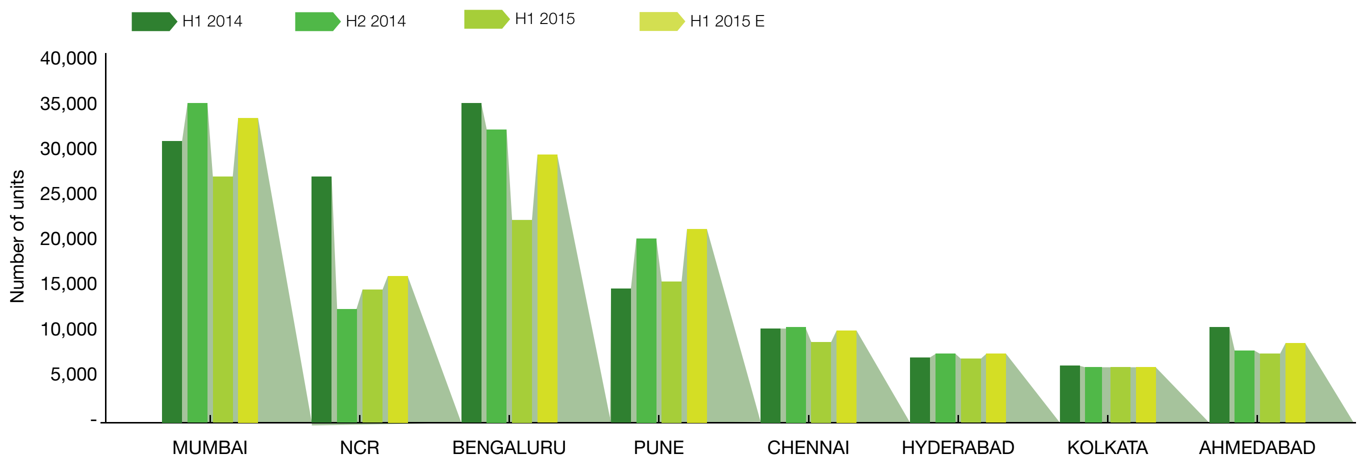


Source: Knight Frank Research

CITY-WISE SPLIT OF RESIDENTIAL SALES

FIGURE 3

HALF-YEARLY ABSORPTION IN THE TOP EIGHT CITIES



Source: Knight Frank Research

The NCR market has slipped to fourth place, even below Pune, in terms of launches and absorption. Such low numbers are unprecedented and indicate that the market is entering into a restorative phase to attain stability.

- Apart from Pune, home sales have fallen across the top eight cities of India during H1 2015.
- NCR witnessed the sharpest decrease in sales volume, at 50% during H1 2015. The absorption levels in this market have been plummeting since H1 2013. Only 14,250 residential units were sold in the NCR market during H1 2015, which is lower than that of Mumbai, Bengaluru and Pune.
- Mumbai continues to retain the top slot among the top six cities for achieving the highest sales volume in H1 2015. This was followed by Bengaluru and Pune.
- Although the volume of home sales has been shrinking in both the top residential markets—Mumbai and NCR—Mumbai has managed to keep the sales at a decent pace, which is required to reduce the unsold inventory levels. The NCR market, on the other hand, has had a large number of speculators / short-term investors that have been contributing to the large number of sales. These

Yearly absorption in the top eight cities (No. of units)

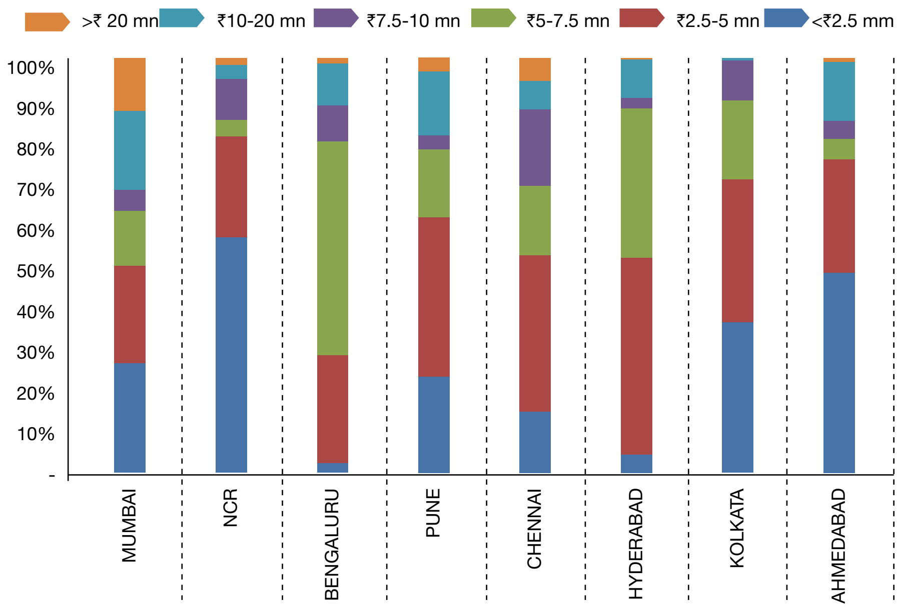
	Mumbai	NCR	Bengaluru	Pune	Chennai	Hyderabad	Kolkata	Ahmedabad
2014	67,700	40,500	55,700	34,800	20,900	15,100	11,300	18,400
2015E	62,600	29,900	50,130	36,900	19,500	14,700	11,800	16,600

short-term investors have been weeded out of the market in the last two years. The huge availability in the secondary market is a clear indication of this.

- As per our projections, all the top eight residential markets are anticipated to witness a slight improvement in sales during H2 2015. Yet, the yearly sales in 2015 will fall behind that of 2014 across all markets, barring Pune.
- NCR comes across as the most affordable market among the top eight cities in India, as 57% of all the new launches in H1 2015 were below the ticket size of ₹2.5 mn. However, this share is skewed due to the large number of units launched in Gurgaon under the Haryana Government's affordable housing scheme.
- Bengaluru witnessed the least number (2%) of new launches in the affordable category (ticket size less than ₹2.5 mn). On the other hand, the Bengaluru market observed the highest number of project launches in the ₹5–7.5 mn ticket size.
- Despite having a relatively low weighted average price of ₹3,500 per sq ft, Hyderabad witnessed only 4% of the new launches below the ticket size of ₹2.5 mn in H1 2015.
- Nearly half of all the new launches in Mumbai in H1 2015 were below the ticket size of ₹5 mn. This, despite the fact that Mumbai has the highest weighted average price, at ₹7,900 per sq ft.

FIGURE 4

TICKET SIZE SPLIT OF LAUNCHED UNITS DURING H1 2015



Source: Knight Frank Research

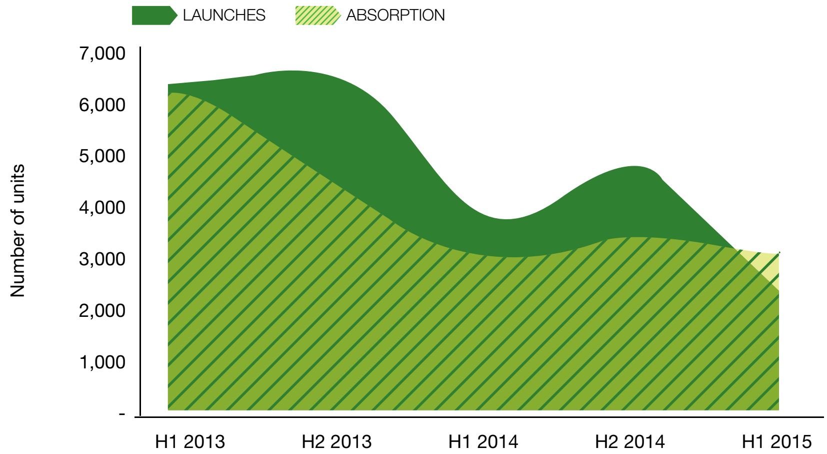
The top eight residential markets are expected to witness slight improvement in demand during H2 2015. Yet yearly sales in 2015 will fall behind that of 2014 across markets barring Pune.

PREMIUM RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

Although the Mumbai market has the highest capital values in the country, not a single project launch took place in the premium segment during H1 2015

FIGURE 5

HALF-YEARLY LAUNCHES AND ABSORPTION TREND IN PREMIUM MARKETS (TOP EIGHT CITIES)



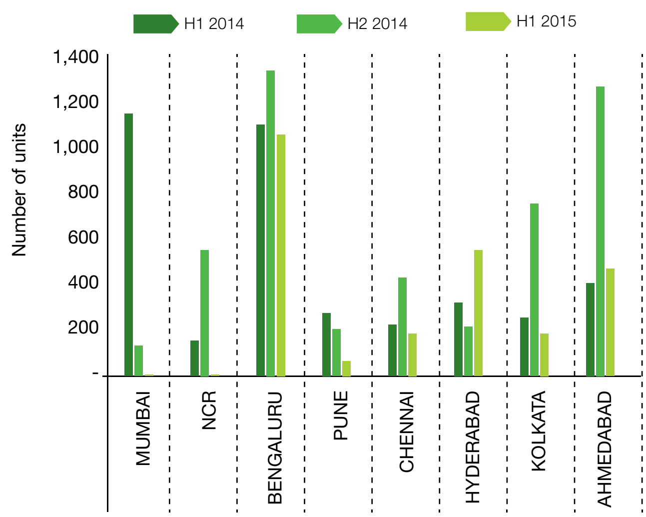
Source: Knight Frank Research

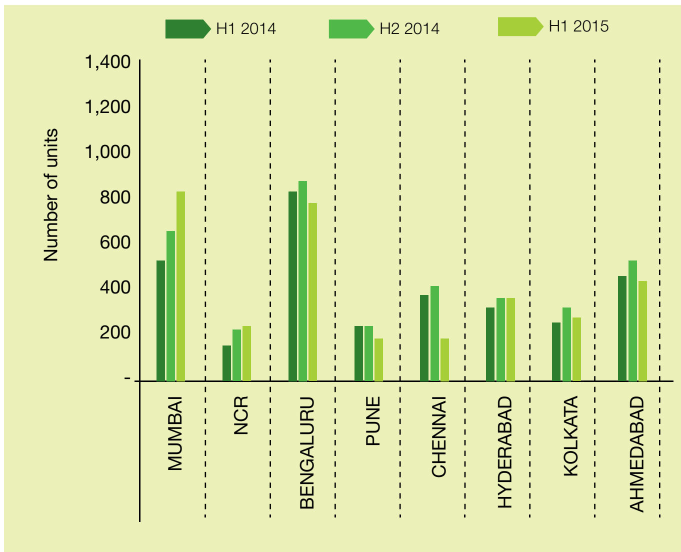
***Premium markets include locations where the average ticket size of a residential unit is above a certain threshold (depending on the city), are in close proximity to the central business district of the city and have witnessed new project launches in the preceding three years*

- Both new launches and absorption in the premium segment gained some momentum in H2 2015, after witnessing a plummeting trend since H2 2013.
- The premium segment observed a 35% fall in new launches in H1 2015, compared to the same period last year. However, there was a moderate improvement of 4% in the sales volume during H1 2015, compared to H1 2014.
- Bengaluru witnessed the highest number of new launches in the

FIGURE 6

LAUNCHES AND ABSORPTION IN THE TOP EIGHT CITIES – PREMIUM



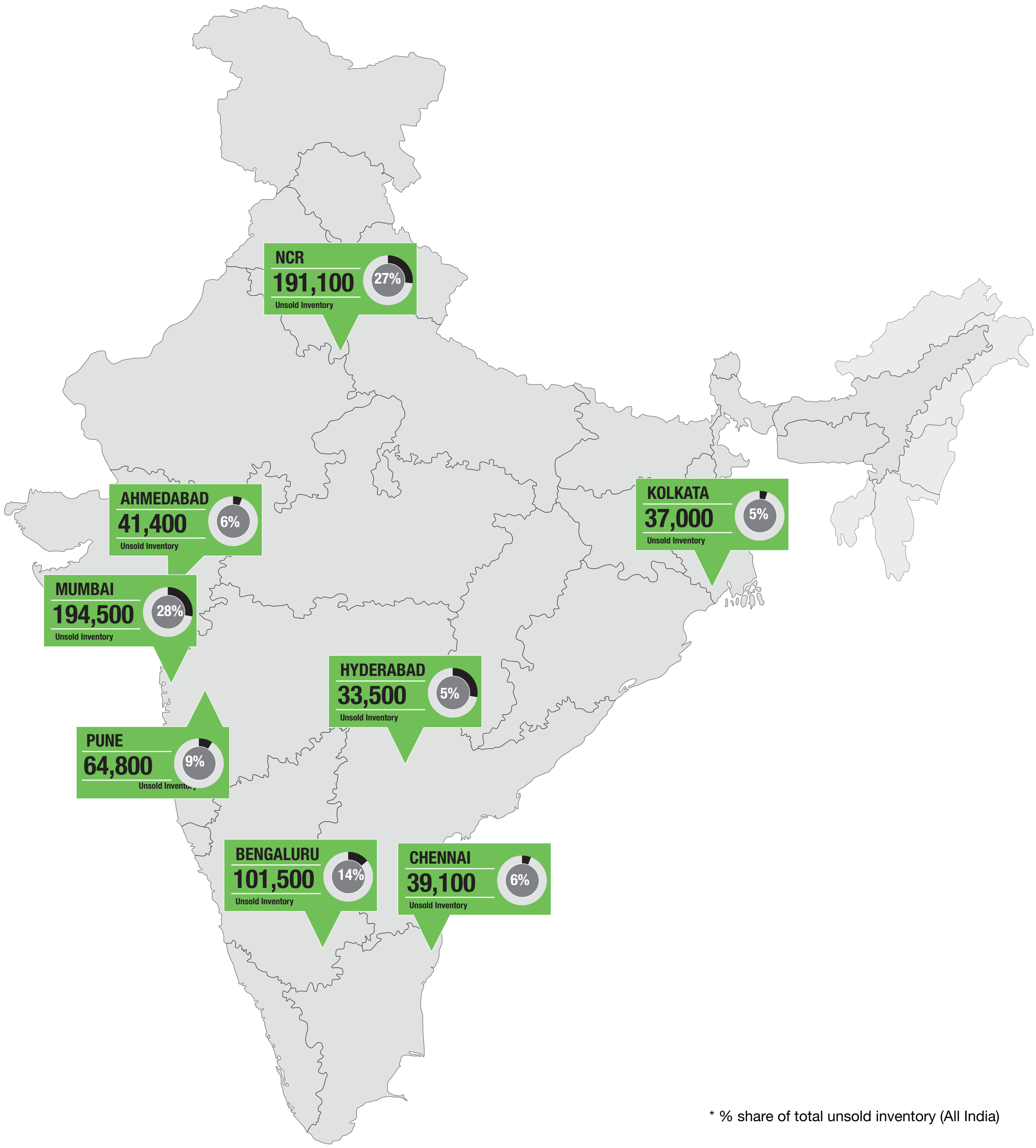


Source: Knight Frank Research

premium segment during H1 2015, followed by Hyderabad. However, the absorption levels are not comparable and indicate an oversupply situation.

- Despite being the market with the highest capital values, Mumbai witnessed no new project launches in the premium segment during H1 2015, although demand has shown a substantial improvement compared to H1 2014.
- NCR witnessed a steep upsurge in the demand for premium housing during H1 2015, at 84%, compared to H1 2014.
- Chennai was worst affected by low demand in the premium segment and showed a 57% fall in sales during H1 2015.

UNSOLD INVENTORY LEVELS IN THE TOP EIGHT CITIES

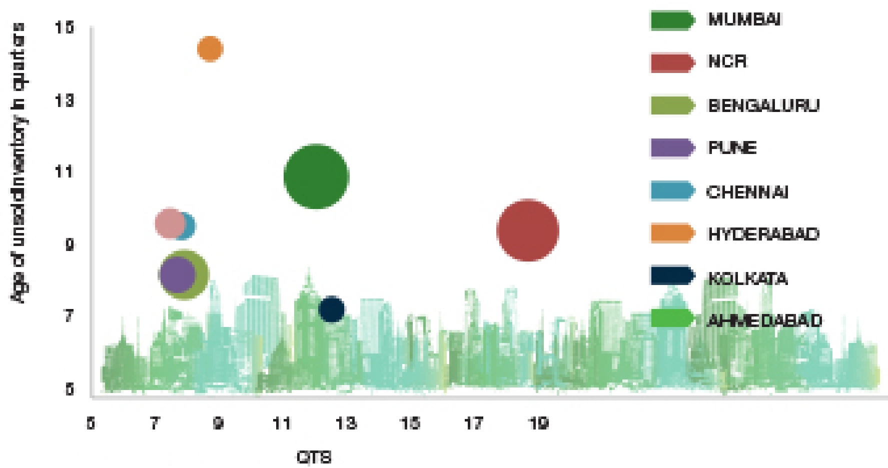


* % share of total unsold inventory (All India)

RELATIVE HEALTH OF THE RESIDENTIAL MARKETS IN EIGHT CITIES

FIGURE 8

RELATIVE HEALTH OF THE RESIDENTIAL MARKETS IN EIGHT CITIES



Source: Knight Frank Research

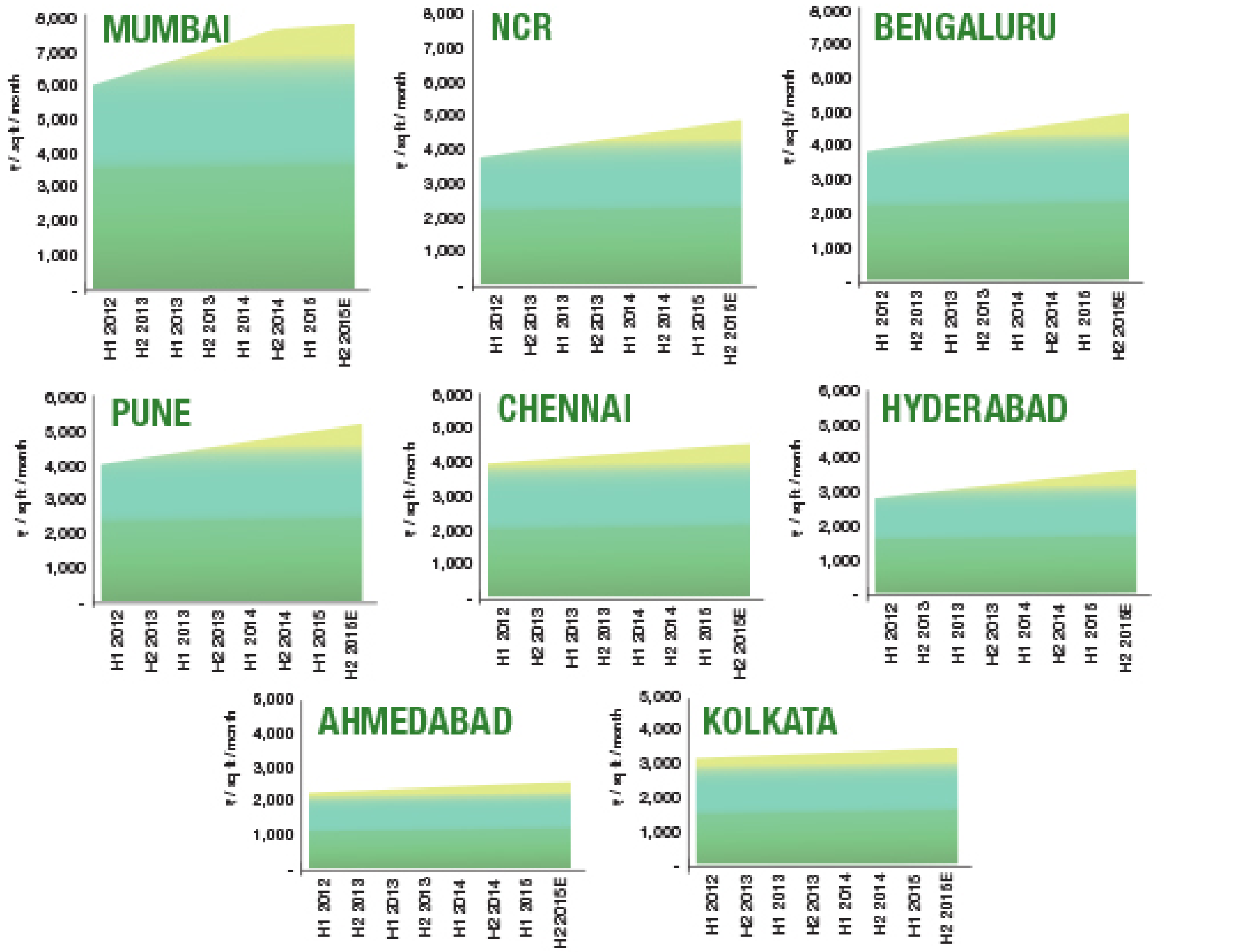
Note: The size of the bubble indicates the quantum of unsold inventory. QTS is the Quarter to Sell Unsold Inventory

- The quarters to sell unsold inventory (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.
- As per our market health analysis, Mumbai has the highest number of unsold units in India, at more than 194,000 as of June 2015. However, the NCR market will take the maximum time to liquidate its existing unsold inventory. At the current pace of sales, NCR will take more than four years to exhaust the unsold homes completely.
- Pune is currently the healthiest market, with the lowest QTS and a relatively lower age of unsold inventory.
- The Kolkata market has a QTS comparable to that of Mumbai despite having one of the lowest unsold inventory levels in comparison to the other markets. This can be attributed mainly to the reducing pace of sales, especially in the premium category.
- Despite having the least unsold inventory, Hyderabad currently has a high QTS and also suffers with a very high age of unsold inventory. A large number of previously-launched projects still remain unsold in the city. One of the reasons for such a high age of inventory is the fact that homebuyers in this market prefer ready-to-move-in properties; hence, a number of sales materialise once the project is ready for possession.

PRICE MOVEMENT DURING H1 2015

- Prices in Mumbai continued to grow at a quick pace, at 8% in H1 2015, compared to H1 2014. Prices in Bengaluru and Pune grew at 4%, which was the second-fastest growth rate.
- The NCR market witnessed a 3% price growth in H1 2015 – the steeper fall in new launches compared to the sales volume led to a slight push in capital values.
- Kolkata observed a price correction at -3% in H1 2015 compared to the same period last year.

FIGURE 9
Weighted average price movement



Source: Knight Frank Research

OUTLOOK FOR THE NEXT SIX MONTHS

	H2 2014	H2 2015E	Growth
Launches (units)	126,233	99,515	-21%
Absorption (units)	115,647	117,204	1%

Source: Knight Frank Research

- We expect the sales volume to remain at almost the current levels, with a moderate growth of 1% in H2 2015. However, new launches will continue to fall by 21% during the same period, as a consequence of which, stability can be achieved in the unhealthy residential markets with high unsold inventory levels.

- The price growth in most of the cities will continue to remain moderate, between 2–6% during H2 2015. However, Bengaluru will witness a double-digit growth in the weighted average price, at 11%, during the same period.

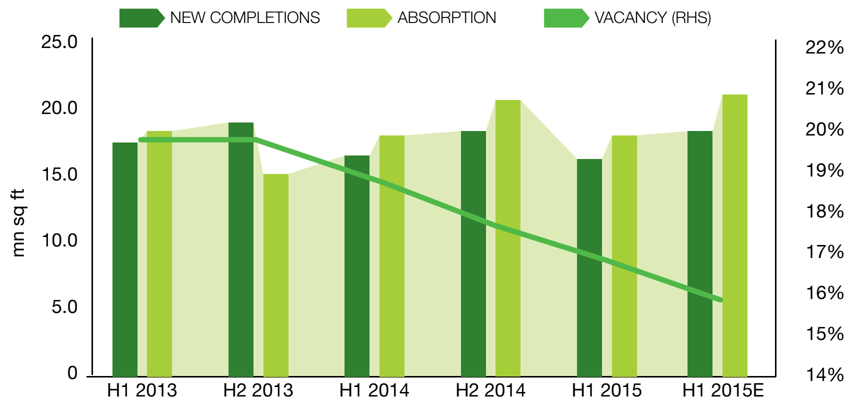
Pune is currently the healthiest market, with the lowest qts and relatively lower age of unsold inventory

Absorption volumes have been surpassing new completions consistently since H1 2014, as a result of which, the vacancy levels in India have been dwindling. At the all-India level, vacancies have dropped to 17% in H1 2015 from 19% a year ago.

ALL INDIA OFFICE MARKET

FIGURE 1

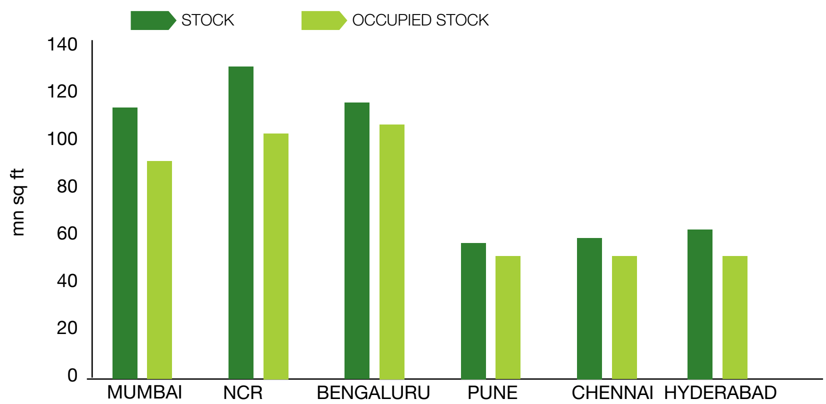
NEW COMPLETIONS, ABSORPTION AND VACANCY LEVEL (TOP SIX CITIES)



Source: Knight Frank Research

FIGURE 2

OFFICE STOCK, OCCUPIED STOCK AS ON JUNE 2015

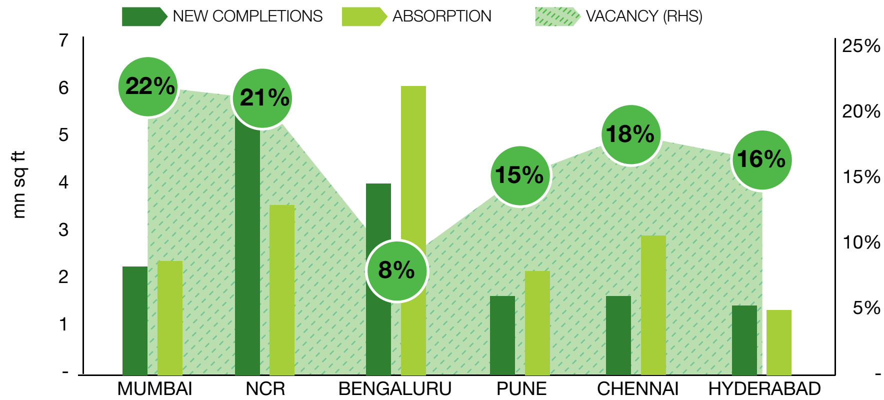


Source: Knight Frank Research

- Improving business sentiments and a recovery in the domestic market have led to higher demand for office space in the last two years. The absorption volumes have been surpassing new completions consistently since H1 2014, due to which, the vacancy levels in India have been dwindling. The vacancy levels have dropped to 17% in H1 2015, from 19% a year ago.
- Limited rental appreciation during 2009–2012 compelled developers to look for alternative development options, such as built-to-suit office buildings or residential complexes that could give them better returns. Thus, new completions experienced a setback.
- A half-yearly comparison of absorption and new completions during H1 2015 with the same period last year shows no change. Nearly 18 mn sq ft of office space was absorbed during H1 2015. As per our projections, the absorption levels will witness a 2% growth in H2 2015 compared to H2 2014.
- Although the NCR office market has the largest office space stock, at 132 mn sq ft, the Bengaluru market leads in terms of occupied space and absorption.

CITY-WISE NEW COMPLETIONS, ABSORPTION AND VACANCY LEVELS DURING H1 2015

FIGURE 3
CITY-WISE NEW COMPLETIONS, ABSORPTION AND VACANCY LEVELS DURING H1 2015



Source: Knight Frank Research

At 8%, the vacancy level in Bengaluru is the lowest among these cities. Readily-available quality office spaces have been shrinking. Unless the estimated new completions become operational, the shortage will impact the potential occupiers and may lead them to explore alternative office destinations.

- The Bengaluru office market continues to lead the way, with the highest office space absorption in the country. Nearly 6 mn sq ft of office space was transacted in this market during H1 2015, followed by NCR, which clocked absorption of 3.7 mn sq ft and is driven primarily by the IT/ITeS and other services sectors.
- Mumbai currently has the highest vacancy level, at 22%, followed closely by NCR. However, the vacancy levels have been reducing consistently in both these markets since H2 2014. Although the market vacancy has remained high during the last few years, there is a dearth of large-size quality office space.
- At 8%, the vacancy level in Bengaluru is the lowest among these cities. Ready-to-occupy office space has been depleting in this market, owing to which, the substantial pre-commitment of office space took place in under-construction projects during H1 2015. Unless the estimated new completions become operational in the forthcoming months, the shortage will impact potential occupiers with large space requirements and lead them to contemplate alternative office destinations.

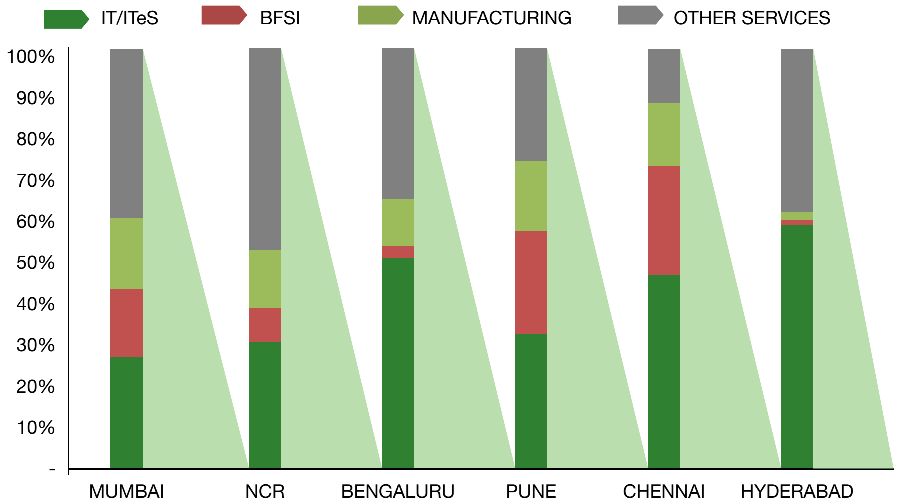
SECTOR-WISE ABSORPTION SPLIT DURING H1 2015

- The share of the IT/ITeS sector was the highest in Hyderabad, at 58%, followed by Bengaluru, at 50% during H1 2015. Traditionally, both these markets have been driven by the IT/ITeS sector. However, the share of the other services sector is also catching up quickly.
- Since the last two years, the percentage share of the other services sector has been growing across all the six cities, e-commerce and consulting being the top drivers in this sector.
- IT/ITeS and the other services sectors accounted for 97% the total space demand in Hyderabad. The Telangana capital city is not preferred by BFSI and manufacturing occupiers.
- Chennai and Pune were the preferred choices of BFSI occupiers in H1 2015. Citibank, Deutsche Bank, MasterCard and UBS were some of the top occupiers in this sector. However, the space was used primarily for the support services of these BFSI companies.

Chennai and Pune were the preferred choices of BFSI (support services) occupiers during H1 2015.

FIGURE 4

SECTOR-WISE ABSORPTION SPLIT DURING H1 2015



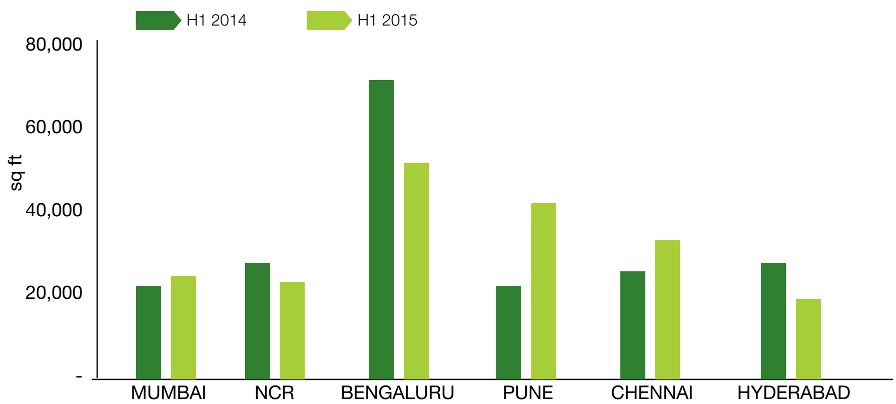
Source: Knight Frank Research

Note: BFSI includes BFSI Support Services

DEAL SIZE ANALYSIS

FIGURE 5

DEAL SIZE ANALYSIS

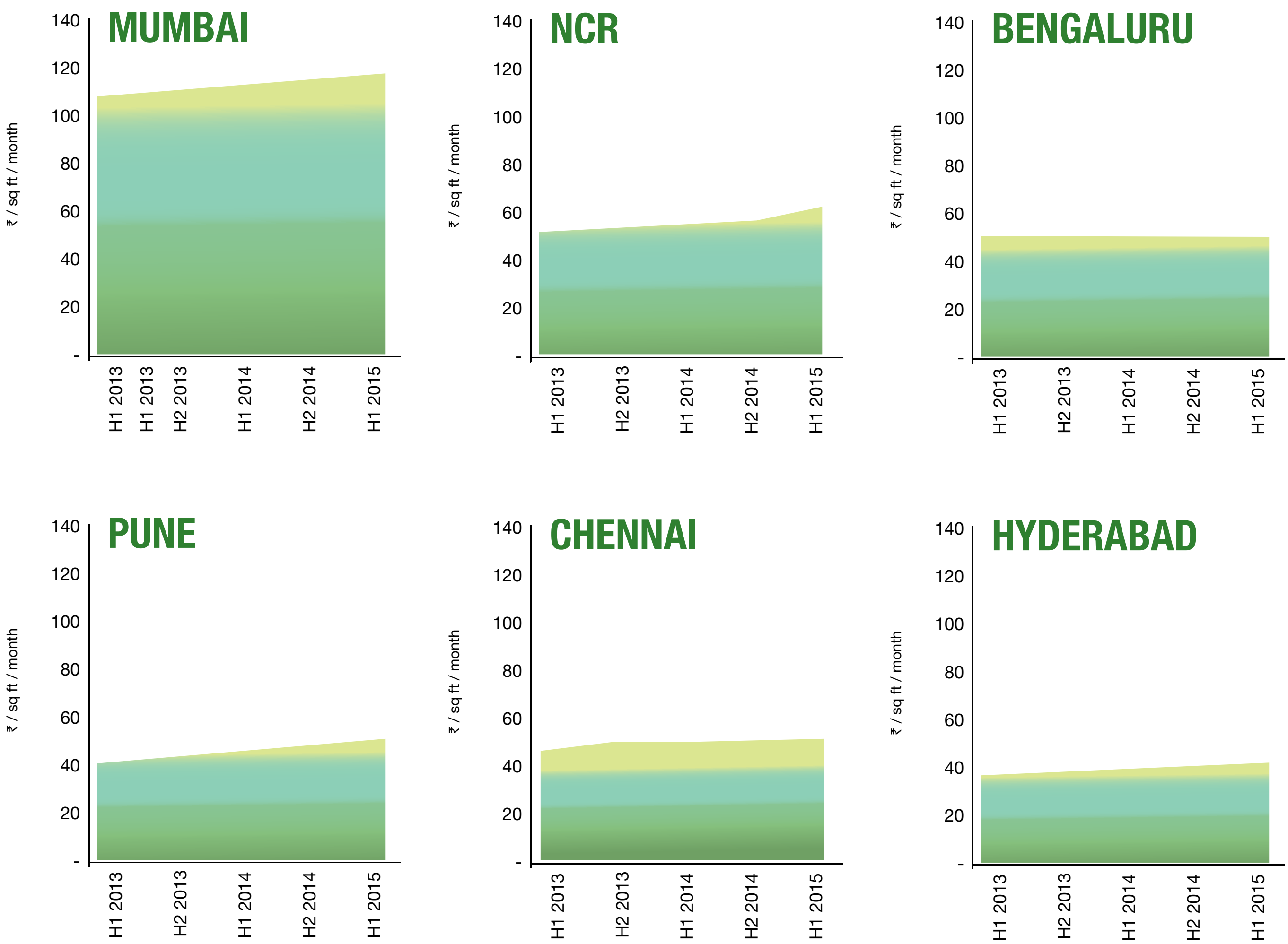


Source: Knight Frank Research

- Bengaluru exhibited the highest average deal size in comparison with the other cities in H1 2015, though it fell by almost 25% compared to H1 2014.
- The average deal size of all the IT/ITeS-driven office markets is greater than 30,000 sq ft, barring Hyderabad, where the average size of transaction was approximately 18,500 sq ft. There is a scarcity of quality office spaces with large floor plates in the Hyderabad office market.
- Pune witnessed a 90% growth in the average deal size during H1 2015 compared to the same period last year. The BFSI sector (primarily support services) led in terms of big-ticket deals, the majority of them being in the range of 100,000 sq ft and above.

WEIGHTED AVERAGE RENTAL MOVEMENT

FIGURE 6
WEIGHTED AVERAGE PRICE MOVEMENT



Source: Knight Frank Research

- The demand for office space has been outstripping new completions consistently since the last two years, leading to a rise in the weighted average rentals across all the cities during H1 2015.

- At 16%, rents in Pune increased at the fastest pace compared to the other cities during H1 2015.
- Chennai witnessed the slowest growth rate in rent, at 3% during H1 2015.

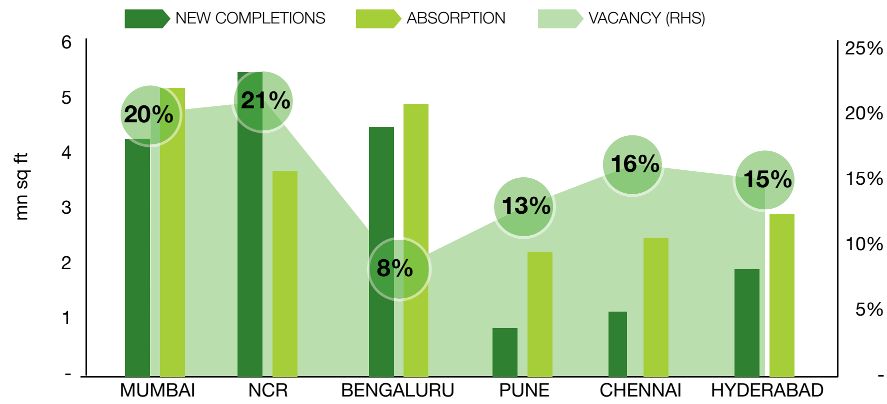
As per our projections, the vacancy levels will continue to fall in H2 2015 across most of the cities, except for NCR. This is going to put further pressure on rentals during H2 2015.

OUTLOOK FOR THE NEXT SIX MONTHS

Projections	H2 2014	H2 2015E	Growth
New completions (mn sq ft)	18.5	18.5	0%
Absorption (mn sq ft)	20.7	21.2	2%
Vacancy	18.8%	16.8%	

Source: Knight Frank Research

FIGURE 7
CITY-WISE NEW COMPLETIONS, ABSORPTION AND VACANCY LEVELS FORECASTED FOR H2 2015



Source: Knight Frank Research

- While new completions across the top six cities are expected to witness no change in H2 2015 compared to H2 2014, absorption is estimated to grow marginally, by 2%.
- However, the vacancy levels at the all-India level are expected to fall to 16.8% in H2 2015 from 18.8% in H2 2014.
- Going forward, the vacancy levels during H2 2015 will continue to plummet in most of the cities, except for NCR, where it is estimated to remain steady. This is going to put further pressure on rentals during H2 2015.

AUTHOR

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BENGALURU

Residential & Office Market

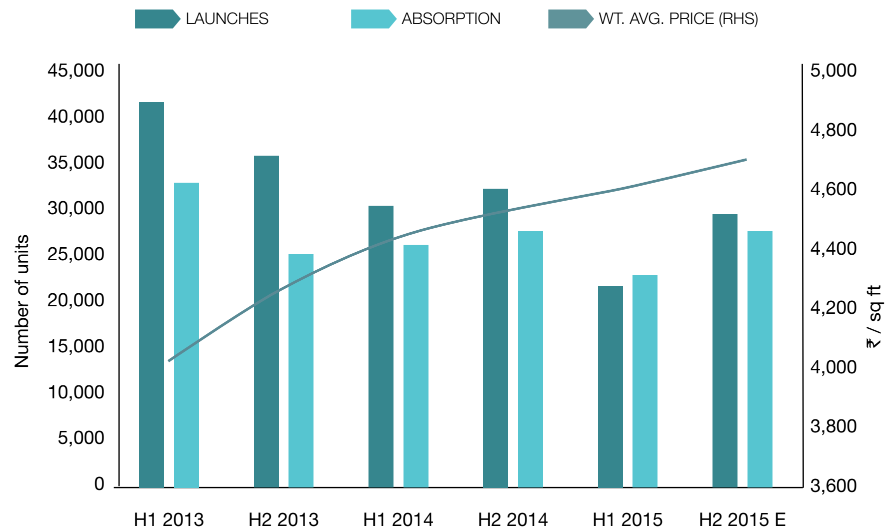
The relatively stable Bengaluru residential market suffered a setback in H1 2015, as the number of new launches tumbled by 40% compared to H1 2014, while the sales volume strove to check its decline. The slack in market sentiment could be attributed to the excessive expectations that the real estate industry and homebuyers had in the new government, the delay in which has led both parties to curb their enthusiasm

RESIDENTIAL MARKET

LAUNCHES, ABSORPTION AND PRICE TRENDS

FIGURE 1

BENGALURU MARKET TRENDS



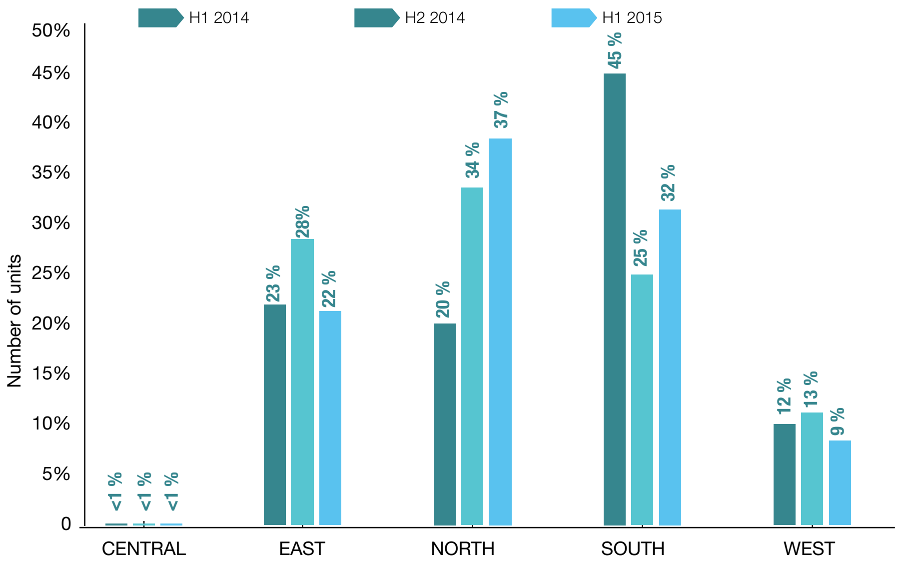
Source: Knight Frank Research

- Bengaluru, touted to be one of the most stable residential markets of the country till recently, suffered a setback in H1 2015, as the number of new launches tumbled by 40% compared to H1 2014. The decline continued to be at a disconcerting figure of 34% vis-à-vis the number of new launches witnessed six months ago (H2 2014).
- The city's sales volume, too, witnessed a substantial drop in H1 2015, though not as steep as the decline in new launches. While the decline was 18% on a year-over-year (YOY) basis, it was 22% lower than the preceding six months (H2 2014).
- In contrast, despite the decline in new launches and absorption, weighted average prices continued to scale upwards at a gradual pace and saw an increase of 4% in H1 2015 as against the values in H1 2014. The increase in construction costs and the improvement of infrastructure at prime locations such as Yeshwanthpur have primarily been responsible for this price appreciation.
- The slack in market sentiment, which had become apparent in H2 2014 itself, could be termed as one of the major factors restricting developers from launching more projects. The roots of this gloomy development could be attributed to the excessive expectations that the real estate industry and homebuyers had in the new government, the delay in which has led both the parties to curb their enthusiasm.
- On a positive note, we expect the market to pick up in the second half of the year, mainly owing to the large quantum of office space transacted in the city during H1 2015 as well as the upcoming festive period. We estimate new launches to increase by 39% in H2 2015 as compared to H1 2015, although it would still fall short of the number in H2 2014 by 9%.
- The sales volume is also expected to improve in the forthcoming six months, to the tune of around 25%, though lagging marginally behind, by 2% on a YOY basis.
- On the price front, we expect the sluggish growth witnessed in H1 2015 to continue in H2 2015. The period is estimated to witness a 4% increase in the annual weighted average prices, similar to the annual appreciation witnessed in H1 2015.

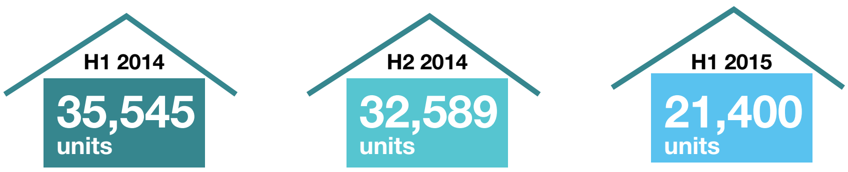
MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

FIGURE 2

MICRO-MARKET SPLIT OF LAUNCHED UNITS



Source: Knight Frank Research



- North Bengaluru has been witnessing persistent interest from the developer community, with its share in the total number of new launches increasing steadily since H2 2014. Accounting for a 37% share of the new launches in the city in H1 2015, the region exudes optimism regarding the housing demand in the forthcoming years, while recognising the fact that it might take some time, given the nascent state of the office sector there. Locations such as Hebbal, which is fast gaining ground as an upper mid-end destination, as well as growth corridors such as Kogilu, Nagavara, Jakkur and Thanisandra have benefitted largely, owing to their improved connectivity and proximity to the IT parks and the international airport.
- South Bengaluru, too, observed a significant number of new launches in H1 2015, leading to an improvement in its share, compared to the preceding six months. Positive sentiment in the IT/ITeS sector seems to have led to the resurgence of residential development in this region after a dismal H2 2014. However, it has still not been able to achieve the level of H1 2014 with most of the existing under-construction projects yet to offload a significant portion of their inventory.
- West Bengaluru's share, which had shown potential in 2014 with an increasing trend of new launches, has fallen slightly behind in H1 2015.

North Bengaluru has been witnessing persistent interest from the developer community. The region exudes optimism regarding housing demand for the forthcoming years, while recognising the fact that it might take some time, given the nascent state of the office sector there. The presence of the metro rail in West Bengaluru has increased its location's attractiveness and the number of new launches is expected to pick up in the coming months

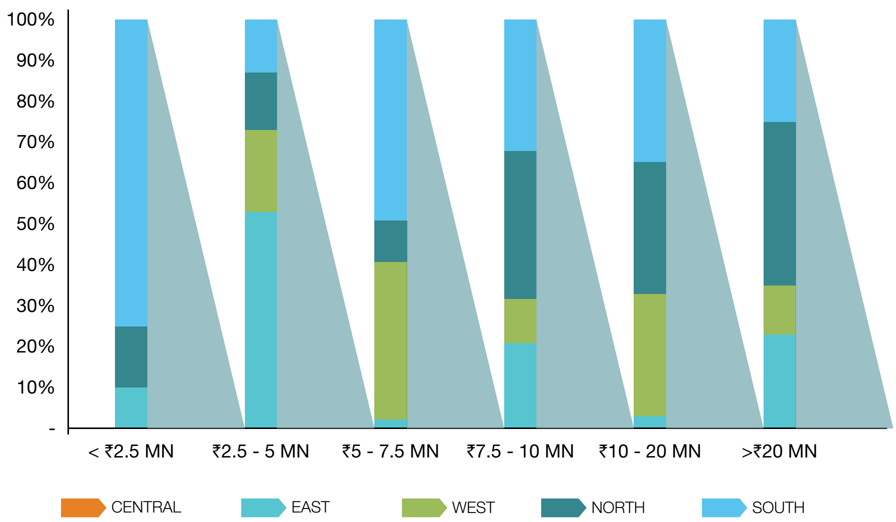
This could be attributed to the dearth of contiguous land parcels at prime locations where large-scale projects can be developed. Nevertheless, the presence of the metro rail has increased the location's attractiveness and we foresee the number of new launches to pick up in the forthcoming months.

- Central Bengaluru, the traditional bastion of the upper segment, witnessed a limited number of new launches in 2014 and H1 2015. These comprised small, boutique-style projects with very few units, owing to land constraints, as a result of which, the region's share is not reflected categorically in the chart.
- The southern and the eastern zones of the city were responsible for the majority of the affordable projects in H1 2015, accounting for 44% and 31%, respectively, of the total new launches below the ₹5 mn ticket size. South Bengaluru also witnessed the highest number of new launches in the mid segment, the ticket size ranging between ₹5–₹10 mn. In contrast, North Bengaluru witnessed the launch of the most number of residential units priced above the ticket size of ₹10 mn – to the tune of around 36%.

The southern and the eastern zones of the city were responsible for the majority of the affordable projects in H1 2015 of the total new launches below the ₹5 mn ticket size, while North Bengaluru witnessed the launch of the most number of residential units priced above the ticket size of ₹10 mn

FIGURE 3

TICKET SIZE SPLIT OF LAUNCHES DURING H1 2015



Source: Knight Frank Research

MICRO-MARKET-WISE RESIDENTIAL SALES

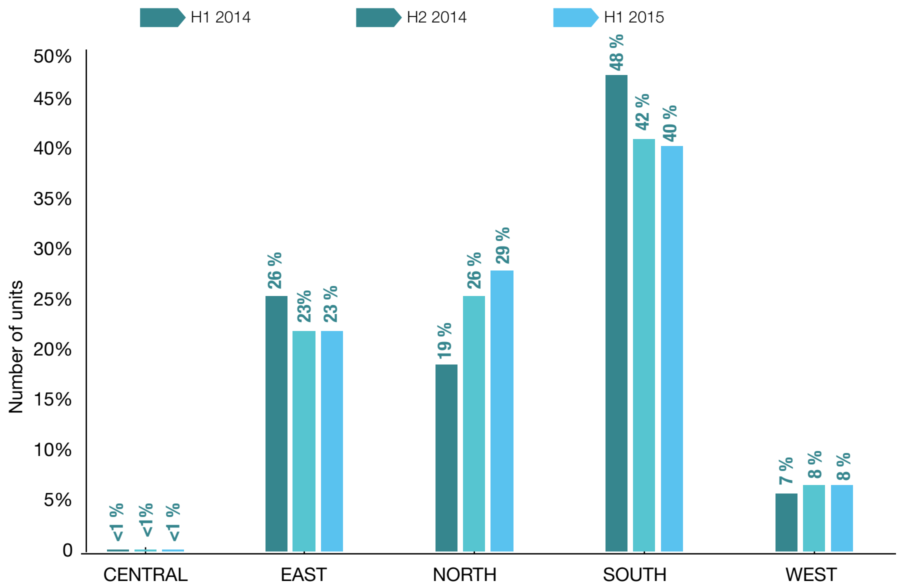
BENGALURU METROPOLITAN REGION MAP

Despite accounting for the highest quantum of sales volume, South Bengaluru's share of the total absorption has been on a decreasing trend since H1 2014. This decline in absorption needs to be controlled further, as the unsold inventory is expected to increase in the coming months. Although quite far behind its southern counterpart in terms of sales, North Bengaluru has seen a definite uptick in its absorption

Micro-markets	Location
Central	MG Road, Lavelle Road, Langford Town, Vittal Mallya Road, Richmond Road
East	Whitefield, Old Airport Road, Old Madras Road, KR Puram, Marathahalli
West	Malleswaram, Rajajinagar, Yeshwanthpur, Tumkur Road, Vijayanagar
North	Hebbal, Bellary Road, Hennur, Jakkur, Yelahanka, Banaswadi
South	Koramangala, Sarjapur Road, Jayanagar, JP Nagar, HSR Layout, Kanakapura Road, Bannerghatta Road

FIGURE 4

MICRO-MARKET SPLIT OF SALES



Source: Knight Frank Research

H1 2014
27,256
units

H2 2014
28,445
units

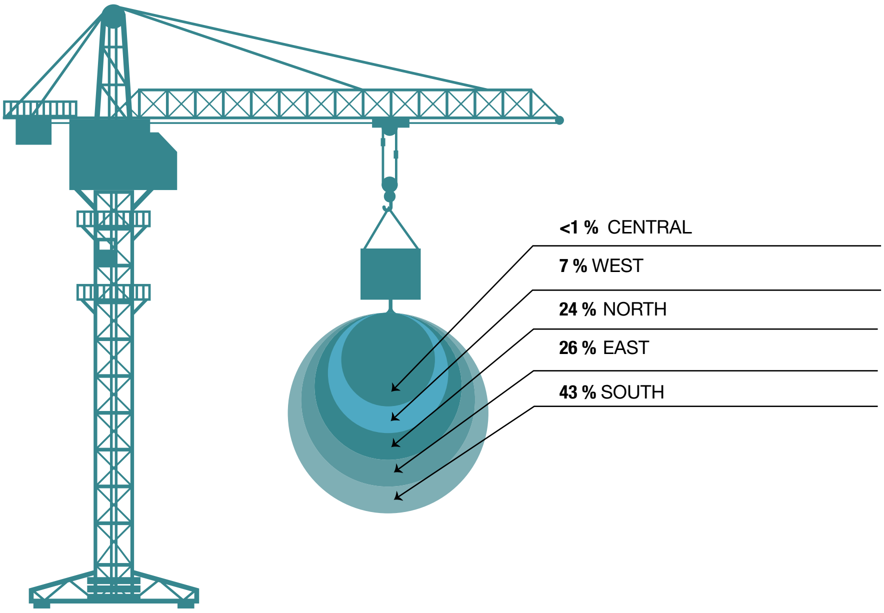
H1 2015
22,234
units

- The micro-market split of absorption has not undergone any substantial change in the last six months. The eastern and western regions of the city maintained the same volume of sales in H1 2015 as they had witnessed in H2 2014, while Central Bengaluru witnessed a minimal number of sales in all the three periods.
- However, South Bengaluru's share of the total absorption has been on a decreasing trend since H1 2014. It declined to 40% in H1 2015 as compared to the 48% share in H1 2014, though the fall in the last six months has been somewhat constrained. This decline in absorption needs to be controlled further, as the unsold inventory is expected to increase in the coming months.
- Although quite far behind its southern counterpart in terms of sales, North Bengaluru has seen a definite uptick in its absorption. While the region's share of absorption in H1 2014 was just 19% in H1 2014, which increased to 26% share in H2 2014, it amplified to a substantial 29% share in H1 2015.

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF JUNE 2015

FIGURE 5

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF JUNE 2015



Source: Knight Frank Research

- South Bengaluru accounts for the major share of the total number of units under construction, to the tune of 43%, given the fact that the region has been witnessing large-scale residential development in the past years. The region is preferred by potential buyers due to its good social infrastructure and the presence of employment hubs, leading developers to launch their projects there. Additionally, property prices are relatively cheaper in the peripheral locations in the south, compared to the other micro-markets.
- The northern and eastern markets have fairly uniform shares of the units under construction, while West Bengaluru has yet to catch up on the residential market scene.

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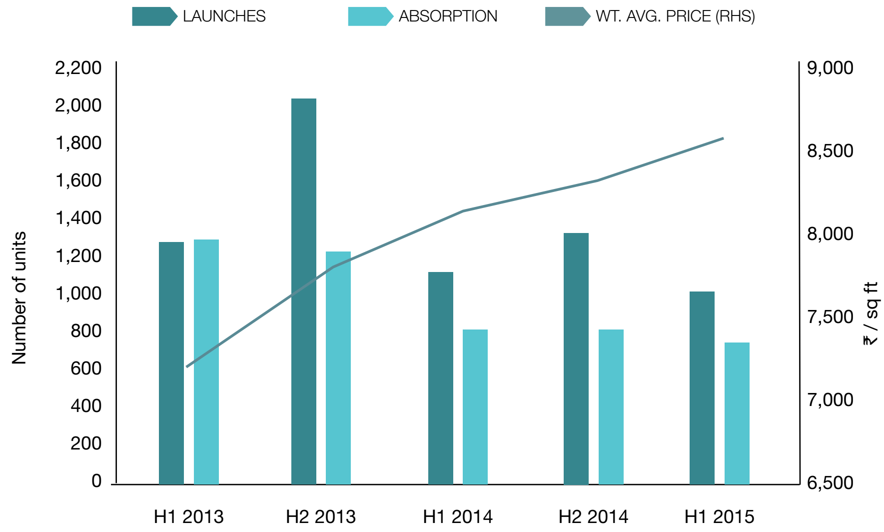
PREMIUM RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

Micro-markets	Location
Central	MG Road, Lavelle Road, Langford Town, Vittal Mallya Road, Richmond Road
East	Whitefield, Indiranagar
West	Malleswaram, Rajajinagar, Yeshwanthpur
North	Hebbal, Bellary Road
South	Koramangala, Jayanagar, JP Nagar

FIGURE 6

PREMIUM MARKET TRENDS



Source: Knight Frank Research

Note: *Premium markets include locations where the average ticket size of a residential unit is above ₹ 20 mn, are in close proximity to the central business district of the city and have witnessed new project launches in the preceding three years*

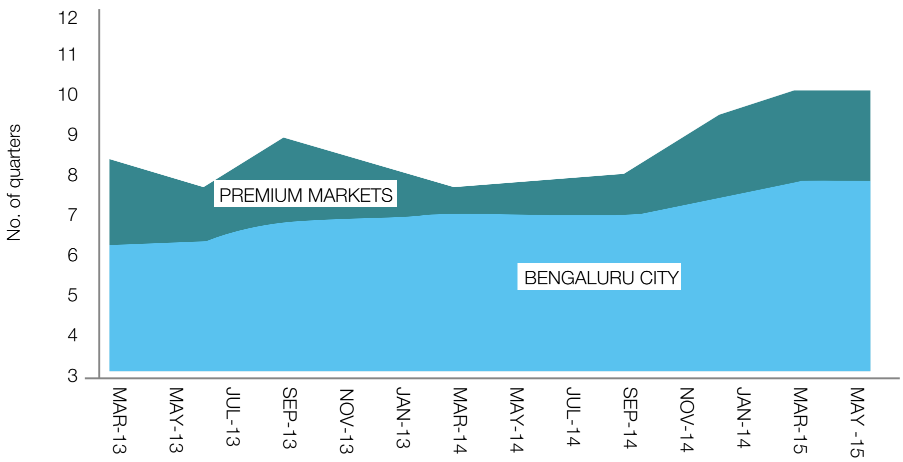
The demand for premium units in Bengaluru has been lower than the other segments, as the city is mainly an end-user market driven by the IT/ITeS and other services sectors, which generally prefer mid-end residences. However, the weighted average price growth YOY in the premium segment has performed relatively better in H1 2015 than the city's weighted average price growth

- The premium market of Bengaluru, which constitutes locations such as Lavelle Road, Richmond Road, Indiranagar and Malleswaram, among others, has observed a decline of 19% in new launches during H1 2015 as compared to the preceding six months. However, this decline is marginal, at 2%, when compared on a yearly basis with H1 2014. Meanwhile, absorption in H1 2015 dropped by 8% as against the same period last year, while the decline has been pegged at 11% compared to H2 2014.
- The demand for premium units in Bengaluru has always been lower than that of the other segments, as the city is mainly an end-user market driven by the IT/ITeS and other services sectors, which generally prefer mid-end residences.
- The impact of the economic slowdown on residential absorption has been more prominent in the affordable and mid-end housing segments than in premium housing due to the price-sensitiveness of the consumers of those segments.
- Nevertheless, it affected the new launches of high-ticket projects of the developers in H1 2015 in order to complete their mid-end housing projects and gain confidence of the consumers.
- The weighted average price growth YOY in the premium segment has performed relatively better, at 5% in H1 2015, than the city's weighted average price growth. Factors such as the exclusivity of the project, product differentiation, luxurious amenities and good connectivity to the city centre have helped the newly-launched projects command a stronger price growth despite a slowdown in demand.

BENGALURU MARKET HEALTH

FIGURE 7

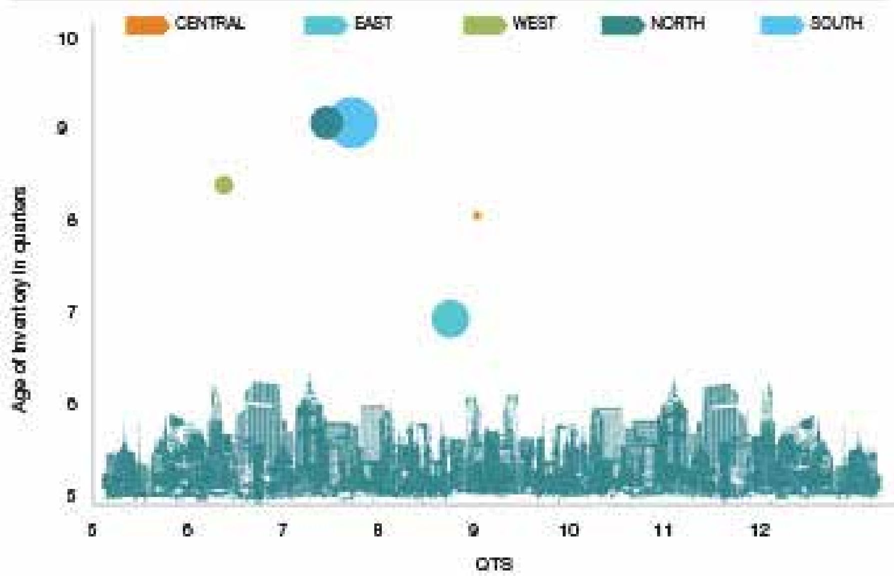
QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS



Source: Knight Frank Research

FIGURE 8

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

Note: The size of the bubble indicates the quantum of unsold inventory

- The quarters to sell unsold inventory (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 for Bengaluru has been increasing gradually since September 2013, and currently stands at eight quarters. However, the QTS for premium markets in the city has witnessed a sharper rise, and is currently at 10 quarters. This rise is mainly due to the fall in demand for premium housing in the last 12 months.

The QTS for Bengaluru has been increasing gradually. Despite having a relatively lower QTS, South Bengaluru is one of the worst performing markets, with the largest quantum of unsold inventory in the city and a high age of unsold inventory – the consequence of a sizeable number of yearly new launches in the region. The eastern market has the highest QTS in the city, though it has the lowest age of inventory, indicating that the pace of absorption is considerably slow in the region

- Despite having a relatively lower QTS, South Bengaluru is one of the worst performing markets, with the largest quantum of unsold inventory in the city and a high age of unsold inventory – the consequence of a sizeable number of yearly new launches in the region. Additionally, the eastern market has the highest QTS in the city, though it has the lowest age of inventory, indicating that the pace of absorption is considerably slow in the region, which may ultimately lead to a large inventory build-up.
- West Bengaluru is currently one of the best performing markets of the city, with the lowest QTS, although it has a high age of inventory, signifying that the market has gained prominence in recent times. The metro rail being operational last year has been one of the prime factors behind this development. However, West Bengaluru still does not have sufficient inventory and sales volume compared to the other zones of the city.
- North Bengaluru shares almost the same fate as its southern counterpart, but having evolved later than the south, it enjoys the advantage of a smaller unsold inventory size and a lower QTS. Thus, we expect this market to gain momentum once the office sector earns prominence in the near future.
- The premium residential market of Central Bengaluru, with a QTS of 9 and an age of inventory pegged at 8 quarters, does not have a key role to play due to its minimal unsold inventory size.

Price appreciation across most locations in Bengaluru has been rather tepid during the last 12 months and ranged between 2–10%. The growth in price slowed down further in the last six months, primarily due to the subdued sales volume and a huge amount of unsold inventory present in the market. The range of price appreciation during this period has been within 1–6%

PRICE MOVEMENT DURING H1 2015

- Price appreciation across most of the locations in Bengaluru has been rather tepid during the last 12 months and ranged between 2%–10%. The growth in price slowed down further in the last six months, primarily due to the subdued sales volume and a huge amount of unsold inventory present in the market. The range of price appreciation during the period has been within 1%–6%.
- The weighted average price increase has been slightly higher in the premium segment in the last 12 months compared to the growth in the city's overall price. This growth has been higher, at 3% in the previous six months, compared to the city's growth of 1%, which could be attributed to the improvement in infrastructure in select prime locations.

Location	Weighted average price in H1 2015	12 month change	6 month change
Bengaluru	4,650	4%	1%
Premium markets	8,620	5%	3%

Source: Knight Frank Research

Location	Micro-market	Price range in H1 2015 (₹/sq ft)	12 month change	6 month change
Langford Town	Central	15,000–21,000	9%	3%
Lavelle Road	Central	22,000–30,000	4%	0%
KR Puram	East	4,000–6,750	8%	2%
Whitefield	East	4,500–8,500	8%	4%
Marathahalli	East	4,500–7,000	2%	2%
Indiranagar	East	9,000–12,500	2%	2%
Yeshwanthpur	West	6,500–10,500	6%	6%
Malleswaram	West	9,000–13,000	5%	5%
Rajajinagar	West	8,500–14,000	6%	2%
Tumkur Road	West	4,000–4,800	4%	1%
Yelahanka	North	4,500–7,000	0%	0%
Hebbal	North	5,000–9,500	4%	0%
Hennur	North	4,500–6,200	10%	5%
Thanisandra	North	4,000–7,200	2%	2%
Sarjapur Road	South	4,500–7,200	4%	4%
Electronics City	South	4,000–6,500	5%	2%
Kanakapura Road	South	4,300–6,000	6%	0%
Bannerghatta Road	South	4,200–7,200	2%	2%

Source: Knight Frank Research

OUTLOOK FOR THE NEXT SIX MONTHS

Projections	H2 2014	H2 2015E	Growth
Launches (units)	32,589	29,701	-9%
Absorption (units)	28,445	27,897	-2%
Weighted average price (₹/sq ft)	4,585	4,751	4%

Source: Knight Frank Research

- While H1 2015 has been less than encouraging, we expect the second half of the year to bounce back satisfactorily. Market sentiments are likely to be more upbeat, primarily owing to the large-scale absorption in the office sector and the revival in manufacturing activity, as well as the festive period that generally witnesses an increased sales volume. However, the projected new launches and absorption in H2 2015 will still fall short of the figures in H2 2014 by 9% and 2%, respectively, since the decline in H1 2015 has been quite significant.
- West and North Bengaluru are expected to witness increased developer and buyer interest, chiefly due to infrastructure development. West Bengaluru, with its slew of premium projects and metro rail connectivity, will soon be considered one of the prime residential destinations in the city. Not to be outdone, the northern region has immense scope for residential demand, given the quantum of office space under development, although a lot depends on its ability to find favour with leading office occupiers.
- South Bengaluru will continue to witness new launches, but at locations further away from the city centre, thus impacting the buying decisions of the potential customer, who may not be too keen to settle down so far. At the same time, locations around the Outer Ring Road will witness increased traction due to their proximity to employment hubs.
- East Bengaluru will remain on the radar of the mid-segment homebuyer engaged with the IT/ITeS sector, while locations further away from the city, such as Hoskote, will gain prominence in the forthcoming periods.
- On the price front, we expect the weighted average price in Bengaluru to increase marginally, by 4% in H2 2015 compared to H2 2014, on the back of an improved sales volume.

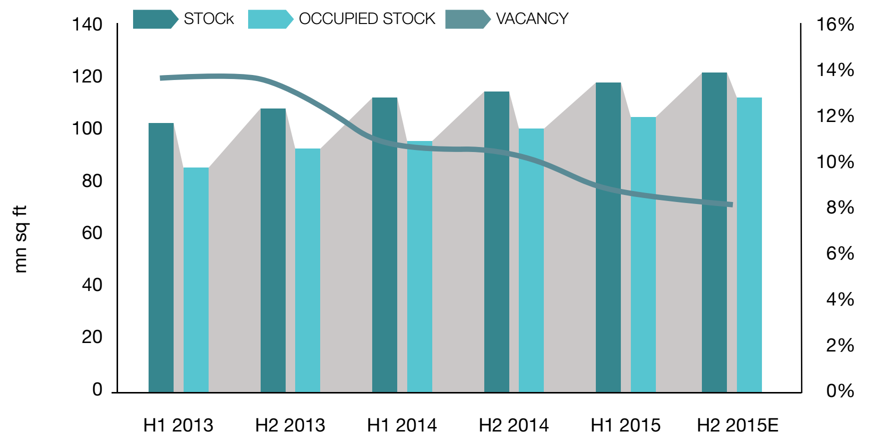
The Bengaluru office market continued to lead the way with the highest office space absorption in the country. With 6.07 mn sq ft already transacted in H1 2015, the city is expected to touch a total absorption of 11.10 mn sq ft by the end of the year. Additionally, with an occupied stock of 108.3 mn sq ft, Bengaluru has become the office market with the highest occupied stock in the country.

OFFICE MARKET

STOCK, NEW COMPLETIONS, ABSORPTION AND VACANCY TRENDS

FIGURE 1

BENGALURU OFFICE SPACE STOCK AND VACANCY LEVELS



Source: Knight Frank Research

- The Bengaluru office market continued to lead the way with the highest office space absorption in the country. With 6.07 mn sq ft already transacted in H1 2015, the city is expected to touch a total absorption of 11.10 mn sq ft by the end of the year.
- Despite a stagnating economy, Bengaluru attracted substantial occupier interest, the demand being driven primarily by the IT/ITeS and e-commerce sectors, resulting in big-ticket transactions in H1 2015.
- While the city is progressively witnessing additions to its total office space stock, currently standing at 118 mn sq ft, the occupied stock has already touched 108.3 mn sq ft to become the office market with the highest occupied stock in the country.
- Consistent absorption and relatively restrained new completions have contributed to the steady decline of vacancy rates on an annual basis, leading to a level of just 8% in H1 2015.
- Going forward, the office space demand in Bengaluru is expected to sustain its momentum, fuelled by the increasing corporate interest evinced by both, global as well as domestic companies. This would entail scaling up their operations owing to the improvement in global sentiment, especially in the US, which is a major market for IT/ITeS and e-commerce companies.
- Thus, the traction envisaged in the Bengaluru office market is expected to be better, compared to last year (2014), highlighting the positive impact of the improving business sentiment and the macroeconomic scenario.

FIGURE 2

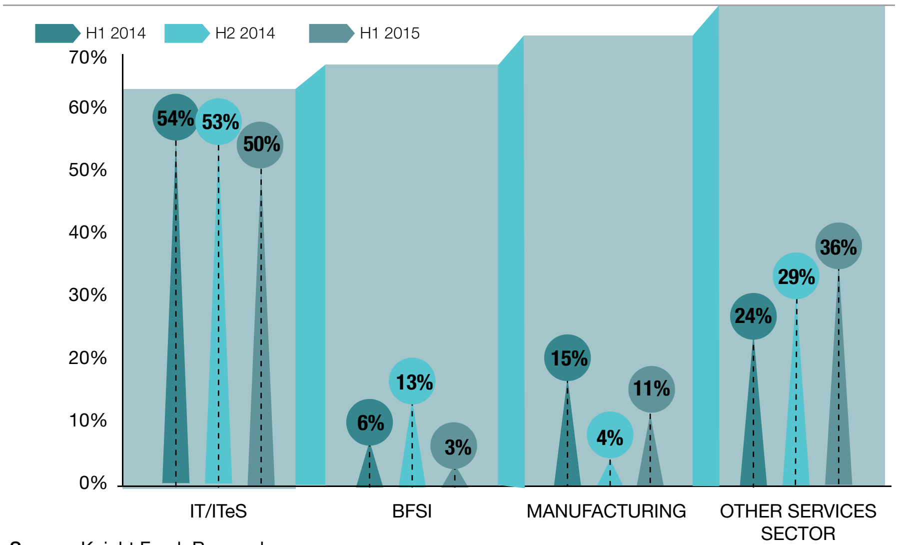
NEW COMPLETIONS AND ABSORPTION

Source: Knight Frank Research

SECTOR ANALYSIS

FIGURE 3

SECTOR-WISE SPLIT OF ABSORPTION



Source: Knight Frank Research

Source: Knight Frank Research

Note:

1. BFSI includes BFSI Support Services

2. The pre-committed deals inked by Amazon and Flipkart have not been included in the absorption

The share of the IT/ ITeS sector, the key demand driver of the city's office market, has observed a decreasing trend in the last year, which could be attributed primarily to the increasing consolidation of space by the e-commerce sector. Big-size deals by e-commerce sector in H1 2015, comprising a total of 3.2 mn sq ft of pre-committed Built To Suit office space by Amazon and Flipkart, have led the sector to emerge as one of the leading occupiers of office space in the city.

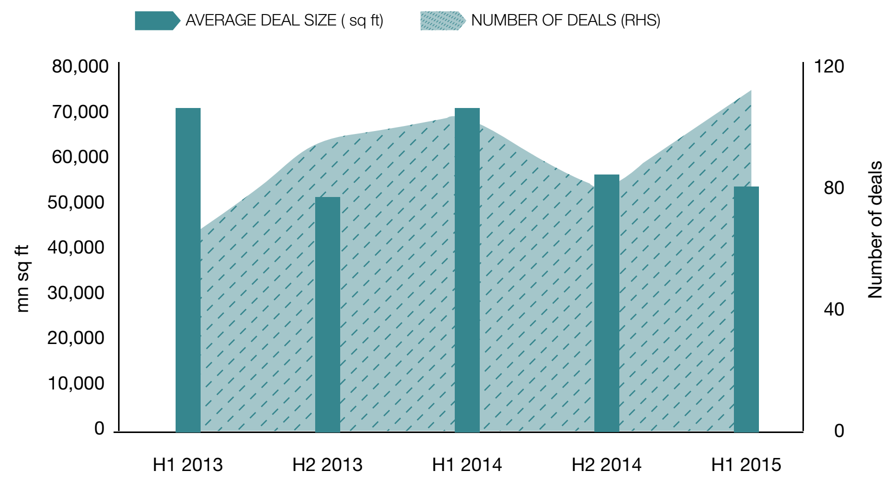
- The share of the IT/ITeS sector, the key demand driver of the city's office market, has observed a decreasing trend in the last year, albeit a gradual one. Although it continues to drive the demand for office space, the share of this sector has declined from 54% in H1 2014 and 53% in H2 2014 to 50% in H1 2015. However, in terms of absolute numbers, the IT/ITeS sector in H1 2015 witnessed an increase of 30% with absorption of 3 mn sq ft over 2.3 mn sq ft absorbed in H2 2014. Among the notable transactions, IT major Sapient took up office space of 0.7 mn sq ft on Sarjapur Outer Ring Road (ORR).
- This decline in IT/ITeS share could be attributed primarily to the increasing consolidation of space by the e-commerce sector that comes under the umbrella of the other services sector. In a significant development, H1 2015 saw international e-commerce major Amazon ink a transaction for a whopping 1.2 mn sq ft of office space in a yet-to-be-ready Built To Suit (BTS) facility on Sarjapur ORR, while Bengaluru-based Flipkart accounted for 2 mn sq ft – the single largest office space leasing deal in the country in another under-construction BTS project on Marathahalli ORR. Although these two large e-commerce deals, totalling 3.2 mn sq ft, have not been taken into consideration in the current absorption of 6.07 mn sq ft as they are essentially pre-committed deals, this has heralded the e-commerce sector to emerge as one of the leading occupiers of office space in the city and a strong contender for driving demand in the future.
- The share of other services sector has risen from 24% in H1 2014 to 36% in H1 2015, signifying an increase in office space absorption by companies belonging to sectors such as media, logistics, healthcare and e-commerce. Besides the deals transacted by domestic e-commerce majors such as Snapdeal, prominent transactions inked by companies such as LinkedIn and Vodafone that took up spaces of 0.20 mn sq ft and 0.12 mn sq ft respectively in H1 2015, have contributed towards the increase in share.
- Meanwhile, few major transactions were recorded in the BFSI sector in H1 2015, and its share dipped to 3% from 6% on a Year Over Year (YOY) basis. The manufacturing sector, on the other hand, made a remarkable comeback, having secured 11% of the total absorption in H1 2015, up from just 4% in H2 2014. Big-size deals by companies such as First Global Engineering and Tata Motors augmented the sector's share.

The average deal sizes have reduced in the last year, averaging close to 54,300 sq ft in H1 2015, while it stood at 71,500 units in H1 2014. This indicates the advent of more firms with smaller office space requirements, particularly start-ups, and emphasises on the dearth of large, ready office configurations in the market.

DEAL SIZE ANALYSIS

FIGURE 4

AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

- The average deal sizes have reduced in the last year, averaging close to 54,300 sq ft in H1 2015, while it stood at 71,500 units in H1 2014. This indicates the advent of more firms with smaller office space requirements, particularly start-ups, and emphasises on the dearth of large, ready office configurations in the market.
- Despite the drop in deal sizes, H1 2015 witnessed a higher number of transactions, to the tune of 112, as compared to 106 deals in H1 2014. This justifies the slightly higher quantum of absorption in H1 2015 (6.07 mn sq ft) as against the absorption witnessed in H1 2014 (6.01 mn sq ft).

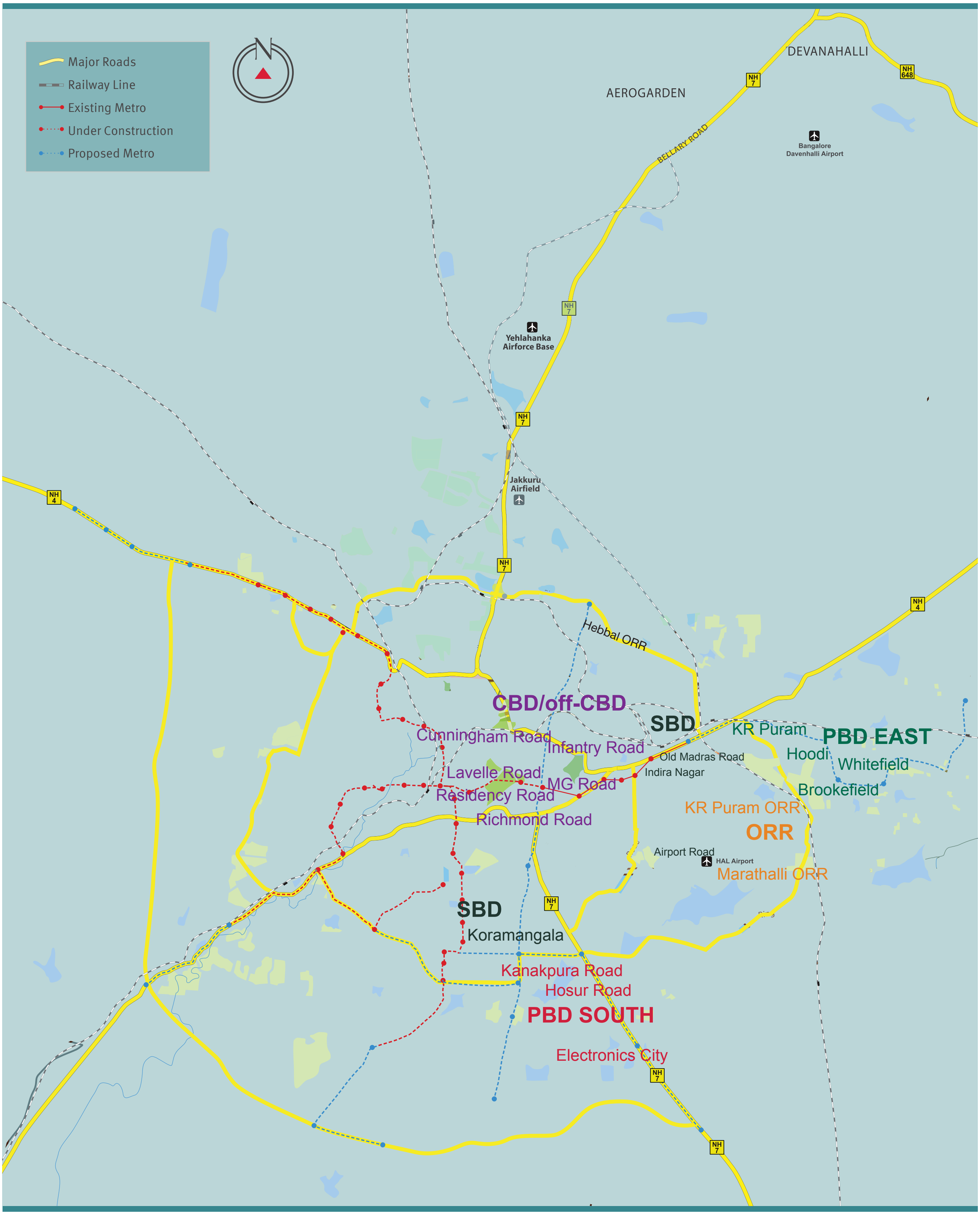
Select transactions

Building	Occupier	Location	Approx. area (sq ft)
Global Technology Park	Vodafone	Sarjapur Outer Ring Road	120,000
Salarpuria Aura	Wal-Mart	Sarjapur Outer Ring Road	80,000
Prestige Shantiniketan (Crescent 1)	ExxonMobil	Whitefield	250,000
Bagmane Constellation Business Park (Virgo Block)	Sapient	Sarjapur Outer Ring Road	700,000
Karle Town Center	Epsilon	Hebbal Outer Ring Road	140,000
RMZ Ecoworld (4A & 4B)	Tech Mahindra	Sarjapur Outer Ring Road	89,000
Global Technology Park	LinkedIn	Sarjapur Outer Ring Road	207,000
Prestige Shantiniketan (Crescent 1)	Axis Bank	Whitefield	150,000
Embassy TechVillage	Seagate	Sarjapur Outer Ring Road	130,000

Source: Knight Frank Research

BUSINESS DISTRICT ANALYSIS

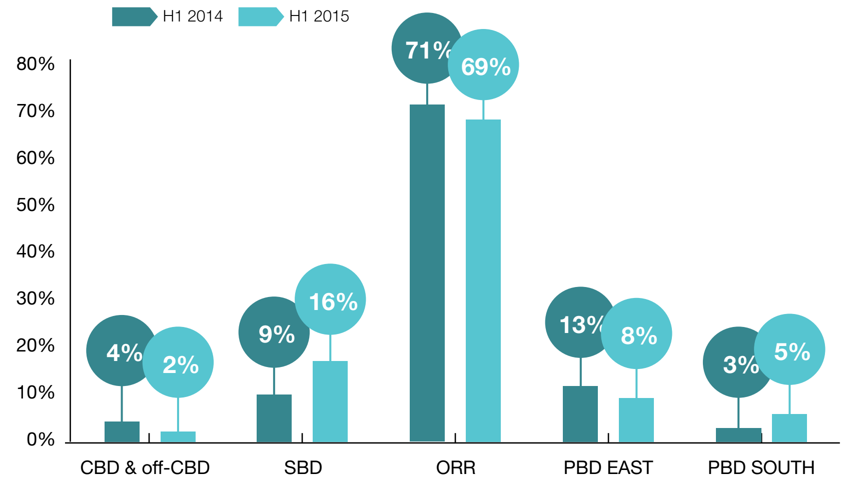
Business District	Locations
Central Business District (CBD) and off-CBD	MG Road, Residency Road, Cunningham Road, Lavelle Road, Richmond Road, Infantry Road
Suburban Business District (SBD)	Indiranagar, Koramangala, Airport Road, Old Madras Road, Intermediate Ring Road
Peripheral Business District (PBD) East	Whitefield
Peripheral Business District (PBD) South	Electronics City, Bannerghatta Road
Outer Ring Road (ORR)	Hebbal ORR, Marathahalli ORR, Sarjapur Road ORR



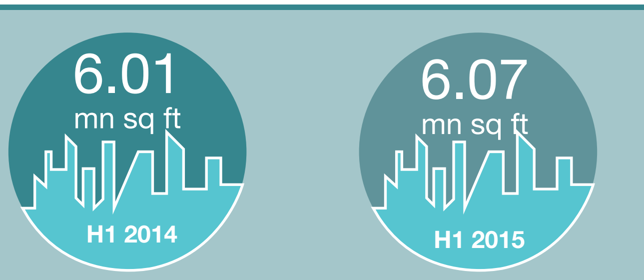
Major Roads
Railway Line
Existing Metro
Under Construction
Proposed Metro
DEVANAHALLI
AEROGARDEN
BELLARY ROAD
Bangalore Davenhalli Airport
Yehlahanka Airforce Base
Jakkuru Airfield
Hebbal ORR
CBD/off-CBD
SBD
KR Puram
PBD EAST
Cunningham Road
Infantry Road
Old Madras Road
Indira Nagar
Hoodi
Whitefield
Lavelle Road
MG Road
Residency Road
Brookefield
KR Puram ORR
Richmond Road
ORR
Airport Road
HAL Airport
Marathalli ORR
SBD
Koramangala
Kanakpura Road
Hosur Road
PBD SOUTH
Electronics City

FIGURE 5

BUSINESS DISTRICT-WISE ABSORPTION SPLIT



Source: Knight Frank Research



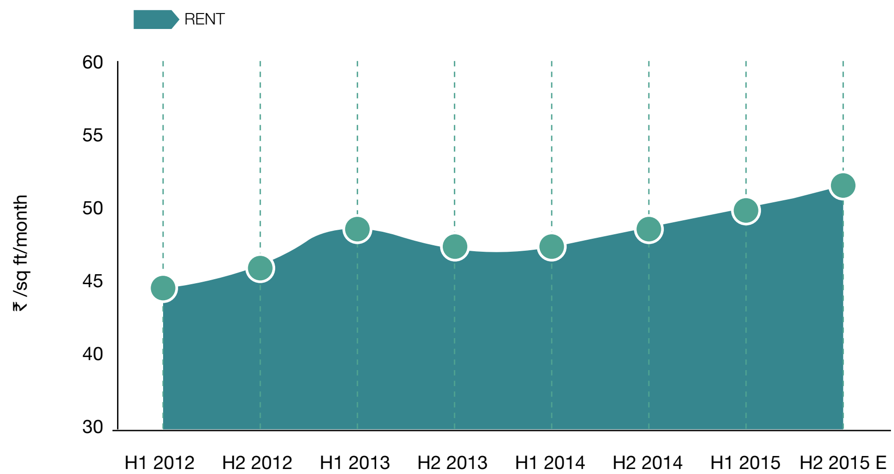
Source: Knight Frank Research

- The Outer Ring Road (ORR) office market continued to maintain its lead in the total absorption, though it witnessed a slight dip in H1 2015 vis-a-vis H1 2014. The ORR has been progressively preferred by corporates due to factors such as its proximity to the CBD and major residential markets, access to large talent pools, the availability of contiguous land parcels, connectivity to the airport and the presence of hotel and retail projects.
- H1 2015 saw Sarjapur ORR dominate the absorption with a large number of big-ticket transactions in projects such as Global Tech Park, Embassy TechVillage and Bagmane Constellation Business Park.
- Another notable observation is the SBD regaining occupier interest, albeit at a much subdued pace, compared to the ORR offices. The region saw its share increase to 16% in H1 2015, from a share of 9% of the total absorption in H1 2014.
- This re-emergence of the SBD could be attributed to factors such as the dearth of office space in the CBD and off-CBD areas, as well as the availability of quality office spaces in IT parks such as Bagmane Tech Park and Embassy Golf Links Business Park.
- On the other hand, office projects in the CBD and the peripheral business districts towards the south and the east remained relatively subdued, with the majority of the traction taking place in the ORR and SBD markets.

The ORR office market continued to maintain its lead in the total absorption during H1 2015, with Sarjapur ORR dominating the absorption with a large number of big-ticket transactions. Another notable observation is the SBD regaining occupier interest, accredited to factors such as the dearth of office space in the CBD and off-CBD areas, as well as the availability of quality office spaces in the IT parks of the region.

RENTAL TREND

FIGURE 6
WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

- The SBD and ORR office markets witnessed the maximum rise in rentals during H1 2015, owing primarily to the strong demand for office space in the region.
- The weighted average rental values witnessed an increase of 6%, from ₹47/sq ft/month in H1 2014 to ₹50/sq ft/month in H1 2015.
- Going forward, the weighted average rentals are expected to increase by 3% from the current values in H1 2015 to around ₹51.5/sq ft/month in H2 2015.
- This could be accredited to reasons such as the anticipated demand for large spaces, particularly from the e-commerce sector, as well as the lack of vacant office stock, coupled with a relatively constricted supply that have pushed the weighted average rentals upwards in the Bengaluru office space market.

The SBD and ORR office markets witnessed the maximum rise in rentals during H1 2015, owing primarily to the strong demand for office space in the region. The weighted average rental values witnessed an increase of 6%, from ₹47/sq ft/month in H1 2014 to ₹50/sq ft/month in H1 2015.

Business district	Rental Value Range in H1 2015 (₹/sq ft/month)	12-month change	6-month change
CBD & off-CBD	75–87	2%	1%
SBD	48–79	6%	3%
PBD East	31–47	2%	2%
PBD South	30–46	2%	1%
ORR	45–60	6%	5%

Source: Knight Frank Research

OUTLOOK FOR THE NEXT SIX MONTHS

Projections	H2 2014	H2 2015E	Growth
New supply (mn sq ft)	4.5	4.5	0%
Absorption (mn sq ft)	4.4	5	14%
Vacancy (%)	10%	8%	
Weighted average rental (₹/sq ft/ month)	48.5	51.5	6%

Source: Knight Frank Research

- We believe that the Bengaluru office market will continue to see the uptrend that was evident in H1 2015 in H2 2015 as well. The absorption in H2 2015 is set to witness a growth of 14% over the absorption in H2 2014. This could be accredited to the positive occupier sentiment that will lead to pursuing growth strategies, ramping up expansion and consolidation plans in view of the economic stability, and aiming towards operational efficiency and cost optimisation at the same time.
- A major observation in the city's market has been the depleting ready-to-occupy office space in graded projects in key office markets, owing to which, the substantial pre-commitment of office spaces took place in under-construction projects in H1 2015. Unless new completions, estimated at 4.5 mn sq ft by the end of the year, become operational in the forthcoming months, the shortage will impact potential occupiers with large space requirements and lead them to contemplate alternative office destinations.
- As a result of the space crunch brought about by the steady absorption rate and declining vacancy levels, the rental values of select projects at locations such as the ORR are likely to increase in the short term. The weighted average rentals of the city are estimated to increase by 6% in H2 2015 on a YOY basis.
- The e-commerce sector, which has been fast gaining ground in the Indian business scenario, is poised to become one of key demand drivers of the city's office market, along with the IT/ITeS sector. However, owing to its nascent stage, it remains to be seen how well the sector can sustain itself in the long run.
- Thus, inferring from current market dynamics such as high absorption, large pre-commitments and consistently declining vacancy levels, Bengaluru remains the preferred office destination for occupiers. This could be attributed to the availability of skilled manpower, relatively affordable office rentals, conducive socio-economic factors and the presence of ancillary industries. Considering the quantum of investment in the city's real estate, Bengaluru will continue to be the prime office market in the country.

The Bengaluru office market will continue to see the uptrend that was evident in H1 2015 in H2 2015 as well, which could be attributed to the positive occupier sentiment that will lead to pursuing growth strategies, ramping up expansion and consolidation plans in view of the economic stability, and aiming towards operational efficiency and cost optimisation at the same time. The e-commerce sector, which has been fast gaining ground in the Indian business scenario, is poised to become one of key demand drivers of the city's office market, along with the IT/ITeS sector.

AUTHOR

Yashwin Bangera
Assistant Vice President - Research

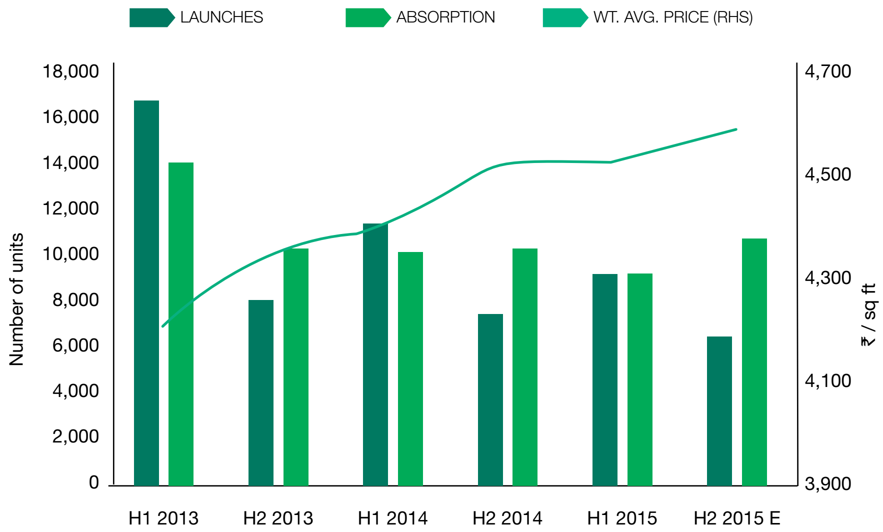
CHENNAI

Residential & Office Market

RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

FIGURE 1

CHENNAI MARKET TRENDS



Source: Knight Frank Research

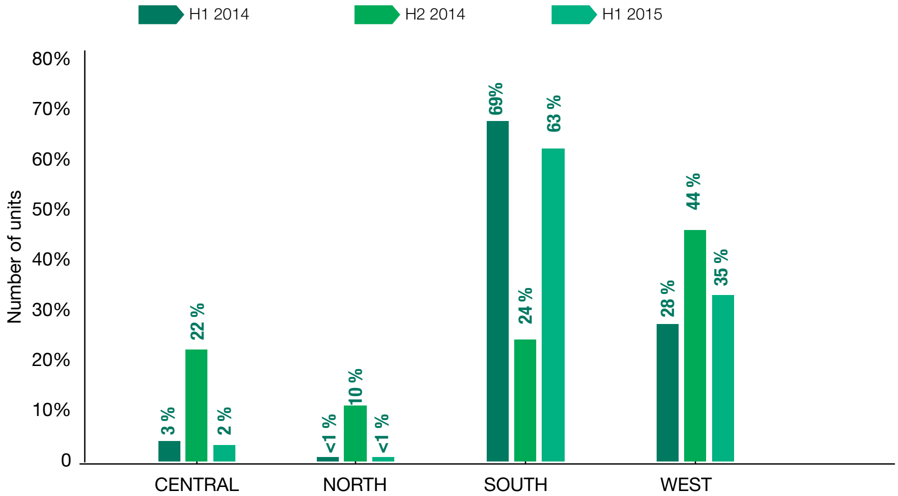
- Absorption levels in the Chennai residential market have stagnated since H2 2013, as a lacklustre economic outlook and escalating prices discouraged the price-conscious homebuyer from entering the market.
- Absorption levels averaged close to 14,000 units every half-yearly period before H2 2013 but now average just above 10,000 units, with H1 2015 seeing the lowest absorption levels since 2011, at 9,091 units. This was an 11% and 12% drop compared to H1 2014 and H2 2014, respectively.
- The developers, in turn, reduced the pace of their launches in the face of mounting inventories as demand continued to trend lower.
- H1 2015 saw a sharp 20% decline in the number of units launched, compared to the same period last year, albeit it did see some growth compared to the preceding period of H2 2014. This, however, is largely due to seasonal factors, as developers consider the Pongal festival, which falls during the first half of the year, to be an auspicious time to launch projects.
- The developers' persistence in constricting fresh supply has helped buffer prices and reduce unsold inventory levels, which are down nearly 8% YoY, to 39,130 units in H1 2015.
- Weighted average prices have been growing, but at a steadily declining rate since H2 2012, when they grew at 10.4%, and now stand at 2.8% YoY in the current period.
- We expect the ongoing lull in launches to persist in H2 2015, as developers wait for more concrete signs of the demand reviving.
- We believe that the absorption levels will bounce back from the current lows and exceed 10,000 units in the following period, reaching approximately 10,400 units in H2 2015 – marginally higher than the level achieved in H2 2014.
- This contraction in supply, coupled with a recovery in absorption levels, will support market health and set the stage for a more robust recovery.

The Chennai residential market is undergoing a prolonged but healthy period of time correction as launches and absorption further correct by 20% and 11%, respectively

MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

FIGURE 2

MICRO-MARKET SPLIT OF LAUNCHED UNITS



Source: Knight Frank Research

H1 2014 **11,377** units

H2 2014 **7,318** units

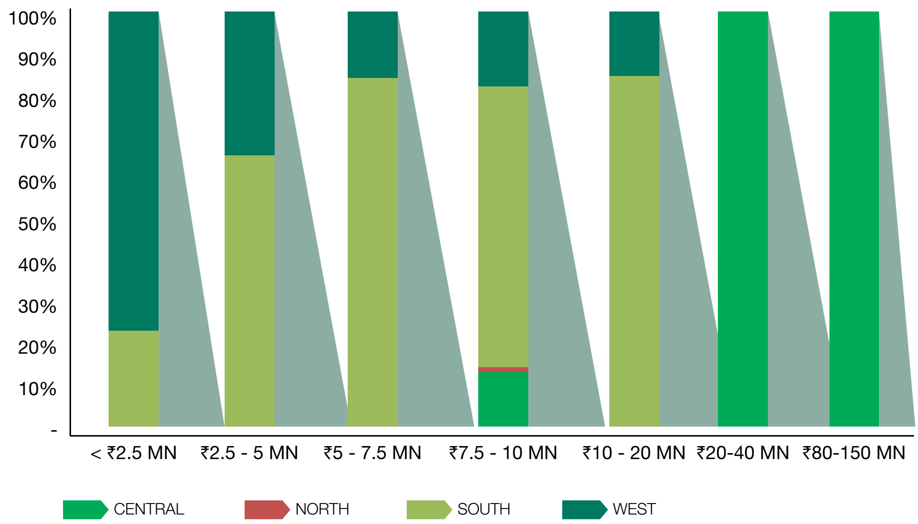
H1 2015 **9,102** units

- The sharp decline in the number of units launched saw all micro-markets lose market share compared to the preceding period, except South Chennai, which has seen its share spike significantly during the same period. Our survey revealed that this could be attributed to the project approvals that were stalled in 2014 and came through during the analysis period.
- Accounting for approximately 5,800 of the total units launched during H1 2015, South Chennai locations such as Pallavaram, Perumbakkam and Kelambakkam saw most of the development interest within this micro-market during this period.
- Comprising over a third of the units launched during H1 2015, the west zone has seen its share of the development pie stabilise and grow over the last four half-year periods as developers cater to homebuyers looking for comparatively affordable options away from the city centre. Kundrathur and locations as far as Chembarambakkam saw most of the development interest in West Chennai during this period.
- A massive 83% of the units launched in West Chennai were in projects with an average ticket size of under ₹5 mn, compared to the market average of 52%. In comparison, approximately 53% of the units in South Chennai were launched in the same ticket size.
- North and Central Chennai saw negligible launches during H1 2015. North Chennai has suffered due to the lack of social infrastructure and poor connectivity to the city centre. It did witness a spike in development interest during H2 2014, but saw very little development during the current period.

South Chennai was the only micro-market that saw an increase in its market share of launches during H1 2015. Locations in the south, such as Pallavaram, Perumbakkam and Kelambakkam saw most of the development interest during this period

FIGURE 3

TICKET SIZE SPLIT OF LAUNCHES DURING H1 2015



Source: Knight Frank Research

MICRO-MARKET-WISE RESIDENTIAL SALES

Micro-market	Locations
Central Chennai	T. Nagar, Nungambakkam, Kodambakkam, Adyar, Kilpauk
West Chennai	Porur, Ambattur, Mogappair, Iyyappanthangal, Sriperumbudur
South Chennai	Perumbakkam, Chrompet, Sholinganallur, Guduvancheri, Kelambakkam
North Chennai	Tondiarpet, Kolathur, Madhavaram, Perambur

Source: Knight Frank Research

Absorption levels have dropped 11% in H1 2015 compared to the same period in the previous year, much better than the 27% fall YoY seen in H1 2014, indicating a definite slowing in the rate of de-growth in demand

CHENNAI METROPOLITAN REGION MAP

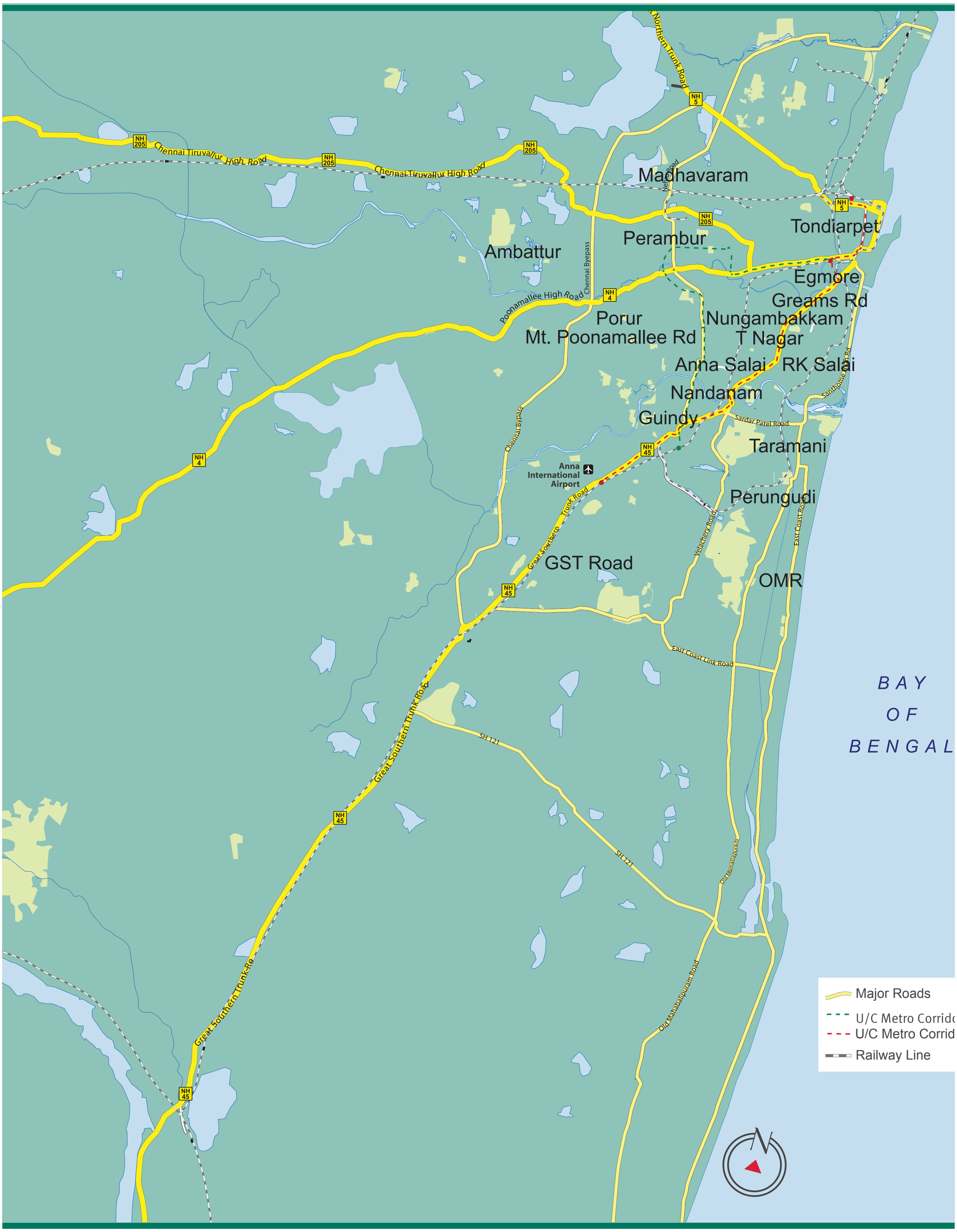
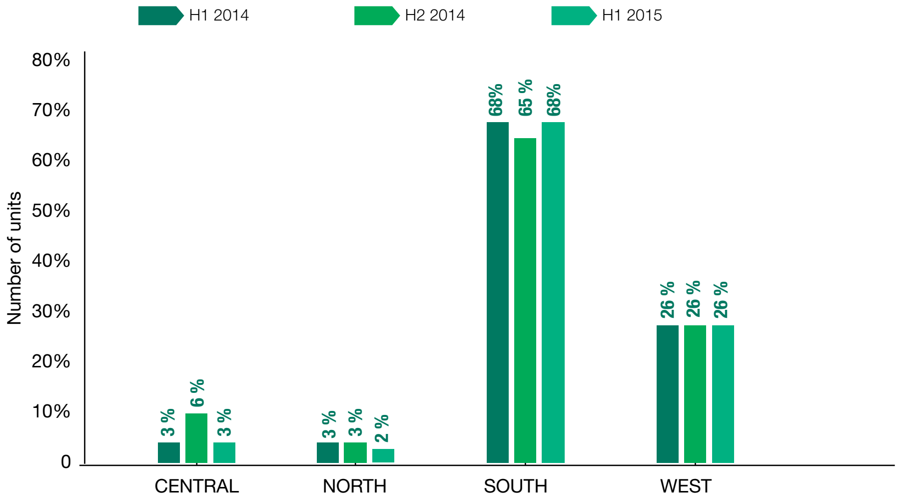
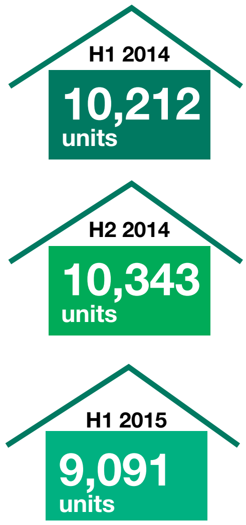


FIGURE 4

MICRO-MARKET SPLIT OF SALES



Source: Knight Frank Research

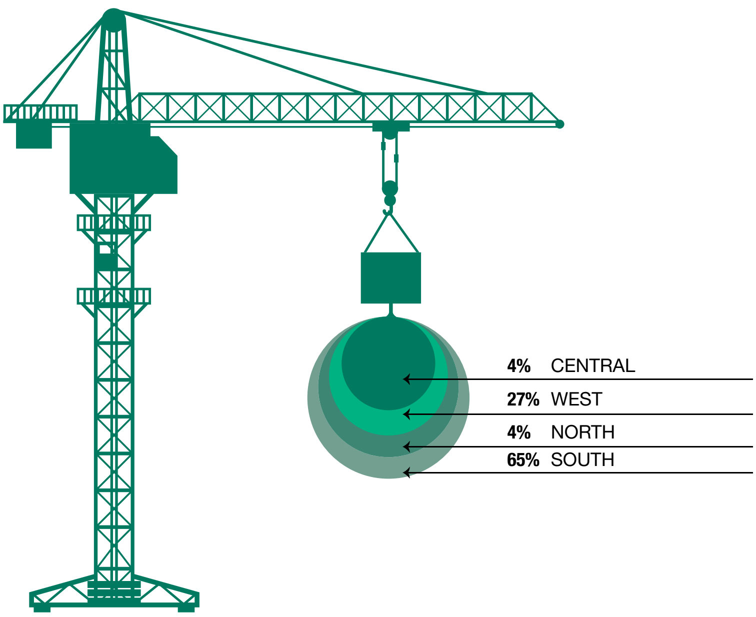


- The micro-market split of absorption has barely witnessed any change in the last three reference periods
- The shares of Central and North Chennai have decreased since H2 2014, while South Chennai's share has gained slightly in H1 2015, compared to the same reference period

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS IN JUNE 2015

FIGURE 5

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF JUNE 2015



Source: Knight Frank Research

Nearly 92% of the under-construction units in Chennai are concentrated in the South and West micro-markets of the city.

- Nearly 92% of the under-construction units in Chennai are concentrated in the South and West micro-markets of the city.
- Comparatively poor connectivity to office market locations and the lack of social infrastructure has left very little incentive for the Chennai homebuyer to look north for homes. This has caused developers to shun this part of the city and focus their energy on more viable locations in West and South Chennai.
- The shortage of developable land and high prices prevent sizeable development activity in Central Chennai, but it remains the most sought-after residential micro-market of the city.

PREMIUM RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

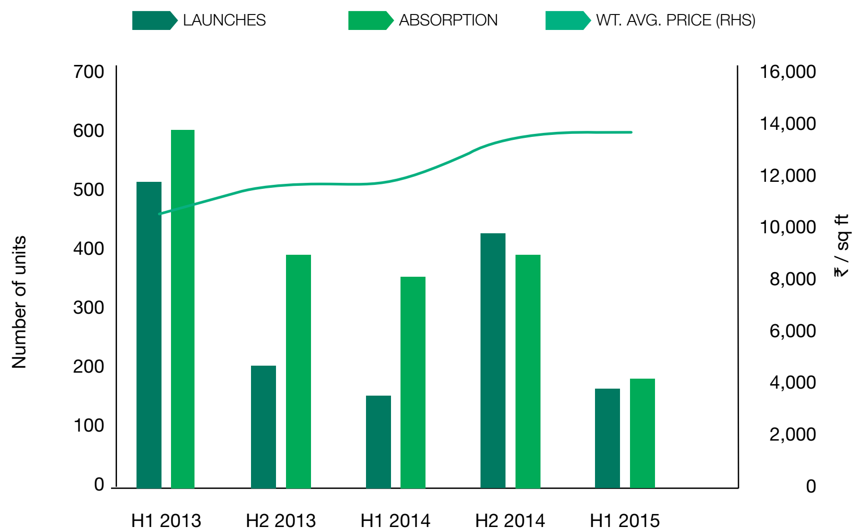
Micro-market	Premium locations
Central Chennai	Nungambakkam, R A Puram, Alwarpet, T. Nagar, Mylapore, Royapettah, Kilpauk, Anna Nagar, Teynampet, Adyar
West Chennai	K. K. Nagar, Thiruvanmiyur, Valasaravakkam
South Chennai	Injambakkam, Palavakkam, Uthandi

Source: Knight Frank Research

- premium locations of the city are concentrated largely in Central Chennai—locations such as Nungambakkam, Adyar and R. A. Puram—and some locations with a high aspirational value in South and West Chennai, such as Palavakkam, Injambakkam, Thiruvanmiyur and K.K. Nagar.
- The premium market in Chennai has been better insulated against market vagaries compared to the overall Chennai residential market, as there was relatively little supply in the early years of this decade compared to the situation today.
- The Chennai market had a significantly higher appetite for premium residential products compared to the supply on offer. Increasing redevelopment of bungalows in central locations, the breakdown of joint families among the affluent and the dearth of lifestyle residential products have been strong drivers of the premium segment.
- Prices in this segment have increased 32% since H1 2011, compared to the overall residential market that has not performed even half as well during the same period, at 8%.

FIGURE 6

PREMIUM MARKET TRENDS



Source: Knight Frank Research

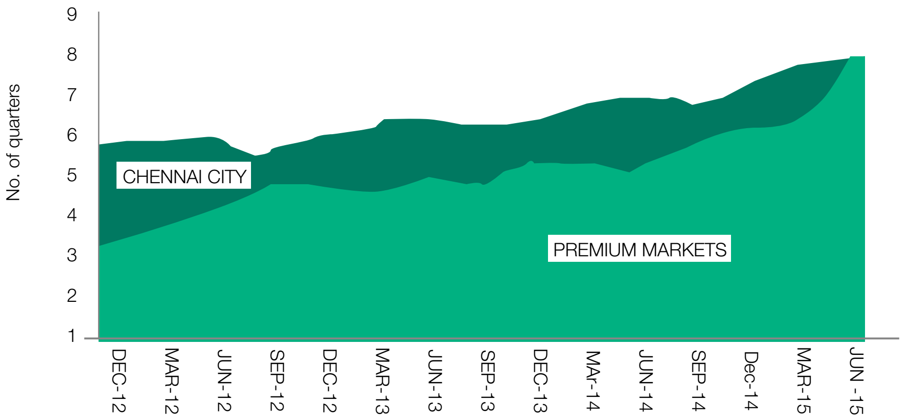
Note: *Premium markets include locations where the average ticket size of a residential unit is above ₹15 mn, are in close proximity to the central business district of the city and have witnessed new project launches in the preceding three years*

- Absorption levels that averaged over 850 units before 2013 have dropped nearly 55% to the 370 levels seen today. This has pushed the QTS level of the premium segment marginally over that of the Chennai residential market.

CHENNAI MARKET HEALTH

FIGURE 7

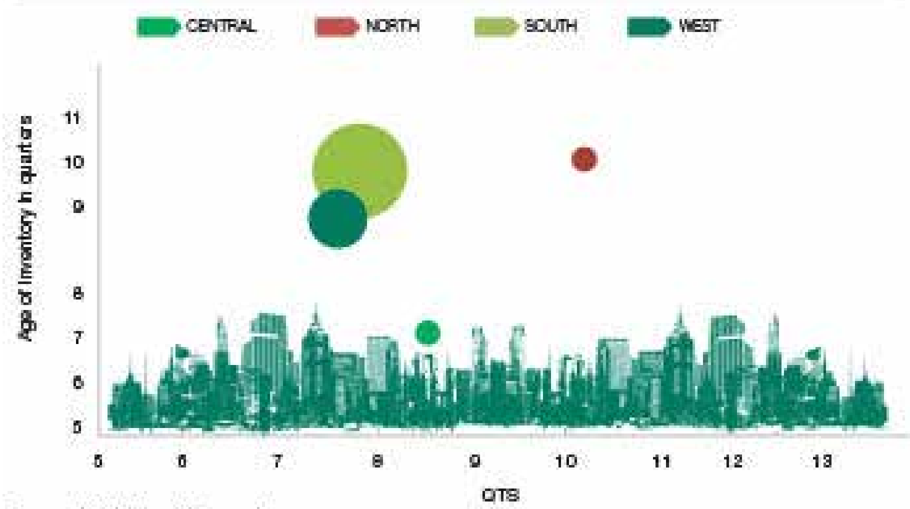
QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS



Source: Knight Frank Research

FIGURE 8

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

Note: The size of the bubble indicates the quantum of unsold inventory

The Chennai market had a significantly higher appetite for premium residential products compared to the supply on offer. Increasing redevelopment of bungalows in central locations, the breakdown of joint families among the affluent and the dearth of lifestyle residential products have been strong drivers of the premium segment

- The quarters to sell unsold inventory (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 Chennai residential market currently has a QTS of 7.9, with an average age of inventory of 9.8 quarters. The QTS has been inching down since the beginning of 2014, which signifies an improvement in the overall market health.
- South and West Chennai are the best-performing micro-markets at the end of H1 2015, having an inventory of eight quarters each.
- Relatively affordable residential prices, proximity to employment hubs and improving social infrastructure continue to drive both these micro-markets.
- North Chennai is the worst-performing micro-market, with a QTS and age of inventory of just over 10 quarters, though its QTS has been reducing over the last three analysis periods.
- Central Chennai has a comparatively high QTS, at 9, but it also has an average inventory age of seven quarters, which is the lowest among all the micro-markets of the city.

PRICE MOVEMENT DURING H1 2015

Weighted average price movement in Chennai

Location	Price range in H1 2015 (₹/sq ft)	12 month change	6 month change
Chennai	4,530	2.8%	1%
Premium markets	14,278	9%	6%

Price movement in select locations

Location	Micro-market	Price range in H1 2015 (₹/sq ft)	12 month change	6 month change
Anna Nagar	Central	10,500–11,600	3%	1%
Adyar	Central	16,500–17,500	2%	1%
Kilpauk	Central	14,800–15,500	1%	0%
T. Nagar	Central	18,000–19,000	1%	1%
Alandur	Central	7,000–7,500	3%	2%
Porur	West	5,200–5,500	4%	2%
Ambattur	West	4,100–4,600	2%	1%
Mogappair	West	6,200–6,700	2%	2%
Iyyappanthangal	West	4,000–4,500	3%	2%
Sriperumbudur	West	2,700–3,200	2%	1%
Perumbakkam	South	4,100–4,500	4%	2%
Chrompet	South	4,200–4,700	3%	0%
Sholinganallur	South	4,500–5,500	3%	1%
Guduvancheri	South	3,200–3,700	2%	1%
Kelambakkam	South	3,500–3,900	2%	1%
Tondiarpet	North	4,500–4,800	2%	2%
Kolathur	North	4,800–5,500	3%	1%
Madhavaram	North	4,500–5,000	2%	0%

Source: Knight Frank Research

- The drop in demand has weighed down price growth in the Chennai residential market during H1 2015. Growing at 2.8% YoY during H1 2015, the price growth has moderated itself, compared to the 4% YoY growth seen during the preceding period.
- Locations such as Pallavaram and Perumbakkam, situated in the corridor between the OMR and GST Road, saw the bulk of the launches during H1 2015 and also the highest price movement during H1 2015, at 4% YoY each. The strengthening of prices, despite the increase in supply, underscores the high residential attractiveness of these locations.
- Central locations in Chennai, such as Anna Nagar, T. Nagar and Adyar, continue to remain the most premium locations of the city. The drop in absorption rates has not dented prices in these locations, which have registered a price growth in the range of 1% to 3%.
- The Indian government's vision to develop Ponneri, in North Chennai, as a smart city has helped drive prices in that location and its vicinity over the last three reference periods, and this trend was observed in H1 2015 as well.
- The long awaited commissioning of Phase I of the Chennai Metro Rail was concluded at the fag end of H1 2015. This will impact locations along its route such as Koyambedu, Ashok Nagar and Alandur positively.
- We expect the weighted average prices in Chennai to grow further in H2 2015, albeit at a significantly slower 2% YoY as the residential market consolidates and homebuyers start coming back into the market towards the end of 2015.
- We believe that the increasing QTS of the premium market will temper price growth in this segment. We expect the price growth to be capped at 9% YoY in H2 2015 compared to the 11% growth seen during H1 2015.

We expect the weighted average prices in Chennai to grow further in H2 2015, albeit at a significantly slower 2% YoY as the residential market consolidates and homebuyers start coming back into the market towards the end of 2015

OUTLOOK FOR THE NEXT SIX MONTHS

Projections	H2 2014	H2 2015E	Growth
Launches (units)	7,318	6,439	-12%
Absorption (units)	10,343	10,420	1%
Weighted average price (₹/sq ft)	4,528	4,596	1.5%

Source: Knight Frank Research

- Chennai city is currently undergoing a prolonged phase of time correction, characterised by a persistent slump in launches and absorption levels, where market players are wary about entering the market at this time.
- Our interactions with the developer and investor community corroborate our analysis and lead us to believe that residential supply will take some more time to revive due to the still high unsold inventory levels. We believe that H2 2015 will see a 12% de-growth YoY compared to the 20% fall YoY in H1 2015. Absorption levels, however, have held steady since H1 2014, and we forecast that they will continue their strong run and finally see marginal YoY growth for the first time since H2 2012 at the end of this year.
- We expect the weighted average price in Chennai to increase marginally, by 1.5%–2% in H2 2015 compared to H2 2014, on the back of the improved sales volume. Price growth will continue to be limited until absorption volumes start approaching the 14,000-unit average per six-month period that the Chennai market clocked prior to 2013, compared to the 10,000 units averaged by the market currently.
- The consistent decline in unsold under-construction inventory levels and steady QTS levels since H1 2015 lead us to believe that the Chennai market is bottoming out and close to a point of recovery in sales numbers.
- The revival in the manufacturing and IT/ITeS sectors that make up the bedrock of Chennai's economy, coupled with reducing interest rates and inflation levels in the national economy, make a strong case for the business and investment climate improving and boosting overall sentiment.
- These factors make us confident that the residential market is slowly but surely on its way to recovery in the coming 12 months.
- We believe that South Chennai will continue to grow, as connectivity to employment hubs such as the OMR, improving social infrastructure and comparatively lower prices will deter homebuyers from looking elsewhere.
- The premium market has been under increasing pressure as is seen in its rising QTS; however, the above-average price growth and the small number of units relative to its specific demand base lead us to believe that price growth in this segment will continue to be strong, though slightly muted compared to earlier periods.
- The effects of a steadily-improving office market, thanks to improving fundamentals in the IT/ITeS and manufacturing sectors, are bound to rub off on the residential market as well. Hence, locations such as Pallikaranai, Medavakkam, Perumbakkam and locations on the Pallavaram–Thoraipakkam road that are well connected to IT/ITeS office hubs on the OMR with improving social infrastructure are expected to see increasing market activity in the coming months.

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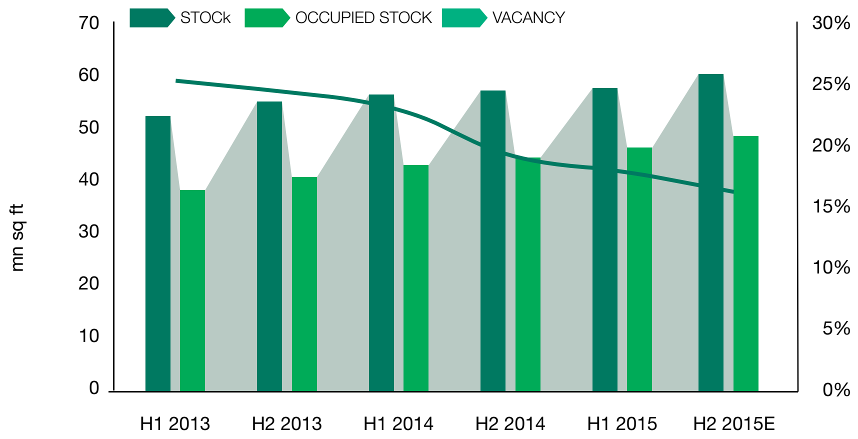
OFFICE MARKET

STOCK, NEW COMPLETIONS, ABSORPTION AND VACANCY TRENDS

The Chennai office market continues its healthy consolidation on the back of dwindling office completions, steady demand and falling vacancy levels.

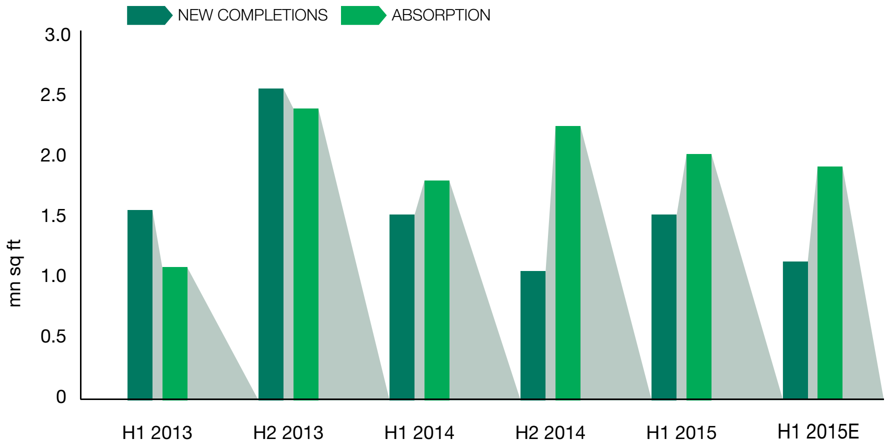
FIGURE 1
CHENNAI OFFICE SPACE STOCK AND VACANCY LEVELS



Source: Knight Frank Research

- The Chennai office market continues its healthy consolidation on the back of dwindling office completions, steady demand and falling vacancy levels.
- The market has shown resilience against the backdrop of a stagnating economy and the dearth of big-ticket transactions in 2014, as demand continued to remain stable over the last 18 months.
- The total stock in the Chennai office space market stands at 58.2 mn sq ft, of which 47.1 mn sq ft is occupied. Currently at 17.9%, the vacancy level in this market has been spiralling downwards since H1 2013, when it stood at 24.4%.
- The fall in vacancy levels accelerated after 2013, as the following 18 months saw just 4.2 mn sq ft of office space come online – a substantial 48% drop from the 8 mn sq ft delivered during the previous reference period.
- In contrast, the same period saw a 7% increase in the total absorption levels, highlighting the underlying strength of the market.
- The improvement in global sentiment, especially in the US—a major market for Indian IT/ITeS companies—along with the relatively stable domestic economy, has bolstered the recovery of the Indian IT/ITeS sector, which is the mainstay of the Chennai office space market. This momentum is expected to continue in the following period as well.
- The total absorption during H1 2015 was 2.0 mn sq ft, while only 1.6 mn sq ft of new office space came online.
- The adjoining chart depicts the stabilising absorption levels, coupled with a falling trend in supply since H2 2013. However, the current period saw a rise in completions, as SP Infocity at Perungudi, Rajkamal Suites at Nungambakkam and Divyasree Point at Sholinganallur came online.

FIGURE 2
NEW COMPLETIONS AND ABSORPTION

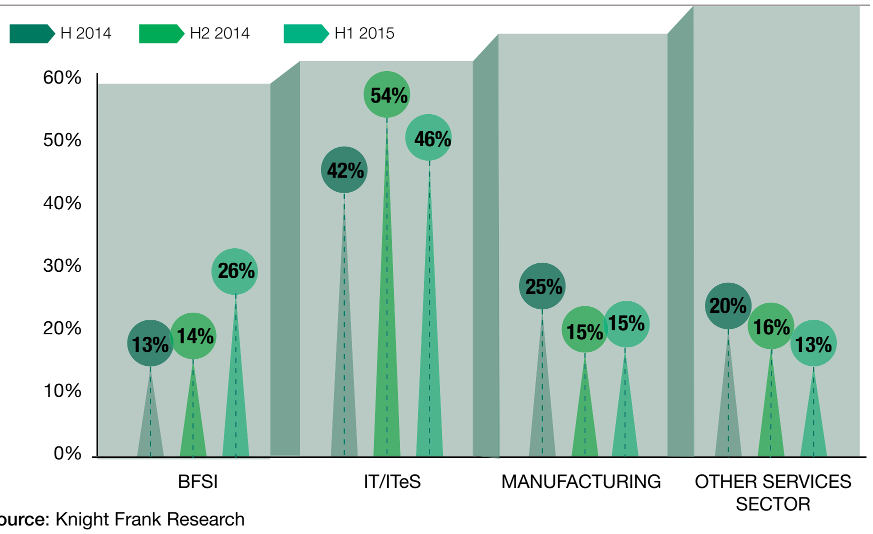


Source: Knight Frank Research

SECTOR ANALYSIS

FIGURE 3

SECTOR-WISE SPLIT OF ABSORPTION



Source: Knight Frank Research

Note: BFSI includes BFSI Support Services

Source: Knight Frank Research

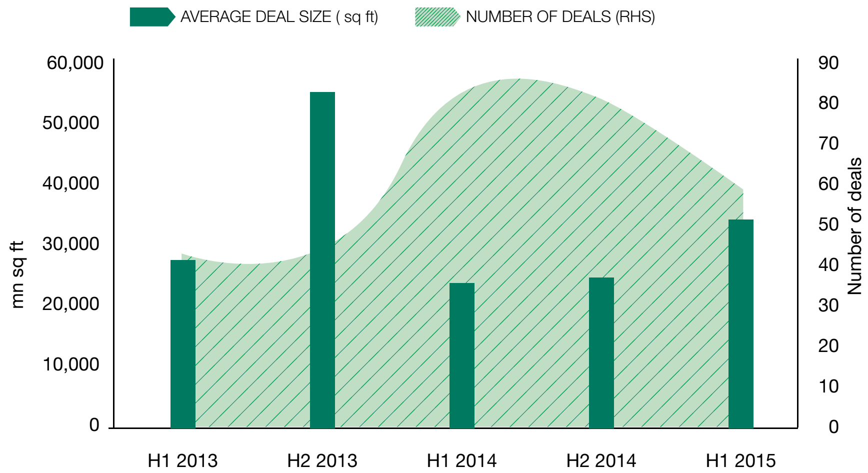
- The Chennai office market has traditionally been anchored by the IT/ITeS sector, but recent periods—especially the last 18 months—have seen the BFSI sector also gaining in market share.
- The BFSI sector was the largest consumer of office space in three of the five micro-markets of Chennai – PBD Ambattur, SBD and SBD OMR. It nearly doubled its market share YoY as industry majors such as BNP Paribas and Citibank took up large office spaces for their support services and accounted for some of the largest transactions during H1 2015.
- The IT/ITeS sector continues to be the largest consumer in the Chennai office space market, and took up 0.91 mn sq ft during H1 2015. Although its share has fallen sequentially, it has gained significantly over H1 2014.
- The shares of the other services and manufacturing sectors have been declining since H1 2014, as IT/ITeS and BFSI sector companies have consolidated and expanded their real estate footprint in the Chennai office space market.

The BFSI sector was the largest consumer of office space in three of the five business districts of Chennai– PBD Ambattur, SBD and SBD OMR. It nearly doubled its market share YoY as industry majors such as BNP Paribas and Citibank took up large office spaces for their support services and accounted for some of the largest transactions during H1 2015.

DEAL SIZE ANALYSIS

FIGURE 4

AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

- The average deal sizes stabilised in 2014, when they averaged close to 25,000 units, and have grown nearly 40% to almost 35,000 units in H1 2015. This bodes well for the market and could herald a more sustained recovery in times to come.
- The increase in average deal sizes, coupled with stable absorption levels since 2014, clearly indicates an overall improvement in the occupier interest in the Chennai office space market.
- The increase in the incidence of big-ticket transactions has a major role to play in the spike seen in the average deal sizes.

The average deal sizes stabilised in 2014, when they averaged close to 25,000 sq ft, and have grown nearly 40% to almost 35,000 sq ft in H1 2015. This bodes well for the market and could herald a more sustained recovery in times to come.

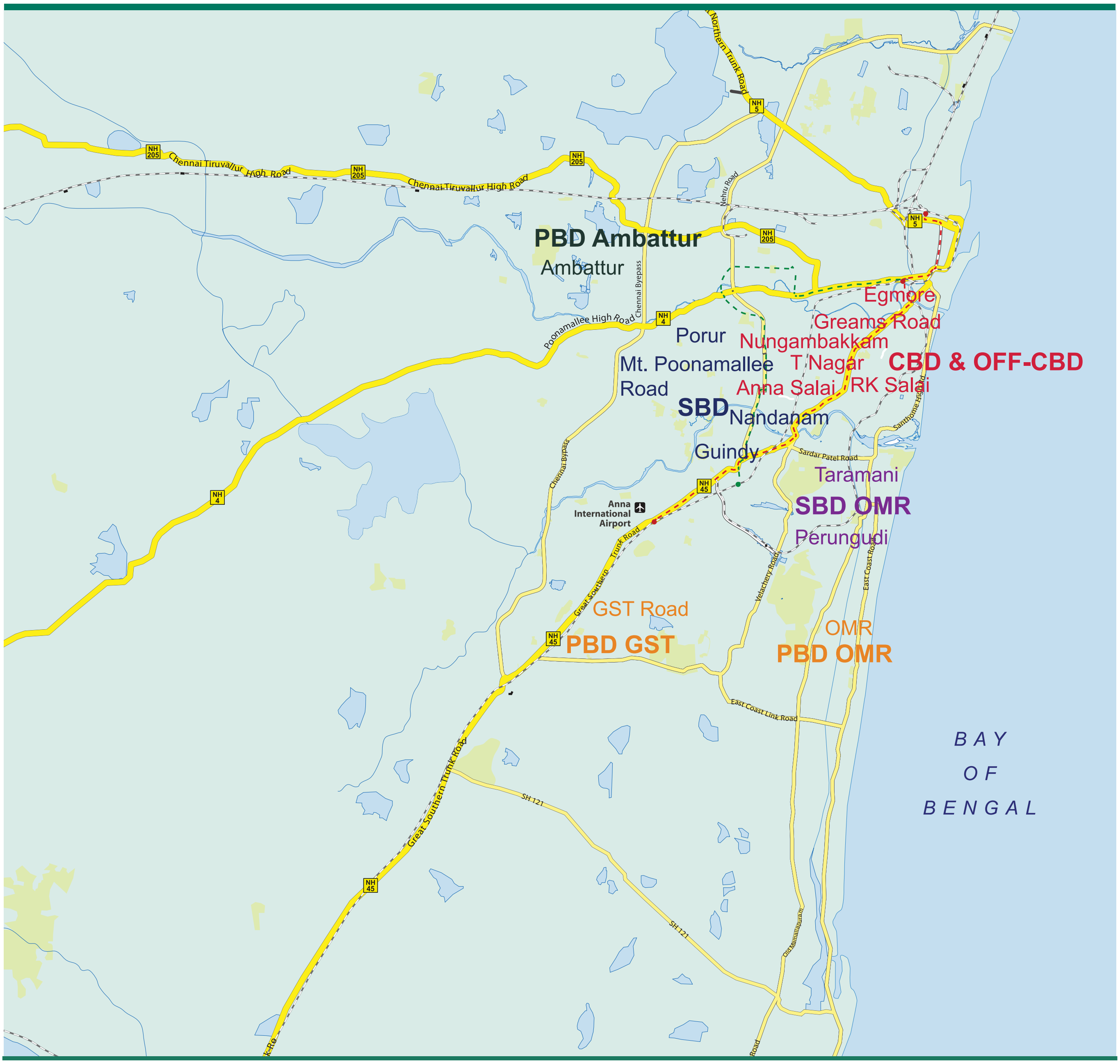
Select transactions

Location	Building	Company	Approx. area (sq ft)
Sholinganallur	DivyaSree	Accenture	300,000
Perungalathur	Shriram The Gateway	Accenture	200,000
Guindy	Centre Point	BNP	170,000
Taramani	TRIL	Citibank	140,500
Taramani	TRIL	Citibank	92,000
Karapakkam	Melaram Tower	Infoview	80,000
Kandanchavadi	RMZ	Ford	69,500
Sholinganallur	Tecci Park	E4E	60,000
Taramani	TRIL	LatentView	55,000
Ambattur	India Land	BankBazaar	50,000
Nandambakkam	First IT Park	solutions star	42,000

Source: Knight Frank Research

BUSINESS DISTRICT ANALYSIS

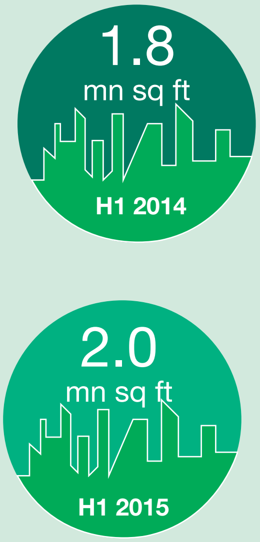
BUSINESS DISTRICTS OF CHENNAI



Business district classification

Business District	Micro-markets
Central business district (CBD and off-CBD)	Anna Salai, RK Salai, Nungambakkam, Greams Road, Egmore, T. Nagar
Suburban business district (SBD)	Mount-Poonamallee Road, Porur, Guindy
SBD – Old Mahabalipuram Road (OMR)	Perungudi, Taramani
Peripheral business district (PBD) – OMR and Grand Southern Trunk road (GST)	OMR beyond Perungudi Toll Plaza, GST Road
PBD – Ambattur	Ambattur

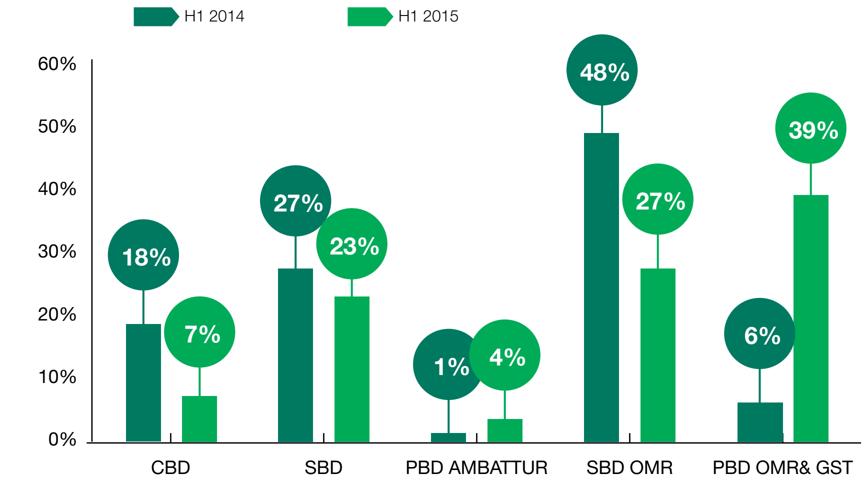
Source: Knight Frank Research



Source: Knight Frank Research

FIGURE 5

BUSINESS DISTRICT-WISE ABSORPTION SPLIT



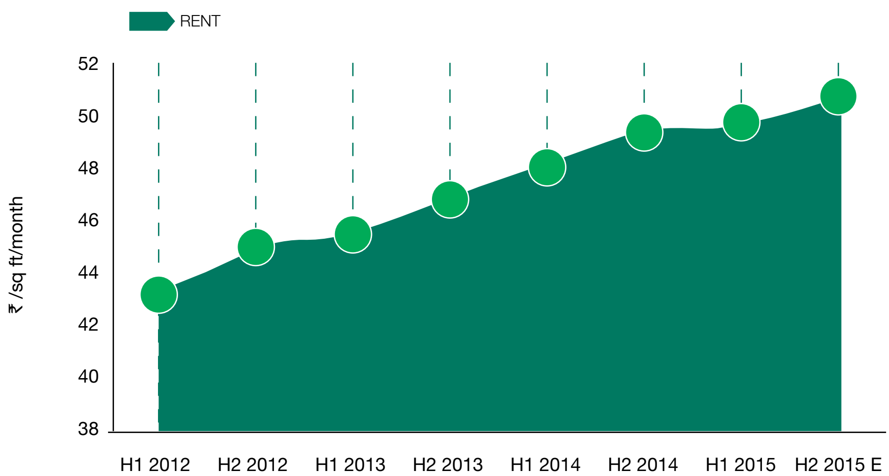
Source: Knight Frank Research

- The peripheral business districts saw a spurt in demand, while the central and secondary business districts experienced a fall in market share during H1 2015.
- This can be attributed to the comparatively higher rentals and a lack of viable office stock in the central and suburban business districts.
- The peripheral business districts are the only markets that have significant availability of viable office spaces with large floor plates in Chennai. This factor, coupled with the comparatively low rentals, has rendered the PBD OMR and GST an IT/ITeS sector favourite during H1 2015, as nearly 80% of the IT/ ITeS transactions took place in this market.
- A 0.3 mn sq ft lease inked by Accenture at Sholinganallur was the largest transaction during H1 2015.
- Just three locations—Sholinganallur, Guindy and Taramani—accounted for almost half of the total transacted volume during H1 2015.

RENTAL TREND

FIGURE 6

WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

The peripheral business districts are the only markets that have significant availability of viable office spaces with large floor plates in Chennai. This factor, coupled with the comparatively low rentals, has rendered the PBD OMR and GST an IT/ITeS sector favourite during H1 2015, as nearly 80% of the IT/ ITeS transactions took place in this market.

- The lack of vacant office stock, coupled with steady demand, has pushed the weighted average rentals in the Chennai office space market to just over ₹50 / sq ft / month at the end of H1 2015 – a stable 3% growth YoY.
- H1 2015 saw rental levels grow across locations, compared to the same period in the previous year. However, SBD locations such as Guindy, Nandambakkam and Pallikaranai have experienced the strongest rent growth in the market, particularly due to having specific offerings for medium-scale enterprises that are looking for office spaces up to 0.1 mn sq ft.
- The SBD OMR zone experienced the next highest growth in rentals on the back of big-ticket deals by BFSI and manufacturing sector companies such as Citibank, Ford and Hewlett-Packard. Locations such as Taramani and Kandanchavadi, which saw most of the transaction activity in this zone, also experienced the most appreciation in asking rentals, as vacancy levels in these locations dropped significantly during H1 2015.

Business district-wise rental movement

Business district	Rental value range in H1 2015 (₹/sq ft /month	12 month change	6 month change
CBD & off-CBD	55–85	3%	1%
PBD OMR & GST Road	28–45	2%	1%
SBD	45–80	4%	1%
PBD Ambattur	28–30	2%	1%
SBD OMR	45–65	3%	2%

Source: Knight Frank Research

OUTLOOK FOR THE NEXT SIX MONTHS

Projections	H2 2014	H2 2015E	Growth
New supply (mn sq ft)	1.1	1.2	12%
Absorption (mn sq ft)	2.2	2.4	6%
Vacancy (%)	18.9%	16.4%	
Weighted average rental (₹ / sq ft / month)	49.5	51	3%

Source: Knight Frank Research

- We believe that the absorption levels will continue their uptrend in H2 2015, as occupier interest remains strong at the end of the current period and no significant supply is scheduled to come online in the short term.
- Based on our analysis, the current rate of enquiries and our interaction with market players, we estimate that approximately 2.4 mn sq ft of office space will be absorbed in H2 2015 – a healthy 6% growth over H2 2014. This, in tandem with a limited 1.2 mn sq ft scheduled for delivery in the Chennai office space market, will force vacancy levels to under 17% and support sustainable rental growth, inevitably setting the stage for further office space development.
- Going forward, we expect that the current momentum in demand will sustain itself and have a direct impact on rentals. We project rentals to grow by a comparatively conservative 3%, from ₹49.5 / sq ft / month in H2 2014 to approximately ₹51 / sq ft / month by H2 2015.
- The SBD is quickly gaining on the CBD and off-CBD micro-markets in terms of location attractiveness and accessibility, thanks to the quality of office spaces and infrastructure initiatives such as the metro. Locations such as Guindy, in the SBD, have already seen a run-up in occupier interest and rents alike, and adjoining locations, such as Mount-Poonamallee Road should see development interest as viable land becomes scarce in the surrounding locations.

AUTHOR

Yashwin Bangera
Assistant Vice President - Research

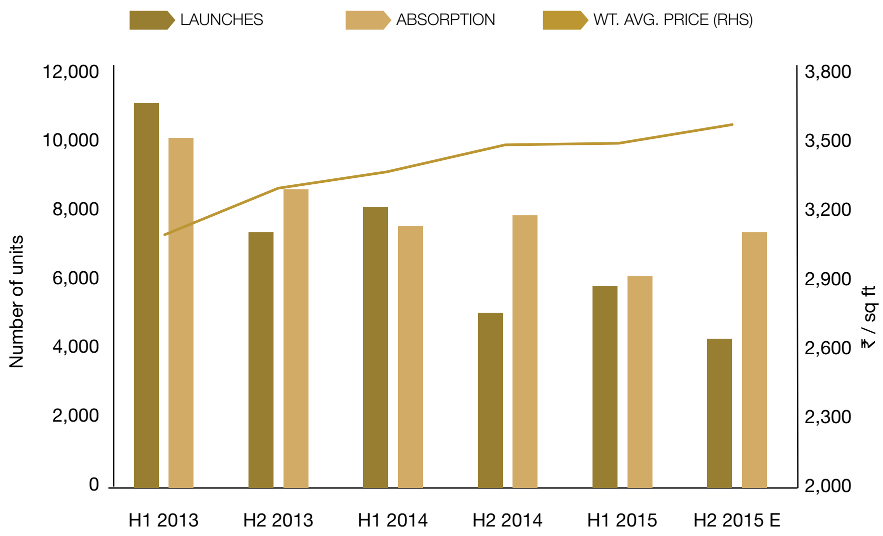
HYDERABAD

Residential & Office Market

RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

FIGURE 1

HYDERABAD MARKET TRENDS



Source: Knight Frank Research

- Market players continue to sit on the side-lines, waiting for signs of a concrete revival before committing to new investments.
- The positive impact of the political situation easing out is yet to be seen in the Hyderabad residential market.
- Hyderabad developers have decelerated launches for the fourth straight half-year period since H2 2013 due to subdued demand and piling inventories. YoY (year-on-year, compared to the same period last year) growth rates have consistently shown more than a 30% de-growth for these reference periods.
- Unit launches were down 31% YoY during H1 2015, as developers focus on unwinding current positions in terms of unsold inventory before launching new projects. Just 5,460 units were launched during this period.
- Absorption levels, though higher than H2 2014, are still down marginally, by 2% YoY in H1 2015.
- However, the more pronounced fall in launches, compared to absorption, has helped reduce the unsold under-construction inventory levels significantly, by 11% YoY to 33,500 units during H1 2015.
- The ongoing supply crunch and the reduction in unsold inventory have helped sustain price growth. Weighted average prices in the Hyderabad residential market grew by 2.5% YoY during H1 2015.

Unit launches were down 31% YoY during H1 2015, as developers focus on unwinding current positions in terms of unsold inventory before launching new projects. Just 5,460 units were launched during this period. Absorption levels, though higher than H2 2014, are still down marginally, by 2% YoY in H1 2015.

MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

Micro-markets	Location
HMR – Central	Begumpet, Banjara Hills, Jubilee Hills, Panjagutta, Somajiguda
HMR – West	Kukatpally, Madhapur, Kondapur, Gachibowli, Raidurgam
HMR – East	Uppal, Malkajgiri, L.B. Nagar
HMR – North	Kompally, Medchal, Alwal, Quthbullapur
HMR – South	Rajendra Nagar, Shamshabad

HYDERABAD METROPOLITAN REGION MAP

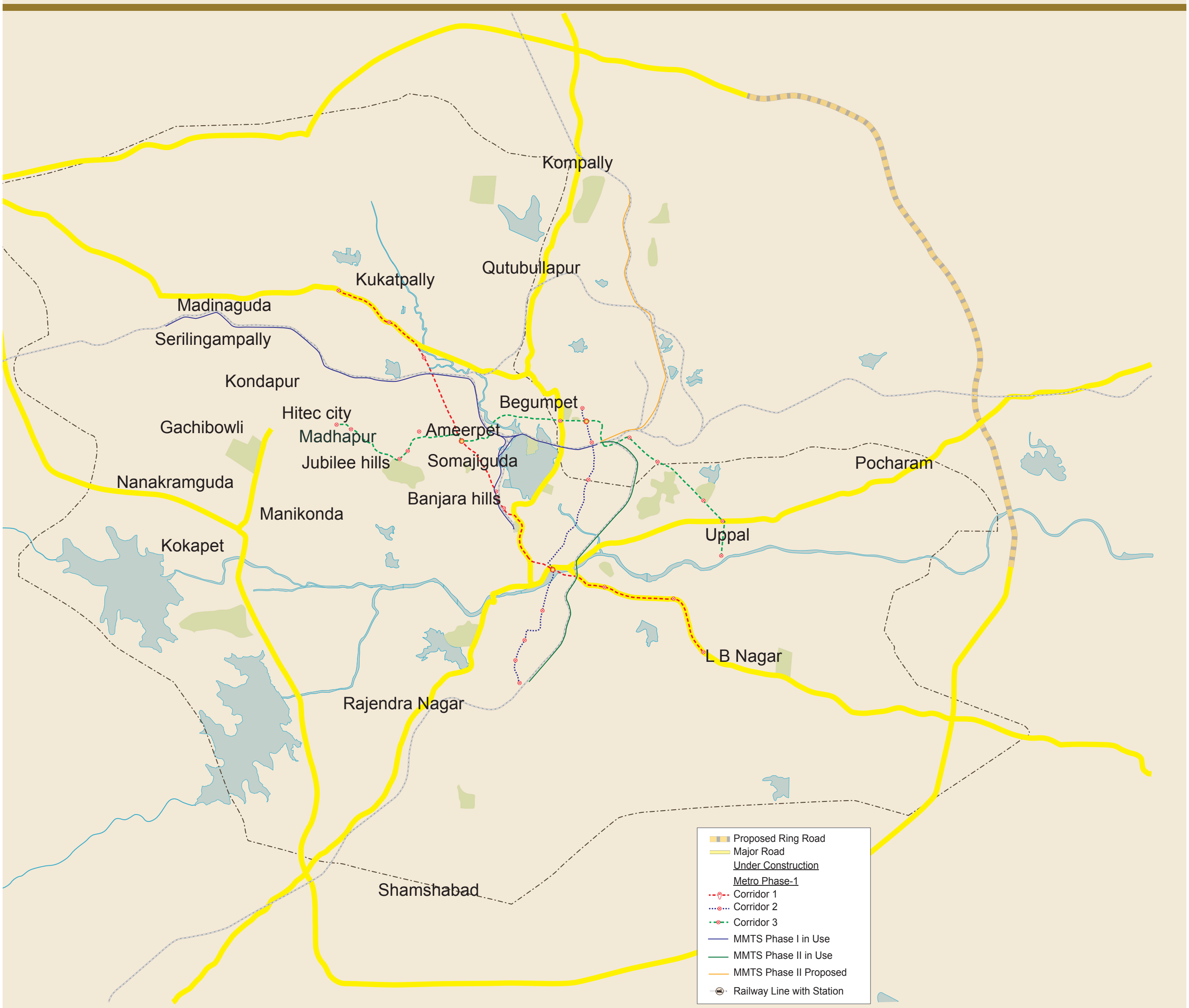
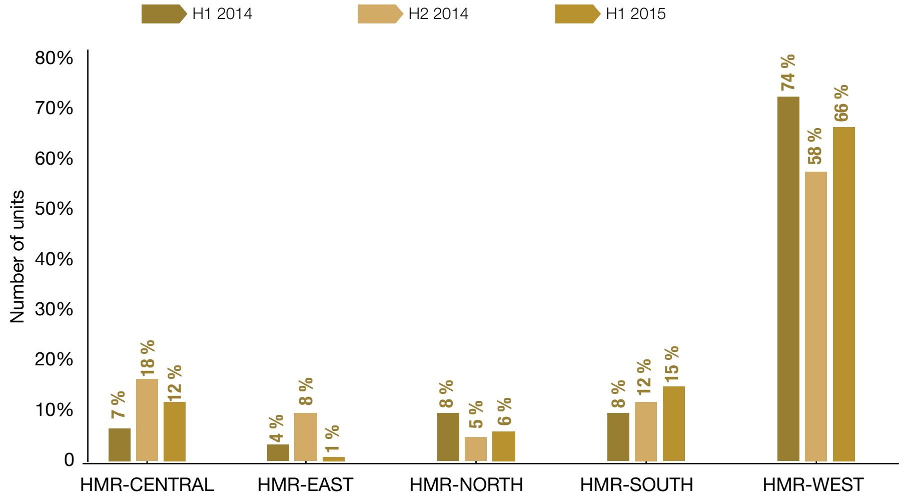
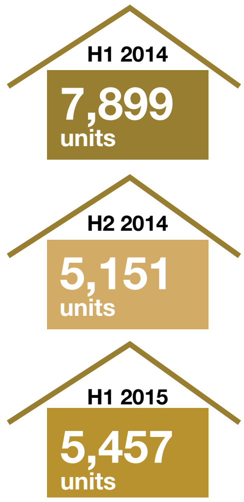


FIGURE 2

MICRO-MARKET SPLIT OF LAUNCHED UNITS



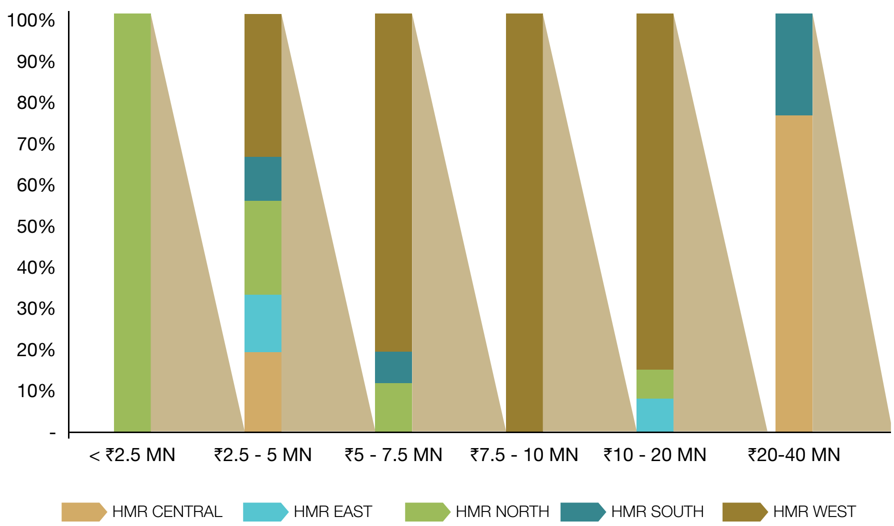
Source: Knight Frank Research



- West Hyderabad attracts most of the development interest in the city, as its residential ethos and proximity to IT/ITeS and BFSI sector hubs such as HITEC City and Gachibowli continue to attract young IT employees that form the bulk of the city's workforce.
- Kothaguda, Nanakramguda and Kondapur in West Hyderabad saw significant development activity during H1 2015 from prominent developers such as Prestige Group and Ashoka Builders.
- Some developers have been observed to liquidate a small portion of their inventory at nearly 20% discounts to the market price at the pre-launch stage to generate sales and fund initial construction costs.
- The shares of the Central and East Hyderabad micro-markets have dropped compared to the preceding period, while those of West, North and South Hyderabad have increased during the same period.
- In the long term, East Hyderabad should see more traction in terms of launches, especially along the Warangal highway, once the ORR and the metro connecting it to the western locations are completed.

FIGURE 3

TICKET SIZE SPLIT OF LAUNCHES DURING H1 2015



Source: Knight Frank Research

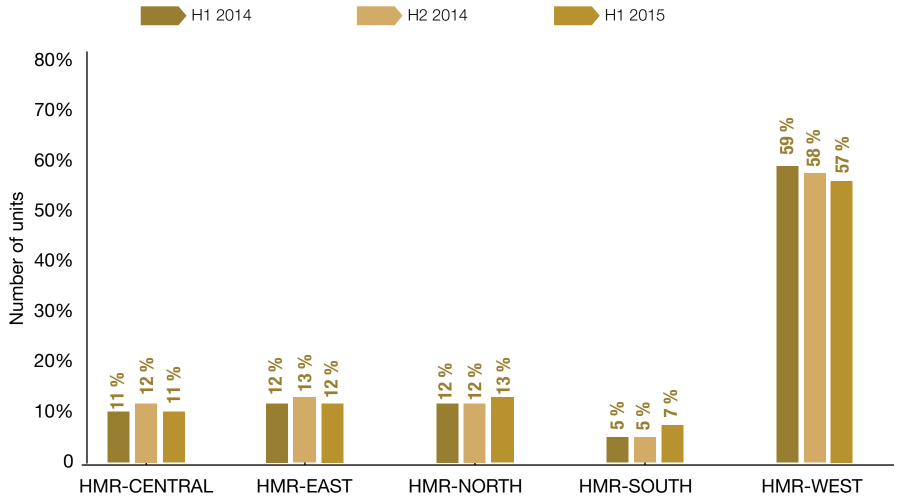
Some developers have been observed to liquidate a small portion of their inventory at nearly 20% discounts to the market price at the pre-launch stage to generate sales and fund initial construction costs

- Nearly all the zones saw developers launching basic housing projects with few amenities in the ₹2.5–₹5 mn ticket size range in a bid to attract the budget-conscious buyer.
- The ₹5–₹7.5 mn ticket size saw the most launches, concentrated largely in the West zone. Developers have to launch projects to match the aspirational quotient of buyers looking to buy in western locations.
- Close to 70% of the units launched during H1 2015 were under ₹7.5 mn.
- Projects with average ticket sizes above ₹10 mn were understandably launched largely in the western and central locations during H1 2015.
- The fact that West Hyderabad has a healthy representation of projects launched in all ticket sizes underscores its attraction as a residential destination.

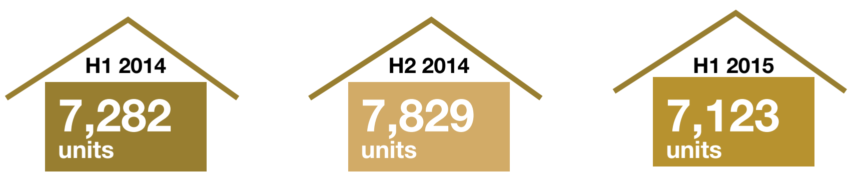
MICRO-MARKET-WISE RESIDENTIAL SALES

FIGURE 3

MICRO-MARKET SPLIT OF SALES



Source: Knight Frank Research



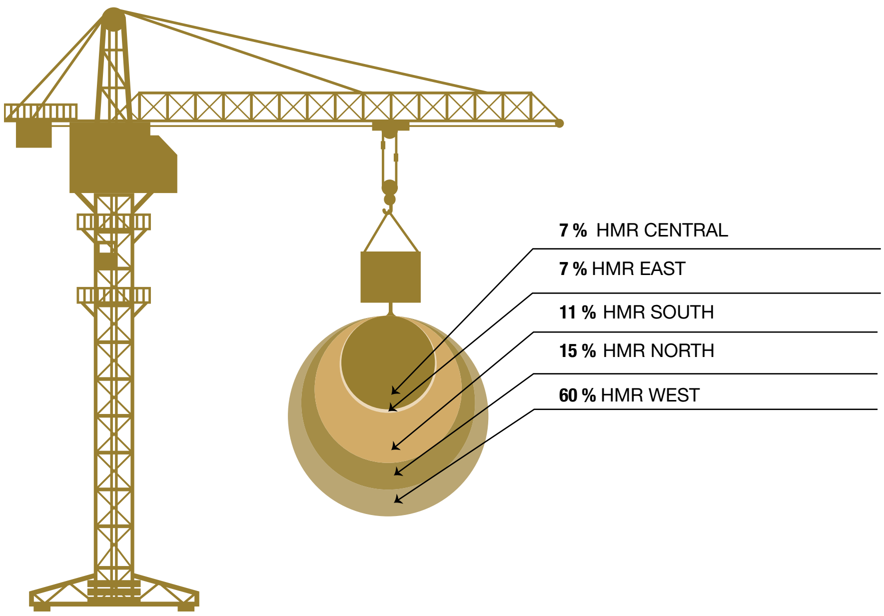
- While the relative shares of the various residential zones in Hyderabad have not deviated much, the North and South zones experienced an increase in their share of absorption during H1 2015 due to a proportional increase in launches during the same period.
- Apartment and villa projects within gated communities have been gaining the buyers' favour in recent times due to the access to social infrastructure and security on offer.
- It can be observed that the share of the West zone has been declining since H2 2013, while other markets have been gaining over the same period. This is largely because buyers have been resisting developers' attempts at raising prices.

The ₹5–₹7.5 mn ticket size saw the most launches, concentrated largely in the West zone. The fact that West Hyderabad has a healthy representation of projects launched in all ticket sizes underscores its attraction as a residential destination

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF JUNE 2015

FIGURE 5

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF JUNE 2015



Source: Knight Frank Research

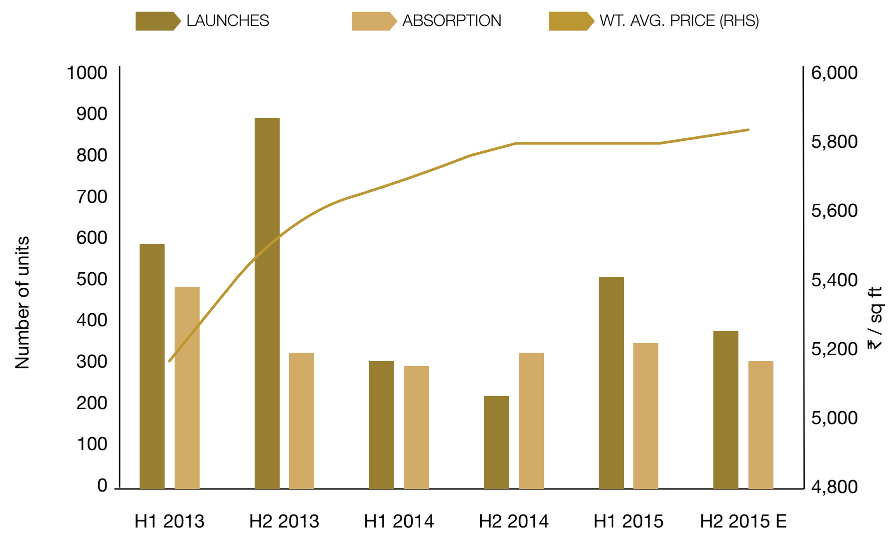
- West Hyderabad accounts for the largest share of the under-construction inventory, followed by the North, South, Central and East markets respectively.
- The buyers' preference for locations in the West zone is also reinforced by the fact that it has the lowest proportion of unsold inventory in relation to under-construction units.
- Conversely, the East and South zones have the highest proportion of unsold inventory of under-construction units.
- The growth of the IT corridor and financial district, together with the growth of an organised retail market, has enhanced the residential appeal of West Hyderabad and will ensure its standing as the most sought-after zone in the city in the future.

PREMIUM RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

Micro-markets	Location
HMR – Central	Banjara Hills, Begumpet, Jubilee Hills, Srinagar Colony, Somajiguda
HMR – West	Madhapur

FIGURE 6

PREMIUM MARKET TRENDS



Source: Knight Frank Research

The growth of the IT corridor and financial district, together with the growth of an organised retail market, has enhanced the residential appeal of West Hyderabad and will ensure its standing as the most sought-after zone in the city in the future

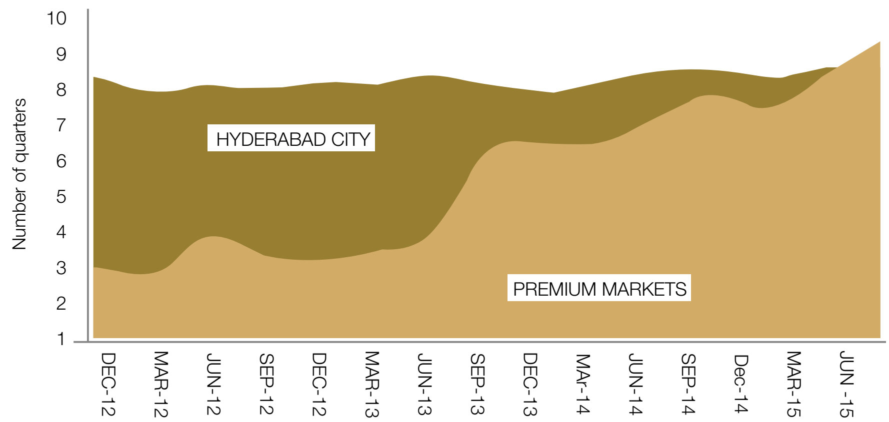
Note: *Premium markets include locations where the average ticket size of a residential unit is above ₹ 15 mn, in close proximity to the central business district of the city and have witnessed new project launches in the preceding three years*

- The premium market of Hyderabad, which constitutes locations such as Banjara Hills, Jubilee Hills, Madhapur, Begumpet and Srinagar Colony, among others, has experienced YoY growth in both, sales and absorption, during H1 2015. In particular, new project launches have grown by a substantial 77% YoY, while absorption has grown by a modest 18%.
- Project launches that topped out in H2 2013 when they spiked over 100% YoY and dropped in 2014 are seeing a recovery in the current period, as the market appetite for gated communities in these premium locations has grown.
- The weighted average price growth in the premium segment has tapered off since 2013, from 13% YoY during H2 2013 to 3.8% in H1 2015, due to high prices and the real estate investment climate going sour, especially in this segment.

HYDERABAD MARKET HEALTH

FIGURE 7

QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS



Source: Knight Frank Research

- The quarters to sell unsold inventory (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 eight trailing quarters in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market.
- The Hyderabad market QTS has been range-bound between 8–9 quarters, but has been on an uptrend since the end of 2013.
- Now at 8.7 quarters, the QTS is at its highest level since the last three years.
- The steep fall in launches had helped the QTS level stay range bound; however, declining absorption levels have outweighed this factor. Consistently-declining unsold inventory levels and an expected recovery in demand should help alleviate this situation.
- Trending up from a QTS level of just 3 in H2 2011 to 8.9 in H1 2015, the premium segment has deteriorated much more rapidly compared to the overall Hyderabad residential

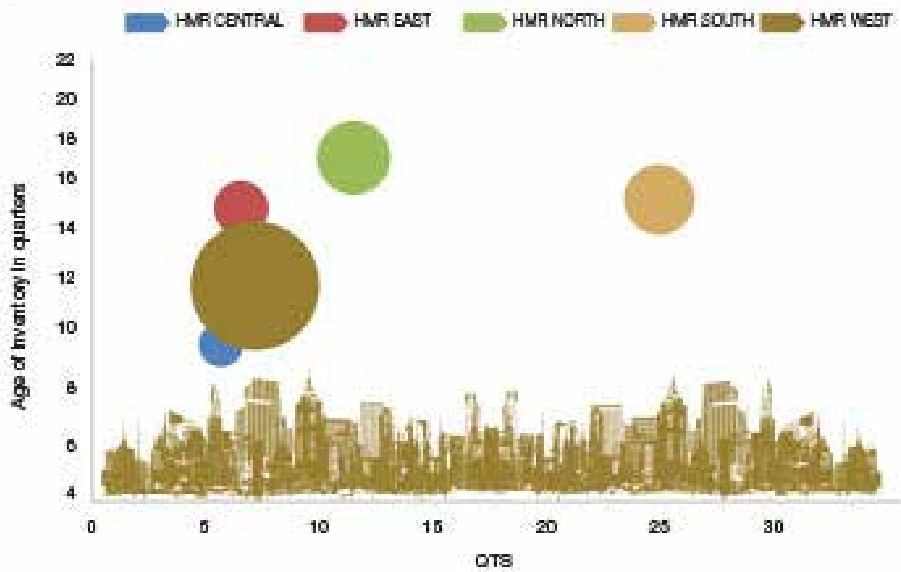
Trending up from a QTS level of just 3 in H2 2011 to 8.9 in H1 2015, the premium segment has deteriorated much more rapidly compared to the overall Hyderabad residential market as the supply of projects with average ticket sizes over ₹15 mn increased dramatically, especially in 2012 and 2013, while demand dried up.

market as the supply of projects with average ticket sizes over ₹15 mn increased dramatically, especially in 2012 and 2013, while demand dried up.

- That said, the QTS for premium locations in Hyderabad is still very close to the market average today, which is quite exceptional compared to other cities where premium locations suffer a much higher QTS.
- We do not expect the QTS level for the Hyderabad residential market to worsen further during H2 2015, as we believe that the festive season will buffer absorption, while new launches will continue to see de-growth.

FIGURE 8

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

Note: The size of the bubble indicates the quantum of unsold inventory

- It is clear from the adjoining chart that the Central zone is the healthiest market today, as it has the lowest QTS, and comparatively, the youngest unsold inventory among all the residential markets of Hyderabad. This could be attributed to the limited inventory and inherent supply constraints in this zone.
- West Hyderabad follows closely on the same parameters. Its relative health can be gauged quite clearly from the fact that it has a lower QTS and that its inventory also gets liquidated much quicker than the other markets despite it having the largest block of unsold inventory. Incidentally, its proportion of unsold inventory to under-construction stock is also the lowest among all the zones.
- North Hyderabad holds the oldest inventory, while South Hyderabad will take the most time to liquidate its existing unsold inventory.
- East Hyderabad has a QTS of 6.6 and is much below the 8.4 quarters that is the average for the Hyderabad market as a whole. It shows the increasing interest that this zone is attracting due to the focus on the completion of the ORR and the promised development along the Warangal highway.

West Hyderabad's relative health can be gauged quite clearly from the fact that it has a lower QTS and that its inventory also gets liquidated much quicker than the other markets despite it having the largest block of unsold inventory

PRICE MOVEMENT DURING H1 2015

- The weighted average asking prices for the Hyderabad residential market grew marginally by 2.5% YoY to ₹3,509 psf during H1 2015.
- Weighted average prices in premium locations also grew at a similar pace, with growth since H2 2014 barely making it into positive territory.
- Prices continued to firm up across locations in Central and West Hyderabad due to a limited inventory and launches at higher price ranges respectively.
- Notably, Nacharam and Uppal also saw some upward movement in prices, as people have started investing in second homes in the east

Weighted average price movement in Hyderabad

Location	Price range in H1 2015 (₹/sq ft)	12 month change	6 month change
Hyderabad city	3,509	2.5%	2.3%
Premium markets	5,787	2.4%	0.9%

Price movement in select locations

Location	Micro-market	Price range in H1 2015 (₹/sq ft)	12 month change	6 month change
Begumpet	Central	4,500–6,000	4%	3%
Banjara Hills	Central	7,000–9,000	7%	5%
Jubilee Hills	Central	4,500–6,200	8%	2%
Madhapur	Central	5,800–7,800	5%	0%
Sanath Nagar	Central	3,500-5,000	6%	4%
Uppal	East	2,600–2,800	4%	3%
L. B. Nagar	East	2,500–2,900	6%	4%
Nacharam	East	2,200–2,800	6%	3%
Kompally	North	2,200–3,100	2%	6%
Quthbullapur	North	2,100–2,600	-3%	3%
Shamirpet	North	2,000–2,400	-1%	1%
Shamshabad	South	2,300–3,000	2%	2%
Bandlaguda	South	2,200–3,100	2%	2%
Rajendranagar	South	2,100–3,100	-1%	2%
Kondapur	West	4,000–5,200	2%	2%
Gachibowli	West	3,800–4,750	6%	4%
Manikonda	West	3,400–4,500	5%	3%
Kukatpally	West	2,800–4,000	4%	3%
Madeenaguda	West	2,600–3,350	7%	5%

Source: Knight Frank Research

The Central zone is the healthiest market today, as it has the lowest QTS, and comparatively, the youngest unsold inventory among all the residential markets of Hyderabad

OUTLOOK FOR THE NEXT SIX MONTHS

Projections	H2 2014	H2 2015E	Growth
Launches	5,151	4,635	-10%
Absorption	7,829	7,640	-2%
Weighted average price (₹/sq ft)	3,502	3,590	3%

Source: Knight Frank Research

- The business districts of Hyderabad are very well connected via the internal/outer ring roads and the upcoming metro will enhance this further. While this is an excellent factor to promote balanced real estate growth in the city, it does tend to cap real estate price growth, as people are willing to move further away from the business districts to save on real estate costs.
- We do not expect the steep de-growth in launches and absorption to continue because the easing of the political situation, initiatives such as the recent rate cuts by the RBI and an overall improvement in business sentiment will reap rewards in the future.
- The health of the office market is a fair indicator of economic activity / business sentiment in the city, and if the drop in its vacancy levels and steady absorption are anything to go by, then the Hyderabad residential market is bound to turn the corner soon.
- West Hyderabad locations will continue to be the center of residential real estate activity in Hyderabad, be it launches, sales or price growth. South Hyderabad in contrast still has a long way to go as there is no significant driver to attract buyer interest in the short term.
- While we believe that absorption levels will exceed those of H1 2015 as the festival season will encourage demand, they will still fall short of H2 2014 levels by a nominal 2%. Project launches are expected to continue to decelerate and see a deficit of 10% YoY, by the end of H2 2015.
- The continued reduction in supply and slowly improving economic sentiments will support prices which are expected to grow by 2.5%–3% YoY reaching ₹3,590 during H2 2015.

The continued reduction in supply and slowly improving economic sentiments will support prices which are expected to grow by 2.5%–3% YoY reaching ₹3,590 during H2 2015

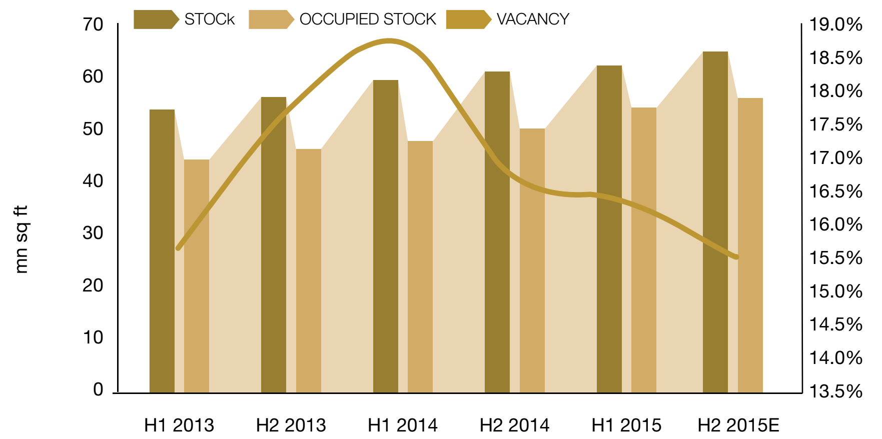
The Hyderabad office space market experienced strong consolidation during H1 2015, characterised by declining supply, falling vacancy, lacklustre absorption and strengthening rents

OFFICE MARKET

STOCK, NEW COMPLETIONS, ABSORPTION AND VACANCY TRENDS

FIGURE 1

HYDERABAD OFFICE SPACE STOCK AND VACANCY LEVELS

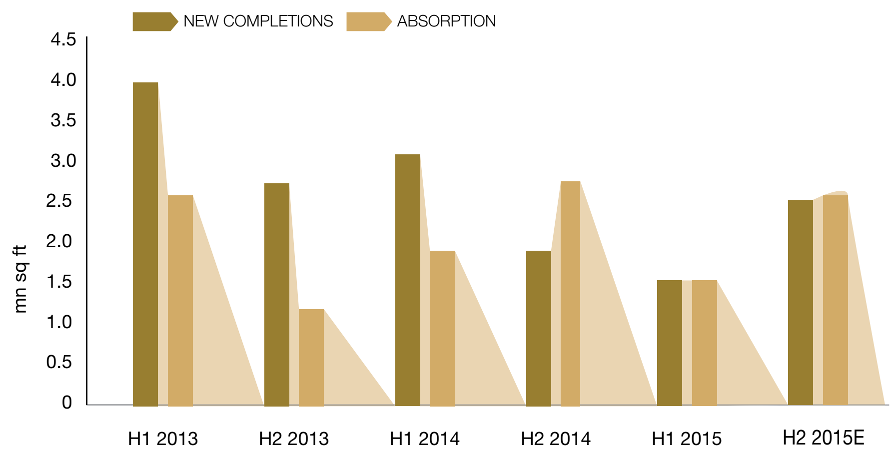


Source: Knight Frank Research

- The Hyderabad office space market experienced a strong consolidation during H1 2015, characterised by declining supply, falling vacancy, lacklustre absorption and strengthening rents.
- Absorption volumes had increased dramatically towards the end of 2014 as the Telangana issue was resolved. However, this momentum could not be sustained in H1 2015 due to the dearth of quality office space in the market.
- Despite the drop in absorption during H1 2015, vacancy levels are at their lowest in the last 24 months, as the fall in supply has far exceeded that of demand.
- The fall in vacancy levels accelerated after 2013, as the following 18 months saw just 6.5 mn sq ft of office space come online – a substantial 31% drop from the 9.5 mn sq ft delivered during the previous reference period from H1 2012 to H2 2013.
- In contrast, the same period saw an 8% increase in the total absorption levels, highlighting the improving fundamentals of the market.
- Hyderabad has an office stock of approximately 62 mn sq ft today, with a vacancy of 16%.
- The Hyderabad office market experienced approximately 1.5 mn sq ft of supply and absorption during H1 2015, a 51% and 24% de-growth, respectively, compared to the same period in the previous year.
- The adjoining chart displays the growing absorption levels, coupled with the falling trend in supply since H2 2013. However, the current period depicts a steep fall in demand, which was caused almost solely due to a scarcity of quality office stock with large floor plates, as enquiries remain strong in the market.

FIGURE 2

NEW COMPLETIONS AND ABSORPTION

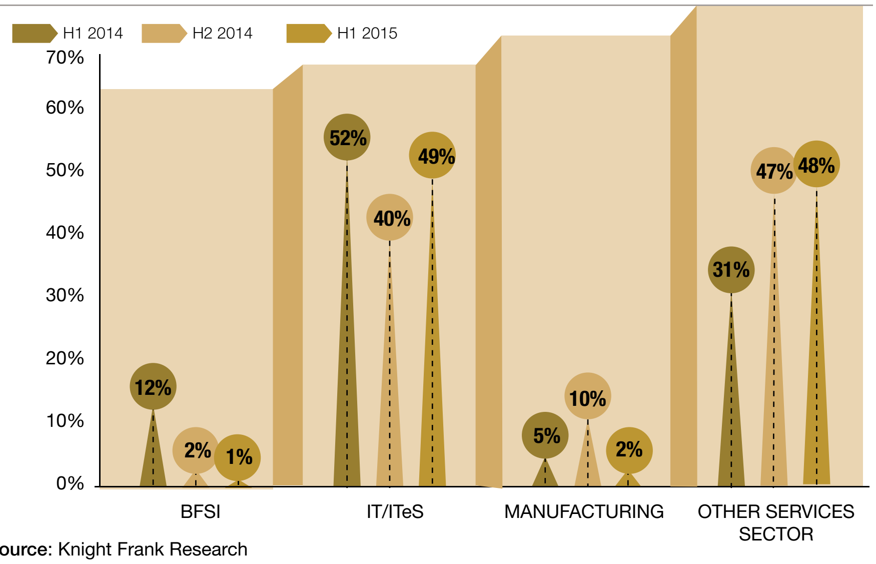


Source: Knight Frank Research

SECTOR ANALYSIS

FIGURE 3

SECTOR-WISE SPLIT OF ABSORPTION



Source: Knight Frank Research

Note: *BFSI includes support services*

Source: Knight Frank Research

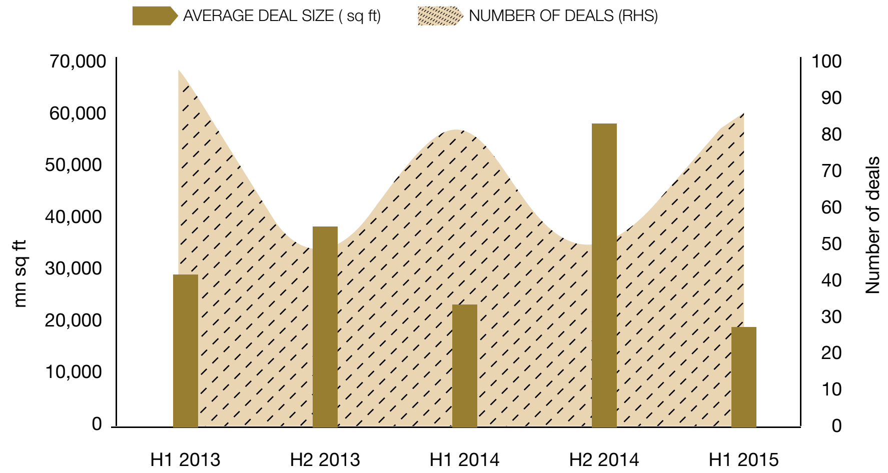
- The IT/ITeS sector has traditionally dominated the absorption pie in the Hyderabad office space market but other services sector companies from the consulting, healthcare and e-commerce space have been increasing their presence in recent years.
- A healthcare company, CARE Hospitals' 0.30-mn-sq-ft purchase at Alexandra Medical Centre was the largest transaction of H1 2015 and made up more than half of the volume transacted by the other services sector.
- The other services sector's share had eclipsed that of the IT/ITeS sector in H2 2014, but the current period again saw the latter take up the most space in the market, at 0.85 mn sq ft or 49% of the entire market.
- The manufacturing and BFSI sectors made up just 3% of the entire market and their combined shares have been declining consistently since the end of 2013.

A healthcare company, CARE Hospitals' 0.30-mn-sq-ft purchase at Alexandra Medical Centre was the largest transaction of H1 2015 and made up more than half of the volume transacted by the other services sector

DEAL SIZE ANALYSIS

FIGURE 4

AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

There were only two transactions exceeding 0.1 mn sq ft during H1 2015 due to the abject scarcity of large format quality office spaces

- The average deal size has plummeted to its lowest level since 2012 in H1 2015, in spite of an improvement in market sentiment post the resolution of the Telangana issue, due to a scarcity of quality office spaces with large floor plates in the Hyderabad office market.
- There were only two transactions exceeding 0.1 mn sq ft during H1 2015 due to the abject scarcity of large format quality office spaces. This scarcity also caused the average transaction sizes of the IT/ITeS and other services sectors to fall a substantial 24% each, to 18,000 sq ft and 23,000 sq ft, respectively, in H1 2015, compared to the same period in the previous year.
- The sequential increase in the number of deals, coupled with the low average transaction size, also indicates a higher propensity or greater confidence among occupiers to take up office space in the market.

Select transactions

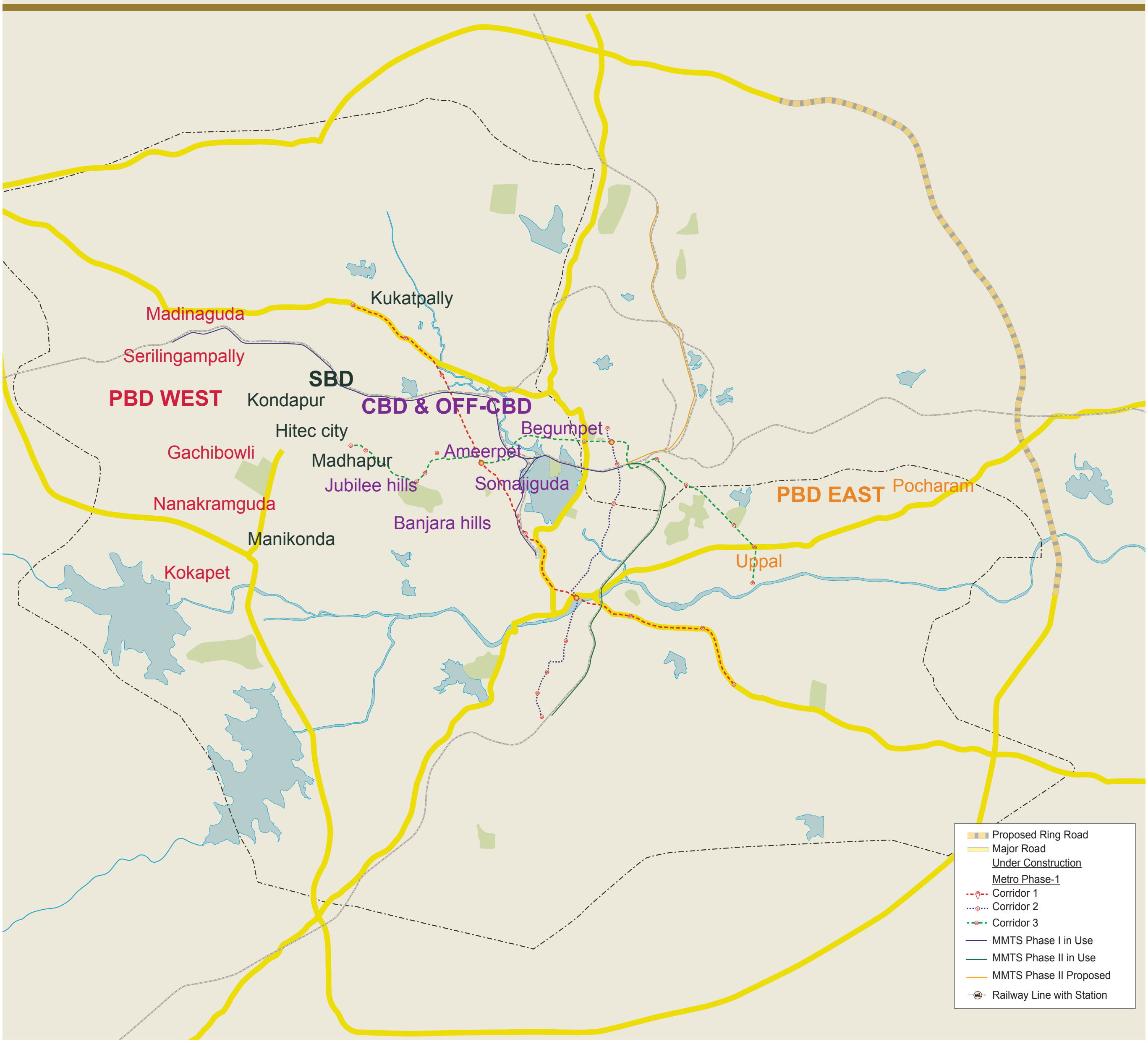
Location	Building	Company	Approx. area (sq ft)
Gachibowli	Alexandra Medical Center	CARE Hospitals	300,000
Banjara Hills	Ashoka Metropolitan	Mediciti Hospitals	125,000
Gachibowli	WaveRock	Persistent Systems	60,000
Gachibowli	DLF	FactSet Systems India Pvt. Ltd	40,000
Shamshabad	GMR Aerospace	Premier Airways	40,000
Kondapur	Mahaveer Water Mark	Motivity Labs	33,516
Kondapur	The Platina	Green Gold Animation Pvt Ltd	30,000
Madhapur	DivyaSree Solitaire	Sumtotal	27,100
Nanakramguda	TSI Waverock	Innominds	27,000
Uppal	NSL Arena	Inventurus Knowledge Solutions	27,000
Madhapur	Pioneer Towers	CGI	25,500

Source: Knight Frank Research

BUSINESS DISTRICT ANALYSIS

Business District	Micro-markets
CBD & off-CBD	Banjara Hills, Jubilee Hills, Begumpet, Ameerpet, Somajiguda, Himayat Nagar, Raj Bhavan Road, Punjagutta
SBD	Madhapur, Manikonda, Kukatpally, Raidurg
PBD West	Gachibowli, Kokapet, Madinaguda, Nanakramguda, Serilingampally
PBD East	Uppal, Pocharam
HMR – South	Rajendra Nagar, Shamshabad

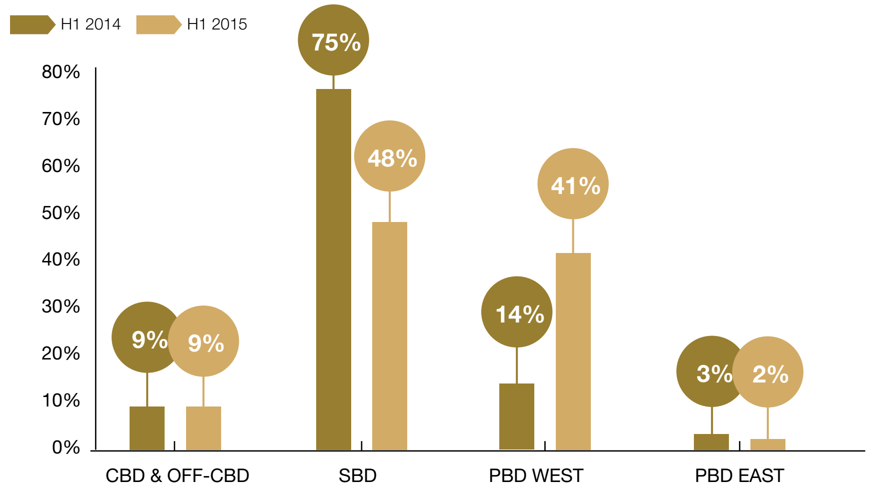
BUSINESS DISTRICTS OF HYDERABAD



Source: Knight Frank Research

FIGURE 5

BUSINESS DISTRICT-WISE ABSORPTION SPLIT



Source: Knight Frank Research

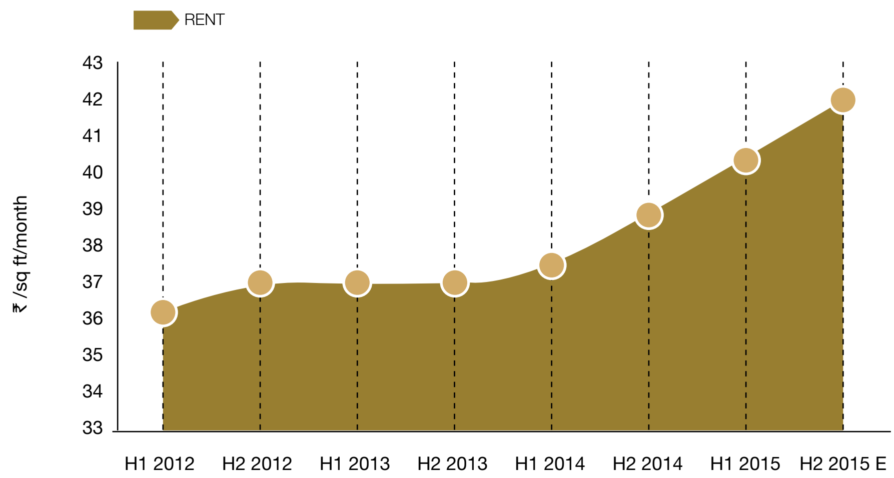
- The only business district that experienced an increase in market share during H1 2015 was PBD West, due to the comparatively greater availability of good quality office spaces in locations such as Gachibowli and Nanakramguda.
- The PBD West business district is second only to the SBD in terms of quality of office development for the IT/ITeS sector, and H1 2015 saw its share in the absorption pie almost equal that of the SBD.
- The spill-over demand from SBD IT/ ITeS hotspots, such as Madhapur and Kondapur, which have almost no viable large format office spaces left, pushed occupiers to take up spaces in the PBD West business district.
- Just three locations—Gachibowli, Madhapur and Manikonda—accounted for almost 75% of the space transacted during H1 2015.

The spill-over demand from SBD IT/ ITeS hotspots, such as Madhapur and Kondapur, which have almost no viable large format office spaces left, pushed occupiers to take up spaces in the PBD West business district

RENTAL TREND

FIGURE 6

WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

- Rentals in the Hyderabad office market, which had stagnated till 2013, have seen sustained growth since 2014, as the Telangana issue achieved resolution.
- The lack of vacant office stock, coupled with steady demand, has pushed the weighted average rentals in the Hyderabad office space market to just over ₹40/sq ft /month at the end of H1 2015 – a strong 8% growth YoY.
- H1 2015 saw rental levels grow across locations, compared to the same period in the previous year. SBD locations such as HITEC City and Kondapur have experienced the strongest rent growth in the market, particularly due to the absence of viable space in this business district.
- The PBD West business district experienced the next highest growth in rentals on the back of big-ticket deals by other services and IT/ITeS sector companies such as CARE Hospitals, Persistent Systems and FactSet. Locations such as Gachibowli and Nanakramguda, which saw most of the transaction activity in this zone, also experienced the most appreciation in asking rentals, as vacancy levels in these locations dropped significantly during H1 2015.
- The PBD East market has witnessed little interest from occupiers and developers alike, and saw marginal rental growth during this period.

OUTLOOK FOR THE NEXT SIX MONTHS

Projections	H2 2014	H2 2015E	Growth
New completion (mn sq ft)	2.0	2.4	23%
Absorption (mn sq ft)	2.8	2.5	-8%
Vacancy (%)	17%	16%	
Weighted average rental (₹/sq ft/month)	39	42	8%

Source: Knight Frank Research

- A significant 2.4 mn sq ft of quality office space is expected to come online during H2 2015 and will be instrumental in boosting absorption numbers to approximately 2.4 mn sq ft – a 23% growth over H2 2014.
- A steady demand pipeline, coupled with limited office space deliveries hitting the market in the following six months, will keep vacancy levels down to an estimated 16%, and consequently, drive rental growth by a further 8% YoY, from ₹39/sq ft/month in H2 2014 to approximately ₹42/sq ft/month by H2 2015.
- The SBD locations along the IT Corridor of HITEC City and Kondapur are undisputedly the most sought after office destinations by the IT/ITeS sector today, and will continue to experience the strongest rental growth, going forward. Gachibowli and Nanakramguda, in the PBD West business district, will also see strong rental growth.

A steady demand pipeline, coupled with limited office space deliveries hitting the market in the following six months, will keep vacancy levels down to an estimated 16%, and consequently, drive rental growth by a further 8% YoY

AUTHOR

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Vice President - Research

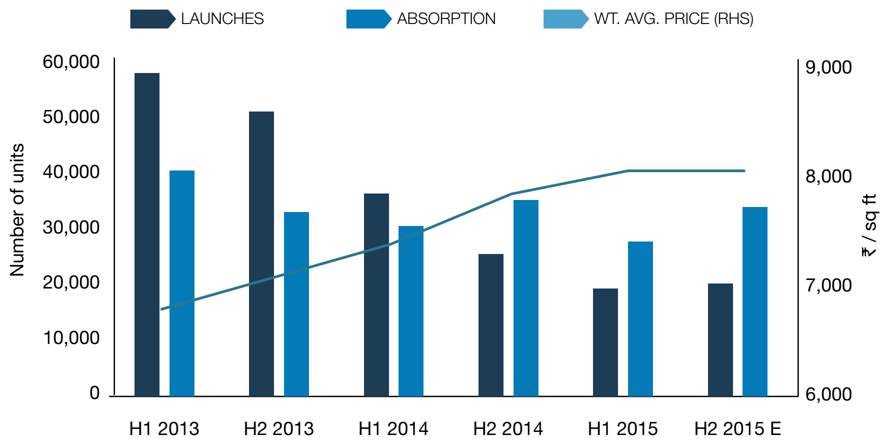
MUMBAI

Residential & Office Market

RESIDENTIAL MARKET
LAUNCHES, ABSORPTION AND PRICE TRENDS

- The MMR residential market contracted further in H1 2015. In comparison to the preceding half-yearly period of H2 2014, absorption and new launches shrunk by 22% and 30%, respectively. Housing sales of 28,446 units and new launches of 18,887 units made H1 2015 the worst half-yearly period in the post global financial crisis era. Compared to H1 2014, the latest period saw a decline of 47% and 9% in new launches and absorption, respectively.
- Several reasons erupting over the last few years have contributed to the current mess. In terms of investor participation, the MMR residential market ranks second only to the National Capital Region (NCR). Muted property price growth expectation and booming financial investment alternatives have weakened the investment rationale for property, thereby keeping investors away. On the other hand, for end users, high property prices and low income growth continue to be the top concerns. Notwithstanding the coping strategies—easy financing schemes and freebies—adopted by developers to revive demand, these factors took a toll on market momentum.
- In the case of supply, there have been several reasons for this scenario. In a situation where unsold inventory, particularly in the ready possession category, is increasing, new launches would only aggravate the pressure. Taking cognizance of this, developers have aligned new launches to the bleak demand scenario. Additionally, the confusion over Mumbai's new Development Plan (DP) 2034 that was launched at the beginning of this year has impacted approvals for new projects.

FIGURE 1
MMR MARKET TRENDS



Source: Knight Frank Research

As a consequence of the large-scale criticism over the proposed massive increase in FSI and change in open space reservations in the new DP, the state government has directed the municipal corporation to revise the plan by August 2015.

- In line with the slowdown in the MMR residential property market, the price growth has decelerated in H1 2015. The MMR weighted average price increased by a modest 2.5% during H1 2015 (January to June). In comparison to H1 2014, the price growth stood at 8%.
- Going forward, in H2 2015, we estimate modest improvement in market momentum—demand and supply—coinciding with stagnation on the price front. A gradual improvement in employment outlook, coupled with lower consumer inflation and housing loan interest rates, would augment end user demand in H2 2015, resulting in housing sales of 34,135 units – up 20% sequentially, compared to the first six months of 2015. On the supply side, even while the uncertainty over Mumbai's new

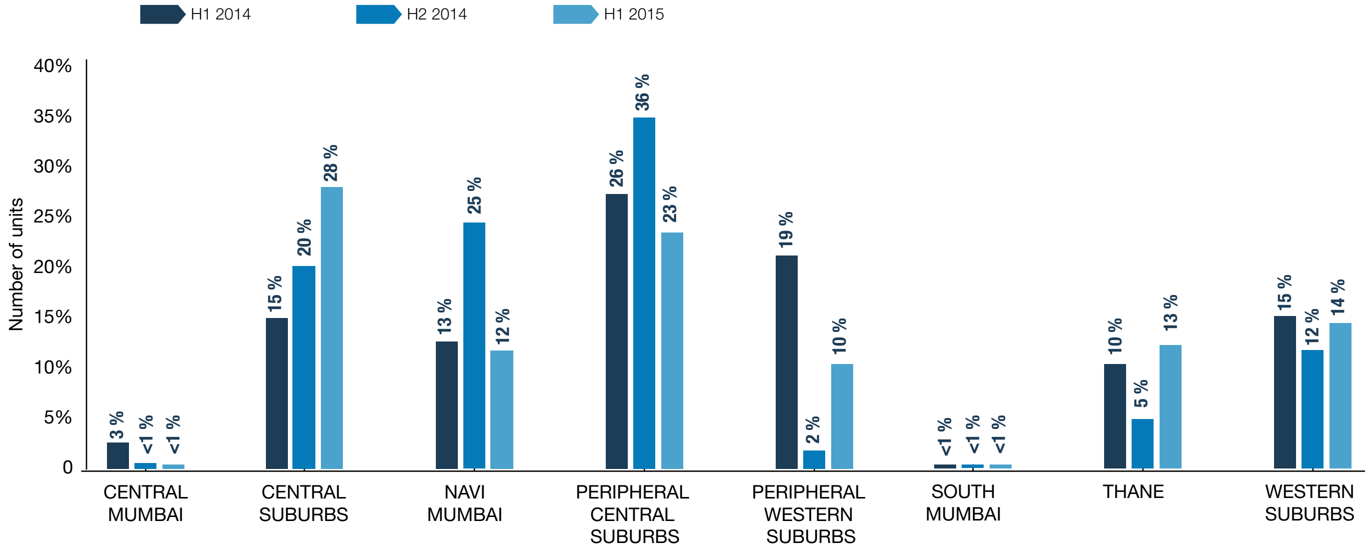
Several reasons erupting over the last few years have contributed to the current mess. In terms of investor participation, the MMR residential market ranks second only to the National Capital Region (NCR). Muted property price growth expectation and booming financial investment alternatives have weakened the investment rationale for property, thereby keeping investors away. On the other hand, for end users, high property prices and low income growth continue to be the top concerns.

development plan is expected to be resolved by August 2015 and developers gauge higher enquiries, new project launches at 20,776 units will be 10% more sequentially – relatively lower than the absorption growth on account of the unsold inventory pressure. Against the backdrop of these market dynamics, we forecast stagnant prices over the next six months. In comparison with H2 2014, new launches and absorption will continue to slide by 23% and 6%, respectively. During this period, the price growth would be 3%.

MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

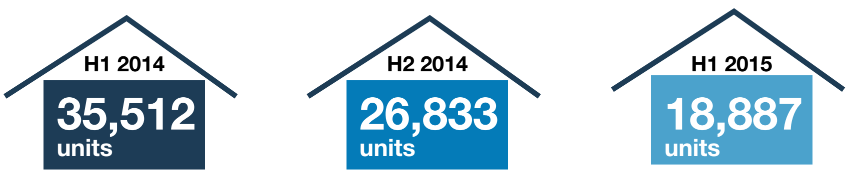
FIGURE 2

MICRO-MARKET SPLIT OF LAUNCHED UNITS



Source: Knight Frank Research

In Navi Mumbai, new launches in the latest half-yearly period are seen in relatively lower priced markets such as Taloja and Ulwe, thereby placing Navi Mumbai at the largest share of 44% in the ₹2.5– ₹5.0 mn ticket size

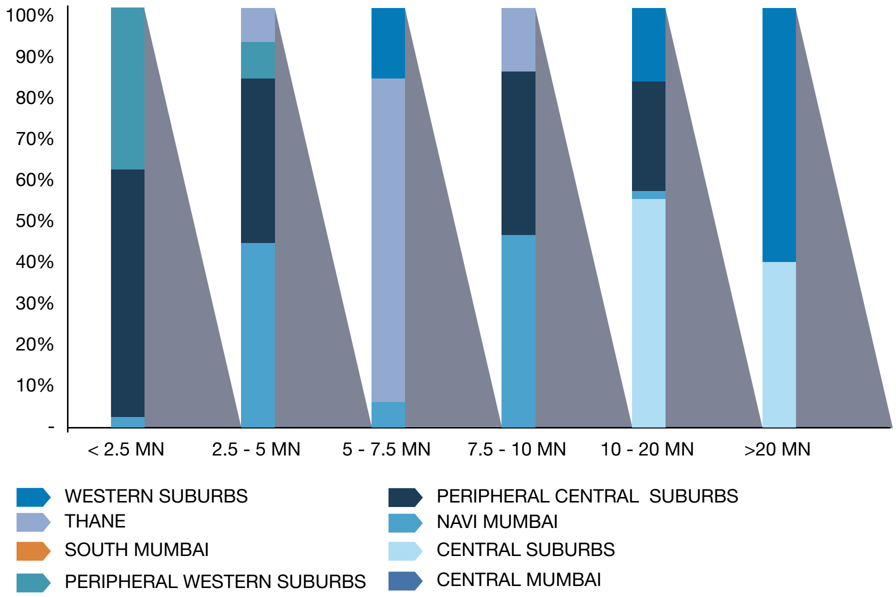


- Sequentially increasing its market share, the Central Suburbs emerged as the largest market, with 28% of all the new launches in H1 2015. Big project launches in locations such as Mulund, Kanjurmarg and Chembur contributed to this lead. The Central Suburbs contributed the largest share (54%) of new launches in the ₹10–₹20 mn ticket size.
- The affordable Peripheral Central Suburbs, with a share of 23%, was the second largest market in terms of launches. This market contributes the largest share (59%) of less than ₹2.5 mn ticket size new launches in H1 2015.
- South Mumbai and Central Mumbai, the relatively expensive markets of the MMR, have witnessed a sharp decline in new launches during the last six months.
- Navi Mumbai witnessed its share in new launches decline to 12% in H1 2015. This satellite city of Mumbai that took off as an affordable housing destination a decade ago is now a sought-after locality and commands

prices in the range of ₹4,500 to ₹15,000/sq.ft.. New launches in the latest half-yearly period are seen in relatively lower priced markets such as Taloja and Ulwe, thereby placing Navi Mumbai at the largest share of 44% in the ₹2.5– ₹5.0 mn ticket size.

FIGURE 3

TICKET SIZE SPLIT OF LAUNCHES DURING H1 2015



Source: Knight Frank Research

MICRO-MARKET-WISE RESIDENTIAL SALES

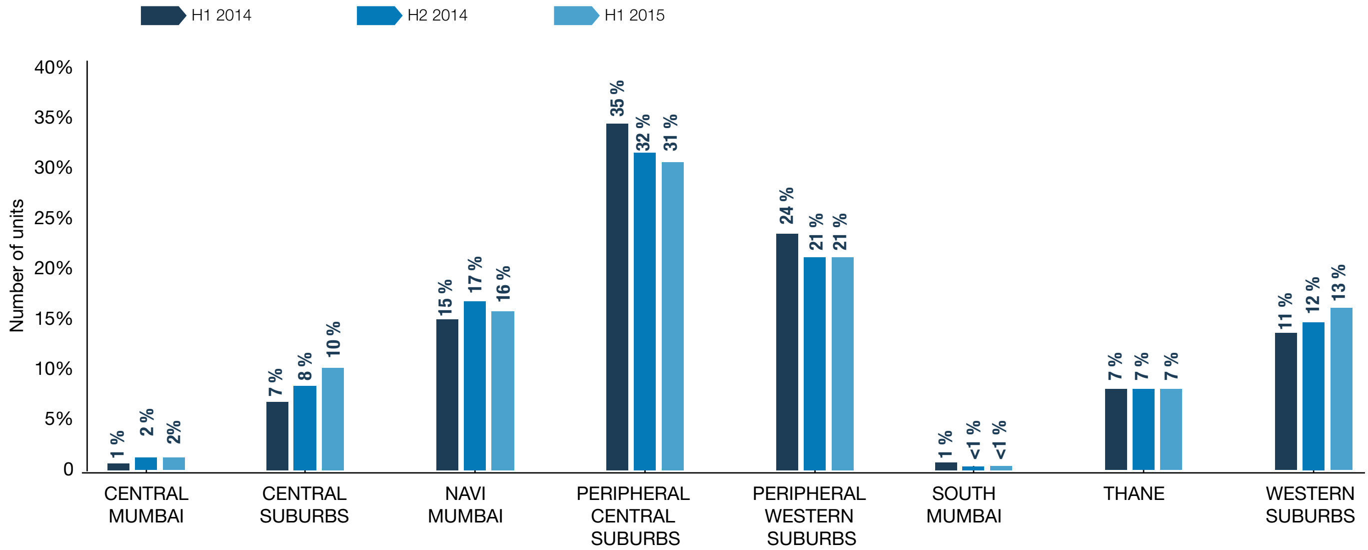
Micro-markets	Location
Central Mumbai	Dadar, Lower Parel, Mahalakshmi, Worli, Prabhadevi
Central Suburbs	Sion, Chembur, Wadala, Kurla, Ghatkopar, Vikhroli, Bhandup, Mulund
Navi Mumbai	Vashi, Nerul, Belapur, Kharghar, Airoli, Panvel, Ulwe, Sanpada
Peripheral Central Suburbs	Kalyan, Kalwa, Dombivli, Ambernath, Bhiwandi, Mumbra, Karjat
Peripheral Western Suburbs	Vasai, Virar, Boisar, Palghar, Bhayandar, Nalasopara
South Mumbai	Malabar, Hill, Napean Sea Road, Walkeshwar, Altamount Road, Colaba
Thane	Naupada, Ghodbunder Road, Pokhran Road, Majiwada, Khopat, Panchpakhadi
Western Suburbs	Bandra, Andheri, Goregaon, Kandivali, Borivali, Santacruz, Vile Parle

Besides relatively affordable prices, the completion of major infrastructure projects, namely the Eastern Freeway, Santacruz–Chembur Link Road and the Versova–Ghatkopar metro, last year has increased the acceptability of the residential markets in the peripheral suburbs

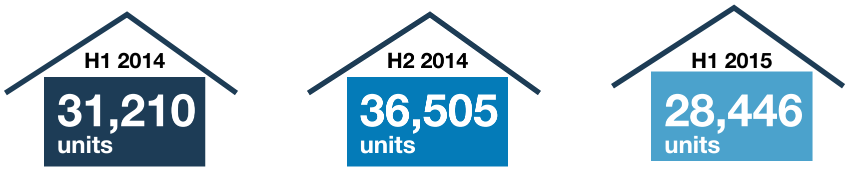
Mumbai Metropolitan Region Map

FIGURE 4

MICRO-MARKET SPLIT OF SALE



Source: Knight Frank Research

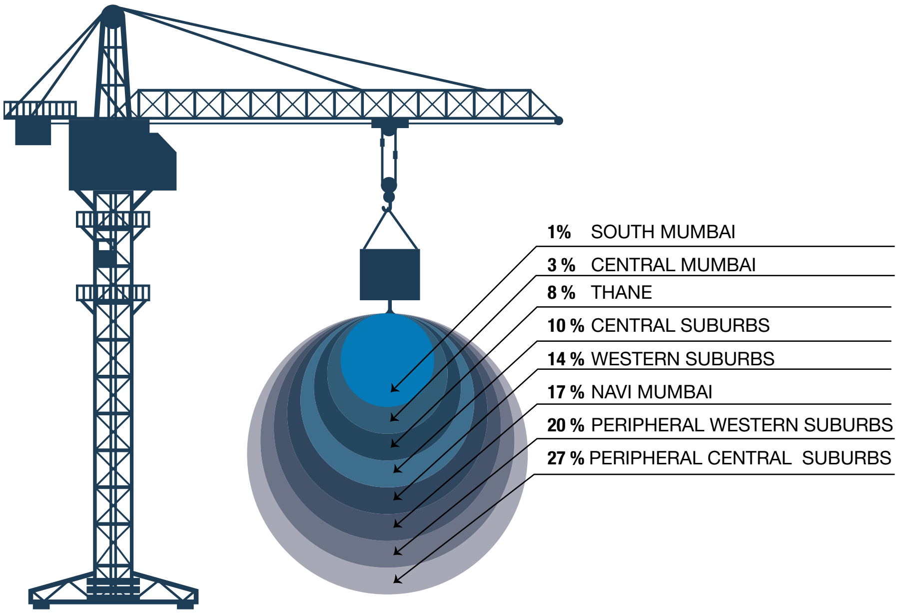


- In terms of the share of sales, there was no significant change between H2 2014 and H1 2015. The share of the Central Suburbs increased marginally from 8% to 10% on account of the demand for attractively-priced projects in locations such as Mulund and Kanjurmarg.
- The relatively affordable markets, namely the Peripheral Central Suburbs and Peripheral Western Suburbs, contributed 31% and 21%, respectively, during H1 2015.
- Besides relatively affordable prices, the completion of major infrastructure projects, namely the Eastern Freeway, Santacruz–Chembur Link Road and the Versova–Ghatkopar metro, last year has increased the acceptability of the residential markets in the peripheral suburbs, thus continuing their lead in the demand share.

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF JUNE 2015

FIGURE 5

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF JUNE 2015



Source: Knight Frank Research

Peripheral Western Suburbs offers relatively lower prices besides good connectivity to the office markets of the Western Suburbs, Central Mumbai and South Mumbai

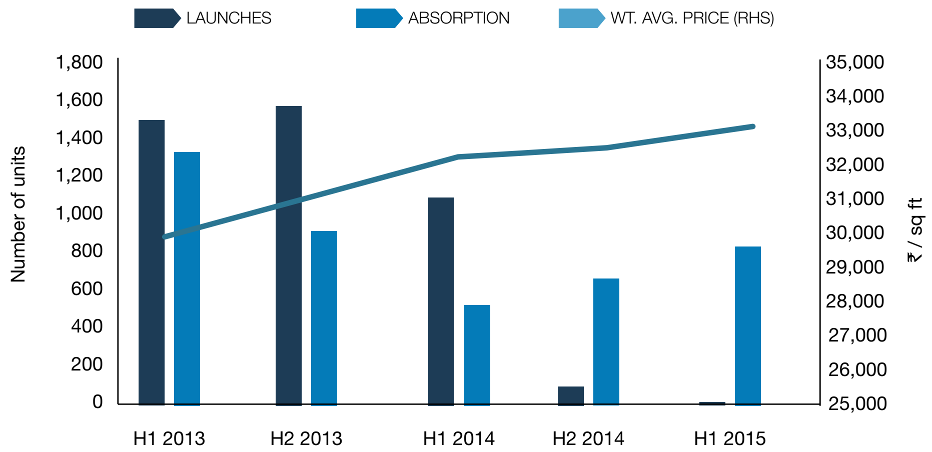
- The Peripheral Central Suburbs, contributing 27% in H1 2015, is the largest market in the MMR in terms of the quantum of under-construction housing units. Relatively affordable pricing and improving connectivity to employment hubs in Mumbai make this micro-market an attractive choice for homebuyers.
- The Peripheral Western Suburbs ranks second in terms of under-construction housing units, at 20%. This market offers relatively lower prices besides good connectivity to the office markets of the Western Suburbs, Central Mumbai and South Mumbai.

PREMIUM RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

Micro-market	Premium locations
South Mumbai	Malabar Hill, Tardeo, Mahalakshmi, Mumbai Central, Walkeshwar
Central Mumbai	Worli, Prabhadevi, Parel, Lower Parel, Dadar
Western Suburbs	Bandra West, Santacruz, Juhu,

FIGURE 6

PREMIUM MARKET TRENDS



Source: Knight Frank Research

Note: *Premium markets include locations where the average ticket size of a residential unit is above ₹50 mn are in close proximity to the central business district of the city and have witnessed new project launches in the preceding three years*

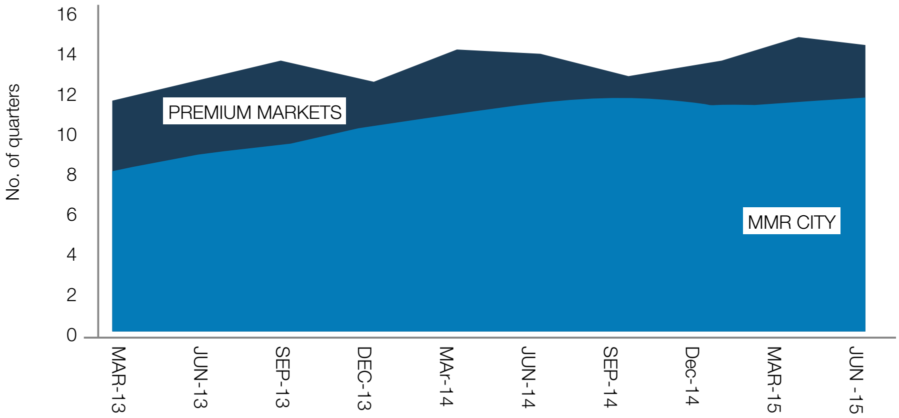
- With an average house price of ₹50 mn and above, the premium markets are select localities spread across the micro-markets of South Mumbai, Central Mumbai and the Western Suburbs. These markets have also been battling tough market conditions for the last few years.
- Reeling under the pressure of a high unsold inventory, these markets have witnessed a drastic reduction in new launches. After 121 units in H2 2014, new launches dried up in H1 2015. In terms of demand, the premium markets have seen a growth of 22%, to 795 units in H1 2015. However, it should be noted that these markets contributed less than 2% of the MMR demand-supply dynamics during 2014. An annual comparison of demand numbers indicates a growth of 47%.
- Besides the factors that impacted the overall MMR market, the high ticket size in these markets made buyers draw value proposition parallels with relatively affordable markets in the Western and Central Suburbs. Even as new launches came down drastically in the last year, the price growth in the premium markets remained muted at just 2% in H1 2015. In comparison to H1 2014, the price growth stood at 3%.

Besides the factors that impacted the overall MMR market, the high ticket size in premium markets made buyers draw value proposition parallels with relatively affordable markets in the Western and Central Suburbs

MMR MARKET HEALTH

FIGURE 7

QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS



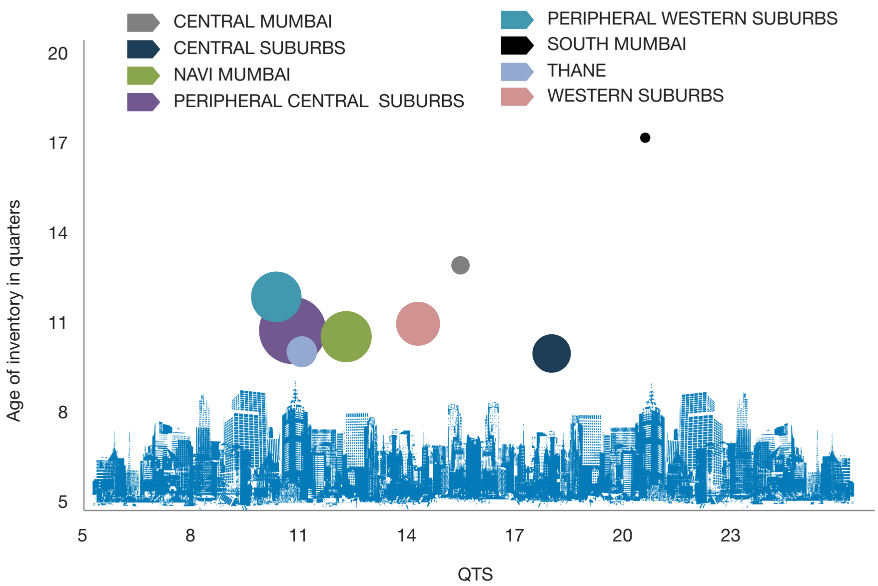
Source: Knight Frank Research

The unsold inventory in MMR has declined from 204,070 units in H2 2014 to 194,510 units in H1 2015, mainly on account of a sharp reduction in new launches

- The quarters to sell unsold inventory (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.
- Against the backdrop of a weak demand scenario, the QTS for the MMR has seen an increasing trend between June 2013 and June 2015. While the QTS declined marginally during late 2014, it has started to rise again on account of a deceleration in the absorption rate in the market.
- The unsold inventory has declined from 204,070 units in H2 2014 to 194,510 units in H1 2015, mainly on account of a sharp reduction in new launches. During this period, the QTS increased marginally, from 11.5 to 12.1. A comparison of the market health of all the micro-markets of the MMR indicates that the South Mumbai market has been ailing. A QTS of 21 and the age of inventory at 17 quarters is the worst across all markets. On the other hand, Thane and the Peripheral Central Suburbs are among the best markets on these parameters.
- The QTS for premium markets has remained higher than that of the MMR. Since these markets have a higher ticket size, it takes longer to sell. Against the backdrop of a sharp deceleration in new project launches in H1 2015, the QTS for premium markets has increased marginally, from 13.6 to 14.

FIGURE 8

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

Note: The size of the bubble indicates the quantum of unsold inventory

PRICE MOVEMENT DURING H1 2015

- Reeling under the pressure of a high unsold inventory and a slowdown in sales, developers adopted coping strategies to limit the pressure on prices. While new launches were reduced significantly, freebies in terms of waivers on levies and preferential location charges are being offered. Easy financing schemes are also prevalent to aid property buying.
- Barring a few projects that have seen 1%–2% price cuts, most markets in the MMR are now embracing stagnant to marginally higher prices in the range of 1%–3%, as seen during the six months of H1 2015.
- Inventory pressure weighed heavily on the prices in premium markets, translating into a slower growth in comparison to the overall MMR residential market.

Weighted average price movement in MMR

Location	Price range in H1 2015 (₹/sq ft)	12 month change	6 month change
MMR	7,994	8%	3%
Premium markets	33,025	3%	2%

Price movement in select locations

Location	Micro-market	Price range in H1 2015 (₹/sq ft)	12 month change	6 month change
Lower Parel	Central Mumbai	25,000–36,000	4%	3%
Worli	Central Mumbai	31,000–55,000	9%	1%
Ghatkopar	Central Suburbs	12,000–21,000	2%	1%
Mulund	Central Suburbs	10,500–14,000	6%	4%
Powai	Central Suburbs	13,000–20,000	-1%	2%
Panvel	Navi Mumbai	4,500–6,500	-7%	-3%
Kharghar	Navi Mumbai	6,500–9,500	-6%	1%
Vashi	Navi Mumbai	10,000–15,000	1%	0%
Badlapur	Peripheral Central Suburbs	2,800–3,500	2%	0%
Dombivali	Peripheral Central Suburbs	4,500–6,000	1%	1%
Mira Road	Peripheral Western Suburbs	5,500–7,500	2%	0%
Virar	Peripheral Western Suburbs	4,500–5,500	3%	0%
Tardeo	South Mumbai	40,000–60,000	0%	0%
Ghodbunder Road	Thane	6,000–10,000	1%	0%
Naupada	Thane	13,000–18,000	1%	1%
Andheri	Western Suburbs	14,000–22,000	11%	3%
Bandra(W)	Western Suburbs	40,000–60,000	3%	0%
Borivali	Western Suburbs	11,000–15,000	5%	0%
Dahisar	Western Suburbs	8,000–10,000	4%	1%
Goregaon	Western Suburbs	13,000–15,000	4%	0%

Source: Knight Frank Research

OUTLOOK FOR THE NEXT SIX MONTHS

Projections	H2 2014	H2 2015E	Growth
Launches (units)	26,833	20,776	-23%
Absorption (units)	36,505	34,135	-6%
Weighted average price (₹/sq ft)	7,796	7,994	3%

Source: Knight Frank Research

Investor interest in residential property is expected to remain muted on account of suboptimal returns in comparison to other asset classes such as equity and debt. A gradual improvement in employment outlook, coupled with lower consumer inflation and housing loan interest rates, would augment end user demand in H2 2015, resulting in housing sales of 34,135 units – up 20% sequentially compared to the first six months of 2015. In comparison to H2 2014, this will translate to a decline of 6%

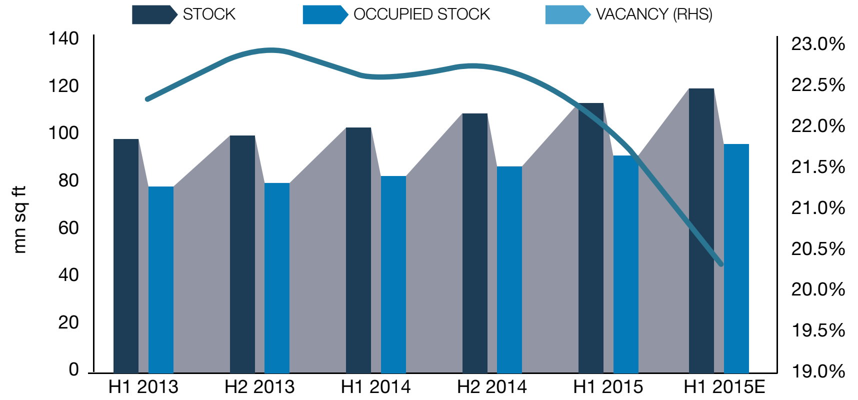
- In next six months, i.e. H2 2015, we estimate a modest improvement in market momentum—demand and supply—coinciding with stagnation on the price front.
- Investor interest in residential property is expected to remain muted on account of suboptimal returns in comparison to other asset classes such as equity and debt. A gradual improvement in employment outlook, coupled with lower consumer inflation and housing loan interest rates, would augment end user demand in H2 2015, resulting in housing sales of 34,135 units – up 20% sequentially compared to the first six months of 2015. In comparison to H2 2014, this will translate to a decline of 6%.
- On the supply side, even while the uncertainty over Mumbai's new development plan is expected to be resolved by August 2015 and developers gauge higher enquiries, new project launches, at 20,776 units, will be 10% more, sequentially – relatively lower than the absorption growth on account of unsold inventory pressure. Compared to H2 2014, this will be a decline of 23%.
- While new launches and absorption are estimated to improve in H2 2015 in comparison to the last six months, we forecast stagnation in property prices on account of high unsold inventory and low investor interest. The price growth since H2 2014 will stand at 3%.
- Among the micro-markets, Thane and the Peripheral Central Suburbs are expected to benefit on account of their relatively affordable property prices, coupled with improved connectivity to office locations in Mumbai through a slew of infrastructure project completions last year. Locations such as Kalyan and Dombivili would benefit on account of improving road connectivity to the Navi Mumbai office market through Mahape Road.
- The Western Suburbs and Central Suburbs will attract more buyers in the over ₹20 mn ticket size that has traditionally been the domain of the South Mumbai and Central Mumbai micro-markets.
- The Peripheral Western Suburbs will continue to be driven by price-conscious homebuyers on account of the plethora of options available in the sub-₹5 mn ticket size housing.
- Planned development, the under-construction metro rail and the upcoming international airport make Navi Mumbai a sought-after market. Residential developments on Palm Beach Road would continue to command premium valuations. Projects in Taloja, Kalamboli, Kamothe, Ulwe and Panvel would drive demand in the less than ₹7.5 mn ticket size category.

OFFICE MARKET

STOCK, NEW COMPLETIONS, ABSORPTION AND VACANCY TRENDS

FIGURE 1

MMR OFFICE SPACE STOCK AND VACANCY LEVELS



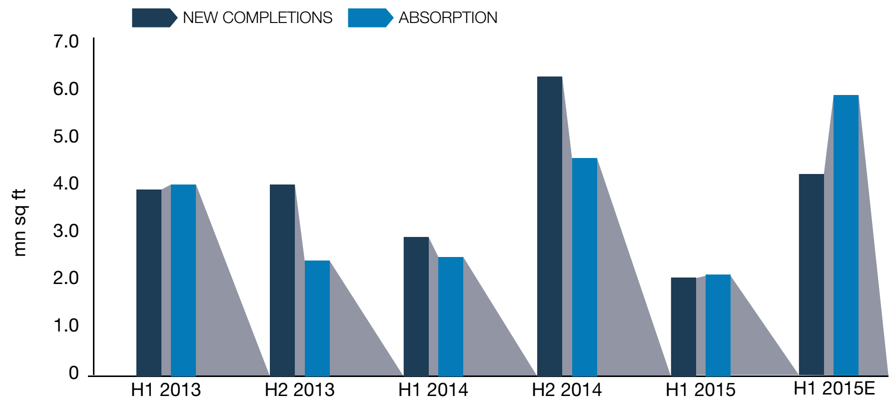
Source: Knight Frank Research

After a resounding uptick in economic sentiments last year, resentment over the pace of economic recovery eclipsed the business mood, and consequently, the office space absorption growth in the country's financial capital

- After a resounding uptick in economic sentiments last year, resentment over the pace of economic recovery eclipsed the business mood, and consequently, the office space absorption growth in the country's financial capital.
- The MMR office market witnessed an absorption of 2.5 mn sq ft in H1 2015, a clear stagnation in market momentum in the recent past – unchanged compared to H1 2014 and down 48% in contrast to H2 2014.
- In response to the muted demand scenario, project completions were put off, and, as a result, 2.3 mn sq ft of new completions were recorded during this period, declining by 20% compared to H1 2014 and 64% compared to H2 2014.
- With the latest addition, the stock and occupied stock in the MMR stands at 114 mn sq ft and 89 mn sq ft, respectively. At a 21.9% vacancy level, which is a tad lower than H2 2014, the market has a vacant stock of 25 mn sq ft.
- Although the market vacancy has remained high during the last few years, there is a dearth of large size quality office space. With occupiers interested to sign in built to suit (BTS) facilities, developers are now opening up to opportunities for development of office buildings to cater to such demand.

FIGURE 2

NEW COMPLETIONS AND ABSORPTION

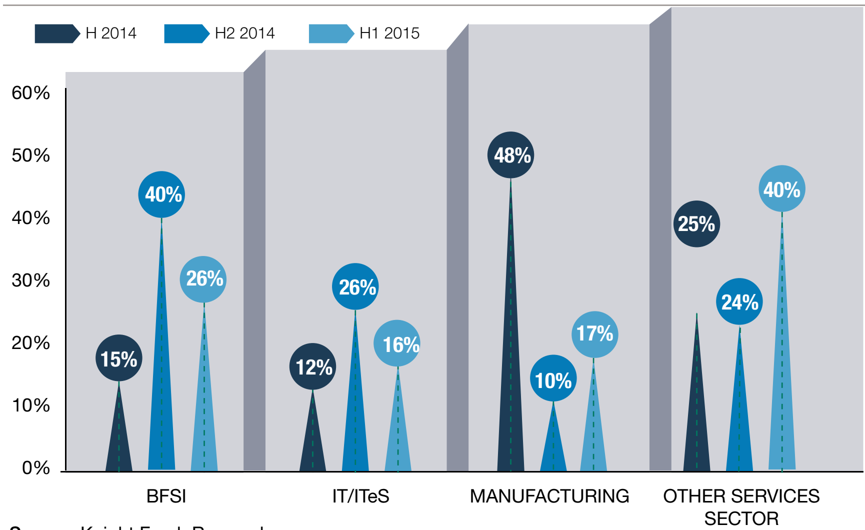


Source: Knight Frank Research

SECTOR ANALYSIS

FIGURE 3

SECTOR-WISE SPLIT OF ABSORPTION



Source: Knight Frank Research

Note: BFSI includes BFSI Support Services

Source: Knight Frank Research

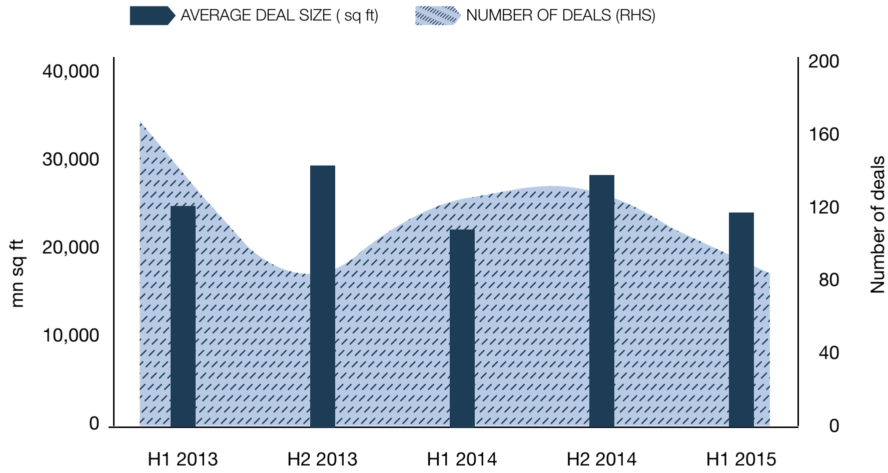
While Mumbai has been an anchor for BFSI sector companies, it also benefits on account of its well-diversified occupier base. As a result, different sectors have taken the lead in successive time periods as far as the share in absorption is concerned.

- While Mumbai has been an anchor for BFSI sector companies, it also benefits on account of its well-diversified occupier base. As a result, different sectors have taken the lead in successive time periods as far as the share in absorption is concerned.
- An analysis of recent transactions indicates that a clear trend is emerging in terms of demand from the other services sector, which comprises companies from media, consulting, e-commerce, etc.
- Though miniature in contrast to Bengaluru, their most preferred market, e-commerce enterprises have also garnered a bigger office space presence in Mumbai, with their interest primarily in the SBD Central and SBD West business districts.

DEAL SIZE ANALYSIS

FIGURE 4

AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

- While the average deal size, at 23,291 sq ft in H1 2015, has increased compared to H1 2014, the number of deals has declined by 30%, to 83 transactions.
- With many IT/ITeS companies taking up larger office spaces, in the range of 40,000–50,000 sq ft, this sector more than doubled its average transaction size in H1 2015, compared to the same period last year.

Select transactions

Building	Occupier	Location	Approx. area (sq ft)
Reliable	Home Credit	Navi Mumbai	150,000
Nomura	Housing.com	Powai	120,000
One BKC	Trafigura	BKC	100,000
Kalpataru Inspire	Lupin	Kalina	100,000
Zion Biz World	Viacom 18	Andheri East	94,000
Marathon Futurex	Thomas Cook	Lower Parel	75,000
Nesco	Endurance Group	Goregaon East	75,000
Rupa Solitaire	Excel Dynamics	Navi Mumbai	70,000
Nirlon Knowledge Park	Virtila	Goregaon East	60,000
iThink Campus	Pyramid Consulting	Thane	50,000

Source: Knight Frank Research

BUSINESS DISTRICT ANALYSIS

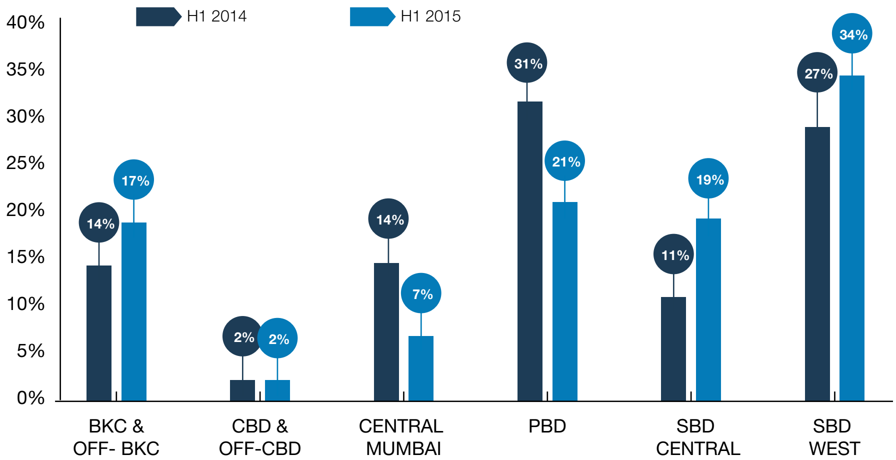
Business district classification

Business district	Micro-markets
CBD & off-CBD	Nariman Point, Cuffe Parade, Ballard Estate, Fort, Mahalaxmi, Worli
Bandra Kurla Complex & off-Bandra Kurla Complex (BKC & off-BKC)	BKC, Bandra (E), Kalina and Kalanagar
Central Mumbai	Parel, Lower Parel, Dadar, Prabhadevi
SBD West	Andheri, Jogeshwari, Goregaon, Malad
SBD Central	Kurla, Ghatkopar, Vikhroli, Kanjurmarg, Powai , Bhandup, Chembur
PBD	Thane, Airoli, Vashi, Ghansoli, Rabale, Belapur

BUSINESS DISTRICTS OF MUMBAI METROPOLITAN REGION

FIGURE 5

BUSINESS DISTRICT-WISE ABSORPTION SPLIT



Source: Knight Frank Research

Source: Knight Frank Research

- SBD West and SBD Central together account for more than half of the office space absorption in the MMR. Improved east-west connectivity on account of the Versova–Andheri–Ghatkopar metro network and the Santacruz Chembur Link Road (SCLR) that became operational last year, has made these markets more accessible to the city's workforce. Additionally, lower rents in comparison to markets such as Nariman Point, Lower Parel and BKC have worked in favour of the SBD West and SBD Central business districts.
- Central Mumbai has witnessed its share decline from 14% in H1 2014 to 7% in H1 2015, primarily on account of receding office space options.

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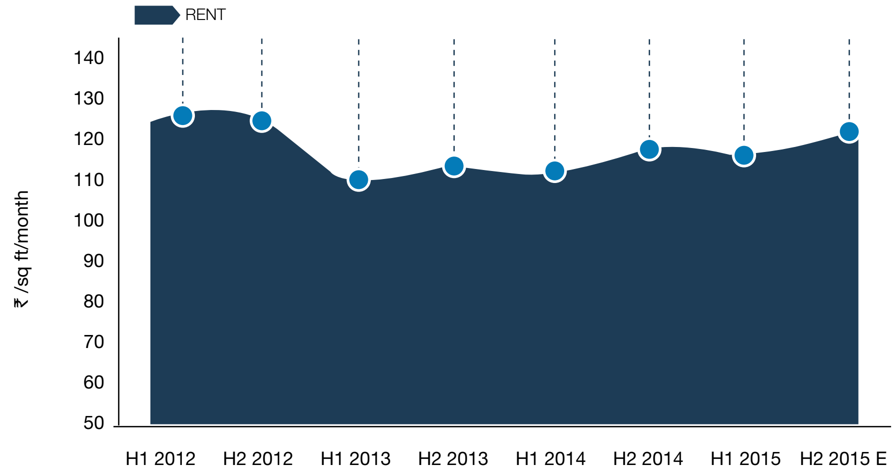
RENTAL TREND

FIGURE 6

WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

- With a weighted average rent of ₹117 / sq ft / month, the MMR office market is among the costliest in the country and did not move significantly in H1 2015.
- The lacklustre performance in demand conditions extended to the rental dynamics in the region. In H1 2015, the rent declined by 1%, compared to H2 2014. The increase is 5% in annual terms.
- CBD & off-CBD, comprising localities such as Nariman Point, Cuffe Parade, Fort and Worli, witnessed a decline in rents to the extent of 2% in H1 2015 and 7% in annual terms. Although there was no new supply in this business district, the waning occupier interest impacted the rents.
- Interest from the BFSI and other services sector companies, coupled with lower vacancy levels, caused Central Mumbai to witness the highest rent increase, to the tune of 4% during H1 2015. The increase is 9% in annual terms.

CBD & off-CBD, comprising localities such as Nariman Point, Cuffe Parade, Fort and Worli, witnessed a decline in rents to the extent of 2% in H1 2015 and 7% in annual terms. Although there was no new supply in this business district, the waning occupier interest impacted the rents.

Business district-wise rental movement

Business district	Rental value range in H1 2015 (₹ / sq ft / month)	12-month change	6-month change
BKC & off-BKC	210–300	8%	2%
CBD & off-CBD	160–260	-7%	-2%
Central Mumbai	150–190	9%	4%
PBD	40–70	4%	3%
SBD Central	80–140	6%	1%
SBD West	80–130	2%	1%

Source: Knight Frank Research

OUTLOOK FOR THE NEXT SIX MONTHS

Projections	H2 2014	H2 2015E	Growth
New supply (mn sq ft)	6.4	4.3	-32%
Absorption (mn sq ft)	4.8	5.2	8%
Vacancy (%)	22.6%	20.4%	
Weighted average rental (₹ / sq ft / month)	118	123	4%

Source: Knight Frank Research

- Last year witnessed a new government at the centre as well as in the state of Maharashtra. The central government has taken several structurally important steps – enhancing the ease of doing business, transparent e-auctions for natural resources, financial inclusion schemes, deregulation of fuel prices, direct subsidy transfer, etc. While the pace of the economic benefit is debatable, the outcome of these initiatives would be positive for the Indian economy.
- The IT/ITeS sector has been the largest contributor to the office demand in India, and the recently-announced IT/ITeS Policy 2015 by the Maharashtra government is among its latest initiatives to induce this skilled manpower-intensive industry to open offices in cities such as Mumbai and Pune.
- While the MMR competes with other Indian cities to attract IT/ITeS companies, its share remains low. Further, within the city's office demand dynamics, the IT/ITeS share has ranged between 12–26% in the last four half-yearly periods since H2 2013. In a bid to attract this sector, which is among the largest employers of modern talent in the country, the state's new IT/ITeS policy offers a host of incentives: an incentive FSI of up to 200%, incentives on property taxes and power tariffs, and certain state and municipal levies.
- Notwithstanding the incentives in the new policy, the IT/ITeS sector has found greener pastures in cities such as Bengaluru, Hyderabad, Chennai and Pune, primarily on account of their ability to attract tech talent and their lower occupation costs. In a scenario where NASSCOM has estimated IT industry hiring at 200,000 in FY 2016—13%, or 30,000 less than FY 2015—Mumbai will find it difficult to create such an ecosystem and get back into the game. Even in the e-commerce sector—a constituent of the other services sector—Bengaluru is emerging as a magnet, thereby increasing Mumbai's concerns.
- Going forward, in H2 2015, Mumbai's office demand will be driven by the BFSI, manufacturing, media and consulting sectors. As a result, absorption is forecasted at 5.2 mn sq ft – an increase of 8% compared to H2 2014.
- With new project completions for H2 2015 estimated at 4.3 mn sq ft—lower by 32% in contrast to H2 2014—the vacancy level will trend lower, to 20.4% from 21.9%, and the weighted average rent will increase by 4%.

Notwithstanding the incentives in the new policy, the IT/ITeS sector has found greener pastures in cities such as Bengaluru, Hyderabad, Chennai and Pune, primarily on account of their ability to attract tech talent and their lower occupation costs. In a scenario where NASSCOM has estimated IT industry hiring at 200,000 in FY 2016—13%, or 30,000 less than FY 2015—Mumbai will find it difficult to create such an ecosystem and get back into the game. Even in the e-commerce sector—a constituent of the other services sector—Bengaluru is emerging as a magnet, thereby increasing Mumbai's concerns.

AUTHOR

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Consultant - Research

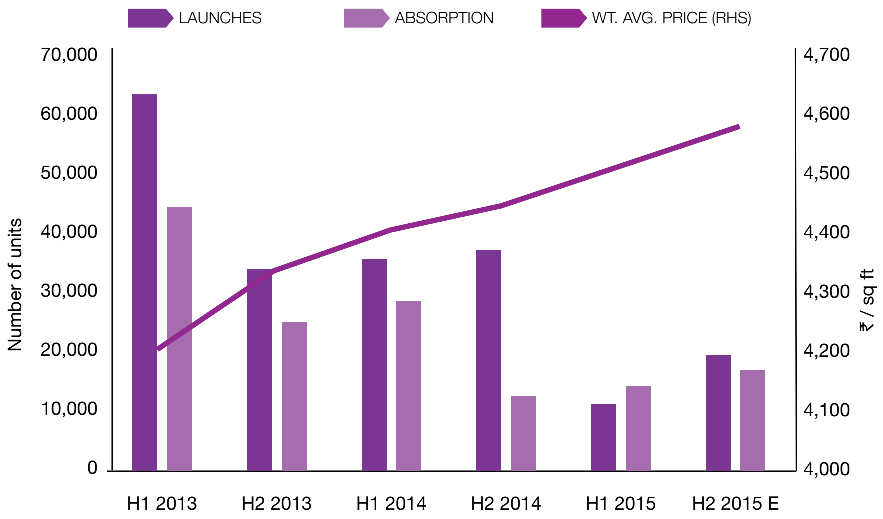
NATIONAL CAPITAL REGION

Residential & Office Market

RESIDENTIAL MARKET

LAUNCHES, ABSORPTION AND PRICE TREND

FIGURE 1
NCR MARKET TRENDS



Source: Knight Frank Research

NCR is now an end user-driven market – developers restrict new launches, while buyers carefully select clean projects.

Dropping by a stunning 68% in H1 2015, compared to the same period in 2014, new launches in NCR are at an all time low.

- Predominantly an investor-driven market, NCR always showed a strong residential appetite, but the market bottomed in 2014. With investors not choosing real estate as an investment option and end users feeling let down by delayed projects, developers were pressed to restrict new launches during this half, resulting in the thinnest half-yearly supply observed in NCR.
- Registering a massive 68% drop from the same period in 2014, new project launches in NCR stood at 11,360 units in H1 2015.
- Policy fallacies such as the opening up of new land for development, allotment of group housing licences in areas with no infrastructure, project delays due to litigations and the liquidity crunch, and stagnant incomes have affected NCR's real estate appetite adversely.
- The market refused to correct itself in the first half of 2015 and registered a YOY dip of 50%, with 14,250 units sold. However, if compared to the bottomed second half of 2014, there was an uptick of 18% in the sales volume.
- Residential projects under the Haryana government's Affordable Housing Policy 2013 contributed significantly to the new launches in NCR in H1 2015. Approximately 43% of the total new launches fall under this category.
- New developments, such as the clearing of the road construction challenges on Dwarka Expressway by the Punjab and Haryana High Court and the notification of operational guidelines for the implementation of the land pooling policy by the Ministry of Urban Development, are being watched closely by all stakeholders.
- Knight Frank research suggests that

The largest residential market of the country is currently in a state of correction, with stakeholders staring at the piling-up inventory and bottomed-out sales velocity. While investors formed the major chunk of the market appetite in NCR till about two years ago, the demand today is driven mainly by end users looking for ready-to-move-in units. The stagnation in prices and slowdown in the real estate investment conversion cycle have filtered out short-term speculators from the market completely, while long-term investors are looking for a desperate exit.

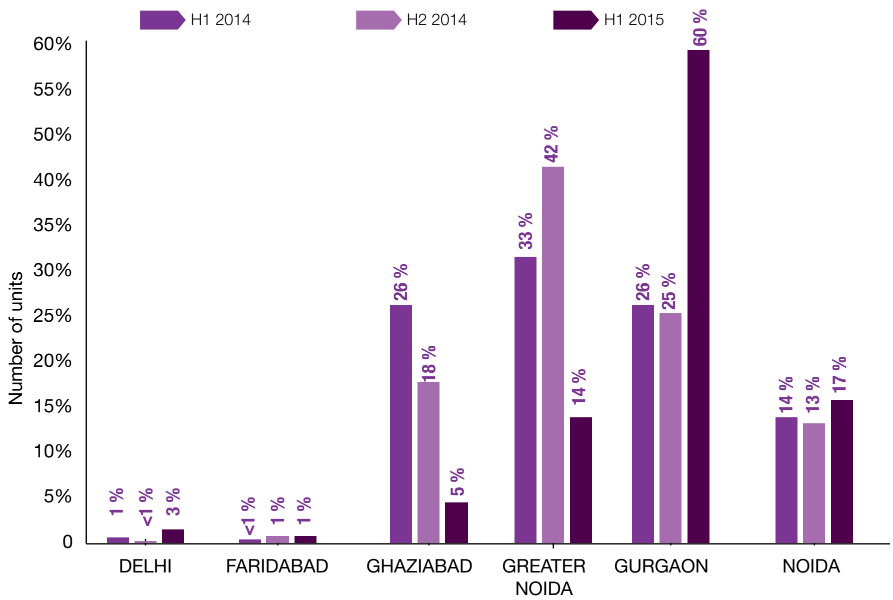
currently, the NCR market is primarily end user-driven with limited investor participation. Long-term investors who were with the developers over the 3–4 year construction period are now looking for an exit, owing to the depressed market sentiments. Stagnant prices and delayed project deliveries have contributed towards investors entering into a 'distressed resale' mode, as they are now offering to exit at a 15% to 20% discount than the primary market price.

- The growth rate of the weighted average price has been witnessing a downward trend since 2013, and has slowed down considerably, from 6% in H1 2013 to a mere 1% in H1 2015. This slump indicates that residential real estate is facing a strong price resistance against unattractive and unaffordable prices.
- We forecast this trend to continue in the coming six months and project the weighted average price in NCR to grow by 3% in H2 2015 compared to the same period last year.

MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

FIGURE 2

MICRO-MARKET SPLIT OF LAUNCHED UNITS



Source: Knight Frank Research

H1 2014
35,500
units

H2 2014
37,643
units

H1 2015
11,360
units

New launches in NCR have hit an all-time low with the thinnest ever half-yearly supply of residential units in H1 2015, 43% of which was fuelled by units launched under the Haryana government's Affordable Housing Policy 2013.

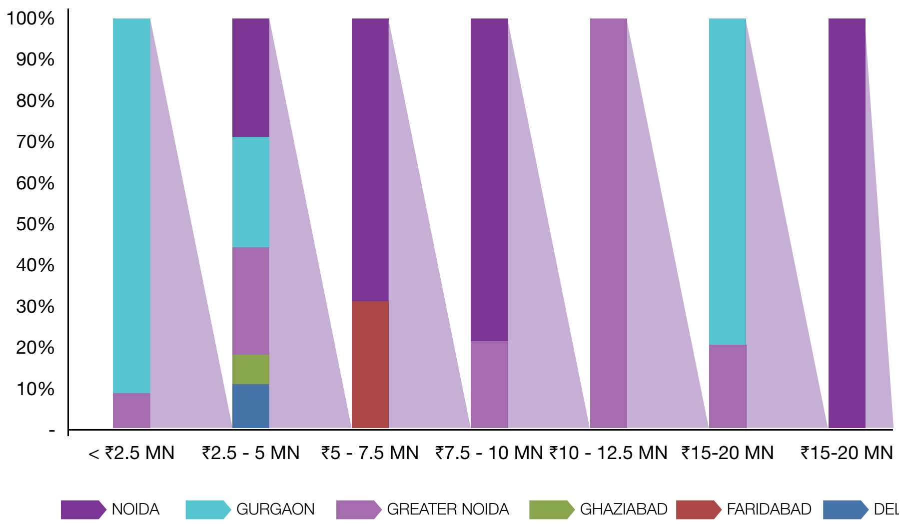
- New launches in NCR plummeted in the first half of 2015, with only 11,360 units launched in the country's largest residential market.
- Piling-up inventory and a low sales velocity have led developers to restrict the supply of new launches in this half.
- Of the new supplies added in H1 2015, most were in the 'affordable' segment, with a ticket size of less than ₹2.5 mn.
- Greater Noida continues the trend of having the maximum number of project launches in the affordable and mid-segment ranges, with 73% of the launched units falling in the ticket size of less than ₹5 mn.
- Zone L, Delhi , also saw launches in the ticket size of less than ₹5 mn in H1 2015.

Gurgaon

- Backed by the Haryana government's Affordable Housing Policy 2013, Gurgaon skews the percentage share of new launches in NCR.
- The policy intends to build group housing projects of a predefined size via a private developer, which would be available to buyers at a predefined rate. The stipulated completion time for projects falling under this category is four years from the date of the approval of the building plan or the obtaining of the environmental clearance, failing which, there will be no renewal of the licence.
- The projects under this scheme are not charged with external development charges (EDC) and infrastructure development charges (IDC), thus making the homes more affordable than the private market.
- The scheme will help first-time homebuyers purchase a house in the expensive Gurgaon market and also give developers some traction in the current market slowdown.

FIGURE 3

TICKET SIZE SPLIT OF LAUNCHES DURING H1 2015



Source: Knight Frank Research

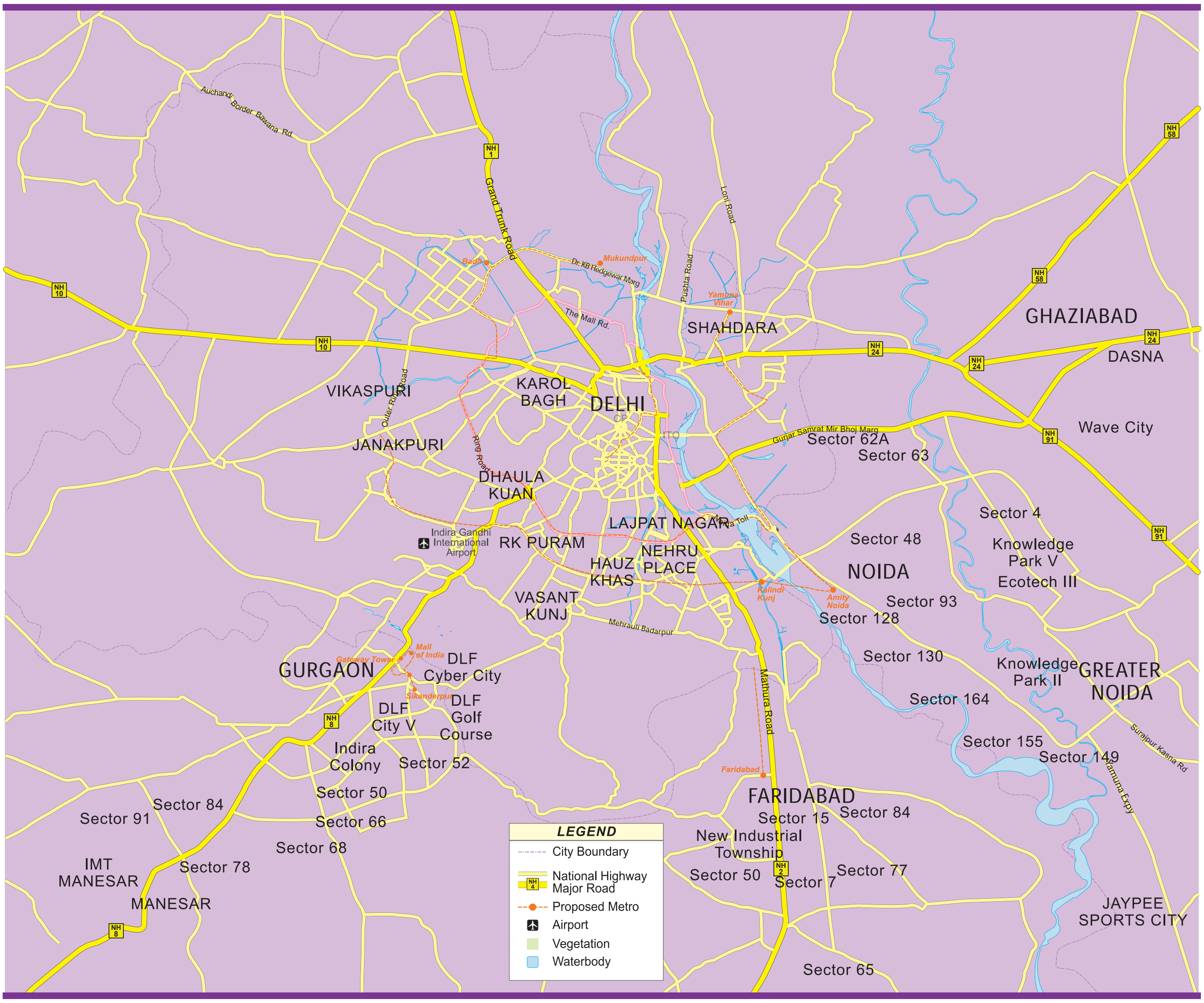
- The easing of litigations on the 18-km long Dwarka Expressway signalled a positive sign for the Gurgaon market. The area saw a few launches by prominent developers in H1 2015.

Noida

- H1 2015 sees a further downward trend in new project launches in Noida, registering a 60% drop from the same period in 2014.
- The National Green Tribunal (NGT)'s stay on new constructions within a 10-km radius of the Okhla Bird Sanctuary, and the halting of construction activity in some areas of Noida Extension have slowed the pace of the Noida market severely.
- However, with the government clearing the revised draft of the Okhla green zone in H1 2015, Noida can expect some traction in new launches and project deliveries in the coming quarters.

Taking cognisance of a market plagued by the subdued sales velocity and an inventory overhang of approximately 189,678 unsold units, cash- crunched developers in NCR have shifted their focus to the completion of in-hand projects instead of launching new ones.

NATIONAL CAPITAL REGION MAP

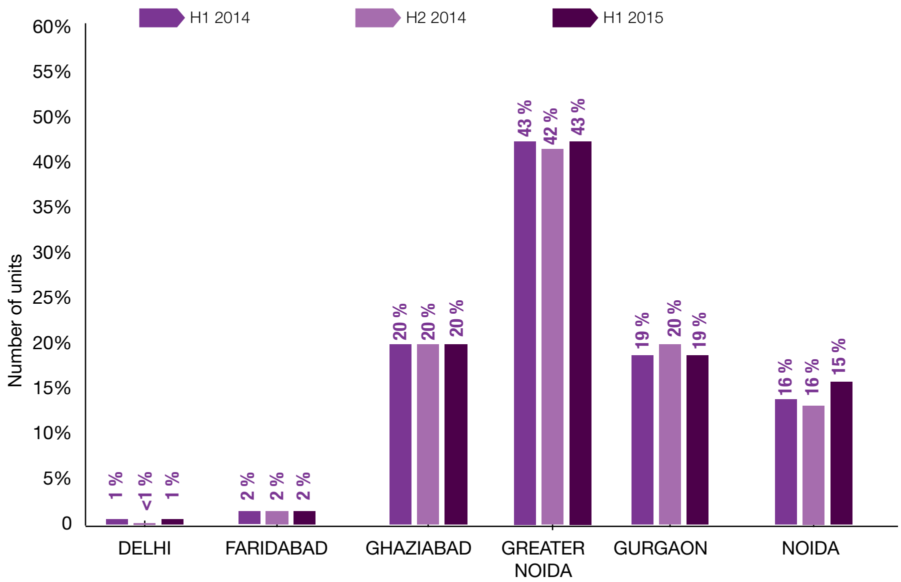


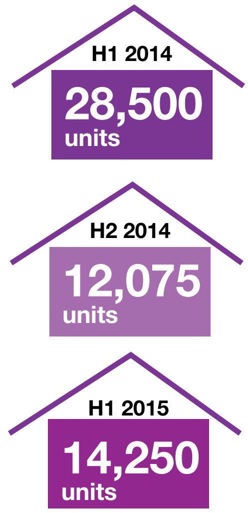
MICRO-MARKET-WISE RESIDENTIAL SALES

- Approximately 14,250 units were sold in the first half of 2015, compared to 28,500 units in H1 2014, thus registering a YoY drop of 50%. The sales volume remained muted and the percentage share of the micro-market showed negligible deviation from the past quarters.
- Along with the impact of macroeconomic factors, delays in the delivery of some major large-scale projects have put the buyers on the back foot.
- As some of these projects failed to deliver on time, areas such as Noida Expressway and Dwarka Expressway have started to look like ghost cities, with abysmally low occupancy. These project deliveries would have acted as anchors and induced end users to shift there.
- Our survey findings suggest that, while purchasing fresh property, buyers are making repeated site visits to check the progress of the projects, and are also likely to get more attracted to a developer with a good project delivery record. On the other hand, investors are looking for a desperate exit, which is giving the resale market substantial momentum.

FIGURE 4

MICRO-MARKET SPLIT OF SALES



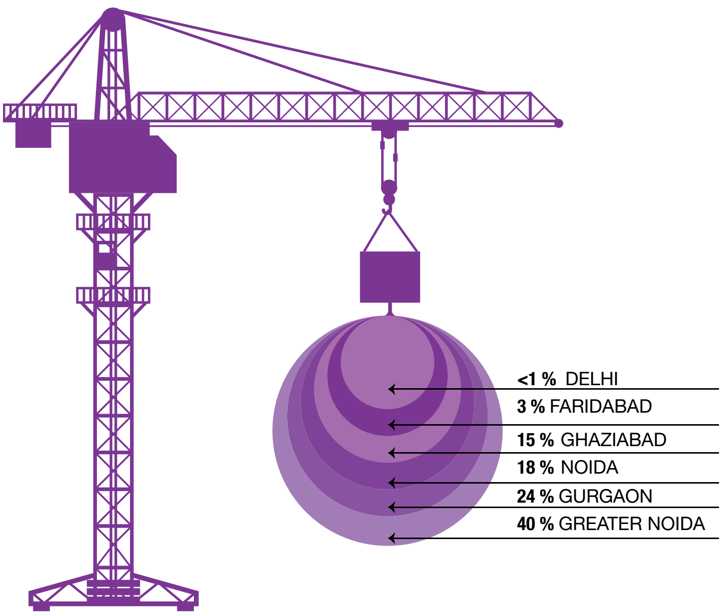


Source: Knight Frank Research

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS IN H1 2015

FIGURE 5

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF JUNE 2015



Source: Knight Frank Research

- The bulk of the under-construction inventory is lying in the micro-markets of Greater Noida, Gurgaon and Noida.
- A significant 30% of the under-construction inventory in these micro markets was launched in 2009–10.

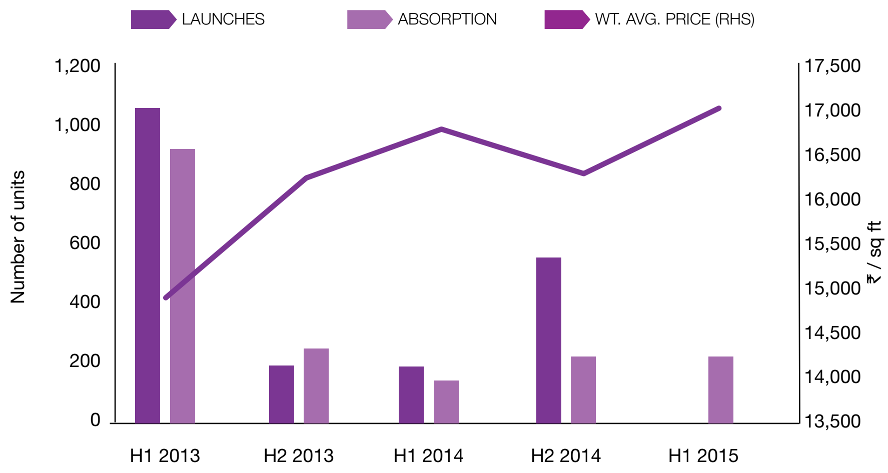
The looming uncertainty over project deliveries and the unaffordability of the existing supply have depressed buyer sentiments in NCR, leading to a bottomed-out sales velocity. Today, the market dynamics are such that they have restrained short-term speculators from making quick returns from real estate investments, while also cautioning long-term investors due to the muted price growth.

PREMIUM RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

Micro-market	Premium locations
Gurgaon	Sectors 42, 53, 54, 58, 59, 65, Gurgaon Faridabad Road
Noida	Sectors 16 B, 100

FIGURE 6

PREMIUM MARKET TRENDS



Source: Knight Frank Research

Note: *Premium markets include locations where the average ticket size of a residential unit is above ₹30 mn, are in close proximity to the central business district of the city and have witnessed new project launches in the preceding three years*

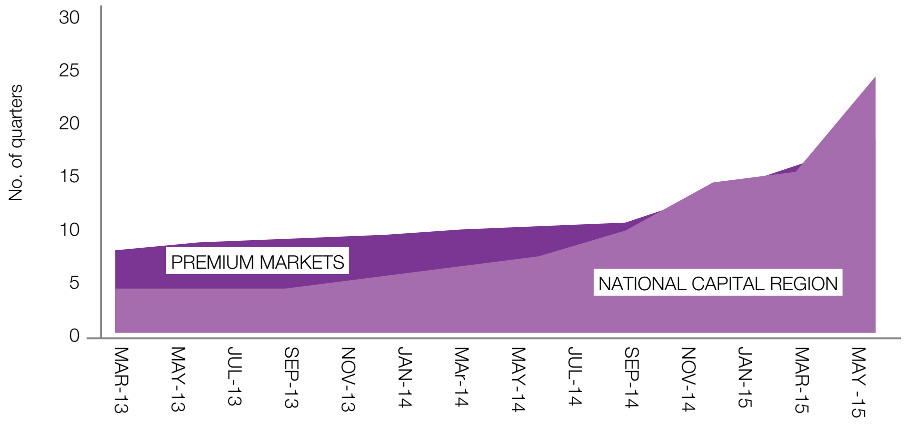
The cooling off of prices and no new launches in the premium segment bear testament to the slump in the high-priced premium segment in NCR, which has been affected on both, the demand and supply sides in the current market scenario. Investors, comprising the majority of premium homebuyers, have either moved to the mid-income housing segment because of more pronounced exit options, or are looking abroad for places that promise huge returns.

- The NCR agglomeration comprises five micro-markets, namely Delhi, Gurgaon, Noida, Greater Noida, Faridabad and Ghaziabad, of which Gurgaon and Noida are seen as premium markets.
- While developers curtailed new project launches in the affordable and mid-segment categories, no new launches were seen in the premium category in H1 2015. This indicates that due to weak demand, developers are looking to exhaust the current inventory instead of blocking capital in high ticket size projects.
- The trend shows that the demand for properties above ₹30 mn has declined considerably in NCR since 2013. Sales have dropped from 918 units in H1 2013 to 215 units in H1 2015, which is indicative of the overall market sentiment.
- Our survey findings suggest that investors in NCR have either moved to the mid-income housing segment because of more pronounced exit options, or are looking abroad for places that promise huge returns.
- Reflecting the overall market sentiment, the weighted average price growth in the premium segment remains muted in H1 2015. However, premium locations such as Sectors 42 and 53 in Gurgaon saw a 15%–19% price appreciation in H1 2015 over the same period in 2014. These sectors constitute the core of Golf Course Road in Gurgaon and have emerged as premium residential hub addresses. Rapid infrastructure development, such as the rapid metro extension, has also contributed to the surge in weighted average prices.

NCR MARKET HEALTH

FIGURE 7

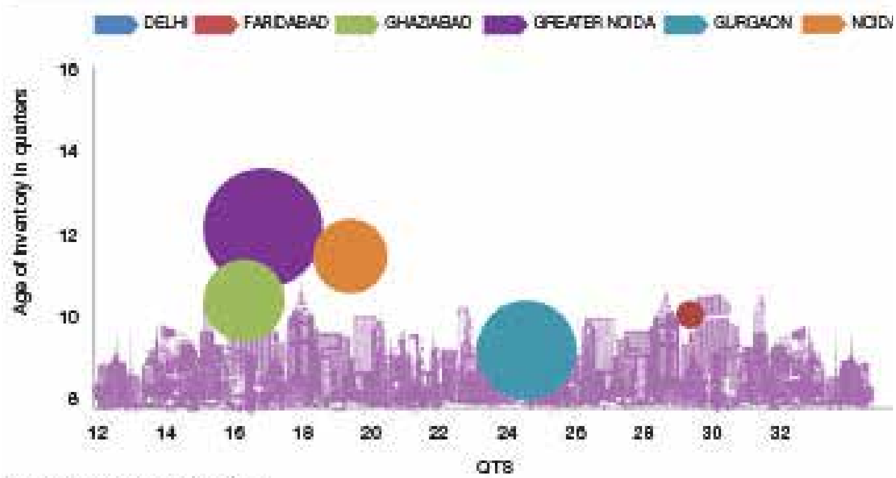
QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS



Source: Knight Frank Research

FIGURE 8

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

Note: The size of the bubble indicates the quantum of unsold inventory

Today, India's largest residential market is looking at an unsold inventory of 189,768 units – the highest in the country. Arising from a QTS of 8 quarters in 2012, the market is currently witnessing an inventory overhang that will take nearly five years to get fully absorbed at the current pace. The market became overly bullish with a flurry of new project launches and headed for oversupply in 2010–2012. However, demand did not keep pace with the supply, which led to the burst of the NCR residential market bubble.

- The quarters to sell unsold inventory (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.
- NCR has moved from a QTS of 14 to 19 in a six-month period. Though H1 2015 was the leanest half in terms of new launches, the absence of sales velocity has pushed the QTS to nearly 5 years. The unsold inventory stands at approximately 189,678 units till June 2015. The opening up of new land parcels for development while the existing ones were still not fully utilised is seen as one of the reasons behind the inventory pileup in NCR.
- Faridabad is the unhealthiest market in NCR, with a QTS of 29, followed by Gurgaon and Noida at 24 and 19 quarters, respectively. The QTS of Gurgaon has increased from 13 to 24 in only two quarters owing to the declining sales velocity of the preceding eight quarters.
- Backed by consistent end user demand, Ghaziabad is currently the best performing market in NCR, with the lowest QTS of 16.

PRICE MOVEMENT DURING H1 2015

- The fact that there has been no major price increase in the last four quarters is reflective of the fact that NCR is witnessing a price correction. Muted sales velocity and piling up inventory pressure have contributed to the stagnation of prices in NCR.
- Prices in the micro-market of Gurgaon have hit a plateau and show no scope for further increase in the near term. Since the conversion cycle of a residential real estate investment in Gurgaon has slowed down considerably, it has filtered out short-term speculators looking for quick returns. Even long-term investors are finding it difficult to make an exit as per their expected rates, given the current sentiment.
- The price stagnation has also affected the premium segment, with negligible deviations from the preceding quarters.

Short-term speculator interest resulted in the inflation of property prices in NCR, making them unaffordable and unattractive for buyers. With no scope of further increase, the price growth in NCR has remained muted in the last two years, signalling strong price resistance towards the market. While the supply side is reeling under rising construction and land and labour costs, the demand-side sentiments are hit by looming uncertainty over economic growth, jobs and increase in income.

Weighted average price movement in NCR

Location	Price range in H1 2015 (₹/sq ft)	12 month change	6 month change
NCR	4,511	3%	1%
Premium markets	17,133	1%	4%

Price movement in select locations

Location	Micro-market	Price range in H1 2015 (₹/sq ft)	12 month change	6 month change
Yamuna Expressway	Greater Noida	3,295–3,557	3%	0%
Sector Chi V	Greater Noida	3,448–3,514	1%	0%
Sector Pi	Greater Noida	3,545 – 3,576	2%	0%
Sector 16 B	Greater Noida	3,444–3,497	0%	1%
Sector 78	Noida	5,600–5,627	2%	-2%
Sector 70	Noida	4,000–4,083	0%	0%
Sector 100	Noida	6,600–7,750	14%	0%
Sector 117	Noida	4,850–4,905	0%	0%
Sector 131	Noida	5,900–6,000	2%	0%
Sector 48	Gurgaon	13,400–13,900	-6%	-6%
Sector 49	Gurgaon	11,000–11,600	5%	1%
Sectors 42, 53	Gurgaon	18,000–28,000	18%	19%
Sector 67 A	Gurgaon	8,100–8,990	3%	1%
Sector 82	Gurgaon	7,198–7,264	-1%	-1%
Sector 103	Gurgaon	5,000–5,300	1%	0%
Sector 113	Gurgaon	5,000–5,300	1%	0%
NH-24 Bypass	Ghaziabad	2,760–2,806	1%	3%
Raj Nagar Extension	Ghaziabad	2,800–2,873	1%	1%
Crossings NH-24	Ghaziabad	3,200–3,242	4%	1%
Sector 37	Faridabad	7,900–8,000	0%	0%
Sector 75	Faridabad	3,550 – 3,600	-2%	-3%
Sector 87	Faridabad	3,448–3,600	-6%	-5%

Source: Knight Frank Research

OUTLOOK FOR THE NEXT SIX MONTHS

Projections	H2 2014	H2 2015E	Growth
Launches	37,643	18,000	-52%
Absorption	12,075	15,000	24%
Weighted average price (₹/sq ft)	4,444	4,570	3%

Source: Knight Frank Research

- The realty market in NCR will continue to remain muted in the second half of 2015. However, the sales volume in H1 2015 has shown an increase of 18% from the bottomed H2 2014. Knight Frank estimates sales to plug around 15,000 units in the coming two quarters.
- Taking cognizance of the market, developers will keep new launches in check in the second half of 2015. We estimate new launches to stay below 20,000 units in the second half, with stagnation in the weighted average prices.
- The dynamics of the NCR market have changed from being investor driven to an end user-driven market, and so, a residential project with no supporting infrastructure facilities will find limited buyers.
- The delays in projects have made buyers cautious of defaulting developers. Till they are fully convinced, the buyer will continue to assess the project and the developer before purchasing the property, and this is where the developer's brand and credibility will come into play.
- On the supply side, 'habitation plans' and 'customer experience centres' are being considered seriously, to pull the buyer to the project. Reworking their marketing strategies, developers are going back to the basics. Value addition of every penny spent has become the new sale mantra of some developers.
- The current market trend has filtered out short-term speculators from the NCR market, and is also slowly filtering out unprofessional developers.
- The real estate momentum in NCR will also be dependent on the related infrastructure developments. Recent developments, such as the clearance of the Dwarka Expressway litigation in Gurgaon, have had a positive impact on the market. With the 18-km expressway now completely litigation free, buyer interest in the zone is expected to revive, making some of the projects good investments.
- In Noida, the redefining of the Okhla green zone has given much-needed relief to buyers and developers in the area. The move is seen to boost the market sentiment; it can now expect some traction in the coming quarters.

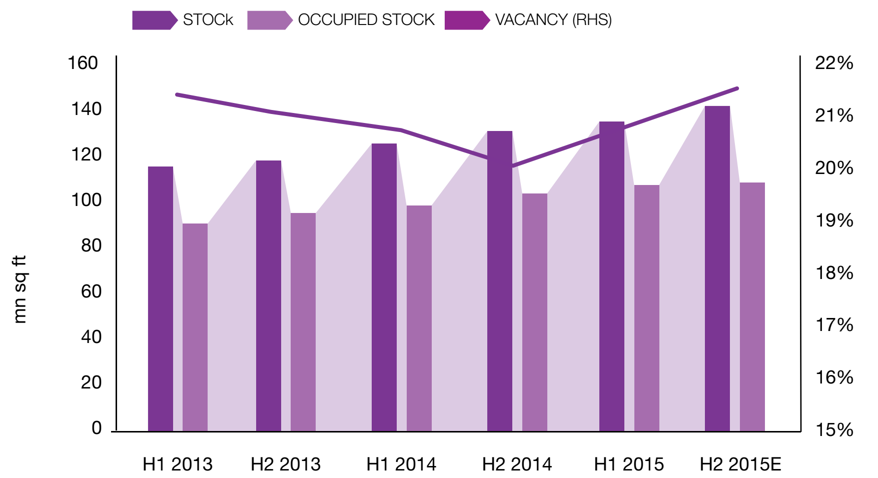
To boost the demand side, developers will have to reconnect with the buyers. 'Habitation plans' and 'customer experience centres' are going to trend, giving more importance to buyers. More significant, delivering committed projects will revive consumer confidence. Along with mainstreaming the project execution, developers that are launching in the right price band will see some traction in the coming quarters.

OFFICE MARKET

STOCK, NEW COMPLETIONS, ABSORPTION AND VACANCY TRENDS

FIGURE 1

NCR OFFICE SPACE STOCK AND VACANCY LEVELS



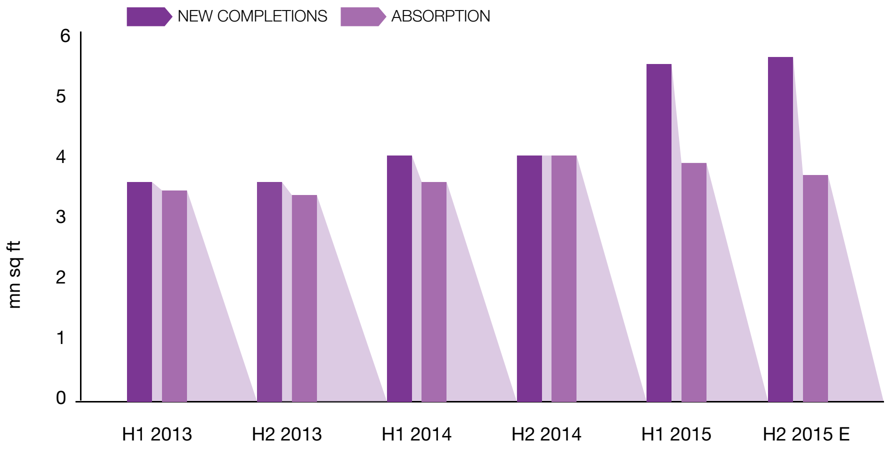
Source: Knight Frank Research

Driven by corporate demand, the NCR office market absorption fared well and clocked 3.7 mn sq ft in the first half of 2015. However, new project completions pushed the vacancy levels to 20.7% in H1 2015.

- The office stock in NCR stood at 132 mn sq ft till the end of June 2015, of which 104 mn sq ft is the occupied stock.
- The influx of pent-up project completions in the first half has been instrumental in nudging the vacancy levels from 20% in H2 2014 to 20.7% in H1 2015, with micro-markets such as Faridabad and Greater Noida contributing significantly to the new supply.
- On the demand side, office leasing in NCR saw a marginal increase of 6% in H1 2015, compared to the same period in 2014. The absorption reflects the subdued market sentiments and also follows past trends of leasing in the close range of 3.4–3.6 mn sq ft in the first half of the calendar year.
- Since the occupiers strategize their real estate demand in the first half of the year, action on expansion plans and consolidation takes place in the second half.
- Approximately 53% of the new completions in H1 2015 were either pre-committed or have come up in the peripheral business districts of Greater Noida and Faridabad.

FIGURE 2

NEW COMPLETIONS AND ABSORPTION

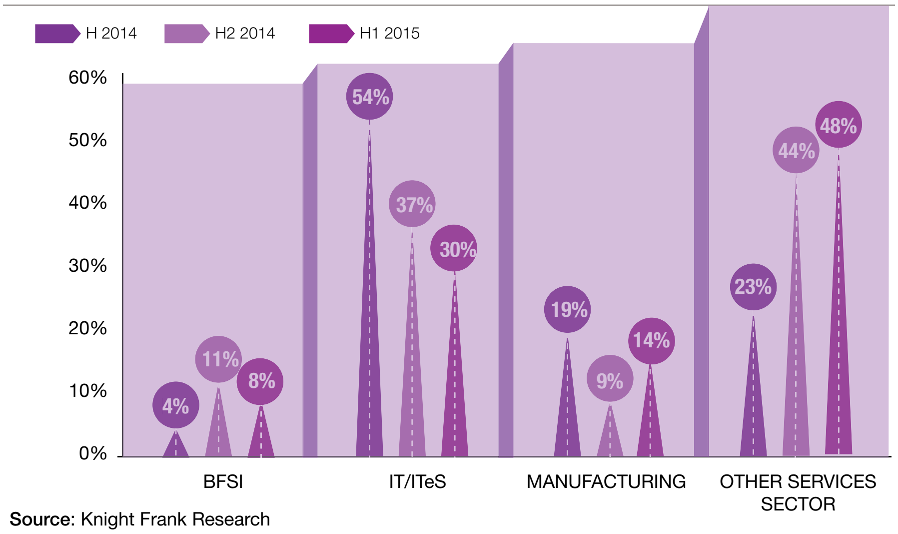


Source: Knight Frank Research

SECTOR ANALYSIS

FIGURE 3

SECTOR-WISE SPLIT OF ABSORPTION



Source: Knight Frank Research

Note: * BFSI includes BFSI Support Services

Source: Knight Frank Research

The other services sector was seen to drive the office space demand in NCR during this half. Backed by strong leasing from consulting and e-commerce companies, the sector is slowly outpacing IT/ITeS in the overall market share. The change in the dynamics of the IT sector is responsible for its slowdown, which is increasingly emphasising on automation, which, in turn, is leading to a slowdown in hiring by larger IT firms, thus getting translated into dull demand and cautious moves for large office spaces.

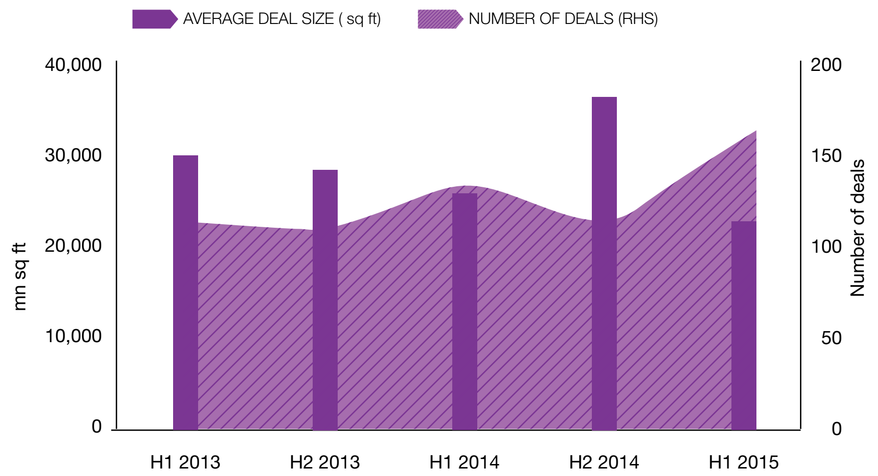
- With corporate demand picking up, the IT/ITeS sector in NCR continues to lose out to the other services sector in H1 2015.
- The other services sector was seen to drive office space demand in NCR during this half, backed by strong demand from consulting and e-commerce companies. E-commerce has been considered as a part of the other services sector, since retail is the driving factor behind the business. Witnessing fast-paced growth, the sector made a massive threefold jump in the total transacted space and moved from a total leasing of 0.2 mn sq ft in H1 2014 to 0.6 mn sq ft in H1 2015.
- Starting from a 6% share in the overall transacted space in H1 2014, e-commerce accounted for 16% of the half-yearly absorption in H1 2015. Snapdeal, Zomato, Lenskart, Expedia, MakeMyTrip and PropTiger are among the major occupiers in H1 2015.
- Another segment that saw growth in terms of transacted space was the BFSI sector, with the average size of transactions increasing from 19,600 sq ft in H1 2014 to 33,900 sq ft in H1 2015. Take-ups by financial institutions such as the State Bank of India (SBI), American Express and HSBC contributed significantly to the sector's demand in this half.
- IT/ITeS saw a dip of 42% in the overall transacted space in H1 2015, compared to the same period in 2014. In terms of percentage share in the overall NCR transacted space, the sector is seen to be losing to the other services sector.

Backend offices and small ticket size transactions in the range of 5,000–12,500 sq ft dominated the market activity in NCR in H1 2015. However, a few large-sized transactions by e-commerce companies, such as 0.5 mn sq ft by Snapdeal and 0.1 mn sq ft Zomato, pushed up the overall absorption levels in the first half of the year.

DEAL SIZE ANALYSIS

FIGURE 4

AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

- Small-size transactions in the range of 5,000 – 12,500 sq ft dominated the leasing activity in NCR in H1 2015. Though the first half of the year saw a 23% spike in the number of deals, there was a decline in the average deal size, which came down to 21,800 sq ft from 25,600 sq ft in H1 2014, owing to more demand from back-end offices.
- However, some large-ticket size deals took place in the office market as well, such as Snapdeal, which took up approximately 0.5 mn sq ft in Udyog Vihar in the peripheral business district of Gurgaon.
- Gurgaon also leads in the tally of the number of deals, with 59% of the 169 deals in H1 2015, followed by 51 deal conversions in the central and peripheral business districts of Delhi.
- With cautious sentiments and emphasis on consolidation, the IT/ITeS sector observed a 42% drop in the average transaction size in H1 2015, plummeting to 36,500 sq ft from 62,800 sq ft, compared to the same period in 2014.

Select transactions

Location	Building	Company	Approx. area (sq ft)
Udyog Vihar	ASF Centre, ASF Tower	Snapdeal	500,000
Golf Course Road, Gurgaon	One Horizon Centre	American Express	122,731
Golf Course Road	One Horizon Centre	Zomato	122,000
Sector 132, Noida	Express Trade Tower 2	Oracle	97,534
Sector 62, Noida	Okaya Blue	Kronos	70,000
Sector 127, Noida	Logix Techno park	Jubilant Life Sciences	67,000
Noida-Greater Noida Expressway	Stellar 135	Genpact	60,000
Sector 39, Gurgaon	Unitech Cyber Park	UnitedHealth Group	60,000
Mathura Road	Vatika Mindscapes	Larsen & Toubro	50,000
Saket	Religare	Amarchand & Mangaldas	44,000
Connaught Place	Red Fort Capital	State Bank of India	42,000
Sohna Road	Vatika Business Park	Tata Consultancy Services	40,000
Sohna Road	Bestech Business Tower	Convergys	40,000
DLF Cyber City	DLF Building 5C	Expedia	32,000
DLF Cyber City	DLF Building 8A	Bain India	23,210
NH-8, Gurgaon	Signature Tower	Knight Frank India	15,000
Golf Course Road, Gurgaon	One Horizon Centre	HKS India Design Consulting	10,000
Connaught Place	PTI Building	Bloomberg India	8,184

Source: Knight Frank Research

BUSINESS DISTRICT ANALYSIS

Business district classification

Business districts	Micro-markets
CBD Delhi	Connaught Place, Barakhamba Road, Kasturba Gandhi Marg and Minto Road
SBD Delhi	Nehru Place, Saket, Jasola, Bhikaji Cama Place, Mohan Cooperative and Aerocity
PBD Gurgaon Zone A	MG Road, NH-8, Golf Course Road and Golf Course Extension Road
PBD Gurgaon Zone B	DLF Cyber City, Sohna Road, Udyog Vihar and Gwal Pahari
PBD Gurgaon Zone C	Manesar
Noida	Sector 16, 18, 62, 63 and Noida-Greater Noida Expressway
Faridabad	Sector Alpha, Beta, Gamma and Tech Zone

While commercial office demand drove leasing in the peripheral business district of Gurgaon, Noida continues to be a preferred office space for the IT/ITeS sector. The central business district of Delhi was in demand once again for back-end offices of institutional occupiers who prefer to stay close to government offices.

BUSINESS DISTRICTS OF NCR

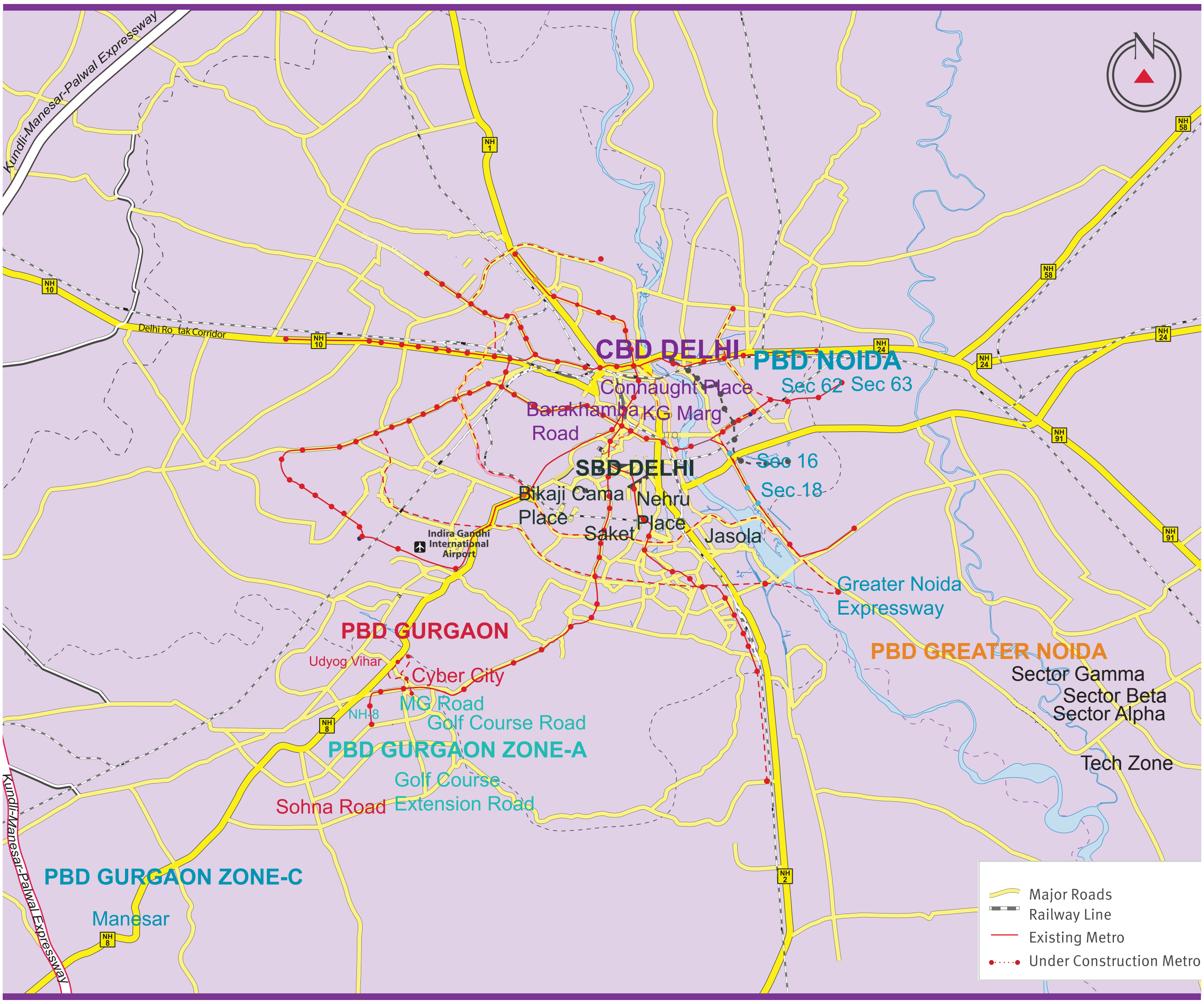
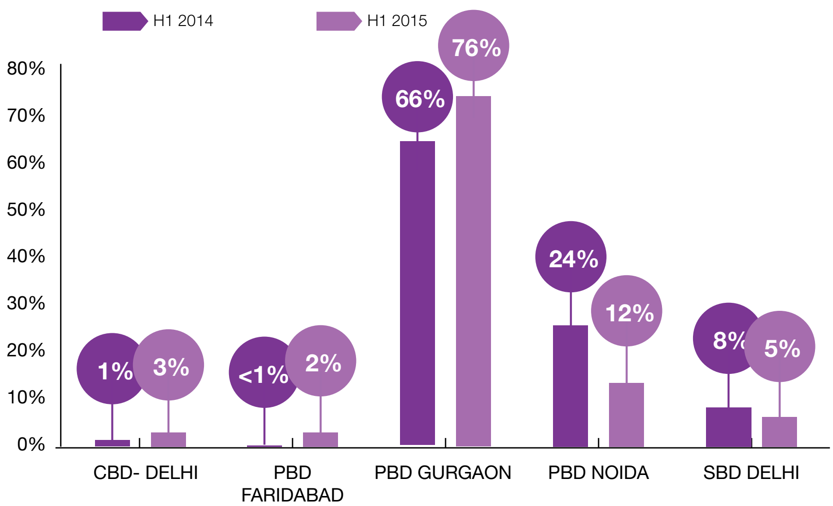


FIGURE 5

BUSINESS DISTRICT-WISE ABSORPTION SPLIT



Source: Knight Frank Research

Gurgaon

- PBD Gurgaon outperformed the leasing activity in NCR yet again, with a 76% share from the overall pie of 3.6 mn sq ft in H1 2015. The robust leasing in the business district led to a 20% increase in the overall transacted space in the first half of 2015, compared to H1 2014.
- The market also registered an increase of 16% in the number of deals over the same period in 2014, with a marginal decline in the average transaction size.
- Quality office spaces with associated infrastructure is driving the leasing activity in Gurgaon and making it a preferred office address for occupiers, especially corporates.

CBD and SBD Delhi

- CBD and SBD Delhi show an upward trend in absorption levels, compared to the preceding quarters. The number of transactions saw a major jump in Delhi's central business district (CBD) in H1 2015, with the majority of the deals closing in the most prized Connaught Place and Barakhamba Road.
- Jasola and Okhla were among the favoured micro-markets in the secondary peripheral district (SBD), with Amarchand & Mangaldas, Neutralife and MapmyIndia among the notable transactions in those locations.

PBD Noida

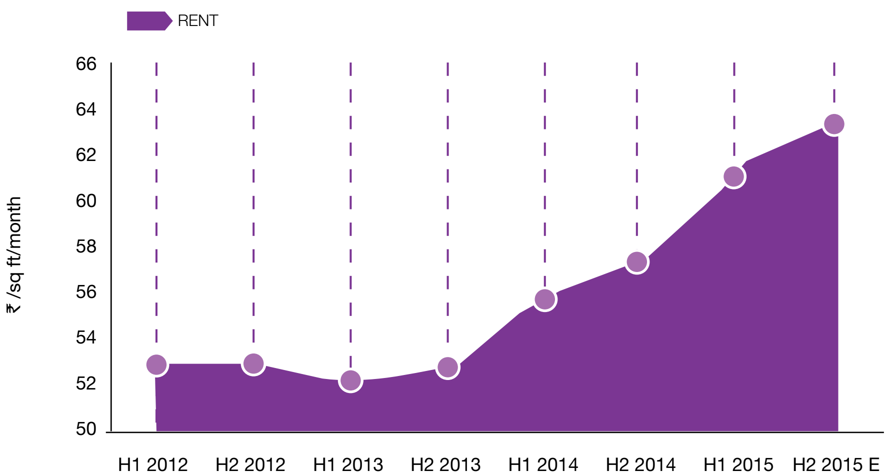
- Noida continued its lacklustre performance, with a declining percentage share in NCR's overall transaction pie. In terms of transacted space, this micro-market registered a 48% drop in the leased space in H1 2015, compared to the same period in 2014.
- Though the other services sector took the NCR reigns in the first half of 2015, IT/ITeS continues to drive leasing in Noida, with most transactions taking place along the Noida expressway. A downward trend in terms of the number of deals with a significant reduction in the average transaction size marked the leasing activity in Noida in H1 2015.

The weighted average rentals in NCR stood at ₹62 in H1 2015, registering a healthy rental appreciation of 10% on a YoY basis. As the market is driven by commercial demand that does not shy from paying a premium for address and quality office space, rentals in key locations such as Golf Course Road and Aerocity will inch upwards in the coming quarters.

RENTAL TREND

FIGURE 6

WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

- Though new completions have pushed up the overall vacancy rates in NCR, the weighted average rentals seem to be firming up in the region.
- The weighted average rentals peaked at ₹62 per sq ft in H1 2015, registering a marked 10% increase from H1 2014.
- In Gurgaon, key locations such as Golf Course and Golf Course Extension Road, and Sohna Road will continue to see an uptick in rentals, owing to the quality of office space supply in these locations.

Business district-wise rental movement

Business district	Rental value range in 2015 H1 (₹/sq ft/month)	12-month change	6-month change
CBD Delhi	200–350	2%	0%
SBD Delhi	90–160	2%	0%
PBD Gurgaon Zone A	90–152	10%	1%
PBD Gurgaon Zone B	60–128	15%	3%
PBD Gurgaon Zone C	25–35	1%	0%
Noida	44–64	10%	0%
Faridabad	45–55	0%	0%

Source: Knight Frank Research

OUTLOOK FOR THE NEXT SIX MONTHS

Projections	2014 H2	2015 H2 E	Growth
New supply (mn sq ft)	4.1	5.6	37%
Absorption (mn sq ft)	4.1	3.7	-10%
Vacancy (%)	20.2%	21.3%	
Weighted average rental (₹/sq ft/month)	58	63	9%

Source: Knight Frank Research

Knight Frank estimates the NCR office leasing to clock approximately 3.7 mn sq ft in H2 2015, pegging the total 2015 absorption levels at 7.4 mn sq ft, slightly lower than the outstanding 2014 absorption of 7.6 mn sq ft. However, with a healthy pipeline in place, the second half of 2015 can help outperform 2014 with a few large ticket size transactions.

- Against the projected economic pickup in 2015, the two largest world economies—China and the US—registered a slowdown in H1 2015, affecting the overall market sentiment in turn. In a cascading effect, the office market is in a status quo situation that is cautiously assessing the demand as against the trend of bullish expansion plans. In contrast to the second half of 2014, which signalled the building of market confidence, H1 2015 began on a business-as-usual note for the NCR office market.
- Pent-up completions will continue to pump approximately five to six million square feet in the market, which will lead to an increase in the overall vacancy rates. However, key locations such as DLF Cyber City and Golf Course Road in Gurgaon, and Sector 62 and the Expressway in Noida, will see sustained demand for occupiers looking for large ticket-size office spaces.
- More than IT/ITeS, commercial office space will boost leasing in H2 2015. Sectors such as aviation, manufacturing and energy, along with e-commerce companies, are expected to drive the demand in the coming quarters significantly.
- Aerocity and Golf Course Road are expected to see increased traction by corporate occupiers that are willing to pay a premium for quality space and a prime office address.
- The weighted average rentals in NCR are forecasted to inch upwards by an average of 3% to 5% from H1 2015, while quality office spaces in PBD Gurgaon's Zone A and B will continue to see rental appreciation owing to their primacy and locational advantage, which will appeal to occupiers looking for swanky office spaces.

AUTHOR

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Vice President - Research

PUNE

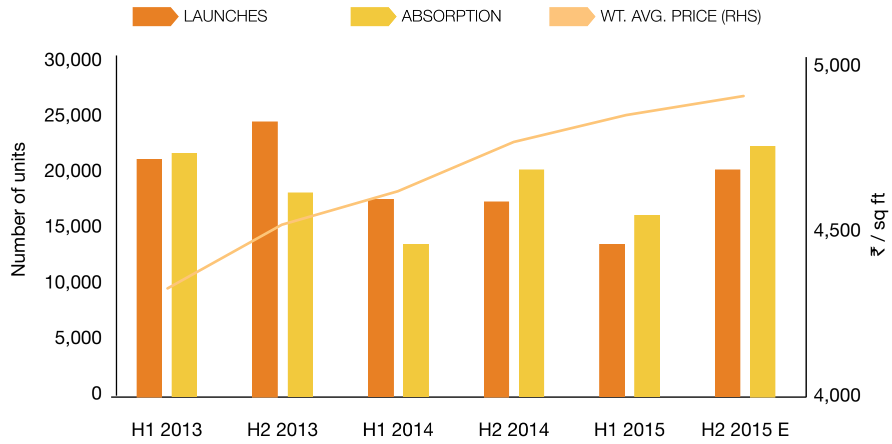
Residential & Office Market

RESIDENTIAL MARKET

LAUNCHES, ABSORPTION AND PRICE TRENDS

FIGURE 1

PUNE MARKET TRENDS



Source: Knight Frank Research

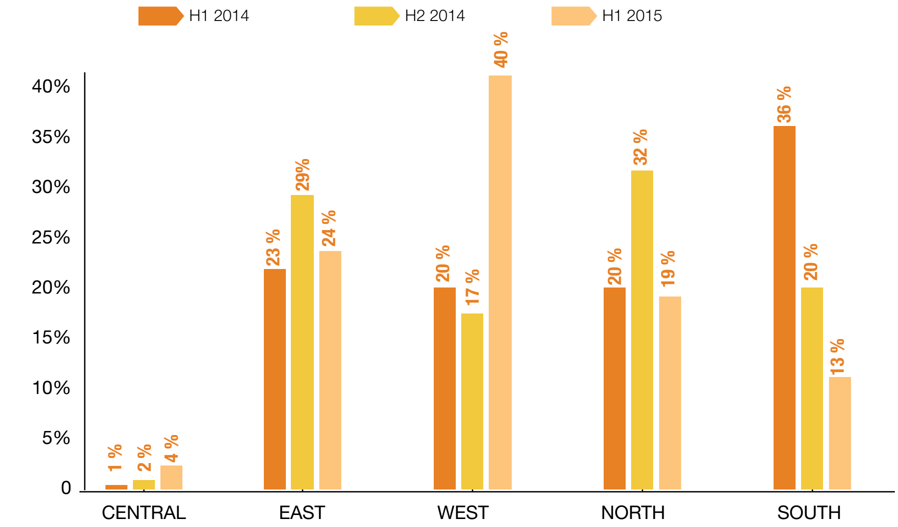
Stronger growth in the IT/ITeS industry, revival in the manufacturing sector and improvement in the overall business sentiment are expected to augment the demand for housing in Pune. Developers are expected to make a comeback in the market by launching new projects on the back of improving business sentiment and revival in homebuyer interest.

- The sales volume in Pune has witnessed a marginal 5% recovery in H1 2015, at 15,520 units from 14,720 units in H1 2014. However, this is 23% lower than the preceding six-month period (H2 2014), when the city recorded a sales volume of 20,150 units.
- The slower than expected recovery in the economy, poor business sentiment and delay in the reduction of home loan interest rates by banks have limited a full recovery in sales volume. Historically, the Pune residential market has observed a steady six-monthly sales volume of 20,000 – 22,000 units. Hence, a sales volume below the 20,000 mark is an indication of a slowdown in the market.
- Taking cognizance of the falling demand, developers in Pune have restricted new project launches during H1 2015. New launches dropped by a whopping 24%, to 12,760 units in H1 2015 compared to 16,880 units in H1 2014.
- We expect the sales volume to reach 21,440 units in H2 2015 – a 6% growth from 20,150 units in H2 2014. Stronger growth in the IT/ITeS industry, revival in the manufacturing sector and improvement in the overall business sentiment are expected to augment the demand for housing in the city.
- Developers are expected to make a comeback in the market by launching new projects on the back of improving business sentiment and revival in homebuyer interest. We forecast new launches to increase by 15%, to 19,140 units in H2 2015 from 16,700 units in H2 2014.
- The growth rate of the weighted average price has been witnessing a declining trend since 2013 and has slowed down from 10% in H1 2013 to just 4% in H1 2015. This indicates that although prices have been rising in the last three years, the pace of the increase has slowed down considerably in recent times. We forecast this trend to continue in the coming six months and project the weighted average price in Pune to grow by 3% in H2 2015 compared to the same period last year.

MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

FIGURE 2

MICRO-MARKET SPLIT OF LAUNCHED UNITS



Source: Knight Frank Research

H1 2014
16,880 units

H2 2014
16,700 units

H1 2015
12,760 units

- Central Pune has been witnessing a renewed interest from the developer community, with its share in the total new launches increasing steadily since H1 2014. Kothrud, Yerwada, Uday Baug and Erandwane are some of the locations in Central Pune that have recorded new launches during the last year.
- West Pune has observed a significant jump in its share of the total new launches during H1 2015, as new project launches in locations such as Bavdhan, Hinjewadi, Ravet, Tathawade and Wakad have picked up once again after remaining subdued in 2014. Positive sentiment in the IT/ITeS sector and steady demand from homebuyers seem to have brought back developer interest to this zone.
- South Pune’s share has been falling gradually from the last year as the existing under-construction projects are yet to offload a significant portion of their inventory. This has led to most of the developers in this area postponing new project launches for the next six months.
- North Pune continues to remain the most affordable market in the city, as 89% of the new launches during H1 2015 were below the ticket size of ₹5 mn. The corresponding figures for East, West and South Pune are 55%, 39% and 62%, respectively. Central Pune is the least affordable market, as more than 50% of the new launches during H1 2015 were above the ticket size of ₹20 mn.

North Pune continues to remain the most affordable market in the city, as 89% of the new launches during H1 2015 were below the ticket size of ₹5 mn. The corresponding figures for East, West and South Pune are 55%, 39% and 62%, respectively. Central Pune is the least affordable market, as more than 50% of the new launches during H1 2015 were above the ticket size of ₹20 mn.

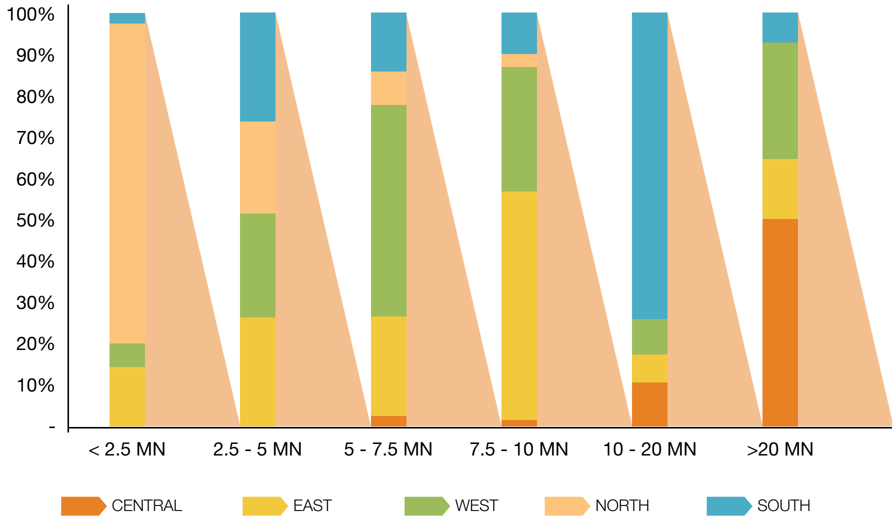
While Central Pune's share in the total absorption has come down marginally during H1 2015, its share in the new launches has increased during the same period. This could be a worrying trend for developers operating in this market, as the unsold inventory will increase further in the coming months

H1 2014
14,720 units

H2 2014
20,150 units

H1 2015
15,520 units

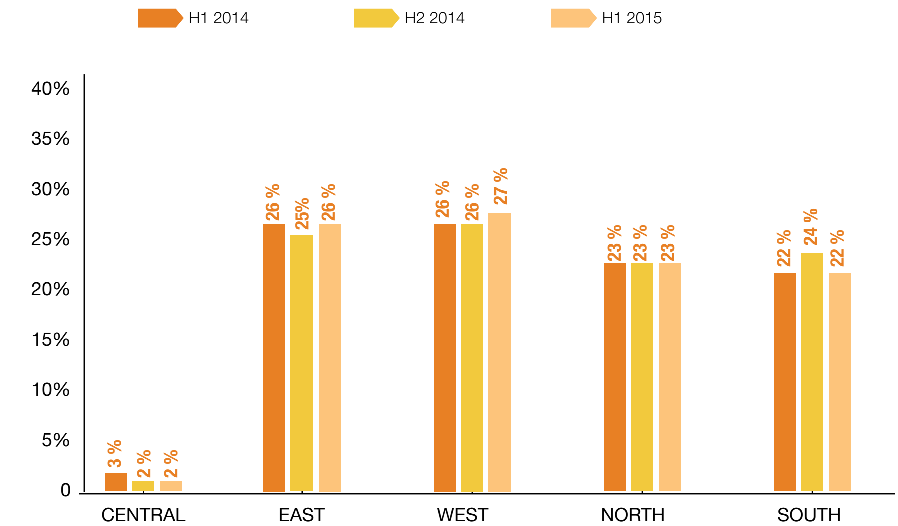
FIGURE 3
TICKET SIZE SPLIT OF LAUNCHES DURING H1 2015



Source: Knight Frank Research

MICRO-MARKET-WISE RESIDENTIAL SALES

FIGURE 4
MICRO-MARKET SPLIT OF SALES

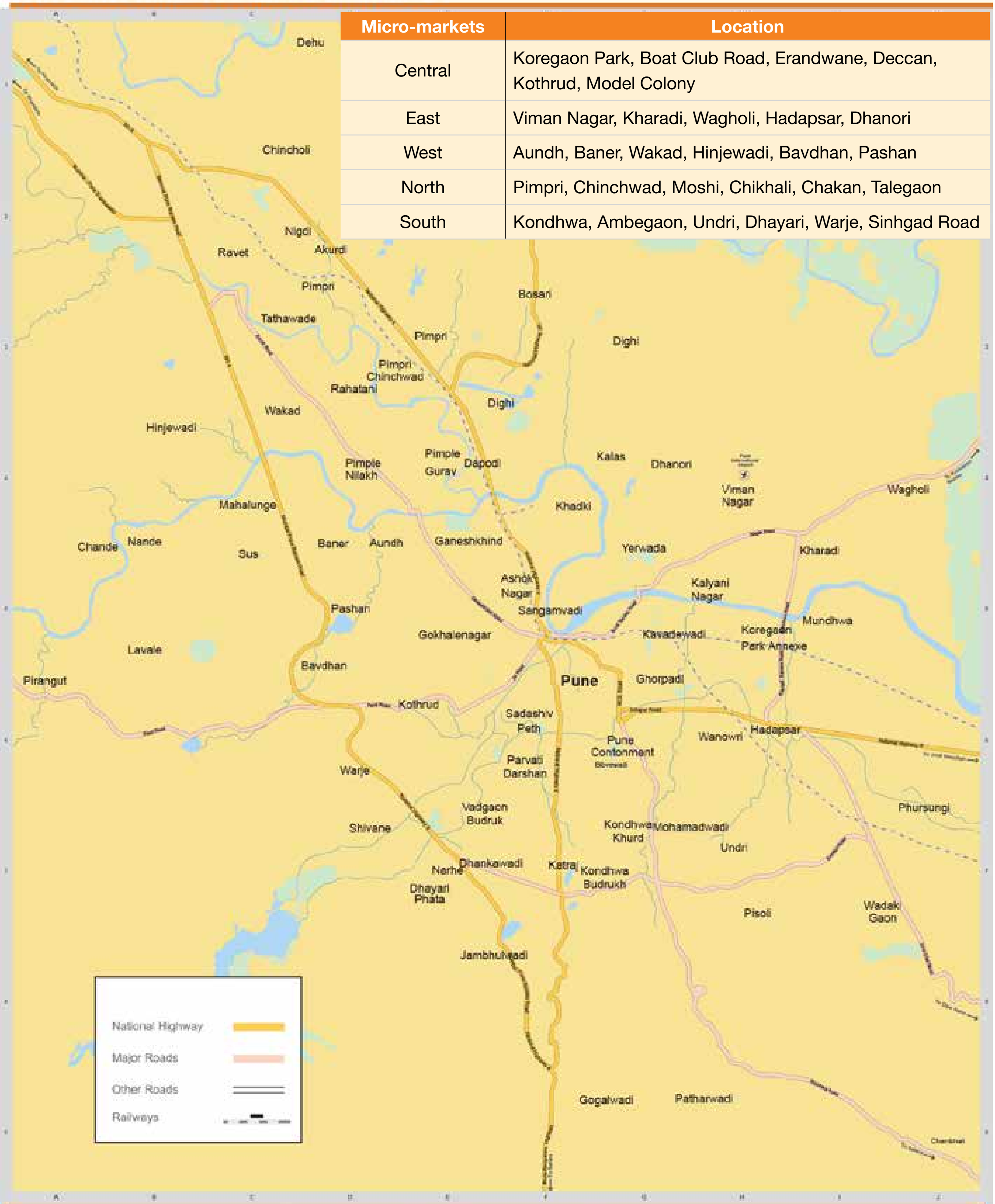


Source: Knight Frank Research

- The micro-market split of absorption has not witnessed any significant change in the last six months. While the shares of East and West Pune have increased marginally since H2 2014, South Pune's share has reduced slightly.
- While Central Pune's share in the total absorption has come down marginally during H1 2015, its share in the new launches has increased during the same period. This could be a worrying trend for developers operating in this market, as the unsold inventory will increase further in the coming months.

PUNE METROPOLITAN REGION MAP

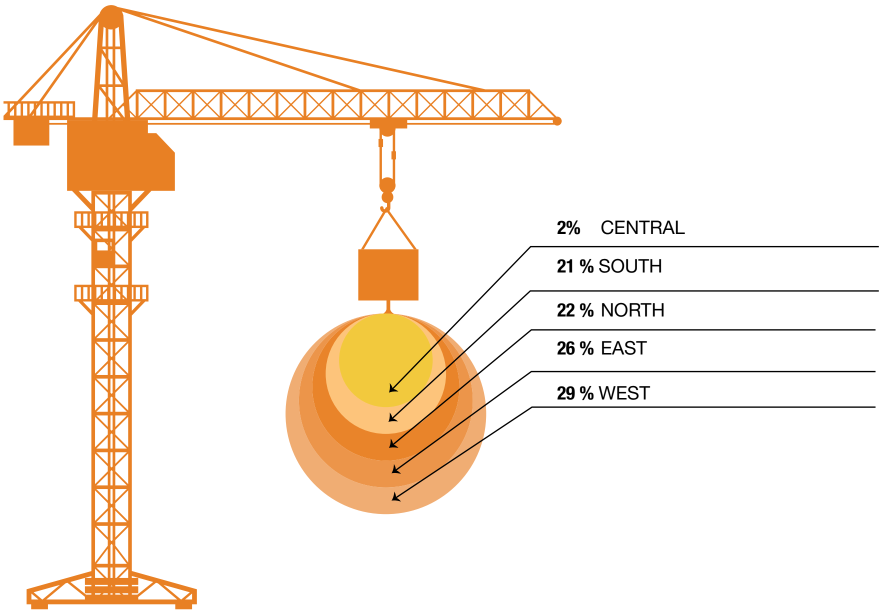
Micro-markets	Location
Central	Koregaon Park, Boat Club Road, Erandwane, Deccan, Kothrud, Model Colony
East	Viman Nagar, Kharadi, Wagholi, Hadapsar, Dhanori
West	Aundh, Baner, Wakad, Hinjewadi, Bavdhan, Pashan
North	Pimpri, Chinchwad, Moshi, Chikhali, Chakan, Talegaon
South	Kondhwa, Ambegaon, Undri, Dhayari, Warje, Sinhgad Road



MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF JUNE 2015

FIGURE 5

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF JUNE 2015



Source: Knight Frank Research

- Central Pune currently accounts for only 2% of the total under-construction units in the city, as the majority of the new projects are being launched in the remaining parts of the city.
- The maximum amount of under-construction units are in West Pune. This is followed by East and North Pune, at 26% and 22%, respectively.

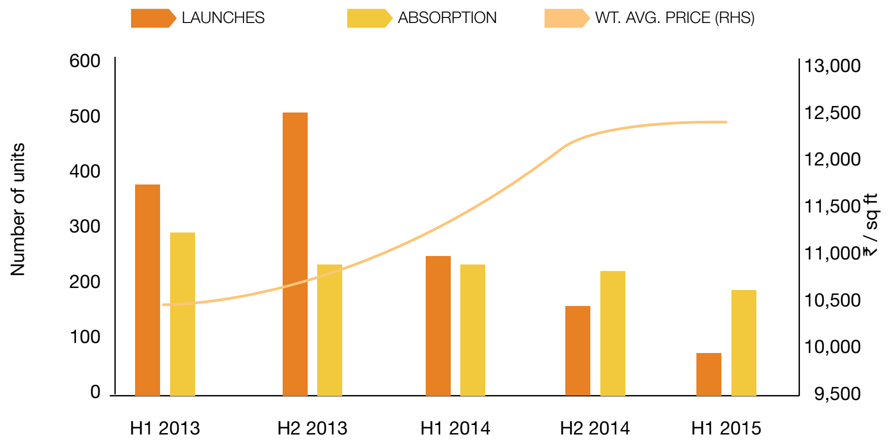
PREMIUM RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

Micro-markets	Location
Central	Bhosale Nagar, Boat Club Road, Erandwane, Koregaon Park, Model Colony, Prabhat Road, Uday Baug
East	Kalyani Nagar, Viman Nagar
South	Salisbury Park

South Pune will continue to witness a subdued sales volume, as the huge distance from the major employment hubs of the city and an underdeveloped retail market are expected to restrict homebuyer interest in this zone.

FIGURE 6

PREMIUM MARKET TRENDS



Source: Knight Frank Research

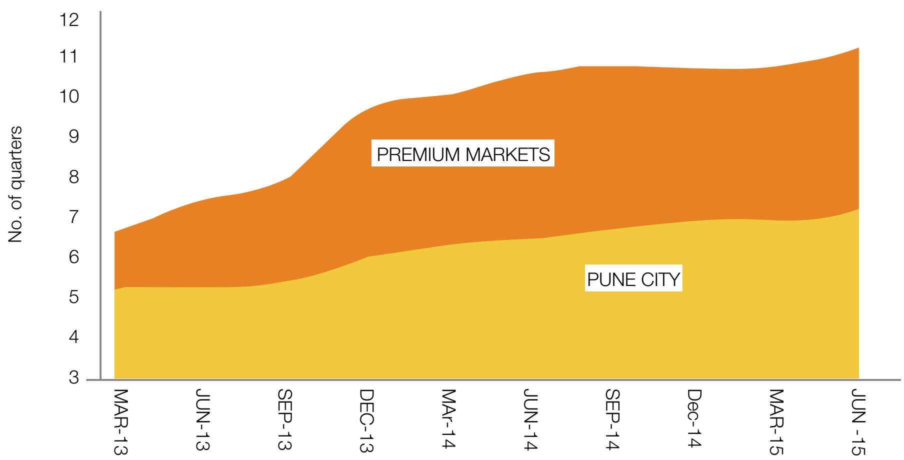
Note: *Premium markets include locations where the average ticket size of a residential unit is above ₹20 mn, are in close proximity to the central business district of the city and have witnessed new project launches in the preceding three years*

- The premium market of Pune, which constitutes locations such as Koregaon Park, Model Colony, Boat Club Road and Bhosale Nagar, among others, has observed a negative growth in sales volume, at -19% during H1 2015, compared to the same period last year. Similarly, new project launches have dropped by a whopping 70% during H1 2015 compared to the same period last year.
- The slowdown in the economy seems to have hit the premium market far worse than the overall city's demand. Higher ticket sizes and the availability of cheaper options in other parts of the city have impacted the demand for houses in the premium segment.
- The weighted average price growth in the premium segment has performed significantly better, at 9% in H1 2015 than the city's weighted average price growth. Product differentiation, extra amenities and close proximity to the city centre have helped the newly-launched projects command a stronger price growth in these locations despite a slowdown in demand. Additionally, the limited number of new launches since H1 2014 has exerted an upward pressure on prices in these locations.

PUNE MARKET HEALTH

FIGURE 7

QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS

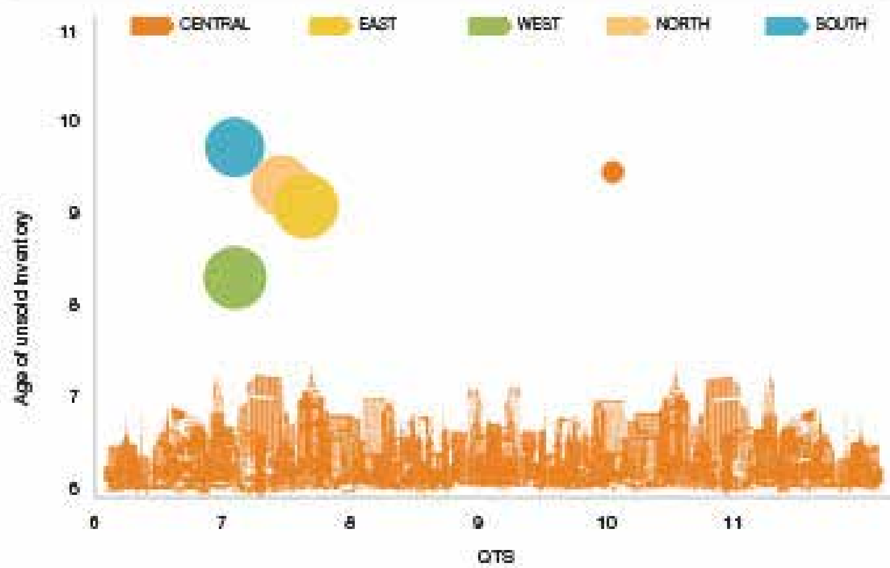


Source: Knight Frank Research

The slowdown in the economy seems to have hit the premium market far worse than the overall city's demand. Higher ticket sizes and the availability of cheaper options in other parts of the city have impacted the demand for houses in the premium segment.

FIGURE 8

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

Note: The size of the bubble indicates the quantum of unsold inventory

West Pune is currently the best performing market of the city, with the lowest QTS and age of unsold inventory. Relatively affordable pricing, easy access to the IT hub of Hinjewadi through the Mumbai Pune highway and a limited number of new launches during 2014 have helped this micro-market in performing moderately better than the rest of the city. Even the age of unsold inventory in this micro-market is low, as the majority of the unsold inventory belongs to the recently-launched projects.

- The quarters to sell unsold inventory (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 for Pune has been increasing gradually since September 2013 and currently stands at 7.4 quarters. However, the QTS for premium markets in the city has witnessed a much sharper rise and is currently at 11 quarters. Such a sharp rise is largely due to the rapid fall in demand for premium housing in the last 12 months.
- Among the various micro-markets of the city, Central Pune is the worst performing market, with the highest QTS. The age of unsold inventory is also among the highest in the city, indicating that a large number of previously launched projects are still lying unsold in this micro-market.
- West Pune is currently the best performing market of the city, with the lowest QTS and age of unsold inventory. Relatively affordable pricing, easy access to the IT hub of Hinjewadi through the Mumbai Pune highway and a limited number of new launches during 2014 have helped this micro-market in performing moderately better than the rest of the city. Even the age of unsold inventory in this micro-market is low, as the majority of the unsold inventory belongs to the recently-launched projects.
- Despite having a low QTS, South Pune has fared poorly in terms of age of unsold inventory. This is primarily due to the poor response received towards some of the large-sized projects that were launched during 2013 and 2014.

PRICE MOVEMENT DURING H1 2015

- The price growth across most of the locations in Pune during the last 12 months has been tepid. It has slowed down further in the last six months, primarily due to the subdued sales volume and the huge amount of unsold inventory in the market.
- The weighted average price growth has been much faster in the premium segment in the last 12 months compared to the growth in the city's overall price. However, this has moderated to a mere 1.5% in the previous six months due to the significant fall in demand.

Weighted average price movement in Pune

Location	Price range in H1 2015 (₹/sq ft)	12 month change	6 month change
Pune	4,820	4.4%	1.5%
Premium markets	12,350	9.1%	1.5%

Price movement in select locations

Location	Micro-market	Price range in H1 2015 (₹/sq ft)	12 month change	6 month change
Koregaon Park	Central	13,000 - 17,000	4%	2%
Kothrud	Central	7,500 - 13,000	2%	0%
Erandwane	Central	13,500 - 18,000	3%	0%
Boat Club Road	Central	14,500 - 19,500	1%	0%
Kharadi	East	5,300 - 6,300	3%	1%
Wagholi	East	3,500 - 4,600	2%	0%
Dhanori	East	3,900 - 4,800	6%	3%
Hadapsar	East	4,600 - 6,000	1%	0%
Aundh	West	7,800 - 9,500	4%	1%
Baner	West	5,600 - 8,000	5%	0%
Hinjewadi	West	4,800 - 5,900	1%	0%
Wakad	West	5,400 - 6,200	4%	1%
Moshi	North	3,700 - 4,300	3%	0%
Chikhali	North	3,500 - 4,100	5%	2%
Chakan	North	2,900 - 3,400	4%	0%
Ambegaon	South	4,400 - 5,500	1%	0%
Undri	South	3,900 - 4,800	1%	1%
Kondhwa	South	4,600 - 5,700	3%	1%

Source: Knight Frank Research

OUTLOOK FOR THE NEXT SIX MONTHS

Projections	H2 2014	H2 2015E	Growth
Launches (units)	16,700	19,140	15%
Absorption (units)	20,150	21,440	6%
Weighted average price (₹/sq ft)	4,750	4,870	3%

Source: Knight Frank Research

We estimate that West and East Pune will witness a higher traction in the sales volume in the coming months, as the lack of a mass rapid transit system will continue to push homebuyers towards locations that are in close proximity to employment hubs in these zones. The delay in commencing the construction work of the metro project has made homebuyers averse to areas that are at a greater distance from Hinjewadi, Kharadi and Hadapsar.

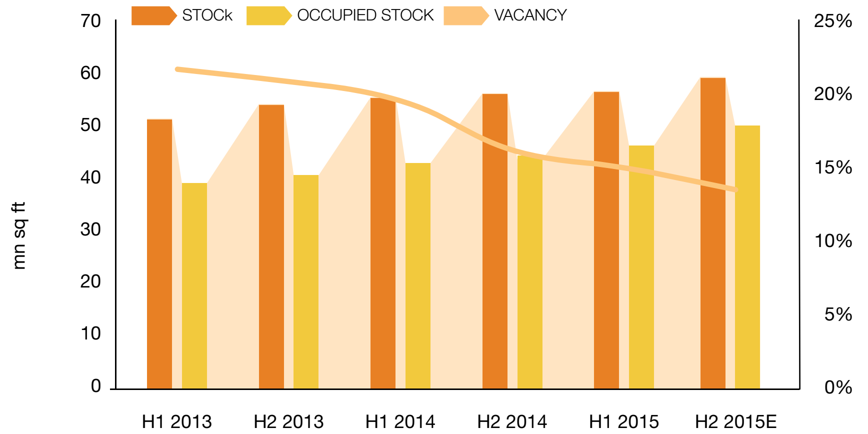
- The positive sentiment in the residential market due to the improving business sentiment, the revival in manufacturing activity and the pick-up in the IT/ITeS sector are expected to usher in a double-digit growth in new launches during H2 2015. We forecast that the new launches will increase by 15% in H2 2015, to 19,140 units, compared to 16,700 units in H2 2014.
- West and East Pune will continue to dominate in terms of new launches, as proximity to the employment hubs of Hinjewadi and Kharadi make these micro-markets attractive propositions for developers to launch new projects.
- However, the growth in the city's sales volume will be limited to 6% during H2 2015 compared to the same period last year, as homebuyers are still in a wait-and-watch mode, and are expecting further positive signs on the country's economic front.
- We estimate that West and East Pune will witness a higher traction in the sales volume in the coming months, as the lack of a mass rapid transit system will continue to push homebuyers towards locations that are in close proximity to employment hubs in these zones. The delay in commencing the construction work of the metro project has made homebuyers averse to areas that are at a greater distance from Hinjewadi, Kharadi and Hadapsar.
- South Pune will continue to witness a subdued sales volume, as the huge distance from the major employment hubs of the city and an underdeveloped retail market are expected to restrict homebuyer interest in this zone.
- Demand for homes in Central Pune, where most of the premium markets are located, will be subdued in the coming six months, as the high ticket sizes of houses in this zone will limit the purchasing ability of buyers.
- We expect the weighted average price in Pune to increase marginally, by 3% in H2 2015 compared to H2 2014, on the back of the improved sales volume. However, the prospect of a double-digit growth in the prices remains bleak, as the growth in sales will be offset by an even higher growth in supply over the next six months.

OFFICE MARKET

STOCK, NEW COMPLETIONS, ABSORPTION AND VACANCY TRENDS

FIGURE 1

PUNE OFFICE SPACE STOCK AND VACANCY LEVELS

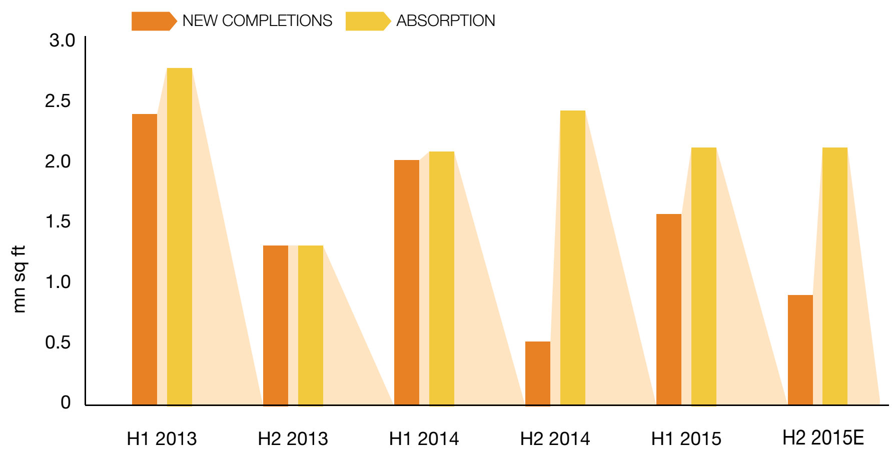


Source: Knight Frank Research

- The vacancy levels in Pune, which have been on a downward trajectory since 2014, have reached their lowest level since 2007, at 15% during H1 2015. Even this vacancy is represented primarily by low-grade buildings, with good quality office buildings reporting minimal vacancy levels. Steady demand and limited supply have changed the city's office market equation in favour of landlords from tenants. This has resulted in a steep appreciation in rental values across the city during the last 6–12 months.
- During H1 2015, there was a marginal rise in office transaction, by 3%, from 2.1 mn sq ft in H1 2014 to 2.16 mn sq ft in H1 2015. However, the fall in the new office space supply was a whopping 25%, from 2.03 mn sq ft to 1.54 mn sq ft during the same period.
- While the absorption numbers have remained steady, in the range of 2–2.4 mn sq ft, for each of the six-month periods since 2014, new completions have slowed down drastically during the same time frame. This has resulted in demand consistently outstripping new supply since H1 2014. Depressed rental growth during the 2010–2013 period discouraged developers from committing to fresh investments in new office space development, and this resulted in a limited number of offices coming online during 2014 and 2015.
- Going forward, we foresee that demand will continue surpassing new completions in H2 2015. While we expect absorption to touch 2.14 mn sq ft during H2 2015, new completions will only reach 0.95 mn sq ft during the same period. Consequently, the vacancy levels are estimated to drop further, to 13%, by December 2015.

FIGURE 2

NEW COMPLETIONS AND ABSORPTION



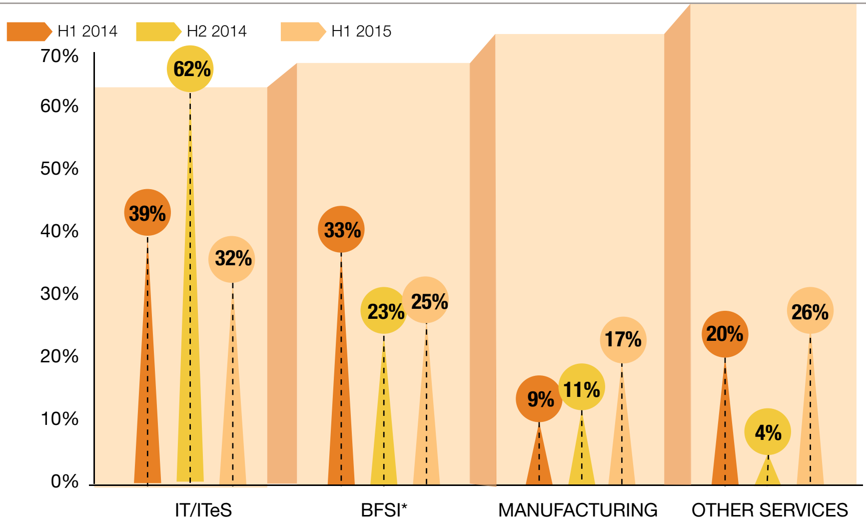
Source: Knight Frank Research

Vacancy levels in Pune, which have been on a downward trajectory since 2014, have reached their lowest level since 2007, at 15% during H1 2015. Steady demand and limited supply have changed the city's office market equation in favour of landlords from tenants. This has resulted in a steep appreciation in rental values across the city during the last 6–12 months

SECTOR ANALYSIS

FIGURE 3

SECTOR-WISE SPLIT OF ABSORPTION



Source: Knight Frank Research

Note: BFSI includes support services

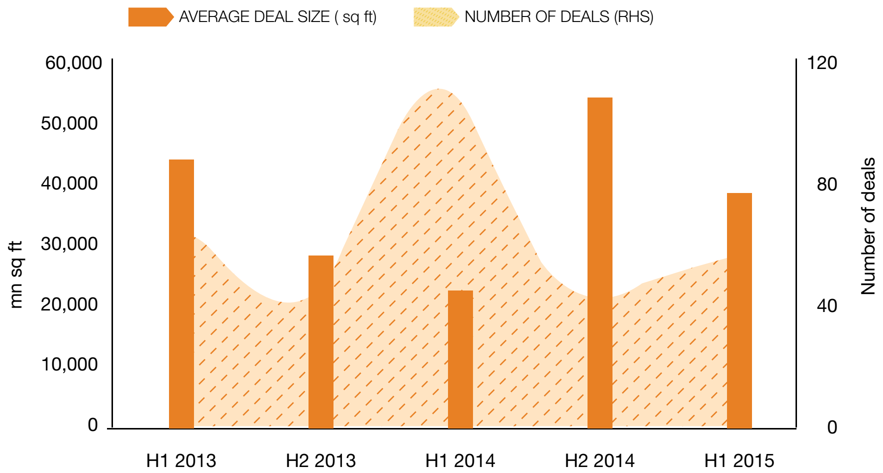
Source: Knight Frank Research

The IT/ITeS sector has been the largest contributor to the office space demand in Pune, and the recently-announced IT/ITeS Policy 2015 is among the latest initiatives of the Maharashtra government to induce this skilled manpower-intensive industry to open offices in the state

- The revival in manufacturing activity and the improvement in business sentiment in the corporate sector seem to have boosted the office space take-up by the manufacturing sector in Pune. Companies such as Mercedes-Benz and Volkswagen are some of the large corporates that have taken up space during H1 2015. Although the space taken up by these companies are for their global design centres and backend IT work, it seems that they have preferred to locate such centres in Pune because they already have their manufacturing units in the city.
- The shares of the BFSI sector continue to hold steady, above 25%, although this is much lower than the 33% share it reported during H1 2014. However, the majority of the deals in the BFSI sector are support services, which, in other words, are closely linked to the IT/ITeS sector.
- The IT/ITeS sector continues to remain the biggest driver of office space in Pune, with a 32% share in H1 2015. However, its share is relatively lower than in 2014, as the uptake of office space from the remaining sectors continues to grow.

DEAL SIZE ANALYSIS

FIGURE 4
AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

- The average deal size in Pune has been in the range of 35,000–52,000 sq ft since 2012, and this trend has continued in H1 2015, which reported an average deal size of 39,000 sq ft.
- The BFSI sector led in terms of big-ticket deals, the majority of them being in the range of 100,000 sq ft and above.
- During H1 2015, the majority of the deals in the IT/ITeS sector took place in the range of 20,000–50,000 sq ft, with only a couple of deals crossing the 100,000 sq ft mark. This is in contrast to what was witnessed during 2014, when 7–8 deals upwards of 100,000 sq ft were reported.

Occupier	Building	Location	Approx. area (sq ft)
Vodafone	Mantri IT Park	Nagar road	200,000
UBS	Commerzone	Yerwada	160,000
Seagate	EON Free Zone	Kharadi	110,000
Mastercard	Business Bay	Yerwada	100,000
Schlumberger	Commerzone 8	Yerwada	90,000
eClerx	Embassy Techzone	Hinjewadi	54,000
Mercedez Benz	Embassy Techzone	Hinjewadi	50,000
HCL	Business Bay	Yerwada	45,000
Pubmatic	Amar Paradigm	Baner	35,000
Zensar	EON Free Zone	Kharadi	27,000
Quick Heal	Marvel Edge	Viman Nagar	25,000
Xoriant	Amar Paradigm	Baner	17,500

Yerwada continues to consolidate its position as one of the largest office space hubs in the city, helping SBD East in increasing its share in the total office space absorption during H1 2015. Proximity to the city centre and easy access to the airport have resulted in occupiers preferring this location

BUSINESS DISTRICTS OF PUNE

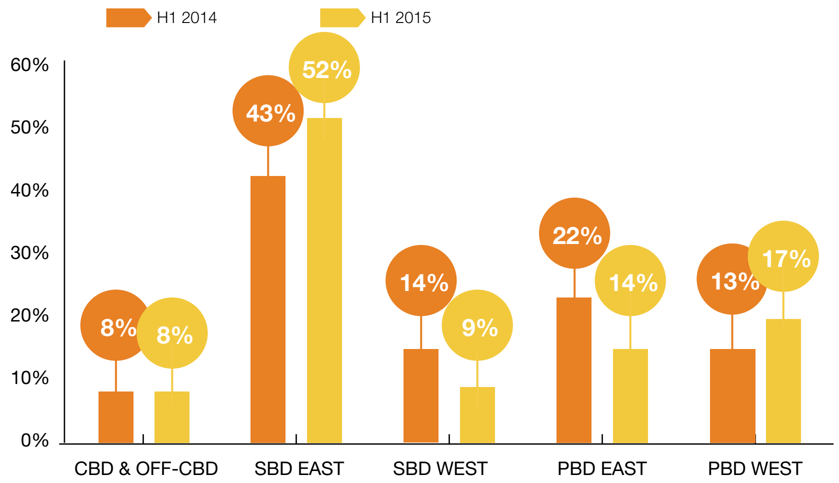
BUSINESS DISTRICT ANALYSIS

Business district	Micro-markets
CBD and off-CBD	Bund Garden Road, S B Road, Camp, Deccan, Pune Station Road
SBD East	Kalyani Nagar, Airport Road, Yerwada, Nagar Road, Vishrantwadi
PBD East	Hadapsar, Kharadi, Phursungi, Wanowrie
SBD West	Wakdewadi, Aundh, Baner, Kothrud, University Road
PBD West	Hinjewadi, Bavdhan, Wakad, Balewadi
SBD North and South	Pimpri, Chinchwad, Bhosari, Bibvewadi, Satara Road

The weighted average rents have jumped by more than 35% since 2012, from ₹37/ sq ft/month to ₹50/ sq ft/month in H1 2015. While rents have increased by 16% in the last 12 months, the rise in the last six months has been to the tune of 6%.

FIGURE 5

BUSINESS DISTRICT-WISE ABSORPTION SPLIT



Source: Knight Frank Research

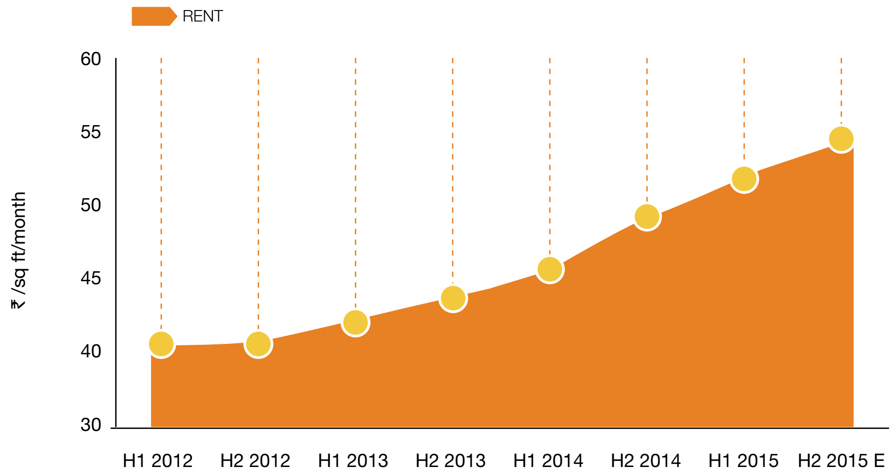
- The share of the CBD & off-CBD markets have remained constant during H1 2015 compared to H1 2014, as S B Road continues to witness traction in office space absorption.
- Yerwada continues to consolidate its position as one of the largest office space hubs in the city, helping SBD East in increasing its share in the total office space absorption during H1 2015. Proximity to the city centre and easy access to the airport have resulted in occupiers preferring this location.
- Limited supply of vacant office and relatively high rentals have restricted the absorption levels in PBD East, with its share coming down from 22% in H1 2014 to 14% in H1 2015. In contrast to this, PBD West's share has increased marginally during the same period, as new office space continues to come online in Hinjewadi.

Source: Knight Frank Research

RENTAL TREND

FIGURE 6

WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

- The demand for office space in Pune has consistently been outstripping new completions over the last two years, resulting in a steep rise in the weighted average rent of the city.
- The weighted average rents have jumped by more than 35% since 2012, from ₹37/sq ft/month to ₹50/sq ft/month in H1 2015. While rents have increased by 16% in the last 12 months, the rise in the last six months has been to the tune of 6%.
- PBD East has witnessed the steepest hike in rents, followed by SBD West. Rents in SBD West have increased primarily due to the strong preference of occupiers to locate in areas that are closer to the city centre, with Baner and Aundh emerging as the favourite destinations. In contrast to this, the rental appreciation in PBD East is purely due to the supply constraint of good quality office space.

Rents in SBD West have increased primarily due to the strong preference of occupiers to locate in areas that are closer to the city centre, with Baner and Aundh emerging as the favourite destinations. In contrast to this, the rental appreciation in PBD East is purely due to the supply constraint of good quality office space.

Business district-wise rental movement

Business district	Rental value range in H1 2015 (₹/sq ft/month)	12 month change	6 month change
CBD & Off-CBD	65 - 95	15%	8%
SBD East	45 - 70	15%	7%
SBD West	45 - 65	16%	7%
PBD East	45 - 65	18%	10%
PBD West	38 - 50	6%	3%

Source: Knight Frank Research

OUTLOOK FOR THE NEXT SIX MONTHS

Projections	H2 2014	H2 2015E	Growth
New completions (mn sq ft)	0.50	0.95	90%
Absorption (mn sq ft)	2.40	2.14	-11%
Vacancy	16%	13%	
Weighted average rent (₹/sq ft/month)	47	53	13%

Source: Knight Frank Research

- The IT/ITeS sector has been the largest contributor to the office space demand in Pune, and the recently-announced IT/ITeS Policy 2015 is among the latest initiatives of the Maharashtra government to induce this skilled manpower-intensive industry to open offices in the state.
- In a bid to attract further investments and ward off stiff competition from the established IT hubs of Bengaluru, Chennai, Hyderabad and NCR, the state's new IT/ITeS policy offers a host of incentives – up to 200% additional FSI (floor space index), incentives on property taxes, lower power tariffs and exemption from certain state and municipal levies. These incentives will not only reduce the occupancy costs of IT/ITeS companies but will also lead to a sustainable office market development in the coming years. However, the impact of this policy will not materialise for another 2–3 years, and in the short term, the shortage of good quality office space in Pune will continue to drive occupancy costs higher.
- We estimate 0.95 mn sq ft of new office space to come online in the next six months, primarily in Hinjewadi in PBD West. However, this will be significantly lower than the expected demand of 2.14 mn sq ft during the same period, resulting in a further contraction in the city's vacancy levels.
- The reduction in absorption by 11% during H2 2015 will be largely due to dearth of good quality office space rather than a slowdown in demand from occupiers.
- Since demand is expected to surpass new completions in H2 2015 once again, the upside pressure on rental values will continue, and they are projected to increase by 13%.

Since demand is expected to surpass new completions in H2 2015 once again, the upside pressure on rental values will continue, and they are projected to increase by 13%

NEW CITY ADDED

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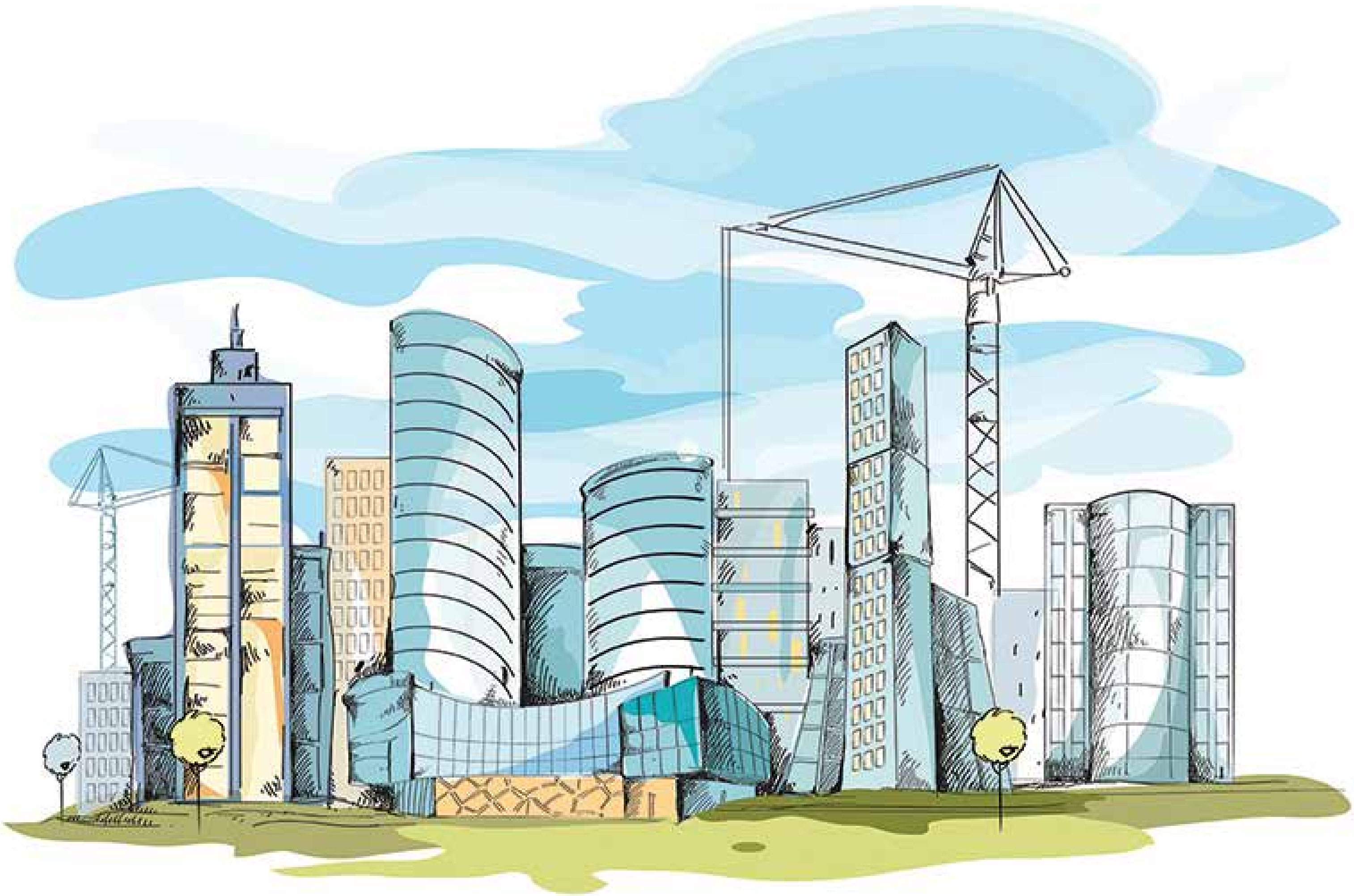
AHMEDABAD

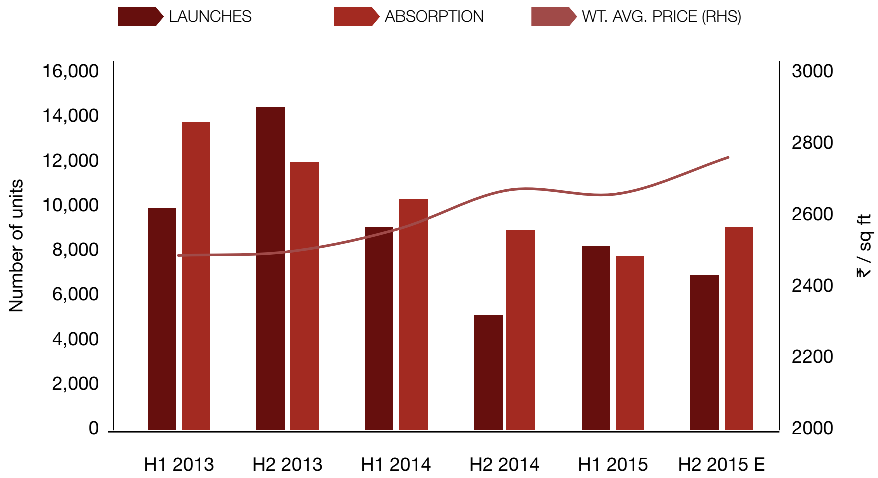
Residential Market



RESIDENTIAL MARKET
LAUNCHES, ABSORPTION AND PRICE TRENDS

FIGURE 1

AHMEDABAD MARKET TRENDS



Source: Knight Frank Research

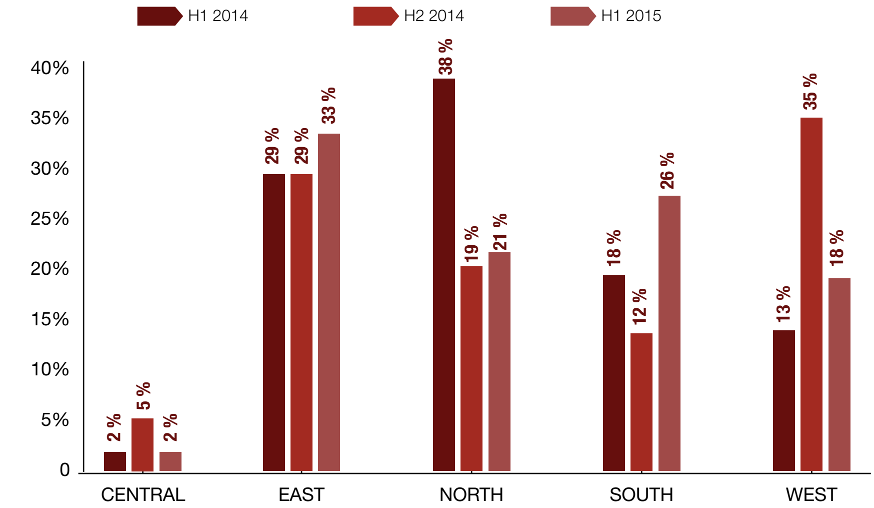
- The sales volume in Ahmedabad has continued to witness a falling trend since H1 2013, when it was at 13,650 units. In the latest six-month period (H1 2015), the city has reported its five-year low sales volume at 7,750 units, which is 26% lower than the same period of the preceding year.
- Slower-than-expected recovery in the economy, poor business sentiment and a delay in the reduction of home loan interest rates by banks have hampered the revival in the sales volume. Additionally, the majority of the investors that were active during the 2011-2013 period have refrained from fresh investments in the last six months due to the slower-than-expected price rise.
- Taking cognizance of the falling demand, developers in Ahmedabad have refrained from launching new projects during H1 2015. New launches dropped by 11%, to 8,060 units in H1 2015, compared to 9,020 units in H1 2014.
- We expect the demand for housing to pick up in the second half of 2015, as the revival in manufacturing activity will boost business sentiment in the coming months. Our survey also indicates that the renewed traction in the Gujarat International Finance Tec-City (GIFT) last year has revived hopes of the development of a vibrant office space market near Ahmedabad. We expect the demand for housing to get a positive boost from such a development in the coming six months.
- We forecast a marginal increase of 11% in the sales volume to 8,890, during H2 2015 compared to 8,020 in H2 2014. However, new launches are estimated to rise by 36% to 6,790 from 5,000 during the same period of comparison.
- The weighted average price rise has remained muted at 2-3% in the last six months and we expect it to increase in the same range over the next six months.

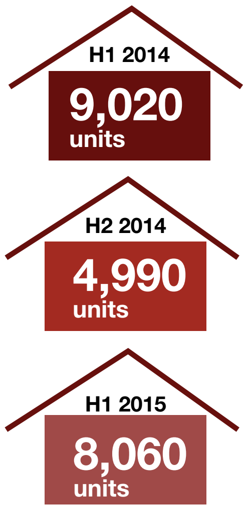
Slower-than-expected recovery in the economy, poor business sentiment and a delay in the reduction of home loan interest rates by banks have hampered the revival in the sales volume. Taking cognizance of the falling demand, developers in Ahmedabad have refrained from launching new projects during H1 2015, which dropped by 11% compared to H1 2014.

MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

FIGURE 2

MICRO-MARKET SPLIT OF LAUNCHED UNITS

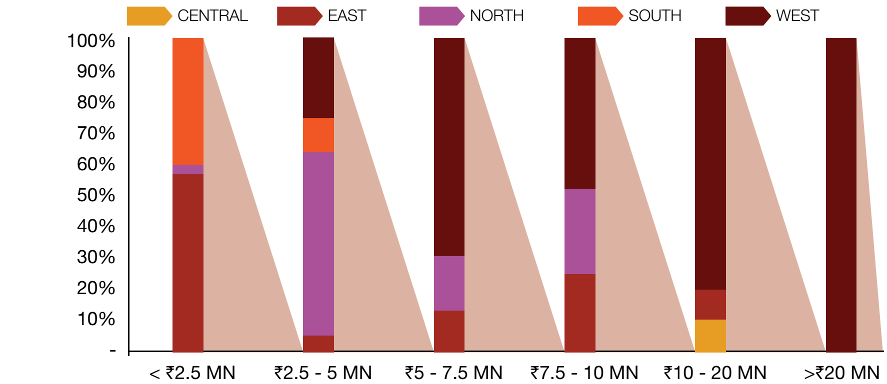




Source: Knight Frank Research

FIGURE 3

TICKET SIZE SPLIT OF LAUNCHES DURING H1 2015



Source: Knight Frank Research

East Ahmedabad, with locations such as Naroda, Vastral, Nikol and Kathwada Road, has witnessed the maximum number of new launches during H1 2015. With prices in other parts of the city breaching the ₹3,000/sq ft mark, East Ahmedabad has emerged as the most preferred destination for homebuyers scouting for affordable housing.

- East Ahmedabad, with locations such as Naroda, Vastral, Nikol and Kathwada Road, has witnessed the maximum number of new launches during H1 2015. With prices in other parts of the city breaching the ₹3,000/sq ft mark, East Ahmedabad has emerged as the most preferred destination for homebuyers scouting for affordable housing. During H1 2015, 86% of the new launches in this market were below the ticket size of ₹2.5 mn.
- South Ahmedabad is another market that witnessed a significant jump in new launches during H1 2015. Similar to East Ahmedabad, 87% of the new launches in this micro-market in the last six months were below the ticket size of ₹2.5 mn.
- New launches in North Ahmedabad have dropped significantly in the last year, as developers are still trying to sell residential units in their previously-launched projects that remain unsold despite nearing completion.
- The share of new launches in West Ahmedabad has fallen considerably in H1 2015, as the unsold inventory of previous years has constrained developers in announcing new projects. More than 50% of the new launches in the first six months of 2015 were above the ticket size of ₹10 mn in this market.

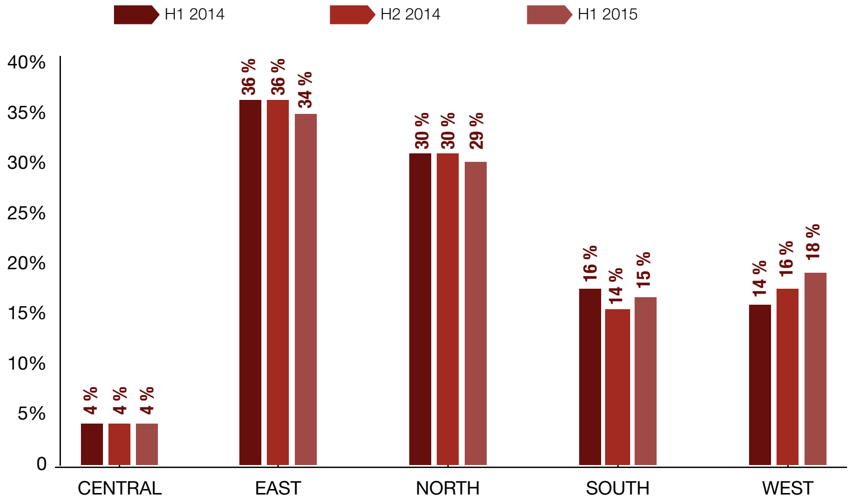
MICRO-MARKET-WISE RESIDENTIAL SALES

Micro-market	Locations
Central	Paldi, Vasna, Navrangpura, Maninagar, Dudheshwar, Ambawadi
East	Naroda, Vastral, Nikol, Kathwada Road, Odhav
North	Gota, New Ranip, Tragad, Chandkheda, Motera
South	Narol, Vatva, Vinzol, Hathijan
West	S G Highway, Prahlad Nagar, Bopal, Thaltej, Science City Road

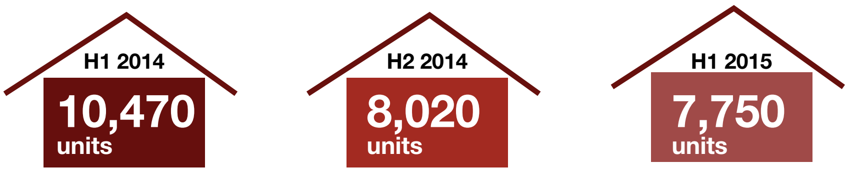
AHMEDABAD CITY MAP

FIGURE 4

MICRO-MARKET SPLIT OF SALES



Source: Knight Frank Research



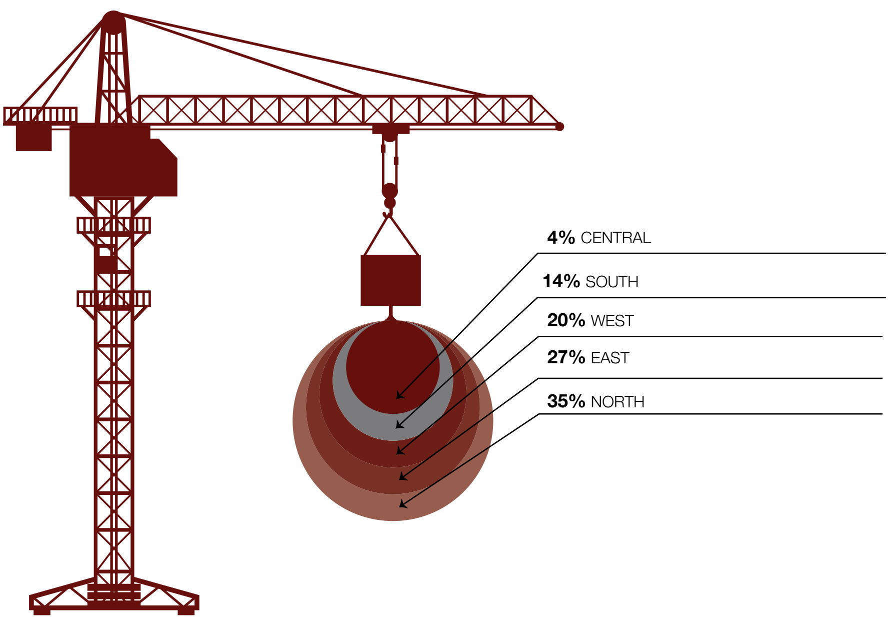
- The micro-market split of absorption has not witnessed any significant change in the last six months. While the shares of West and South Ahmedabad have increased marginally since H1 2014, the shares of the rest of the micro-markets have reduced slightly.
- This is in contrast to the share of new launches. While micro-markets such as East and North Ahmedabad have observed a higher share in new launches during H1 2015, their share in absorption has fallen. This trend has resulted in a higher amount of unsold inventory in these locations.
- West Ahmedabad's share has been increasing gradually over the last 12 months. Better connectivity with the city centre, proximity to the central business district (CBD) and the presence of a well-developed retail market continue to attract homebuyers to this micro-market despite its higher pricing.

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF JUNE 2015

- Central Ahmedabad accounts for only 4% of the total number of under-construction units in the city, as the majority of the new projects are being launched in the remaining parts of the city.
- The maximum amount of under-construction units are in North Ahmedabad, with locations such as Gota, Tragad, Chandkheda and Motera witnessing a construction boom since the last three years. This is followed by East and West Ahmedabad, at 27% and 20% share, respectively.

FIGURE 5

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF JUNE 2015

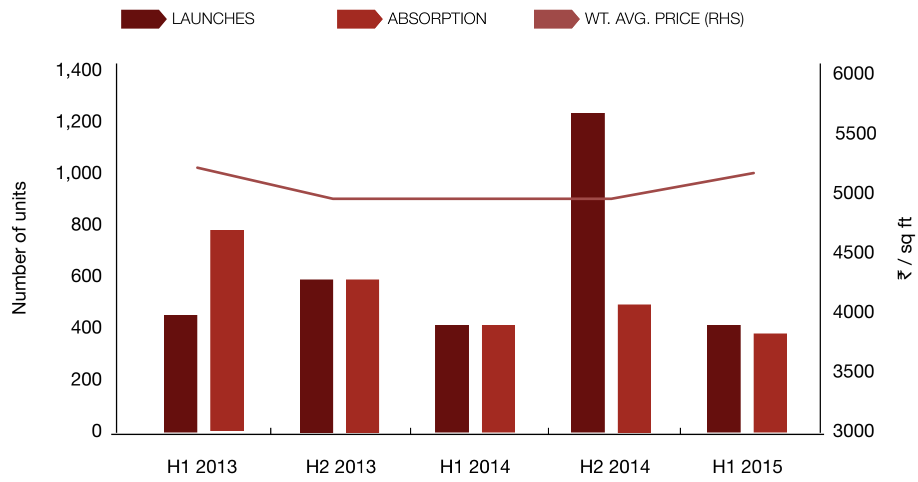


Source: Knight Frank Research

PREMIUM RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

Micro-market	Locations
Central	Ambawadi, Navrangpura, Shahibaug, Nehru Nagar
West	Ambli, Bodakdev, Jodhpur, Prahlad Nagar, Satellite, Thaltej, Vastrapur

FIGURE 6
PREMIUM MARKET TRENDS



Source: Knight Frank Research

Note: *Premium markets include locations where the average ticket size of a residential unit is above ₹ 15 mn, are located in close proximity to the central business district of the city and have witnessed new project launches in the preceding three years*

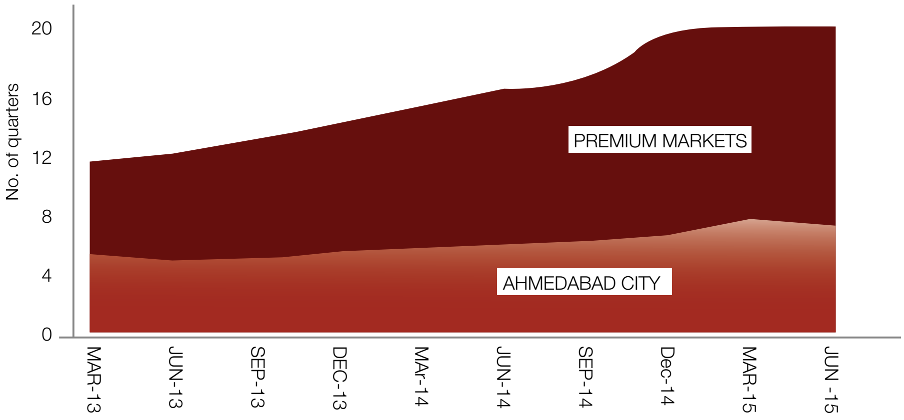
- The premium market of Ahmedabad, which constitutes locations such as Ambawadi, Bodakdev, Jodhpur, Navrangpura and Prahlad Nagar, among others, has observed a negative growth in sales volume, at -2% during H1 2015, compared to the same period last year. However, new project launches have continued to remain robust with a growth rate of 15% during H1 2015 compared to a year ago.
- H2 2014 witnessed a significant jump in new project launches. This was primarily due to a few large-sized projects that were launched in locations such as Nehru Nagar and Jodhpur during that period.
- The weighted average price growth in the premium segment has performed relatively better, at 5% in H1 2015, than the city's weighted average price growth. Product differentiation, extra amenities and close proximity to the city centre have helped the newly-launched projects command a stronger price growth in these locations.

Product differentiation, extra amenities and close proximity to the city centre have helped the newly-launched projects in the premium market command a stronger price growth during H1 2015, despite sales volume falling by 2% during the same period.

AHMEDABAD MARKET HEALTH

FIGURE 7

QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS



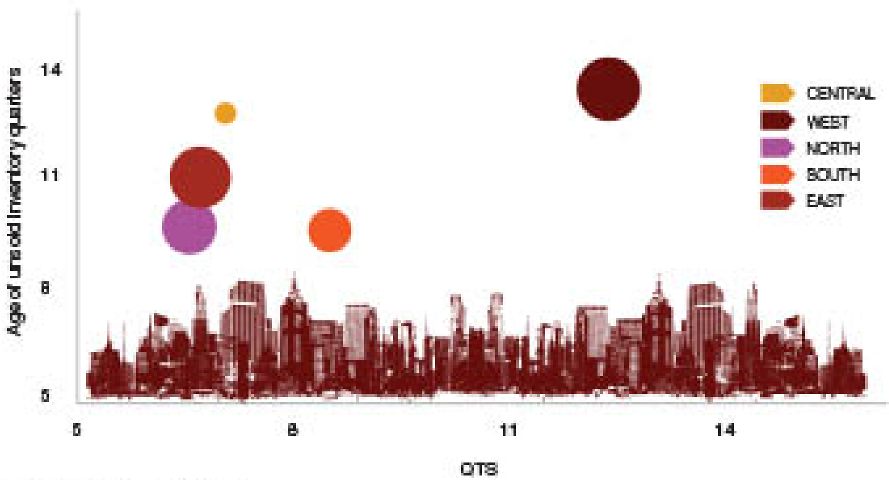
Source: Knight Frank Research

North Ahmedabad is currently the best performing market of the city, with the lowest QTS and age of unsold inventory. Affordable pricing, good connectivity to major retail destinations in West Ahmedabad through S G Highway, easy access to the GIFT city in the North and restricted new launches during H1 2015 have helped this micro-market in performing relatively better than the rest of the city.

- The quarters to sell unsold inventory (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 for Ahmedabad has been increasing gradually since June 2013 and currently stands at 7.5 quarters. However, the QTS for premium markets in the city has witnessed a much sharper rise and is currently at 20 quarters. Such a sharp rise is largely due to the huge number of new launches in the preceding 12 months despite the sales volume remaining tepid.
- Among the various micro-markets of Ahmedabad, West Ahmedabad is the worst performing market with the highest QTS. The age of unsold inventory in West Ahmedabad is also among the highest in the city, indicating that a large number of previously-launched projects are still lying unsold in this micro-market.
- North Ahmedabad is currently the best performing market of the city, with the lowest QTS and age of unsold inventory. Affordable pricing, good connectivity to major retail destinations in West Ahmedabad through S G Highway, easy access to the GIFT city in the North and restricted new launches during H1 2015 have helped this micro-market in performing relatively better than the rest of the city. Even the age of inventory in this micro-market is low, as the majority of the unsold inventory belongs to the recently-launched projects.

FIGURE 8

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

Note: The size of the bubble indicates the quantum of unsold inventory

PRICE MOVEMENT DURING H1 2015

- The price growth across most of the locations in Ahmedabad during H1 2015 has been tepid, primarily because of the subdued sales volume and a huge amount of unsold inventory present in the market.
- Prices in certain premium locations, such as Ambawadi, Prahlad Nagar and Thaltej, have increased by 8-9% during the last 12 months on the back of the restricted supply and the strong preference of homebuyers for these locations. However, the growth rate has slowed down considerably in the last six months due to a subdued demand scenario.

Weighted average price movement in Ahmedabad

Location	Price range in H1 2015 (₹/sq ft)	12 month change	6 month change
Ahmedabad	2,640	3.3%	0.0%
Premium markets	5,140	4.8%	2.0%

Price movement in select locations

Location	Micro-market	Price range in H1 2015 (₹/sq ft)	12 month change	6 month change
Ambawadi	Central	5,500 - 8,500	8%	1%
Navrangpura	Central	5,500 - 8,500	3%	2%
Mani Nagar	Central	3,500 - 6,500	3%	3%
Paldi	Central	5,000 - 6,800	4%	1%
Naroda	East	2,000 - 3,500	2%	1%
Vastral	East	1,800 - 2,200	3%	1%
Nikol	East	1,800 - 2,200	1%	0%
Prahlad Nagar	West	5,000 - 6,000	9%	1%
Satellite	West	5,500 - 7,200	2%	2%
Thaltej	West	5,000 - 7,000	9%	2%
Vastrapur	West	5,500 - 7,500	2%	2%
Bopal	West	3,500 - 5,000	3%	1%
Chandkheda	North	2,500 - 3,800	1%	1%
Motera	North	2,800 - 3,600	2%	1%
Gota	North	3,000 - 3,800	2%	1%

Source: Knight Frank Research

The prospect of a double-digit growth in prices remains bleak in Ahmedabad, as infrastructure development such as the Bus Rapid Transit System (BRTS), Sardar Patel Outer Ring Road and the under-construction metro rail project will continue to make newer locations in the periphery of the city, with cheaper land rates, more accessible.

OUTLOOK FOR THE NEXT SIX MONTHS

Projections	H2 2014	H2 2015E	Growth
Launches (units)	4,990	6,790	36%
Absorption (units)	8,020	8,890	11%
Weighted average price (₹ /sq ft)	2,650	2,730	3%

Source: Knight Frank Research

- The positive sentiment in the residential market, due to the revival in manufacturing activity, the improving business sentiment and renewed traction in the GIFT city, is expected to usher in a double-digit growth in new launches during H2 2015. We forecast that the new launches will increase by 36% in H2 2015, to 6,790 units, compared to 4,990 units in H2 2014.
- North and East Ahmedabad will continue to dominate in terms of new launches, as proximity to the GIFT city and the availability of large tracts of vacant land make these micro-markets attractive to developers for launching new projects.
- However, the growth in the city's sales volume will be limited to 11% during H2 2015 compared to the same period last year, as homebuyers are still in a wait-and-watch mode and are expecting further positive signs on the country 's economic front.
- We estimate that East Ahmedabad will witness a higher traction in the coming months, as the construction work on the initial phase of the metro project has started in the area in full swing. This phase will eventually connect Vastral in the east to Thaltej in the west, thereby reducing the effective travel time between the two most densely populated micro-markets of the city.
- South Ahmedabad will continue to witness a subdued sales volume, as the great distance from the city centre, presence of a large number of manufacturing units and poor infrastructure facilities are expected to restrict homebuyer interest in this zone.
- The sales volume in West Ahmedabad is also estimated to increase during H2 2015 compared to H2 2014, albeit at a slower pace compared to other parts of the city. High ticket size and ample availability of relatively cheaper options in other micro-markets of the city could delay a full recovery in the sales volume in West Ahmedabad.
- We expect the weighted average price in Ahmedabad to increase marginally, by 3% in H2 2015, compared to H2 2014, on the back of the improved sales volume. However, the prospect of a double-digit growth in prices remains bleak in Ahmedabad, as infrastructure development such as the Bus Rapid Transit System (BRTS), Sardar Patel Outer Ring Road and the under-construction metro rail project will continue to make newer locations in the periphery of the city, with cheaper land rates, more accessible.

We estimate that East Ahmedabad will witness a higher traction in the coming months, as the construction work on the initial phase of the metro project has started in the area in full swing. This phase will eventually connect Vastral in the east to Thaltej in the west, thereby reducing the effective travel time between the two most densely populated micro-markets of the city.

NEW CITY ADDED

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KOLKATA

Residential Market

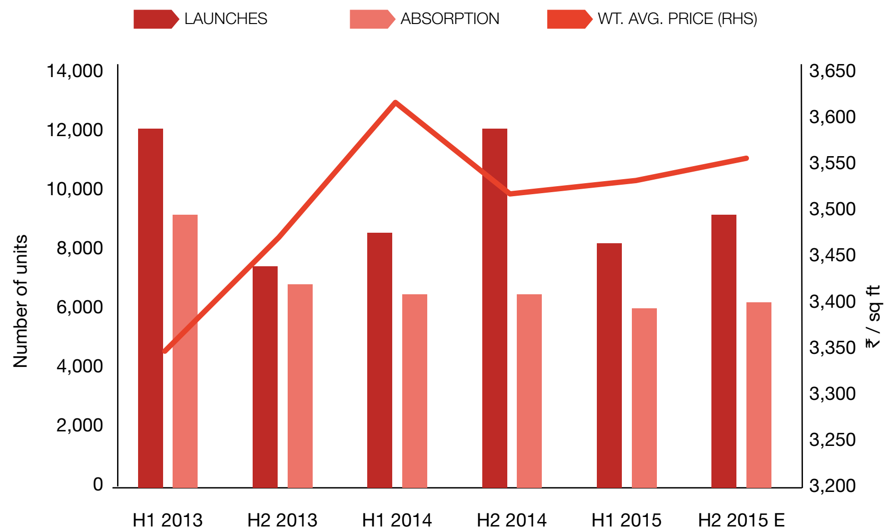
Kolkata struggled amidst subdued market sentiments in H1 2015, with a reduced number of new launches, though the drop in absorption was not major. The YOY weighted average price in H1 2015 saw a dip of 3%, owing to a slew of mid-end and affordable housing projects that came up in the peripheral locations. The market is expected to improve in H2 2015, mainly due to the resurgence of the office market and the increased momentum in hiring activity

RESIDENTIAL MARKET

LAUNCHES, ABSORPTION AND PRICE TRENDS

FIGURE 1

KOLKATA MARKET TRENDS



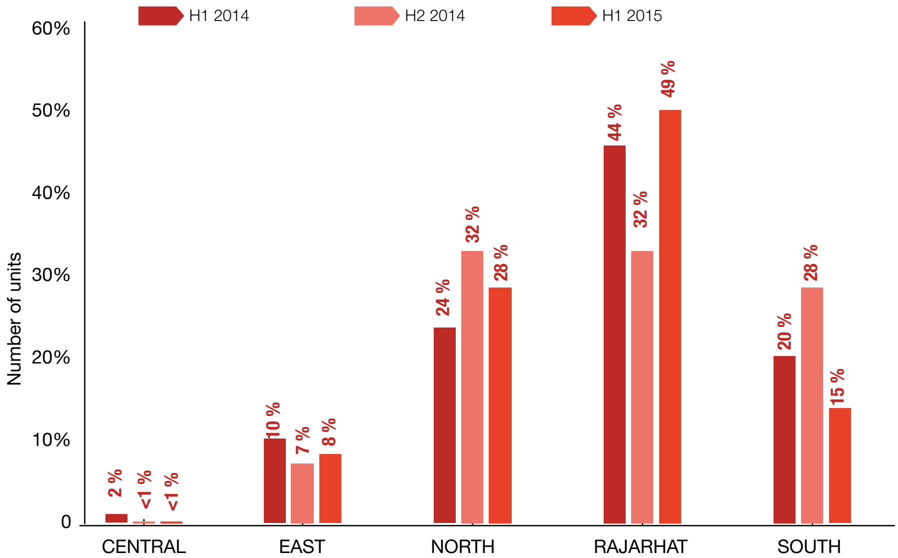
Source: Knight Frank Research

- Kolkata, which had witnessed considerable residential development in recent years, found itself struggling amidst subdued market sentiments. H1 2015 saw the number of new launches being curbed to some extent. While it clocked a slight negative growth of 1% on a Year Over Year (YOY) basis, the decline observed when compared to the preceding six months (H2 2014) was much sharper, at 30%.
- The city's sales volume, driven largely by end users, was affected by the slackening market sentiments as well, though not as steeply in the case of new launches. The absorption in H1 2015 depicted a decline of 8% as against H1 2014. Compared to the absorption in H2 2014, the drop in volume in H1 2015 was restricted to 6%.
- The weighted average price in H1 2015 witnessed a dip of 3% compared to its corresponding period in 2014. This could be attributed to the slew of mid-end and affordable housing projects that came up in peripheral locations such as B.T. Road in the north and the distant areas of Rajarhat, which were launched at relatively lower prices. On a positive note, the weighted average prices in H1 2015 scored almost the same values in H2 2014, thus emphasising the fact that the market has not fallen.
- We expect the Kolkata residential market to improve in the second half of the year, owing mainly to the resurgence of the office market in the city that witnessed a growth of almost 80% during H1 2015 compared to H1 2014, as well as the increased momentum in hiring activity since H2 2014. We estimate new launches to increase by 14% in H2 2015 compared to H1 2015, although they would still fall short of the H2 2014 number by 20%.
- The sales volume is also expected to improve in the forthcoming six months, to the tune of around 2%, though lagging behind marginally, by 4% on a YOY basis.
- On the price front, we expect the weighted average values to remain steady in the second half of the year, as compared to H1 2015. The upcoming period is estimated to witness a nominal growth of 1% in half-yearly prices.

MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

FIGURE 2

MICRO-MARKET SPLIT OF LAUNCHED UNITS



Source: Knight Frank Research

H1 2014	H2 2014	H1 2015
8,444 units	11,891 units	8,372 units

- Rajarhat has been witnessing persistent interest from the developer community in the last few years, accounting for the highest share in the total new launches in the city. While the region's share had come down in H2 2014 to be at par with North Kolkata, it resurfaced as the region with the highest number of residential units launched in H1 2015, accounting for a whopping 49% share of the total new launches. Rajarhat is expected to maintain positivity regarding housing demand in the forthcoming years, considering the quantum of office sector development and the infrastructure underway in the region.

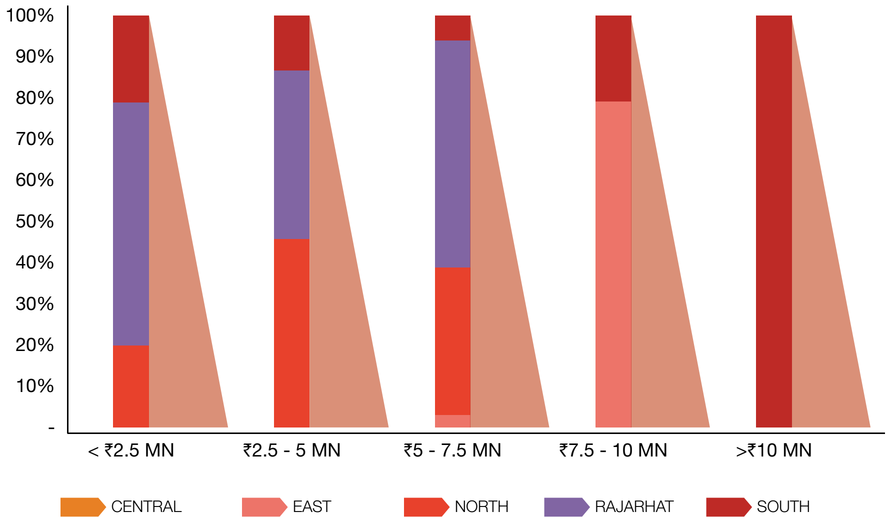
- North Kolkata, too, observed a significant number of new launches in H1 2015 as compared to the share in H1 2014, though its share of launches was lesser as compared to the preceding six months. The region has gained prominence in recent years, owing to the existing and upcoming phases of the metro rail, impending infrastructure in and around VIP Road and Jessore Road, and its proximity to Rajarhat as well as the international airport. The majority of the new launches in this zone belong to the affordable housing sector, the ticket size ranging between ₹2- ₹3.5 mn.

- The share of South Kolkata, the conventionally-preferred residential destination of the city, has been reducing gradually owing to the dearth of large developable land near the city centre. While its share had increased to 28% in H2 2014, owing to the new launches in the peripheral southern locations such

Rajarhat has been witnessing persistent interest from developers, accounting for the highest share in the total number of new launches, and is expected to sustain the demand, considering the quantum of office sector development and infrastructure underway. Meanwhile, the share of South Kolkata has been reducing gradually owing to the dearth of large developable land near the city centre.

FIGURE 3

TICKET SIZE SPLIT OF LAUNCHES DURING H1 2015



Source: Knight Frank Research

as Narendrapur, it declined to 15% in H1 2015.

- Central Kolkata, the traditional bastion of the upper segment, witnessed a limited number of new launches in 2014 as well as H1 2015. These comprised small projects with very few units, owing to land constraints, as a result of which, the region's share is not reflected categorically in the chart.
- Similar to Central Kolkata, the eastern zone, too, witnessed a limited number of new launches due to land constraints. Not surprisingly, its share has remained almost constant, within the range of 7%–10% in 2014 and H1 2015.
- The Rajarhat area, excluding New Town, was responsible for the majority of the affordable and mid-end projects in H1 2015, accounting for 50% of the total new launches below the ticket size of ₹5 mn. North Kolkata also witnessed a sizeable number of new launches in the same segment, to the tune of around 33%. By contrast, East and South Kolkata dominated the upper mid-end to high-end segment, with the most number of launches priced above the ticket size of ₹7.5 mn.

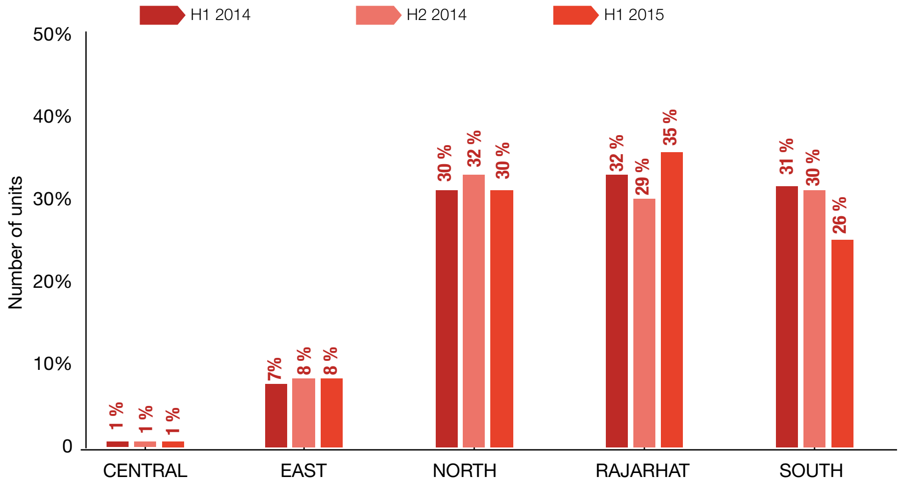
The Rajarhat area, excluding New Town, was responsible for majority of the affordable projects launched in H1 2015 along with North Kolkata which also witnessed a sizeable number of new launches in the same segment. By contrast, East and South Kolkata dominated the high-end segment, with the most number of launches priced above the ticket size of ₹ 7.5 mn

Micro-markets	Location
Central	Park Street, Rawdon Street, A.J.C. Bose Road, Minto Park, Elgin Road
East	Kankurgachi, Beliaghata, Salt Lake, Narkeldanga, Keshtopur, E.M. Bypass (eastern parts)
North	Baguihati, Ultadanga, Jessore Road, Shyambazar, Lake Town, B.T. Road, VIP Road
Rajarhat	Rajarhat New Town
South	Ballygunge, Alipore, Tollygunge, Narendrapur, Behala, Garia, Maheshtala, E.M. Bypass (southern parts)

MICRO-MARKET-WISE RESIDENTIAL SALES

FIGURE 4

MICRO-MARKET SPLIT OF SALES



Source: Knight Frank Research

H1 2014
6,390 units

H2 2014
6,245 units

H1 2015
5,883 units

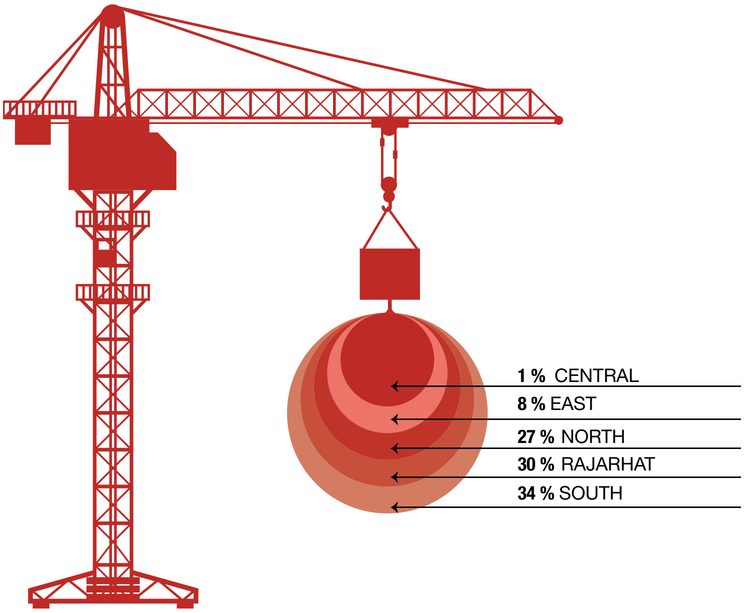
Rajarhat witnessed the highest share of absorption in H1 2015, primarily due to factors such as well-planned existing and upcoming road network, proposed metro connectivity within the micro-market and with other locations in the city, and its proximity to the international airport and the IT hub of Salt Lake Sector V. North Kolkata is expected to perform better in the forthcoming periods due to the abundance of mid-end and affordable housing there

- Rajarhat witnessed the highest share of absorption in H1 2015, The area finds favour with buyers, primarily due to factors such as well-planned existing and upcoming road network, the proposed metro connectivity within Rajarhat and with other locations of the city, and proximity to the international airport as well as to Salt Lake Sector V – the IT/ITeS and commercial hub of Kolkata.
- South Kolkata has been witnessing a gradually decreasing trend in absorption which continued in H1 2015 as well. It accounted for a 26% share of the sales volume in H1 2015, which dipped from 31% and 30% share of absorption in H1 2014 and H2 2014, respectively. This decline in absorption needs to be controlled, as the unsold inventory is expected to increase in the coming months.
- Meanwhile, North Kolkata, which had seen an uptick in sales in H2 2014, dropped its share slightly from 32% to 30% in H1 2015. However, it maintained the same sales volume as witnessed in H1 2014, and we expect this region to perform better in the forthcoming periods due to the abundance of mid-end and affordable housing here.
- East and Central Kolkata, despite being preferred residential locations for the affluent class, accounted for marginal shares in the total sales volume in the primary market of the city, owing to a relatively smaller inventory size.

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF JUNE 2015

FIGURE 5

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF JUNE 2015



Source: Knight Frank Research

- South Kolkata accounts for the major share of the total number of units under construction, to the tune of 34%, given the fact that the region has been witnessing large-scale residential development in the past years. Currently, development is being observed in the peripheral locations of Narendrapur, Sonarpur Road and DH Road. This region is preferred by potential buyers, chiefly due to its good social infrastructure, leading developers to launch their projects here.
- South Kolkata is followed by Rajarhat, with a 30% share of the total residential units under construction. This zone, comprising several Action Areas, has observed frenetic residential activity in the last decade and boasts of the presence of most key real estate developers.
- North Kolkata, recognised primarily as an industrial area till recently, has emerged as a preferred residential location in recent times. Areas such as Sodepur, B.T. Road, Madhyamgram and Jessore Road have a number of projects launched by reputed developers, accounting for 27% of the total residential units underway in the city.
- The central and eastern markets have fairly marginal shares of units under construction, to the tune of 1% and 8%, respectively.

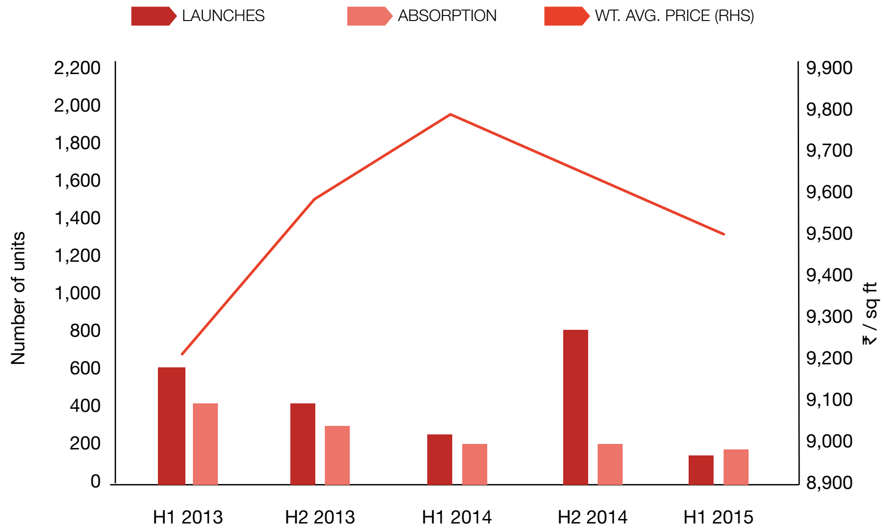
South Kolkata accounts for the major share of the total number of units under construction, the region having witnessed large scale residential development due to its good social infrastructure. Rajarhat follows, with considerable residential activity in the last decade, and boasts of the presence of most key real estate developers. North Kolkata, recognised primarily as an industrial area, has also emerged as a preferred residential location in recent times

PREMIUM RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

Micro-markets	Location
Central	Park Street, Rawdon Street, Shakespeare Sarani, Chowringhee Road
East	Kankurgachi, Topsia
Rajarhat	New Town
South	Ballygunge, Alipore, Tollygunge, Bhowanipore, Jodhpur Park

FIGURE 6

PREMIUM MARKET TRENDS



Source: Knight Frank Research

Note: *Premium markets include locations where the average ticket size of a residential unit is above ₹15 mn, are in close proximity to the central business district of the city and have witnessed new project launches in the preceding three years*

The premium market of Kolkata observed a considerable decline in new launches during H1 2015, attributed largely to the economic slowdown that caused developers to hold back the launch of premium projects. While absorption dropped in H1 2015 vis-à-vis H2 2014, it is an improvement over H1 2014. The weighted average price growth YOY in the premium segment also saw a decline, similar to the decline witnessed in the city's weighted average price.

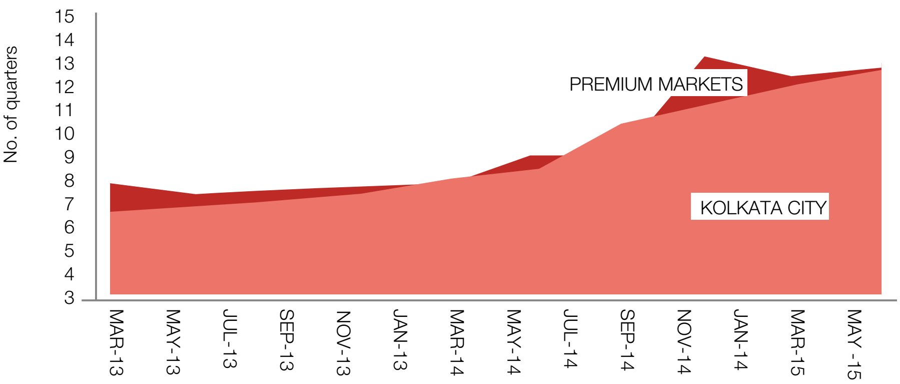
- The premium market of Kolkata, comprising locations such as Chowringhee, Rawdon Street, Ballygunge and Jodhpur Park, among others, witnessed the launch of a number of high-end residential projects in the past one year in locations such as EM Bypass, Chowringhee and Rajarhat. However, the segment has observed a considerable decline of 42% in new launches during H1 2015, compared on a yearly basis with H1 2014. This decline is steeper, at 81%, as compared to the preceding six months. This can be attributed largely to the economic slowdown that led developers to hold back the launch of their premium projects.
- Meanwhile, absorption in H1 2015 dropped by 13% compared to H2 2014, though it is an improvement of 12% over the absorption figure observed in the same period last year.
- The weighted average price growth YOY in the premium segment fared the same as the city's weighted average price in H1 2015, both witnessing a negative growth of 3%. The economic slowdown and cautiousness on the part of the developers have led the weighted average prices of the premium housing segment to decline during the period.

KOLKATA MARKET HEALTH

- The quarters to sell unsold inventory (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 for Kolkata has been increasing gradually since 2012, and currently stands at 12.5 quarters. The fall in demand for premium housing in the last 12 months can be cited to be the main reason for this rise. Significantly, the QTS for premium markets in the city that had witnessed a sharper rise than the city during Q4 2014 is on the verge of converging with the overall QTS, and is currently at 12.7 quarters. This can be attributed to the fact that the correction in new launches in the premium segment has been higher than the fall in demand.
- Among the various zones, Rajarhat is currently the best-performing market of the city, with the lowest QTS and age of inventory. Factors such as well-planned existing and upcoming road networks, the proposed metro connectivity within Rajarhat and with other locations of the city, and proximity to the international airport as well as the employment hub of Sector V have helped this micro-market perform better than the rest of the city.
- On the other hand, South Kolkata is the worst-performing market, with the highest QTS and the largest quantum of unsold inventory in the city – the consequence of a sizeable number of yearly new launches in the region. Additionally, the age of unsold inventory here is also among the highest in the city, indicating

FIGURE 7

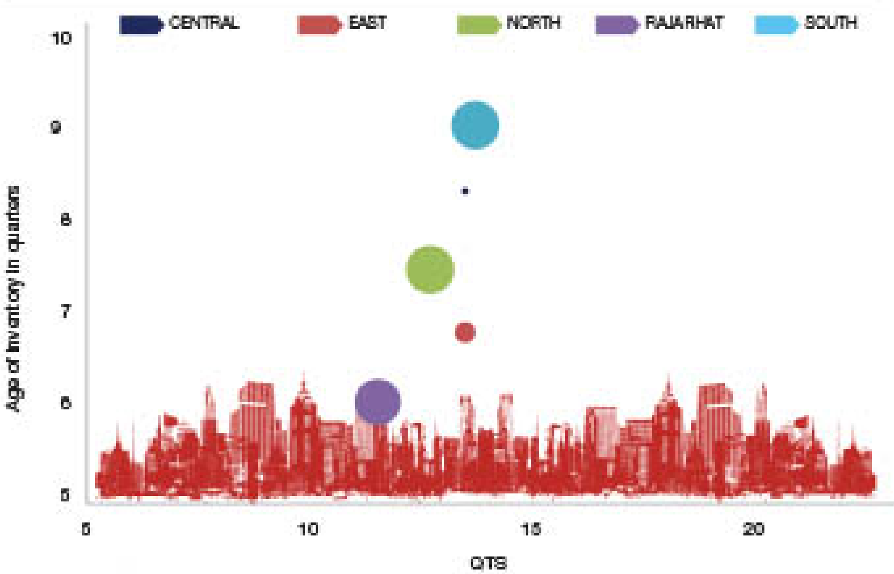
QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS



Source: Knight Frank Research

FIGURE 8

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

Note: The size of the bubble indicates the quantum of unsold inventory

that a large number of previously-launched projects are still lying unsold in this micro-market.

- North Kolkata held the second rank as the best-performing market, after Rajarhat, with a QTS of 12.7 and an age of inventory pegged at 7.5 quarters. Though this region also has a sizeable quantum of unsold inventory, it enjoys the advantage of a relatively smaller unsold inventory size, having evolved later than the south. Thus, we expect this market to pick up momentum once the infrastructure projects are completed.
- The premium residential zones of Central and East Kolkata do not seem to impact the city's residential market prominently due to their constricted market size.

PRICE MOVEMENT DURING H1 2015

- Price appreciation across most locations in Kolkata during the last 12 months has been rather sluggish and ranged between 2%–6%. The growth in price slowed down further in the last six months, primarily due to the subdued sales volume and the huge amount of unsold inventory present in the market. The range of price appreciation during the period has been nominal, at 1%–2%.
- The weighted average price trend has been similar for both premium housing market as well as the city's overall figure in the last 12 months, both witnessing an annual decline of 3% and a half-yearly decline of 1%.

Weighted average price movement in Kolkata

Location	Price range in H1 2015 (₹/sq ft)	12 month change	6 month change
Kolkata	3,495	-3%	-1%
Premium markets	9,511	-3%	-1%

Price movement in select locations

Location	Micro-market	Price range in H1 2015 (₹/sq ft)	12 month change	6 month change
Park Street	Central	12,000–20,000	0%	0%
Rawdon Street	Central	10,000–19,500	0%	0%
Ballygunge	South	8,500–18,000	4%	2%
Tollygunge	South	6500–16,500	4%	2%
Behala	South	3,200–4,800	4%	1%
Narendrapur	South	2,600–4,200	5%	2%
Kankurgachi	East	6,000–9,000	0%	0%
Salt Lake	East	5,000–8,000	0%	1%
New Town Rajarhat	Rajarhat	4,300–7,000	2%	1%
Madhyamgram	North	2,550–3,300	4%	0%
BT Road	North	3,200–4,500	6%	2%
Jessore Road	North	4,300–5,500	5%	1%

Source: Knight Frank Research

Price appreciation across most locations in Kolkata has been rather sluggish during the last 12 months and ranged between 2–6% . The growth in price slowed down further in the last six months, primarily due to the subdued sales volume and the huge amount of unsold inventory present in the market. The range of price appreciation during this period has been nominal, at 1–2%

OUTLOOK FOR THE NEXT SIX MONTHS

Projections	H2 2014	H2 2015E	Growth
Launches (units)	11,891	9,523	-20%
Absorption (units)	6,245	5,993	-4%
Weighted average price (₹/sq ft)	3,514	3,520	0%

Source: Knight Frank Research

- While H1 2015 has been a period of inertia for the city's residential market, we expect the second half of the year to perform better in terms of sales. Market sentiments in Kolkata are likely to improve along with the economy, besides growth stimulators such as the increasing rate of employment, amplified office space development and a rise in office space absorption. The fact that 15 IT Software Parks are coming up across the state, eight of which are ready for 'plug and play', as well as the upcoming Software Technology Park in Salt Lake, the largest in the country generating an employment of 5,000 IT professionals, the future augurs well for the residential market of the city.
- On the other hand, the decline in absorption is estimated to be constricted to just 4% in H2 2015, signifying a positive trend in buyer interest in the forthcoming months.
- Locations in North Kolkata, such as B.T. Road and Sodepur, and the peripheral locations of South Kolkata, such as Narendrapur, Sonarpur Road and Baruipur, are expected to witness increased developer and buyer interest, chiefly due to the affordable pricing of the projects and infrastructure development. Besides the upcoming extension of the metro rail, these locations hold buyer interest because of the organised gated communities established in good neighbourhoods. In case of B.T. Road, it is well connected with the office projects located at Rajarhat and Salt Lake Sector V.
- Rajarhat, with its slew of premium and mid-end projects in New Town and affordable projects in the further Action Areas, will continue to garner buyer interest. Metro rail connectivity will increase its location attractiveness even further. Other regions that are witnessing buyer interest are E.M. Bypass and Garia, and this trend is likely to continue.
- On the price front, we expect the weighted average price in Kolkata to remain stable in H2 2015.

Market sentiments in Kolkata are likely to improve along with the economy, besides growth stimulators such as the increasing rate of employment, amplified office space development and a rise in office space absorption. Locations in North Kolkata, such as B.T. Road, and the peripheral locations of South Kolkata, such as Narendrapur, are expected to witness increased developer and buyer interest, chiefly due to the affordable pricing of the projects and infrastructure development

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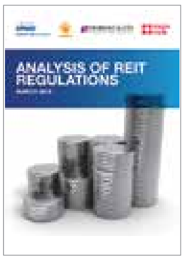

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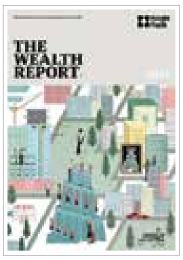

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