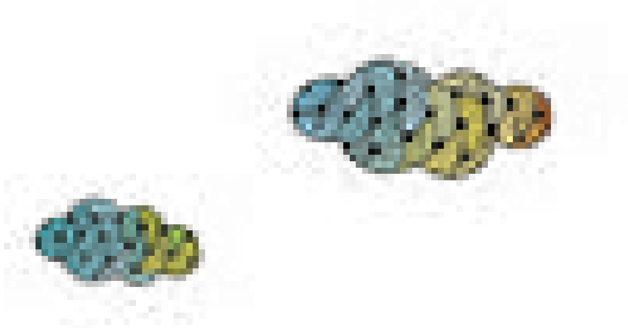
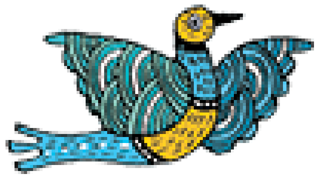
RESEARCH

India Real Estate

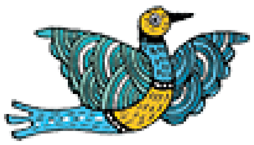
RESIDENTIAL AND OFFICE

July-December 2019





Gond Art

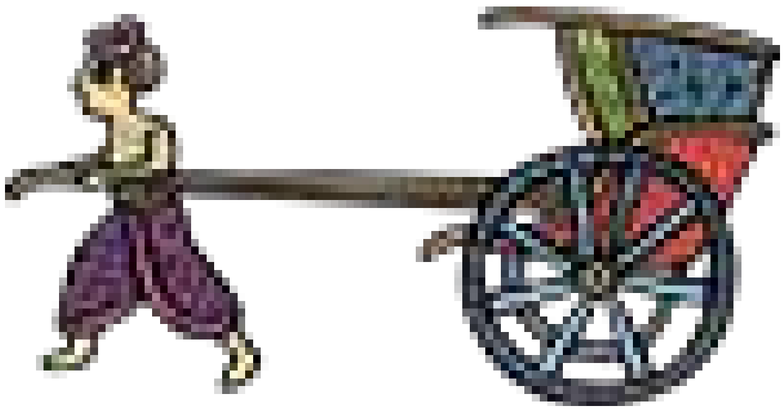


Gond Art is an ancient folk and tribal art form that is practised by one of the largest tribes in India – the Gond. Predominantly from Madhya Pradesh, the work of the Gond artists is deeply rooted in their culture and folk tales of yore.

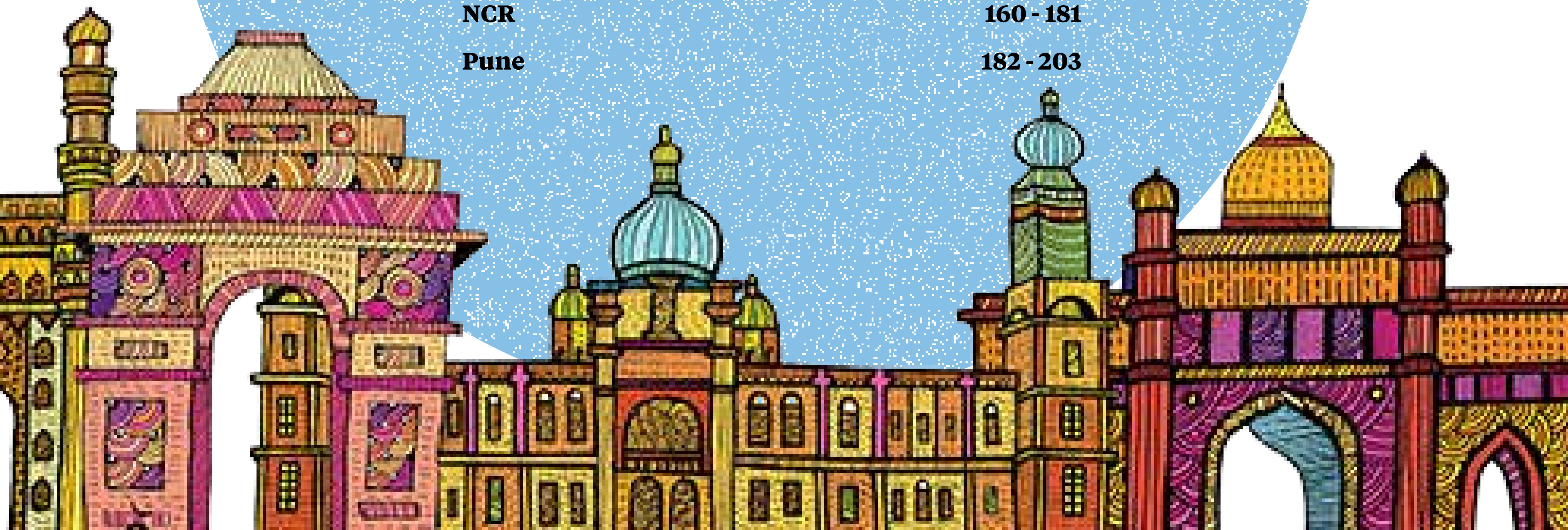
Story-telling being an important element of Gond Art, the Gond people have used paintings as a way to record their history which dates back to nearly 1400 years, making it one of the oldest forms of art.

In choosing Gond Art for the design representation of this Report, Knight Frank honours and celebrates this beautiful and distinct, yet dying art form of India.

And in doing so, recognizes the pivotal importance of the human element.



Content



Foreword

Shishir Baijal

Chairman and Managing Director, Knight Frank India Pvt Ltd

2019 has been a challenging year that saw the September quarter GDP growth plummet to 4.5% YoY primarily due to a sharp deceleration in investment growth. Corrective measures to boost investments and infuse liquidity in the economy such as reducing the REPO rate and slashing the Corporate Tax rate have yet to bear fruit.

The economic slowdown has only exacerbated the already tenuous scenario in the residential real estate segment that is still struggling to find its feet in the midst of a funding crisis. This poses a very real existential threat to developers today. The recent creation of an Alternative Investment Fund (AIF) to aid the completion of stalled residential projects and the relaxation of GST rates earlier this year shows the government's will to aid the beleaguered sector.

Regulatory and financial measures taken by the government have played their part in tempering the fall in end-user sentiments in the residential segment. The Indian real estate market has shown some signs of stability, as developers have been reconciling to the new normal since the implementation of the RERA and GST, and increasing supply gradually. Launches have grown by a healthy 23% YoY in 2019 and are more attuned to the needs of the market today compared to the early years of this decade when supply was more focused on the higher ticket sizes. While the homebuyer continues to be wary, overall demand for the year has not fallen, stagnating at a +1% YoY level in 2019.

The Indian office space market has been largely insulated from macro concerns that plague the economy and has only gained traction in 2019 due to the large infusion of supply that came online during the year. The segment that was starved of supply saw a record 5.7 mn sq m (61.3 mn sq ft) attain completion during the year which was evenly matched by an unprecedented 5.6 mn sq m (60.6 mn sq ft) of transactions. While H2 2019 also saw a similar record level of transaction volumes at 3.1 mn sq m (33.2 mn sq ft), it was a landmark period as the Hyderabad office market overtook Bengaluru to post the highest transacted volumes among the 8 markets under coverage.

The rising demand for higher end roles in the Artificial Intelligence and Data Security domains have led to a welcome and substantial increase in demand from the IT/ITeS sector during 2019. BFSI is the only sector that saw a negative YoY growth in transactions and is undergoing a period of strife in the wake of the NBFC crisis and the serious NPA issues.

The perception of real estate as a service offering is quickly gathering momentum in office and residential segments as seen in the growth of co-working and co-living spaces. Co-working transactions constituted over 13% of the transacted volume in 2019 as against 5% in 2017. Niche segments such as co-living, student housing and senior living in the residential space are also attracting increasing institutional interest. The Draft Model Tenancy Act, 2019 that was released in the latter half of the year is also an effort to better regulate and promote the non-ownership model of housing.

It is still a long road toward resurrection of the residential market that is also plagued by macro concerns of a slowdown that the automobile and other consumer sectors are facing today. While factors such as the developers' fraternity correcting mistakes of the past on product and pricing, and the regulator working toward building new benchmarks bode well for the sector, we believe that an improvement in economic momentum is critical for a sustainable recovery in homebuyer sentiments.

With this backdrop, we are presenting this 12th edition of our flagship half-yearly report 'India Real Estate'. This report captures key developments and themes on the residential and office markets of top 8 cities in the country. I would like to take this opportunity to thank industry stakeholders including CRE Matrix and Liases Foras for sharing their perspective with us. I believe that with every edition, the report has become more insightful and hope you will find it useful too.

ECONOMY HIT FROM ALL QUARTERS

- by Rajani Sinha

Indian economy is going through a painful phase of slowdown. The GDP growth for H1 FY20 has decelerated to 4.8%, slowest in the last six years. Index of Industrial Production fell by 3.8% in October 2019, while core sector growth (Index of Infrastructure Industries) contracted by a sharp 5.8% in October 2019. Other high frequency economic indicators like auto sales, industrial credit demand, exports are also echoing the sharp decline in growth. The worrying aspect is that all three pillars of the economy - namely Consumption, Investment and Exports are slackening. RBI has lowered India's GDP growth projection to 5% for FY20. This would be the slowest expansion since the global financial crisis of FY09.

Consumption growth, the mainstay of India's economy, reduced to 4% in H1 FY20 from an average growth of 8% in the previous three years. As per RBI's quarterly survey, consumer confidence has been deteriorating in the current fiscal as people are worried about the economic situation, employment and income level. Unfortunately, rural consumption also remains weak. Low agri commodity prices in the last few years and deceleration in rural wages has curtailed rural purchasing power. Government announcement of direct income transfer of INR 6000 per year to the farmers has so far failed to enthuse rural consumption.

Investment GDP growth fell to a 19-quarter low of 1% in Q2 FY20. Investment growth is being choked by low aggregate demand as well as credit crunch in the economy. The private sector is not keen to invest as it continues to struggle with high leverage and excess capacity. The capacity utilization level in the manufacturing sector has fallen to 68.9% in Q2 FY20 from 76.1% in Q4 FY19. The Government's ability to push up investment is curtailed by fiscal concerns. Capex of Centre and CPSEs (Central Public Sector Enterprises) is budgeted to fall to 4.2% of GDP in FY20 from 4.9% in FY19. Supply of credit also remains a constraint, given the NBFC credit crunch and NPA issue ailing public sector banks. Recent defaults by entities like IL&FS, Jet Airways, DHFL, Karvy, Altico is making banks more risk averse and creating fear sentiments in the market.

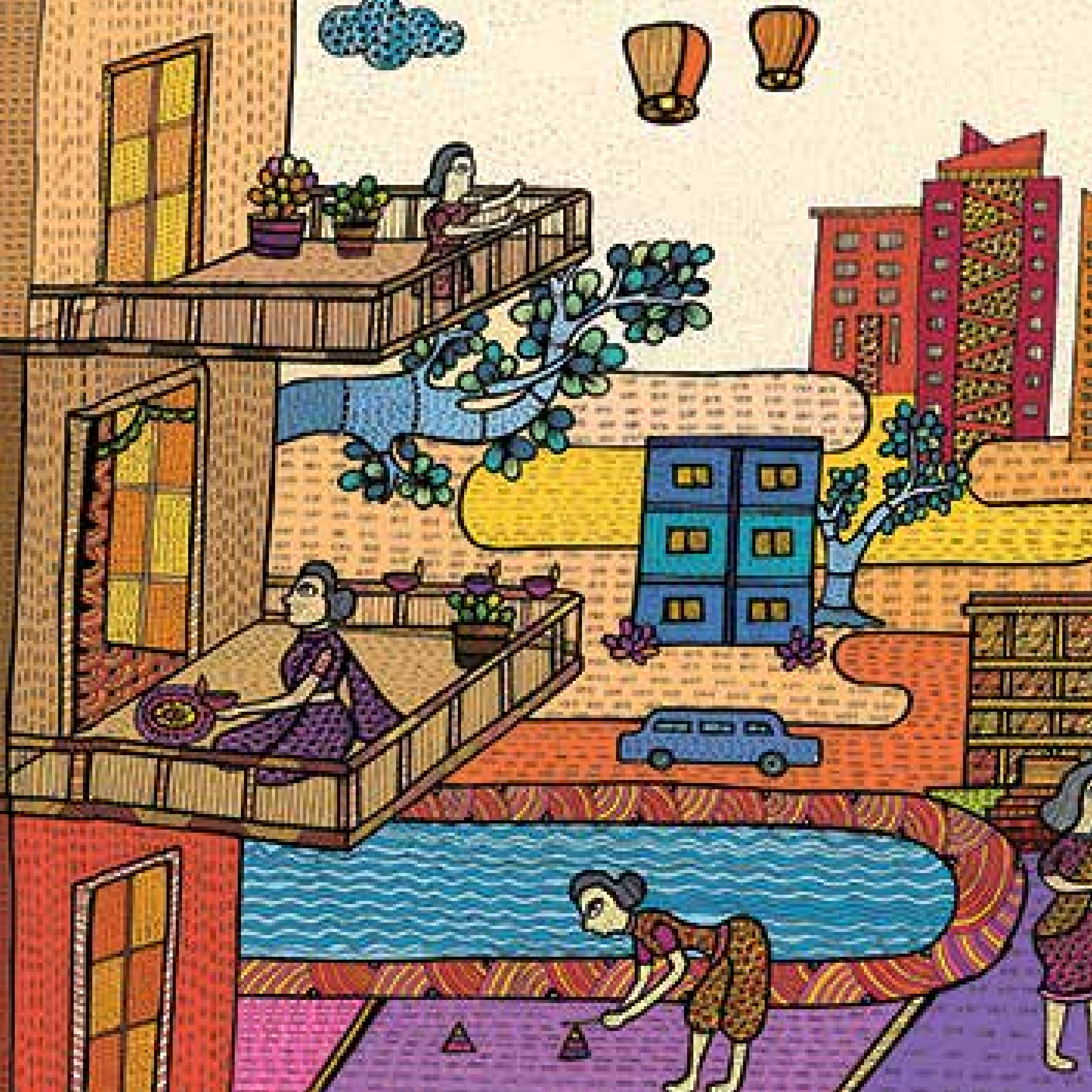
Exports, the third pillar of the economy, is also contracting. Exports have shrunk by 2.2% in the fiscal year so far compared to a growth of 9% in FY19. India's export is struggling with competitive pressure, even while global economic slowdown and specifically the trade war has adversely impacted overall trade sentiments. Global trade growth projection has been lowered to 1.2% in 2019 by WTO from an earlier projection of 2.6%. India's exports growth is unlikely to rebound soon given the global growth concerns.

The Government has recently announced fiscal stimulus in the form of a Corporate Tax rate cut and rationalization of GST rates. In terms of monetary stimulus, RBI has cut the policy interest rate by 135 bps and linked the bank lending rate to an external benchmark to facilitate transmission of lower rates. The Government has also announced sector specific measures to boost real estate, auto sector and exports growth. An example of this is the recently announced Alternative Investment Fund (AIF) of INR 250 bn to provide last mile funding for real estate projects that are stuck.

The Year Ahead....

While India's growth is expected to improve next year, the process will be slow and painful. GDP growth is likely to improve to 6-6.5% range in FY21. RBI's facilitation of transmission of policy interest rate cut, should improve the credit cycle. Re-capitalization of public sector banks by INR 700 bn and recent measures to provide liquidity support to the NBFC sector should provide some help to the credit cycle. The Government's infrastructure investment plan of INR 100 trn over the next 5 years should push up the investment cycle. With slowing growth and poor tax revenue collection, the government is constrained by fiscal concerns. Fiscal deficit could be higher at 3.7-3.9% of GDP in FY20 as against a budgeted target of 3.3%. While ideally, the Government should be fiscally prudent, there is a case for the fiscal policy to be counter-cyclical (implying higher fiscal deficit in times of slowing economic growth and vice versa). Hence, the government may decide to go for further fiscal stimulus.

While fiscal and monetary stimulus are short term measures to boost growth, the Government should also simultaneously look at structural reforms that are long-term in nature. There is an urgent need to increase investment in human capital (in the form of higher government expenditure on health and education) and physical infrastructure, while focusing on improving labour productivity and land reforms. The structural reforms would take time, but they would help in sustainable pick up of economic growth.



ALL INDIA

RESIDENTIAL MARKET

OFFICE MARKET

Residential Market

India Residential Market

Parameter	H2 2019	Change (YoY)	2018	2019	Change (YoY)
Launches (housing units)	112,150	25%	182,207	223,325	23%
Sales (housing units)	116,576	-1%	242,328	245,861	1%
Unsold inventory (housing units)	445,836	-5%	468,372	445,836	-5%
Quarters to sell	8.9	-	10.2	8.9	-
Age of unsold inventory (in quarters)	15.9	-	16.4	15.9	-

Source: Knight Frank Research

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Sales stay steady and supply levels increase as compliance to new regulatory norms progressively improves during 2019

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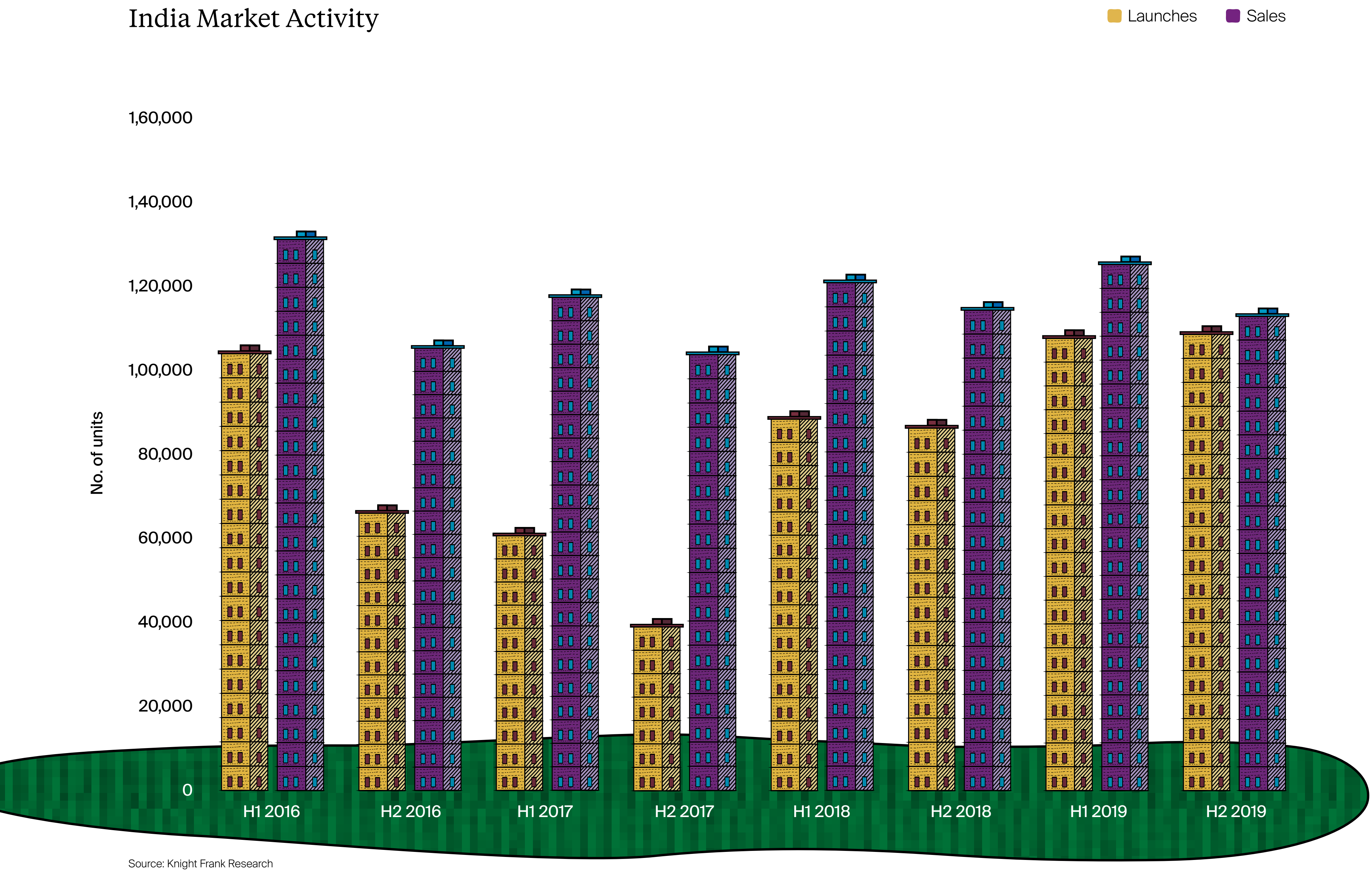
- The real estate industry has undergone a virtual catharsis since 2014 with the imposition of the Real Estate (Regulation and Development) Act, 2016 (RERA), Goods and Services Tax Act (GST) and demonetisation, in the midst of a prolonged correction in demand and prices. Measures such as the consecutive rate cuts totalling 135 bps since February 2019 by the RBI, reduction of GST rates to 1% for affordable housing and 5% for others and the setting up of an Alternative Investment Fund (AIF) to provide relief to developers with unfinished projects have had little impact in supporting the already weak end-user sentiments in a landscape clouded by the ongoing Non-Banking Financial Companies (NBFC) issues and the resulting funding crisis for developers.
- While these measures have helped keep home-buyer sentiment from deteriorating much further, they have completely altered the fabric of the Indian real estate business for the developer. The developers' community is steadily coming to terms with this new normal and find its

India Market Activity

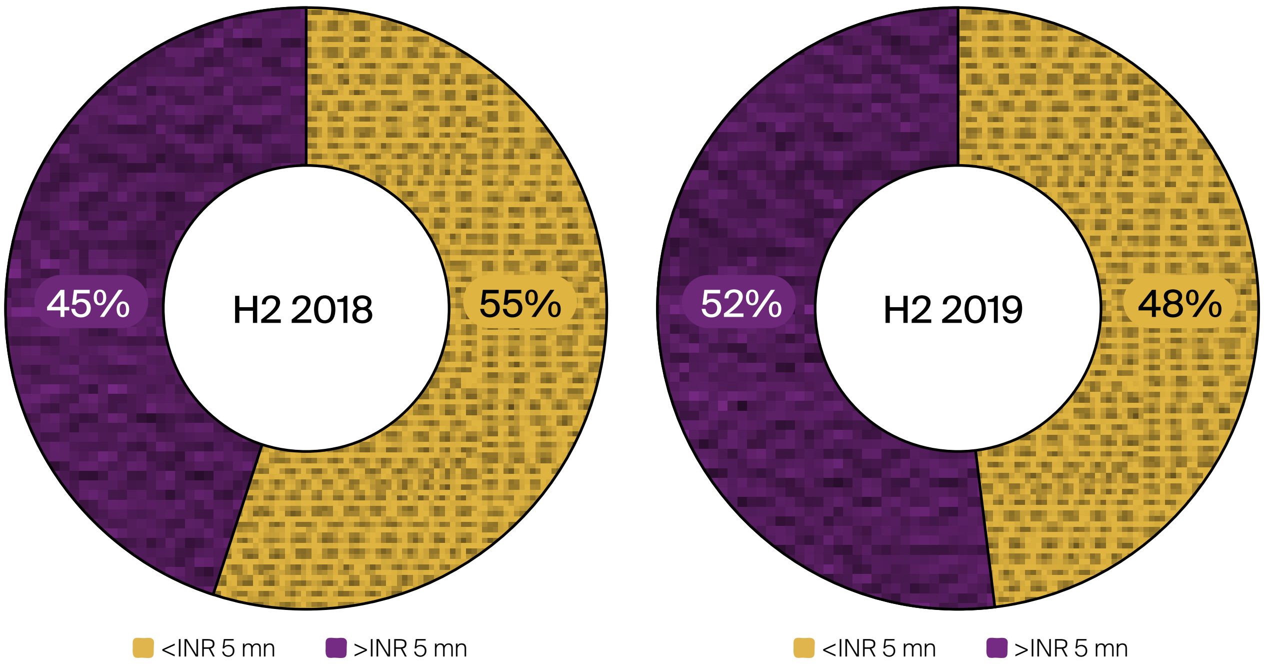


Source: Knight Frank Research

footing as can be evidenced by the recovery in the volume of apartments launched since H1 2018.

- While coming to terms with the new regulatory scenario, developers have also been increasingly aligning themselves with the needs of home-buyers by reducing ticket-sizes and unit-sizes in a bid to encourage sales. This period of right-sizing and right-pricing of new residential product and greater transparency due to increased regulation, has led to a steadying of sales numbers as seen in the modest but positive YoY growth numbers of the three trailing half-yearly periods leading up to H2 2019. H2 2019 itself saw sales levels stagnating at a marginally lower 1% YoY while supply levels grew by a more robust 25% YoY during the same period.
- This stabilisation in volumes can be attributed largely to the fact that developers have been focussing on affordable housing and on lower ticket sizes. 60% of launches

Ticket Size Split of Sales



Source: Knight Frank Research

Knight Frank Affordability Matrix

House Price to Income Ratio

City Name	2010	2019
Mumbai	11.0	7.1
NCR	6.0	5.0
Bengaluru	5.6	3.9
Pune	4.6	2.5
Chennai	5.4	3.9
Hyderabad	5.7	5.0
Kolkata	5.7	2.9
Ahmedabad	4.3	3.1

Note 1: Knight Frank Affordability Benchmark is 4.5 times household income

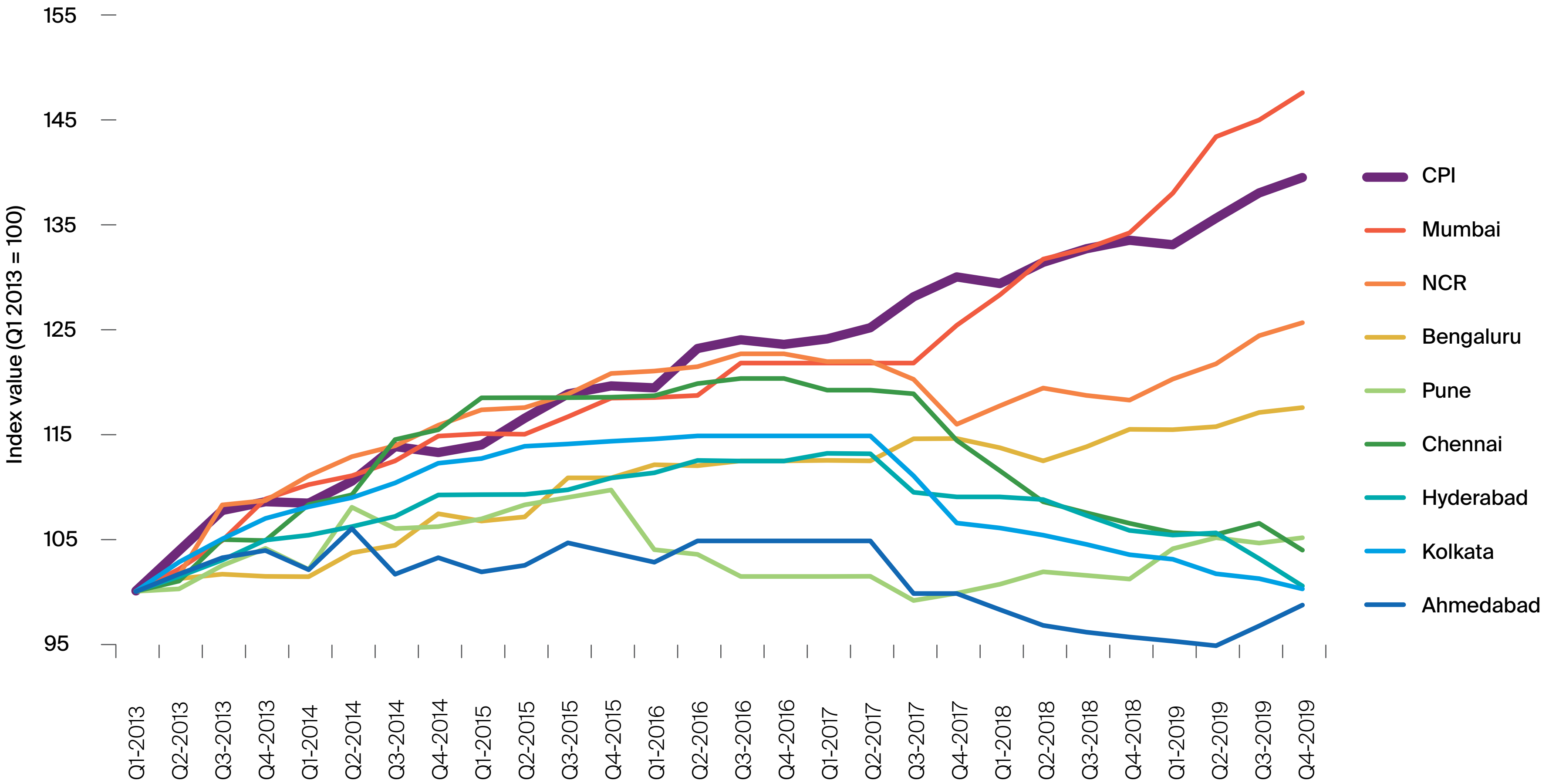
Note 2: City-wide average affordability statistics are useful but they cannot highlight disparities in housing costs within sub-markets or across the income spectrum

Source: MOSPI, Knight Frank Research

during H2 2019 have occurred in ticket sizes under INR 5 mn and 82% under INR 10 mn. 48% of the sales as well were concentrated in the under INR 5 mn ticket size.

- Of the eight cities under coverage, only Mumbai and Pune saw YoY sales growth fall during H2 2019 while Bengaluru was the only city that saw double-digit YoY growth for the same period, with the other markets posting more modest growth numbers.
- Maharashtra has been the frontrunner in applying the RERA in letter and spirit which caused some distress on the supply side, but this seems to be resolving itself as can be inferred from the fact that Mumbai has accounted for almost 32% of the units launched during the year and along with Pune, this number adds up to 53% of the total units launched in the eight cities under coverage.
- The current quarters-to-sell (QTS) level stands lower at 8.9 quarters at the end of H2 2019 compared to 10.2 quarters in H2 2018, thanks to comparatively higher sales since 2018 and consequently lower unsold inventory levels. The age of unsold inventory has also decreased across the eight major cities from 16.4 quarters in H2 2018 to 15.9 quarters in H2 2019, signifying that the unwinding or unloading of older residential stock is finally taking place.
- Weighted average prices have stagnated across cities with Mumbai, Pune and Chennai seeing prices fall by a further 2%, 3% and 5% YoY, respectively. Hyderabad continues to see exceptional price growth at 10% YoY due to the extremely low unsold inventory level and comparatively lower supply coming online to meet the pent-up demand.
- During the last four years, the growth in residential prices in most of the top eight cities of India has been below retail inflation growth and the gap has progressively increased since H1 2016. Hyderabad has been the only market to buck the trend and record residential price growth over the retail inflation level.
- This end-user friendly movement in prices and the reduction in average unit sizes of new launches across cities are steps in the right direction and more in-line with the contemporary home-buyer's needs. However, the precipitous decline in the GDP growth rate and the fall in consumption expenditure that has affected every industry, is especially debilitating for the real estate sector which has been under stress for over four

Consumer Price Index Well Above Real Estate Price Growth



Note: November CPI used for Q4 2019

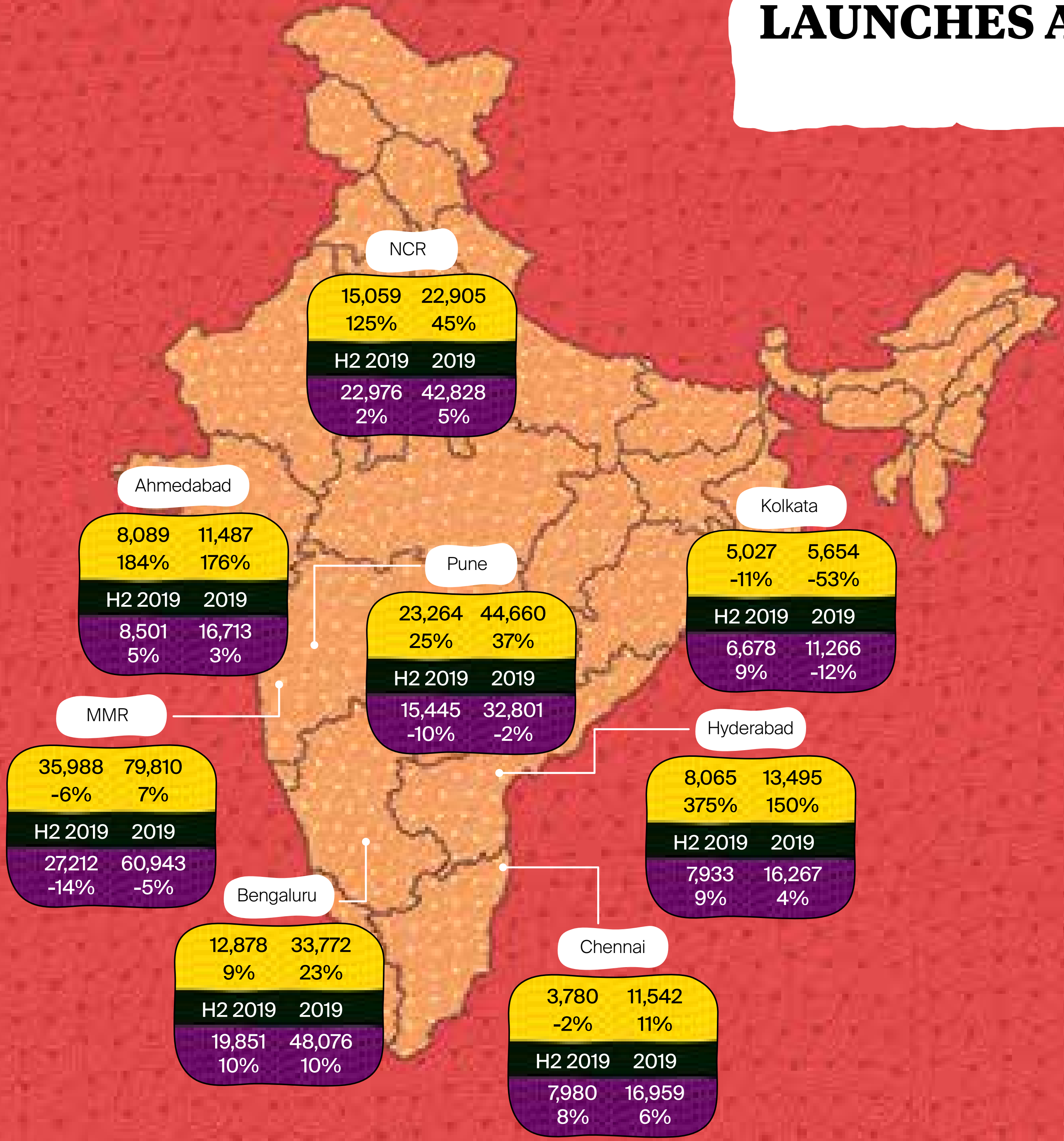
years now. Lagging consumption demand which has been the chief driver of the economy has not responded thus far to the slew of measures such as the Corporate Tax cut and other sector specific initiatives taken by the government. It is unlikely that residential real estate demand could see any meaningful recovery while the overall malaise affecting the Indian economy still weighs heavy on consumption demand.

- Developers today, still need to grapple with the funding crisis that is a big threat to their financial survival in the short term. Measures such as the creation of the AIF to help infuse liquidity in the sector and relaxing the norms for NBFCs to liquidate their loan portfolios will give developers some respite and help them cope with and survive this existential crisis.

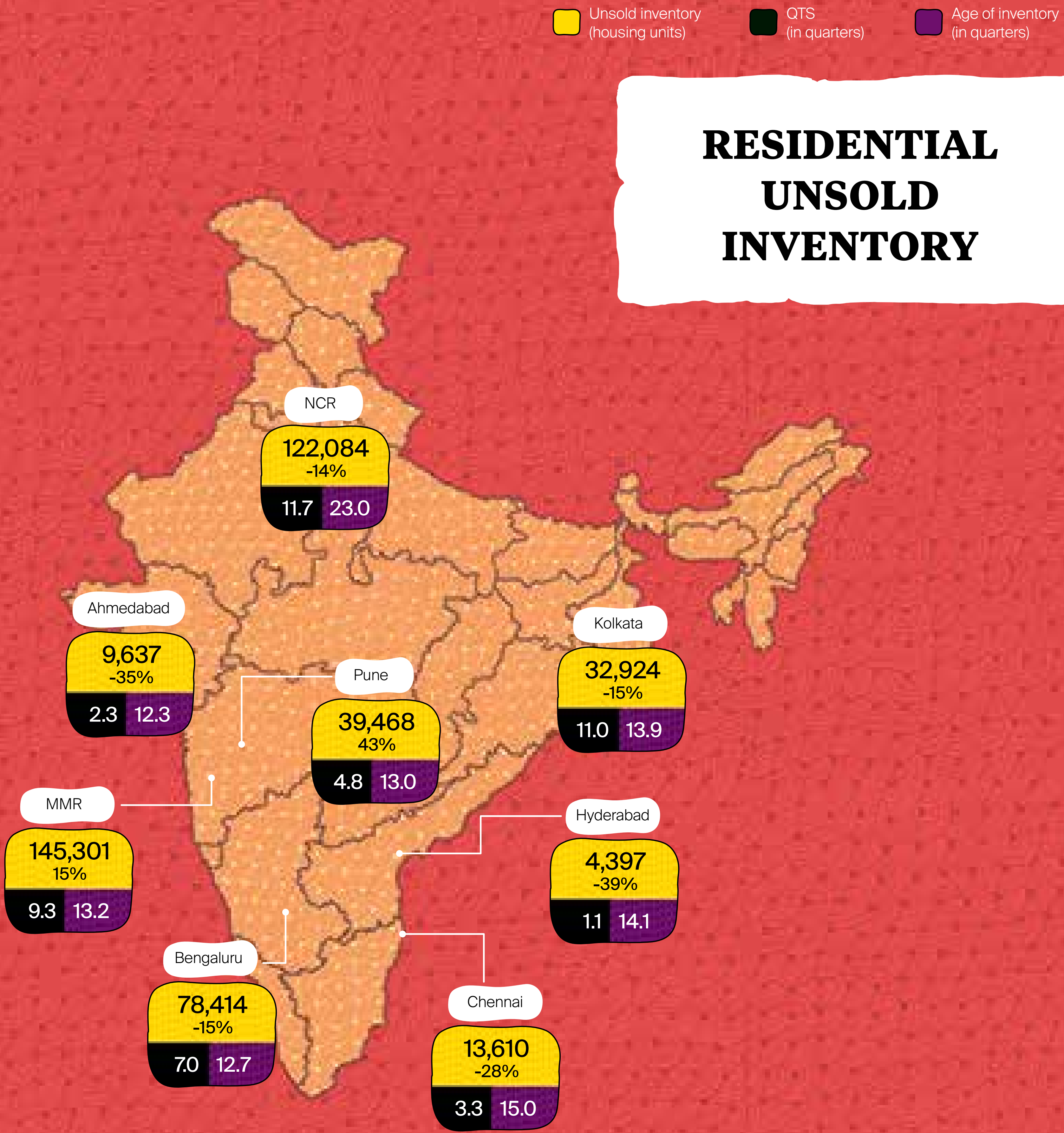
RESIDENTIAL LAUNCHES AND SALES

Launches (housing units)

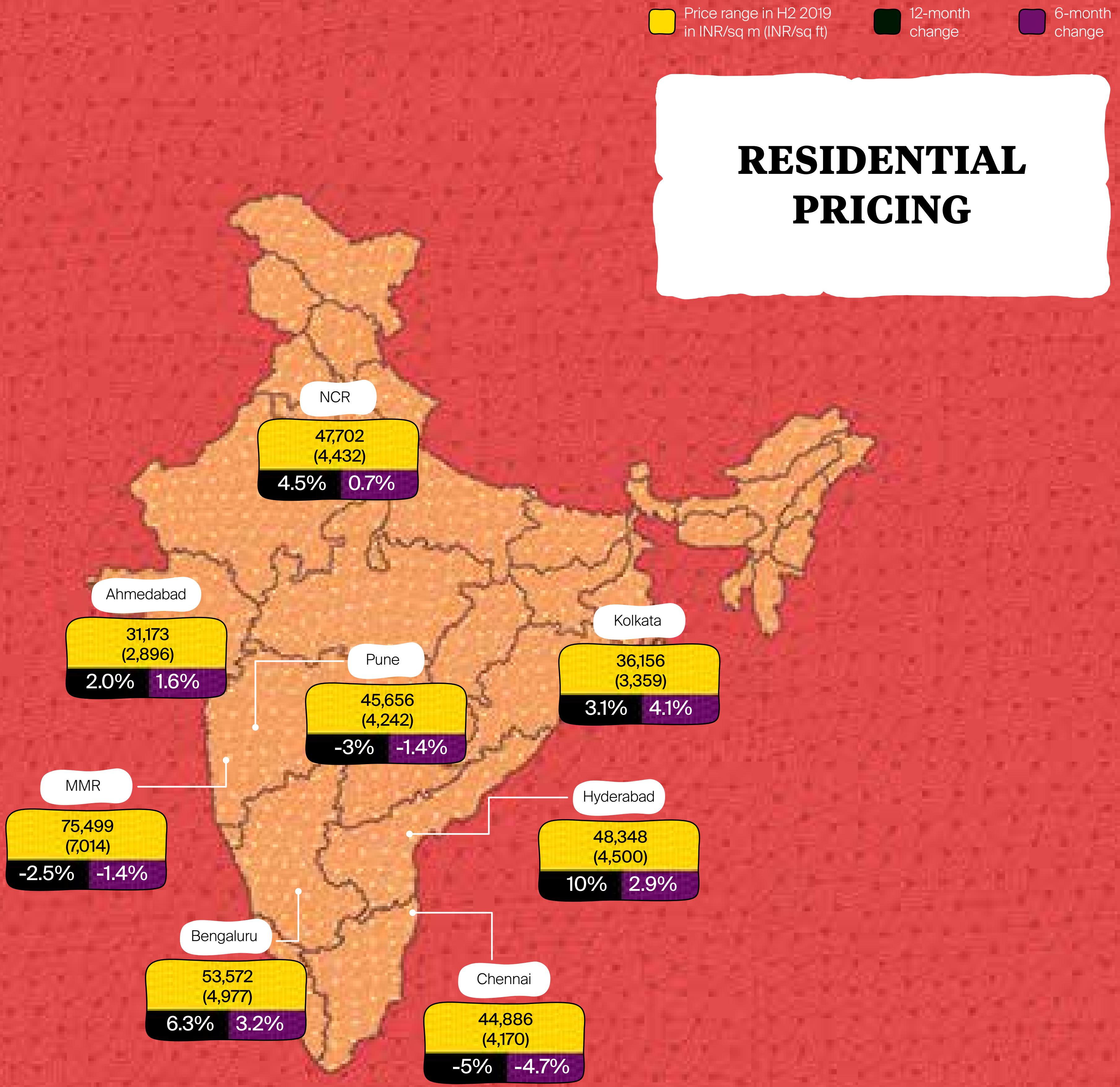
Sales (housing units)



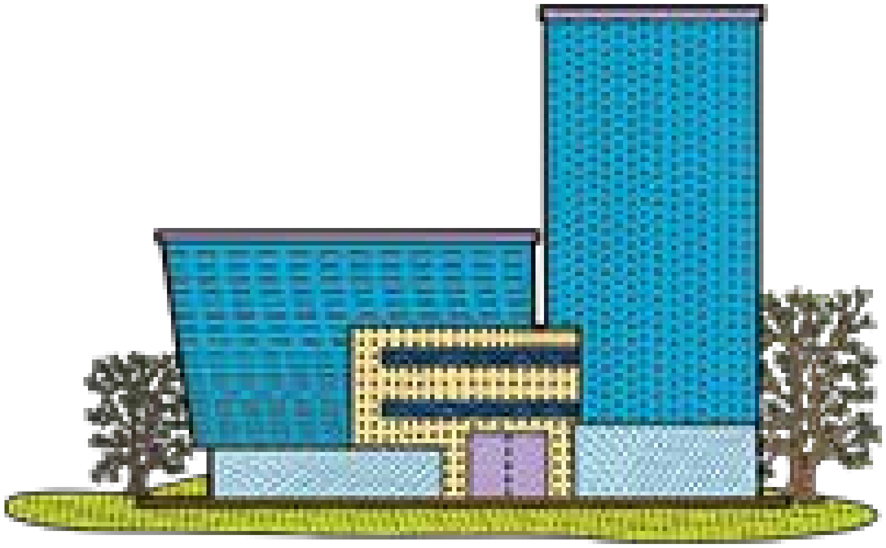
RESIDENTIAL UNSOLD INVENTORY



RESIDENTIAL PRICING



Office Market



29%

YoY growth in transactions in H2 2019

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Annual transactions scale all time high of 5.6 mn sq m (60.6 mn sq ft)

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India Market Snapshot

Parameter	H2 2019	Change YoY	2018	2019	Change YoY
New completions mn sq m (mn sq ft)	3.5 (37.5)	78%	3.7 (39.3)	5.7 (61.3)	56%
Transactions mn sq m (mn sq ft)	3.1 (33.2)	29%	4.4 (47.6)	5.6 (60.6)	27%
Weighted average rental in ₹/sq m/month (₹/sq ft/month)*	838 (78)	-1%	846 (79)	838 (78)	-1%
Stock mn sq m (mn sq ft)	-	-	64.6 (695)	70.4 (758)	9%
Vacancy (%)	-	-	13.1%	13.2%	-

Source: Knight Frank Research

India Office Market Activity

Source: Knight Frank Research

27%

YoY growth in transactions in 2019

- Annual transaction volumes in the Indian office space market have been growing from strength to strength for the better part of this decade. However, constrained by the lack of good quality available supply, the Indian office market saw the vacancy levels fall consistently from 21.4% in 2012 to 11.6% in 2017. It is only since the beginning of 2018 that office space started getting delivered in increasing volumes to meet the growing demand. The vacancy level currently stands at 13.1%.

- The supply momentum stayed strong in 2019 as well, as close to 5.7 mn sq m (61.3 mn sq ft) of office space was delivered during the year, amounting to a 56% YoY growth over 2018.

- The bulk of 2019's office space supply came online during the second half of the year and incidentally also represented the first half-year period since H2 2012 in which the space transacted was less than the supply that came online during that period. 3.5 mn sq m (37.5 mn sq ft) came online during H2 2019, a 67% YoY growth over the previous period.

India Office Market Vacancy

Source: Knight Frank Research

- The ongoing slowdown in the economy, as observed in the quarterly GDP growth rate plummeting to 4.5% YoY for Q2 FY20 from 7% a year ago, has not had a noticeable impact on office space demand yet. Transaction activity continued to stay strong through 2019 and responded in kind to the spike in supply. 2019 saw a historic high of 5.6 mn sq m (60.6 mn sq ft) in terms of space transacted in a calendar year, a 27% YoY growth over 2018. H2 2019 also saw a similar growth in transaction volumes at 29% and accounted for a record high of 3.1 mn sq m (33.2 mn sq ft)
- Even the strong performance of the Embassy Office Parks REIT, that listed in March 2019 belies the economic slowdown that we are grappling with and showcases the investment demand for the underlying high-quality office properties. Albeit, its price movement has also been helped in no small measure by falling interest rates (135 bps cut in repo rate in 2019). It is currently priced at over 40% of its listing price.
- This strong positive story however, did not extend to rental growth that slipped into negative territory for the first time since H2 2015. Albeit marginal, the weighted average rental level for the eight cities under coverage, fell by 1% for H2 2019. The drop in weighted average rentals is not necessarily due to the increased supply but should rather be attributed to the significantly greater weightage of the much lower priced markets of Hyderabad and Chennai in the overall transactions pie. Both markets experienced transaction volumes in H2 2019 that are close to the numbers garnered in all of 2018. They currently stand well above their previous recorded highs in terms of transaction volumes, both in annual as well as half-yearly numbers.
- The Hyderabad office market has had an exceptional 2019, accounting for 1.2 mn sq m (12.8 mn sq ft) in terms of transactions, nearly twice its previous annual high. A massive 0.8 mn sq m (8.9 mn sq ft) of space was transacted during H2 2019 in Hyderabad and it was the market that experienced the most transaction activity during the period. Bengaluru which has dominated this decade in terms of transaction volumes, came in second with 0.7 mn sq m (7 mn sq ft) during H2 2019.

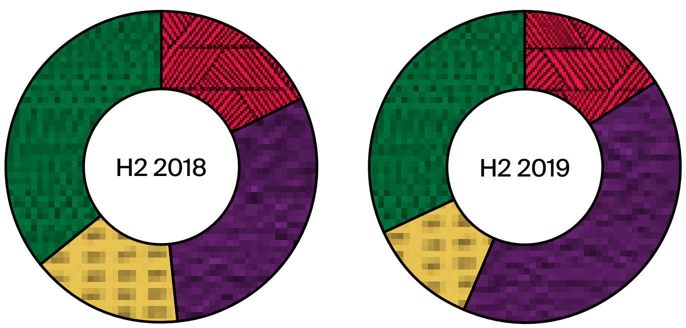
- The Information Technology / Information Technology enabled Services (IT/ITeS) sectors' share in transactions has shown signs of weakening in recent periods due to macro headwinds in the form of a slowdown in spending, as well as an inclination to insource by USA and several European countries. However, a recent surge in hiring since the end of 2018 due to an increase in demand for higher-end jobs in domains such as Artificial Intelligence (AI) and Data Security has increased the real estate requirements of the sector. Subsequently, H1 2019 saw the share of the IT/ITeS sector grow and the momentum sustained in the recently concluded period as well. The IT/ITeS sector accounted for 41% of transacted volume in H2 2019 as compared to 31% in the previous period. Hyderabad and Chennai accounted for 51% of the space absorbed by IT/ITeS sector companies during the recently concluded period.

- In contrast, the Banking, Financial Services and Insurance (BFSI) sector that has been reeling under the shadow of the NBFC crisis and credibility issues with some banks, saw its share dip from 18% during H2 2018 to 16% during H2 2019.

- The Other Services Sector's share (All services excluding BFSI and IT/ITeS) has reduced from 36% in H2 2018 to 32% in the recently concluded period largely due to comparatively limited activity by ecommerce companies. Co-working companies continued to take up more space in H2 2019 and constituted nearly 39% of the total area transacted by the Other Services sectors compared to 23% in H2 2018. Similarly, their share of total transactions grew from 8% in H2 2018 to 12% in the recently concluded period. Of the 0.4 mn sq m (4.1 mn sq ft) transacted by co-working players during H2 2019, a significant 34% was concentrated in Hyderabad and 26% in the NCR.

- While growth momentum continues to be strong in the Indian office space market, it would be interesting to see if the massive supply that is lined up to come online in the near future across major markets, and significant macro-economic headwinds put rental growth under pressure.

Sector-wise Split of Transactions



Industry	H2 2018	H2 2019
BFSI	18%	16%
IT/ITeS	31%	41%
Manufacturing	14%	12%
Other Services	36%	32%

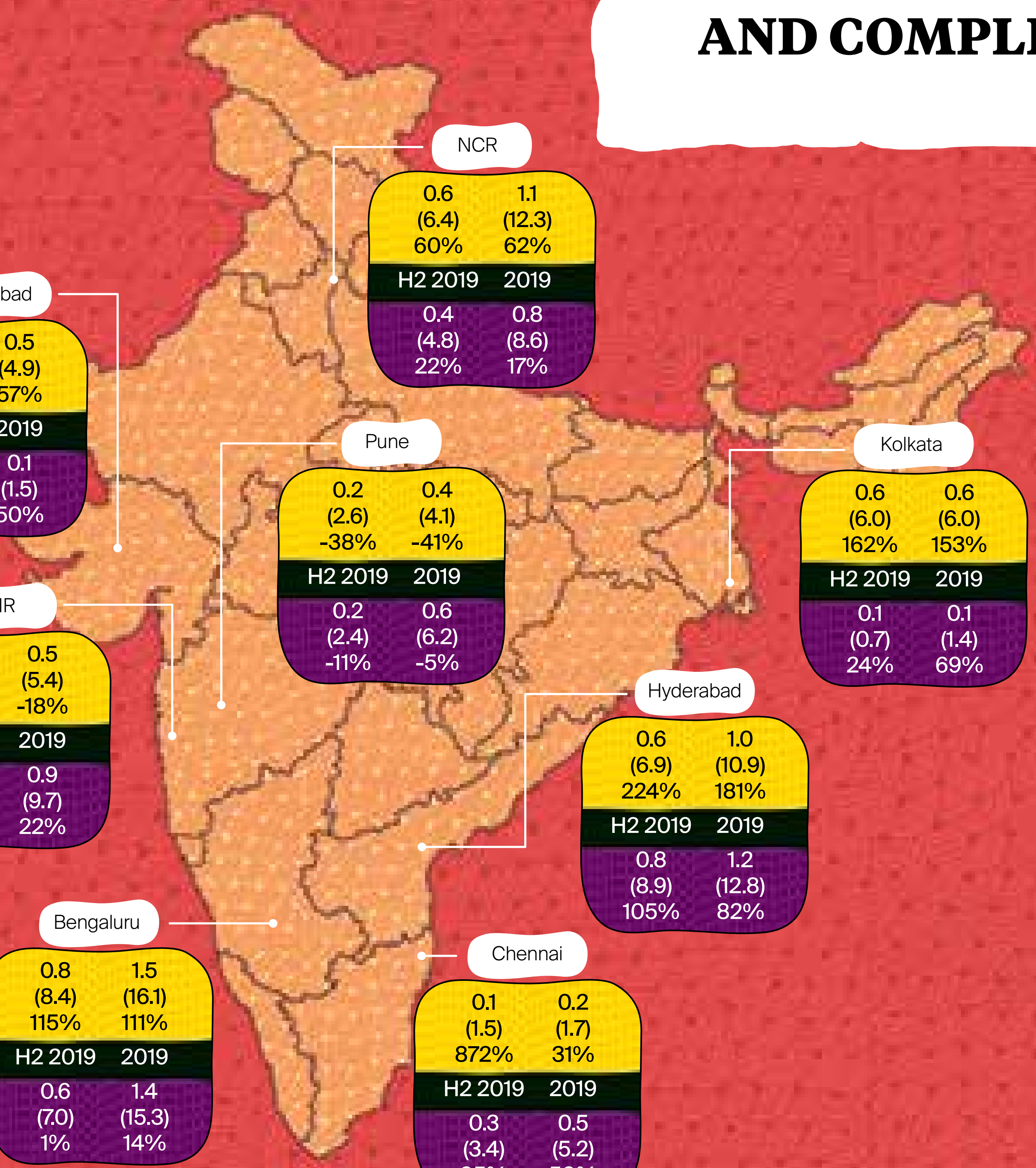
Note: BFSI includes BFSI support services; Other Services includes co-working, media, telecom etc.

Source: Knight Frank Research

OFFICE TRANSACTIONS AND COMPLETIONS

Completions mn sq m (mn sq ft)

Transactions mn sq m (mn sq ft)



NCR

	H2 2019	2019
Completions	0.6 (6.4) 60%	1.1 (12.3) 62%
Transactions	0.4 (4.8) 22%	0.8 (8.6) 17%

Ahmedabad

	H2 2019	2019
Completions	0.2 (2.2) 2%	0.5 (4.9) 57%
Transactions	0.1 (1.0) 70%	0.1 (1.5) 50%

Pune

	H2 2019	2019
Completions	0.2 (2.6) -38%	0.4 (4.1) -41%
Transactions	0.2 (2.4) -11%	0.6 (6.2) -5%

Kolkata

	H2 2019	2019
Completions	0.6 (6.0) 162%	0.6 (6.0) 153%
Transactions	0.1 (0.7) 24%	0.1 (1.4) 69%

MMR

	H2 2019	2019
Completions	0.3 (3.5) (61%	0.5 (5.4) -18%
Transactions	0.5 (5.1) 0%	0.9 (9.7) 22%

Hyderabad

	H2 2019	2019
Completions	0.6 (6.9) 224%	1.0 (10.9) 181%
Transactions	0.8 (8.9) 105%	1.2 (12.8) 82%

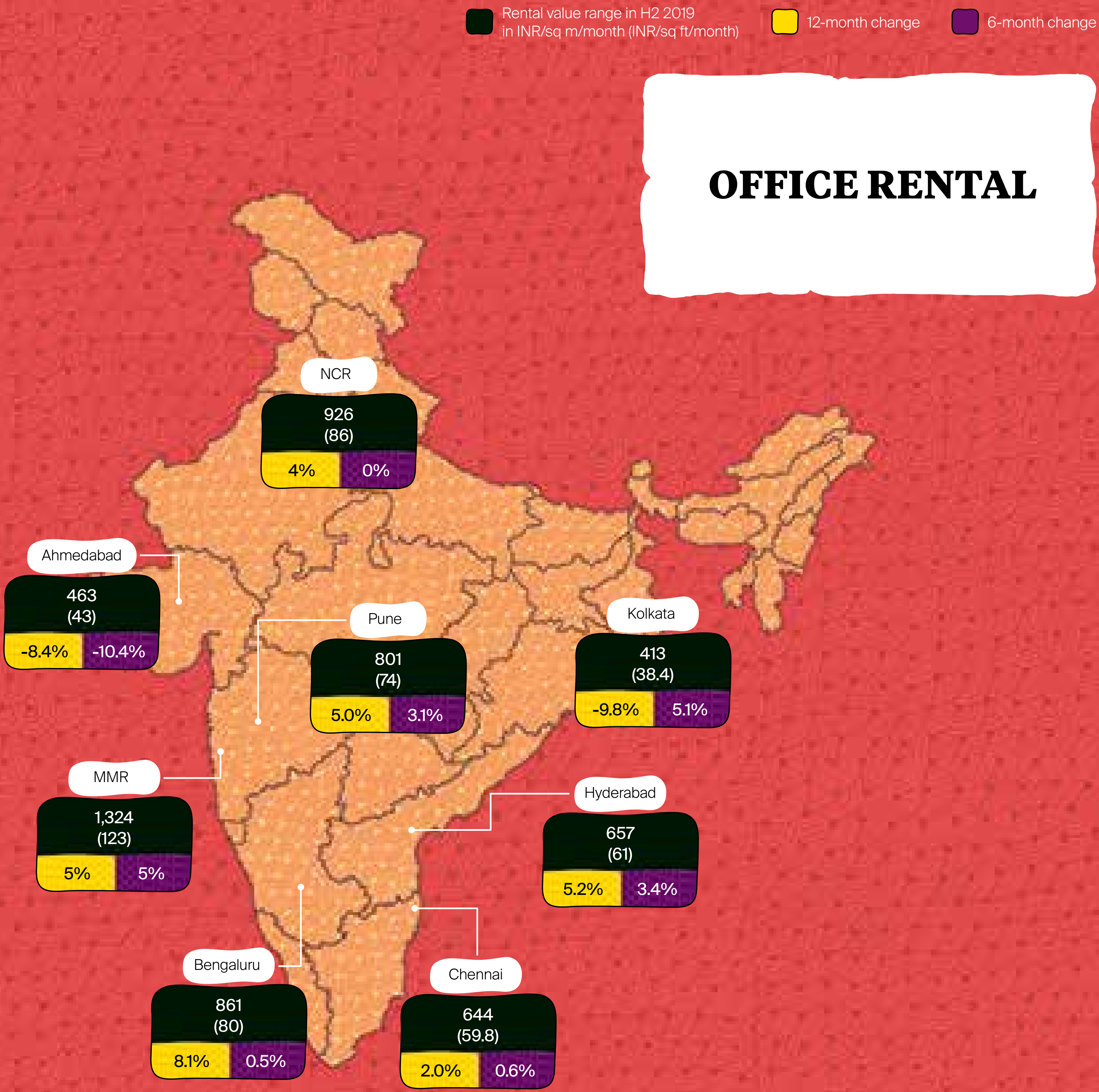
Bengaluru

	H2 2019	2019
Completions	0.8 (8.4) 115%	1.5 (16.1) 111%
Transactions	0.6 (7.0) 1%	1.4 (15.3) 14%

Chennai

	H2 2019	2019
Completions	0.1 (1.5) 872%	0.2 (1.7) 31%
Transactions	0.3 (3.4) 95%	0.5 (5.2) 50%

OFFICE RENTAL



Co-working demand strong despite WeWork episode

- by Yashwin Bangera

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The space taken up by co-working players has nearly quadrupled since 2017 to a little over 8 mn sq ft or 0.75 mn sq mt in 2019

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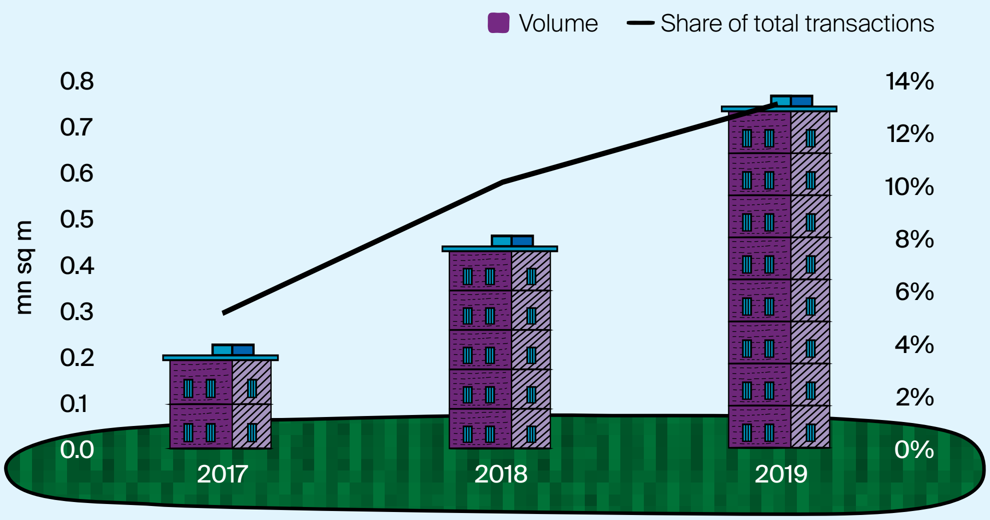
The Indian co-working story that can trace its roots to the early years of this decade has entrenched itself in India's foremost office markets since 2017. Initially tailored to attract the quintessential startup with their pay-by-day and plug and play premise, co-working companies have now graduated to fulfilling the much less transient requirements of the mainstream occupier. With a growing demand for co-working services, landlords are increasingly amenable to partnering with co-working companies and sharing business risks by signing revenue sharing agreements, rather than the previously prevalent plain vanilla rental agreements. This greater acceptance of revenue sharing agreements has further fueled the growth engine of co-working players by freeing up capital, that would have otherwise been locked up in monthly rentals.

The space taken up by co-working players has nearly quadrupled since 2017 to a little over 8 mn sq ft or 0.75 mn sq mt in 2019. Its share in transactions has steadily grown from 5% to

Co-working Leasing Transaction Activity



Source: Knight Frank Research

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We believe that the demand for shared spaces is gathering momentum and represents a long-term trend that will sustain

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a very significant 13% of the total area transacted in the office space markets of Mumbai, NCR, Bengaluru, Pune, Hyderabad, Chennai, Ahmedabad and Kolkata during the same period. To put this in perspective, the entire manufacturing sector accounted for 12% of the total area transacted in the eight cities in 2019.

However, from a peak valuation of USD 47 bn in January 2019 to recent estimates that vary between USD 8 – 12 bn, WeWork's fall from grace, has caused the market to question if the business practices that brought about its fall also prevail across the industry. In a space whose growth is driven mainly by private equity investors chasing valuations based on the co-working player's revenue multiple rather than earnings, the question on sustainability is warranted. Even WeWork's India strategy was primarily based on their Indian partner, The Embassy Group, enabling them to build large capacity (create 90,000 seats in three years, till 2020) in a short time to further bolster existing valuations.

Over 250 co-working players are estimated to be operational in India today. Their value-added proposition of a flexibile and hassle-free offering continues to see robust demand in the eight cities under our coverage. Companies such as 91Springboard, Smartworks and Awfis have gained market share over 2019 and will benefit from the setback facing WeWork currently. Indian co-working operations have gradually de-risked their business models through focusing on conserving capital by increasingly adopting revenue sharing or co-management models to acquire real estate which is their largest input. The USD 47 bn in rental commitments that WeWork is carrying, is among the largest factors threatening the company's impending collapse. Additionally, focus on revenue streams from allied services such as concierge, transportation, food and courier services, is significantly improving business viability. Allied services account for up to 20 - 25% of revenues for players such as Indiqube and 5 – 7% for Awfis.

A conscious shift of focus from startups as their primary client base to SME's and large enterprises is also helping co-working companies see more predictable cash flows, as enterprise requirements are usually larger and for a longer time-frame than the typical startup. Notice periods also tend to be longer with enterprises which helps the co-working operator align his own sales strategy along with the enterprise's exit plan. Large enterprises usually have a presence in more than one city and an existing enterprise client will likely opt for a co-working office while expanding into new markets, thus representing additional opportunity for co-working operators. While enterprise clients come with large requirements that ensure occupancy during good times, an economic downturn could also suddenly leave the co-working operator with a lot of unutilized capacity built to house the large enterprise. However, having a revenue sharing agreement in place with the landlord will cushion the impact to a large extent.

The Indian Co-working industry is already a significant consumer of office space in India but the business model is still evolving with operators constantly re-engineering their client mix and property offerings in a bid to build a more robust and sustainable business. While the current economic slowdown has not hampered the overall leasing activity, it has improved corporate appetite for flexible spaces as they entail a lower investment compared to a standard lease. We believe that the demand for shared spaces is gathering momentum and represents a long-term trend that will sustain, and co-working operators who gear themselves appropriately will prosper, if they do not fall into the trap of trying to grow too big too fast.

AIF: Step in the right direction but may not suffice

- by Rajani Sinha

With poor economic data from all quarters, the government has been announcing various reforms/ stimulus measures for economic revival. In that regard, the specific measure for real estate sector in the form of AIF of INR 250 bn is a step in the right direction. Real estate sector plays a very critical role in the economy, contributing 6-7% to GDP, apart from being a large employment generator. Real estate sector has strong linkages with core sectors like steel and cement. Core sector growth has decelerated to 0.2% in the fiscal year so far (Apr-Oct 2019), with cement sector contracting by 0.6% in the period under review. Hence, a boost to the real estate sector will also help revive growth in the core sector. Not to forget its linkage with the financial sector. Any distress in the real estate sector leading to developers' inability to pay their dues could have serious repercussions for the financial sector. Banks' exposure to real estate sector (through direct and indirect lending) was 21% of total loans and advances (2017-18), while the exposure of NBFC to real estate was 6.6% of total assets. Given that many of the real estate projects are declared NPA and under NCLT, there is a serious threat of real estate woes spreading to the financial sector through defaults.

Currently, housing projects comprising 0.45 mn units are unsold. Hence, the Government's formation of AIF to fund the last mile credit requirement will help ease the logjam in the sector. Importantly, the scheme includes projects that have been declared as NPAs and those under NCLT, which was not the case when the Government first announced the scheme for real estate sector in September. This last mile funding avenue for stuck projects will be a big relief for the developers as well as the homebuyers committed to these projects. In the process, revival in the construction activity will also have a multiplier effect on economic growth given its linkages to various industries. The real estate sector has linkages to a large number of ancillary industries like cement, steel, paints, furniture, copper and sanitaryware.

While the intent of the Government is praiseworthy, there are some concerns. The fund size of INR 250 bn could turn out to be small, relative to the overall requirement of the real estate sector. The fund will give priority to projects which are very close to completion. Hence, this fund size would only be able to take care of a small proportion of the total stalled projects' funding requirement.

There is a need to sort out other nitty-gritties. For instance, the proposed AIF will have first charge on assets and cash flow of entities receiving funds. This would be a severe setback for existing lenders. The government released FAQ states that the investment manager can change the developer if required. However, it would still be a challenge to manage these projects and bring them to completion. The investment manager will also have to ensure that the funds allocated for a project are not siphoned off to other projects.

Timeline for implementation of the scheme would be critical. Quick implementation would not just help generate better returns for investors but will also start easing the logjam in the sector. Given the large number of stuck projects and to expedite the process, the government should consider involving more partners for pre-evaluation of the projects, before the proposals are sent to the investment manager.

The government has committed INR 100 bn to the fund and is seeking contribution from banks, LIC and others to take the total corpus to INR 250 bn. In the first round the fund has raised INR 100 bn, with investment from SBI, LIC, HDFC and other PSBs.

The government has in the past also announced measures to ease credit supply for the real estate sector through measures like liquidity support for HFCs and partial government guarantee for assets purchased by a bank from stressed NBFC/ HFCs. However, the critical piece of the puzzle is the demand side story. The Alternative Investment Fund will not be able to generate required returns unless the demand for real estate also picks up. Otherwise, the increase in supply will simply add to the glut in the sector. Though the real estate sector is going through a lull period, housing prices in many of the markets have only corrected marginally. High prices and poor economic outlook have resulted in poor housing demand in the economy. It is therefore very critical that the government also looks at reviving housing demand. The government has provided income tax deductions for affordable housing segment. Further measures like subsidized home loans, full tax exemptions on interest paid on home loans, categorization of home loans up to Rs 10 mn as priority sector lending will help push up the overall demand in the sector.

Along with easing of supply side constraints in the real estate sector, there is a need for the government to come up with further measures to trigger demand. It is only then that the sector will be able to revive in a true sense.

AHMEDABAD

RESIDENTIAL MARKET

OFFICE MARKET

Residential Market

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The share of ticket sizes within the bracket of INR 2.5- 5.0 million increased from 37% of total launches in H2 2018 to 62% in the current period. What is interesting to note is that this increase is both in percentage terms as well as actual number of units launched.

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- Ahmedabad's residential market fared better in terms of new supply in 2019 as compared to the past two years. In the wake of multiple policy reforms starting with demonetisation, introduction of the Real Estate (Regulation and Development) Act, 2016 (RERA) and Goods and Services Tax (GST) implementation, new launches had nosedived in 2017 and 2018. Coupled with the state government's Online Development Permission System (ODPS) for granting building permissions to real estate developers, the new launches activity had nosedived in 2018.
- In 2019, the city witnessed the launch of nearly 11,000 units registering a mammoth 176% annual upsurge over 2018. This massive increase is largely due to three reasons – i) a much lower launch base in 2018; ii) the state government moving back to the offline mode in late 2018, aiding the new launch activity to pick up, with projects which could not be launched in 2018 eventually being launched in 2019 when permissions finally came through; and lastly iii) an increase in the new residential launches in the mid-segment ticket sizes of INR 2.5-5.0 million bracket which gave a fillip to overall city launches.
- In H2 2019, the new residential launches surpassed the year ago period by 184%, as H2 2018 was badly hit by curtailment of new supply due to the teething troubles with the ODPS. Of the total new launches, the ticket size bracket of INR 2.5-5.0 million had a share of 62% followed by <INR 2.5 million ticket where 29% of the new launches were concentrated. The remaining 8% launches were distributed across the INR 5.0 million and above ticket sizes.
- The share of ticket sizes within the bracket of INR 2.5-5.0 million increased from 37% of total launches in H2 2018 to 62% in the current period. What is interesting to note is that this increase is both in percentage terms as well as actual number of units launched. The concessional GST structure with the new rates at 1% without Input Tax Credit (ITC) for the affordable housing segment and redefinition of an 'affordable home' to encompass units up to 60 sq meters in carpet area size and within INR 4.5 million has largely benefitted the new supply in this bracket. Buoyed by the sound market fundamentals and infrastructure development of Ahmedabad, developers are banking on this demand side intervention to boost sales in upcoming periods and are coming up with new supply to cater to working professionals and mid-income home buyers for these ticket-sizes.
- Of the total launches, West and East emerged as the two significant markets for future residential supply with a 35% and 21% share respectively. Due to the emergence of an alternate business district and increasing office space consumption near SG Highway, nearby locations such as

Ahmedabad Market Snapshot

Parameter	H2 2019	Change (YoY)	2018	2019	Change (YoY)
Launches (housing units)	8,089	184%	4,167	11,487	176%
Sales (housing units)	8,501	5%	16,188	16,713	3%
Price (wt avg)*	₹ 31,173/sq m (₹ 2,896/sq ft)	2%	₹ 30,570/sq m (₹ 2,840/sq ft)	₹ 31,173/sq m (₹ 2,896/sq ft)	2%
Unsold inventory (housing units)	9,637	-35%	14,863	9,637	-35%
Quarters to sell (QTS)	2.3	-	3.7	2.3	-
Age of unsold inventory (in quarters)	12.3	-	9.9	12.3	-

Source: Knight Frank Research

*End of period

South Bopal, Shela and Thaltej have become strategically important in the Western quadrant of the city for continued residential development. Developers are actively launching projects in this belt as the improving physical and social infrastructure is expected to keep future end-user demand steady. The East zone, which has emerged as a hotbed of new affordable housing supply, was launched to attract end-user demand from working professionals.

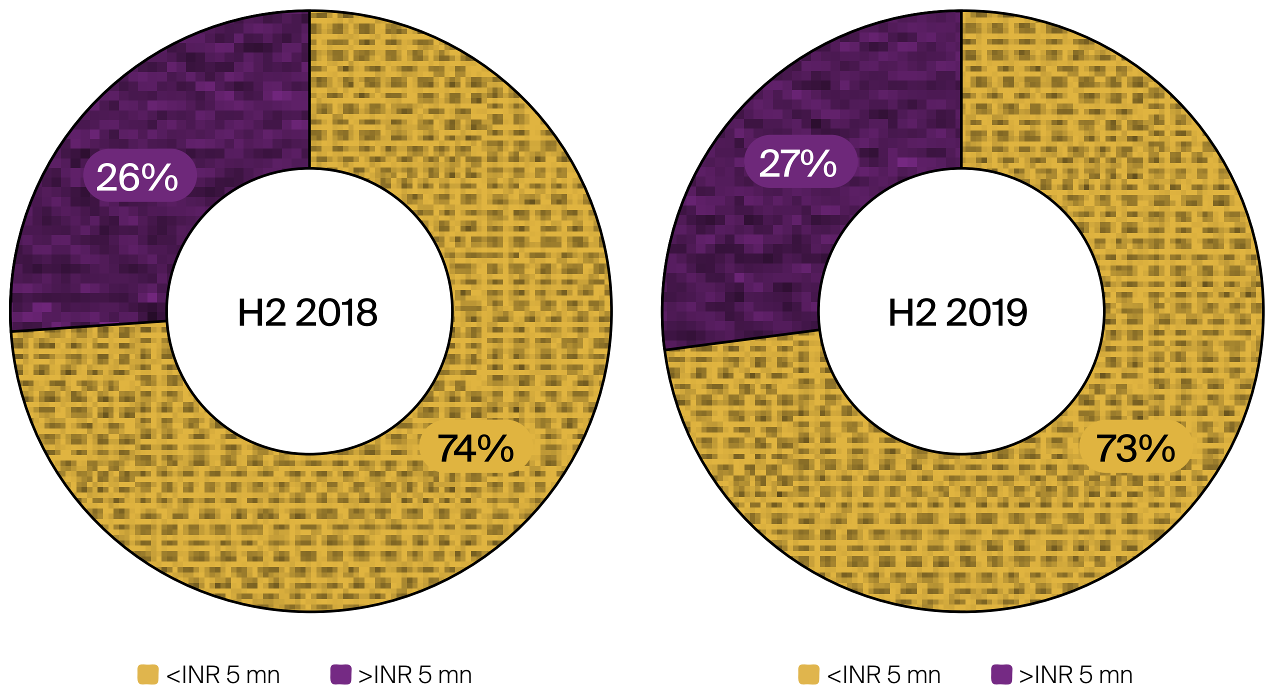
- West remained the most preferred micro-market which dominated the new launch activity in H2 2019. Shilaj, Shela, Ghuma, Bhadaj and Science City Road remained the prominent locations where new residential projects were launched. Smooth connectivity to the commercial hubs of Central Business District – West (CBD West) and numerous infrastructure upgrades along the SG Highway have led to intensified new residential construction in these locations. Once considered far-flung when compared to the old CBD, the skyline of the West zone is undergoing a makeover with large scale residential construction.

- Over a period of the past two and a half years, residential sales have posted a single digit uptick in units sold since H2 2017. Comparing H2 2019 with H2 2018, there was only a miniscule 5% uptrend in sales. Despite a marginal uptick of 3% annually over 2018, 2019 was the year which witnessed the highest number of units sold in the past four years. Steady uptake of ready-to-move in residential inventory has been instrumental in sales trends maintaining a positive momentum despite the real estate sector itself undergoing a structural change in the recent past.

- The ticket size bracket of INR 2.5-5.0 million garnered the highest share of 43% in the overall sales in Ahmedabad. This was followed by the ticket sizes <INR 2.5 million where 30% of sales were recorded. The remaining 27% of sales were concentrated in the ticket sizes > INR 5.0 million. In line with the period of H2 2018, the ticket sizes < INR 5.0 million continued to dominate the residential sales in Ahmedabad with a steady share of nearly three-fourth of the overall market.

- Of the total sales, 31% was garnered by the North zone. Locations such as New Ranip, Gota and Chandkheda which have a high concentration of affordable projects fared well in terms of attracting end-users which largely comprises the blue collared working population. West came a close second with a 25% share in the city's sales volume. Locations such as South Bopal, Shela, Shilaj and Thaltej and Science City Road witnessed good sales velocity due to rapidly developing social infrastructure and improved road connectivity.

Ticket Size Split of Sales



Source: Knight Frank Research

184%

YoY growth in residential launches over H2 2018

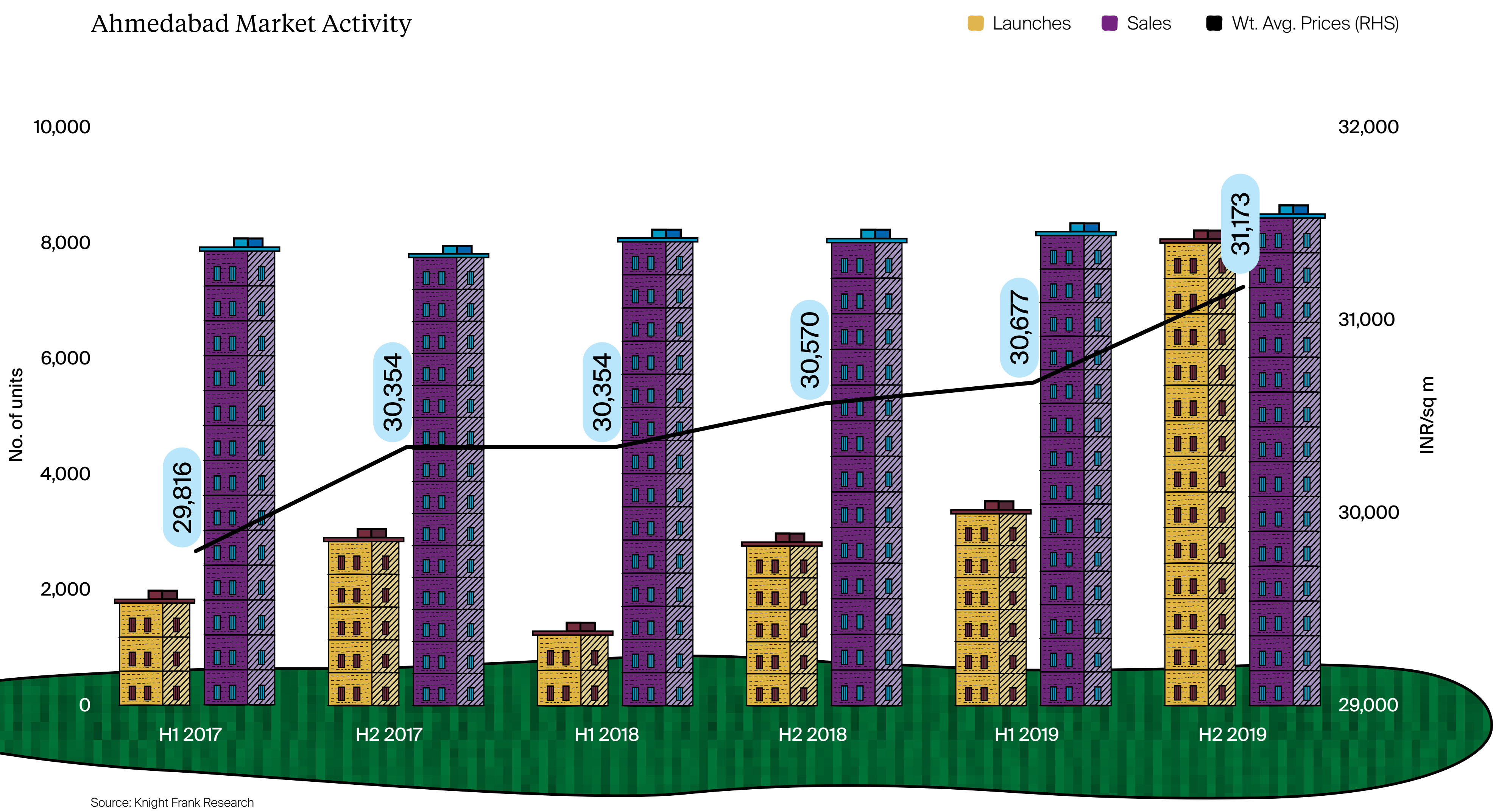
- Apart from North and West, East with a 24% share in total sales has also seen good end-user traction in locations such as Vastral, Naroda and Nikol. With a huge inventory of affordable housing projects, these locations have benefitted with the recent changes in the GST structure.

- Due to steady sales momentum, the unsold residential inventory reduced by 35% YoY in H2 2019 and stands at less than 10,000 units. However, since some of these projects failed to attract buyers despite being launched years ago, the age of inventory at the city level remained high at 12.3.

- The reduction in the unsold inventory levels have impacted the Quarters-To-Sell (QTS) positively which has climbed down marginally from 3.7 in H2 2018 to 2.3 at the end of H2 2019. This translates to a little more than 6 months for the city to exhaust the current levels of inventory which is a healthy sign for any city. With low unsold, inventory and QTS levels, developers would be motivated to plan future residential supply to cater to the inherent residential demand in periods to come and we can expect new launches to improve further in 2020.

- The weighted average residential prices in Ahmedabad stand increased by 2% YoY to INR 31,173 per sq m (INR 2,896 per sq ft) which are the lowest in the country across the top eight cities making it one of the most affordable residential markets. In the past two and a half years, residential prices have maintained status quo in Ahmedabad which has helped revive residential sales as buyers were not forced to sit on the fence and wait for price correction before taking a home purchase decision. The low residential prices ensured movement of unsold inventory to ease the burden of

Ahmedabad Market Activity



Source: Knight Frank Research

developers who have been grappling with the right product mix at the right price tag in a scenario where the input costs have been on the rise.

- Gujarat was one of the pioneers in implementing RERA and had notified the 'Gujarat Real Estate (Regulation and Development) (Matters Relating to the Real Estate Regulatory Authority) Rules, 2016 as early as October 2016. As of early October 2019, the number of projects registered had increased by 8% over the previous quarter but showed a vast increase of 81% in the number of cases disposed off over the same period. The number of complaints registered during the July to October 2019 quarter, too rose by 64%. Gujarat is one of the few Indian states after Maharashtra which has a huge number of projects registered under RERA. The regulatory eco system has impacted buyer sentiments positively which reflects in both new launches and sales activity in Ahmedabad, as the city seems to be contradicting the trends prevailing in some other Indian cities where recovery is still awaited. The Gujarat Real Estate Regulatory Authority (GujRERA) recently ordered the forensic audit of an upcoming residential project in Vadodara as fund diversion between projects is very common. The detailed audit of project finances, project receipts, payments and receivables along with an estimate of work left for completion of the project is a step in the right direction to protect buyers' interest and can set a precedent for other cities such as Ahmedabad also.

2%

YoY increase in weighted average residential prices

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In the past two and a half years, residential prices have maintained status quo in Ahmedabad which has helped revive residential sales as buyers were not forced to sit on the fence and wait for price correction before taking a home purchase decision. The low residential prices ensured movement of unsold inventory to ease the burden of developers who have been grappling with the right product mix at the right price tag in a scenario where the input costs have been on the rise.

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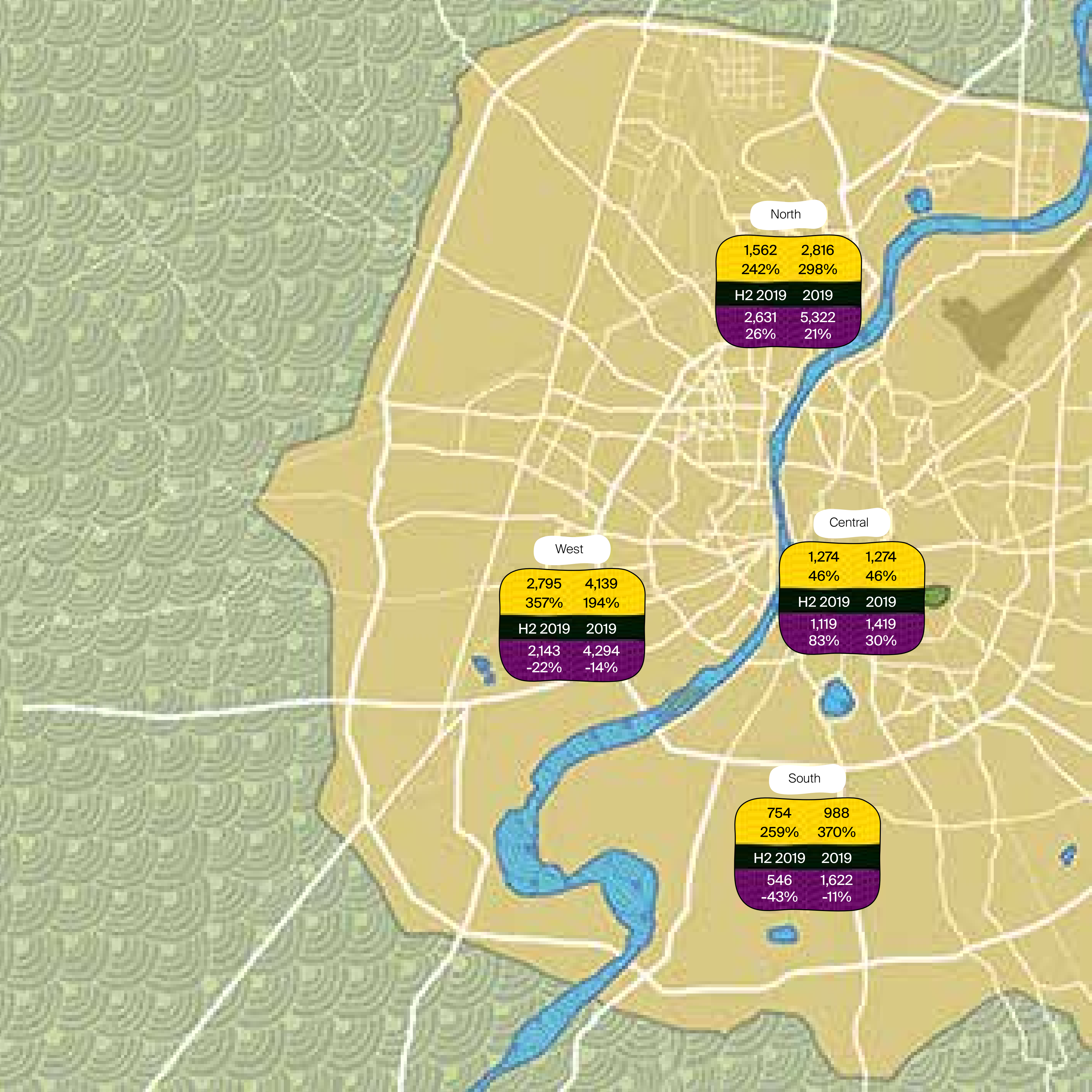
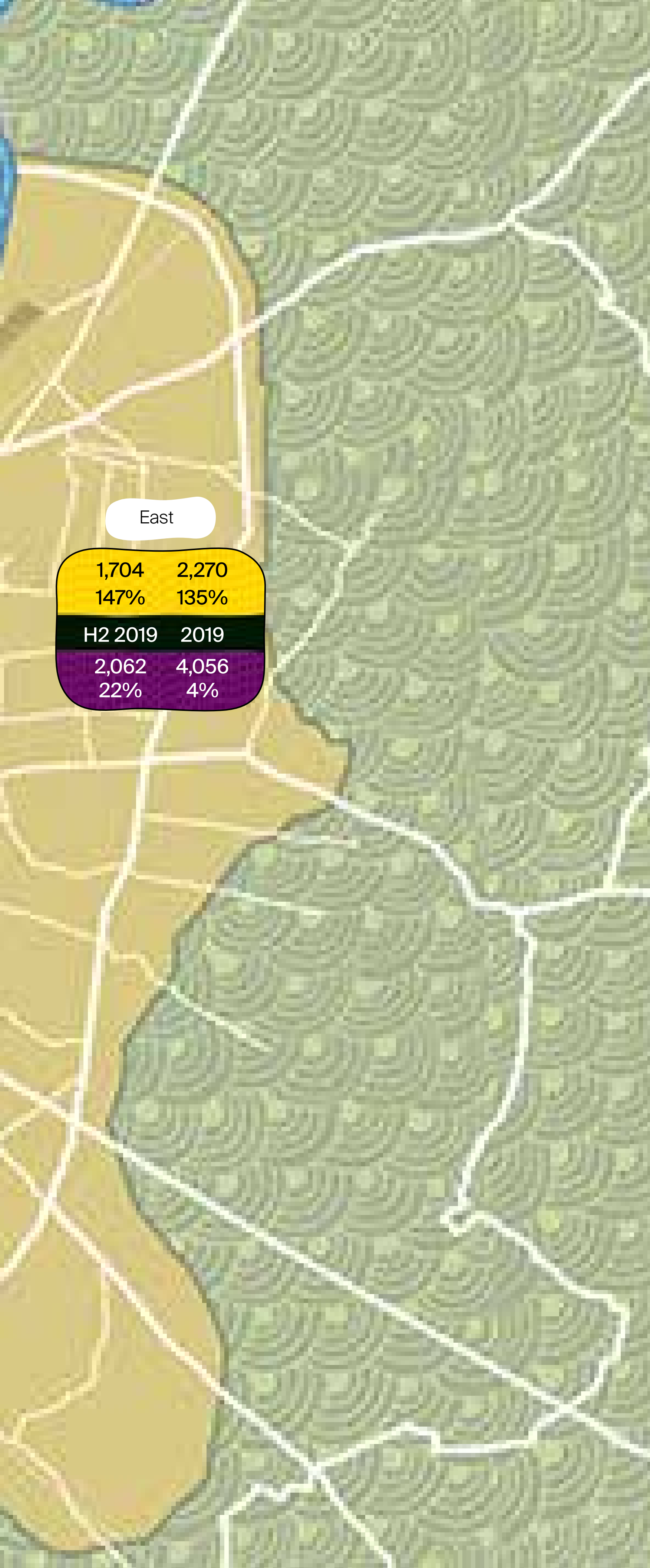

North
1,562 2,816
242% 298%
H2 2019 2019
2,631 5,322
26% 21%
Central
1,274 1,274
46% 46%
H2 2019 2019
1,119 1,419
83% 30%
West
2,795 4,139
357% 194%
H2 2019 2019
2,143 4,294
-22% -14%
South
754 988
259% 370%
H2 2019 2019
546 1,622
-43% -11%

RESIDENTIAL LAUNCHES AND SALES

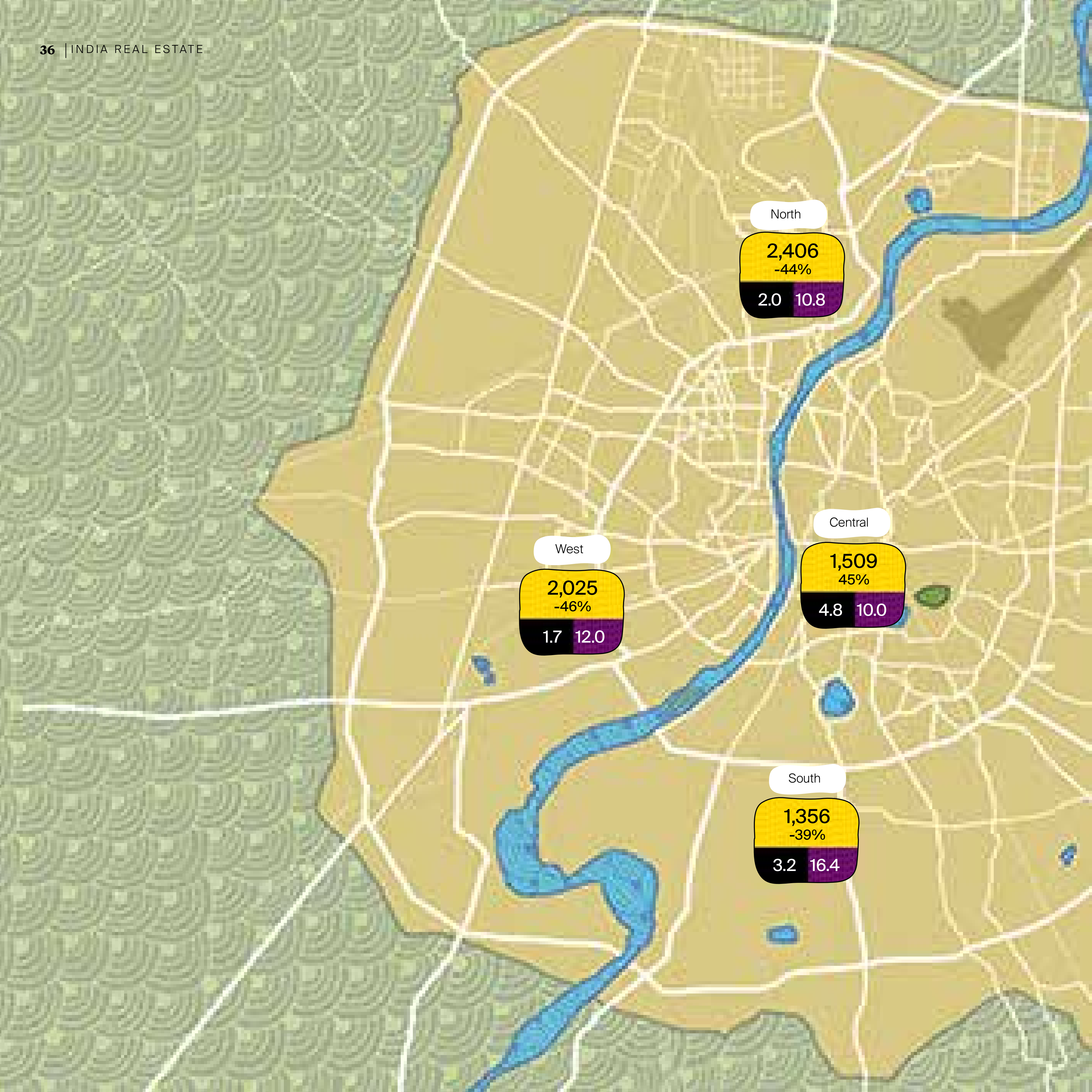
Launches (housing units)
Sales (housing units)
% Change (YoY)



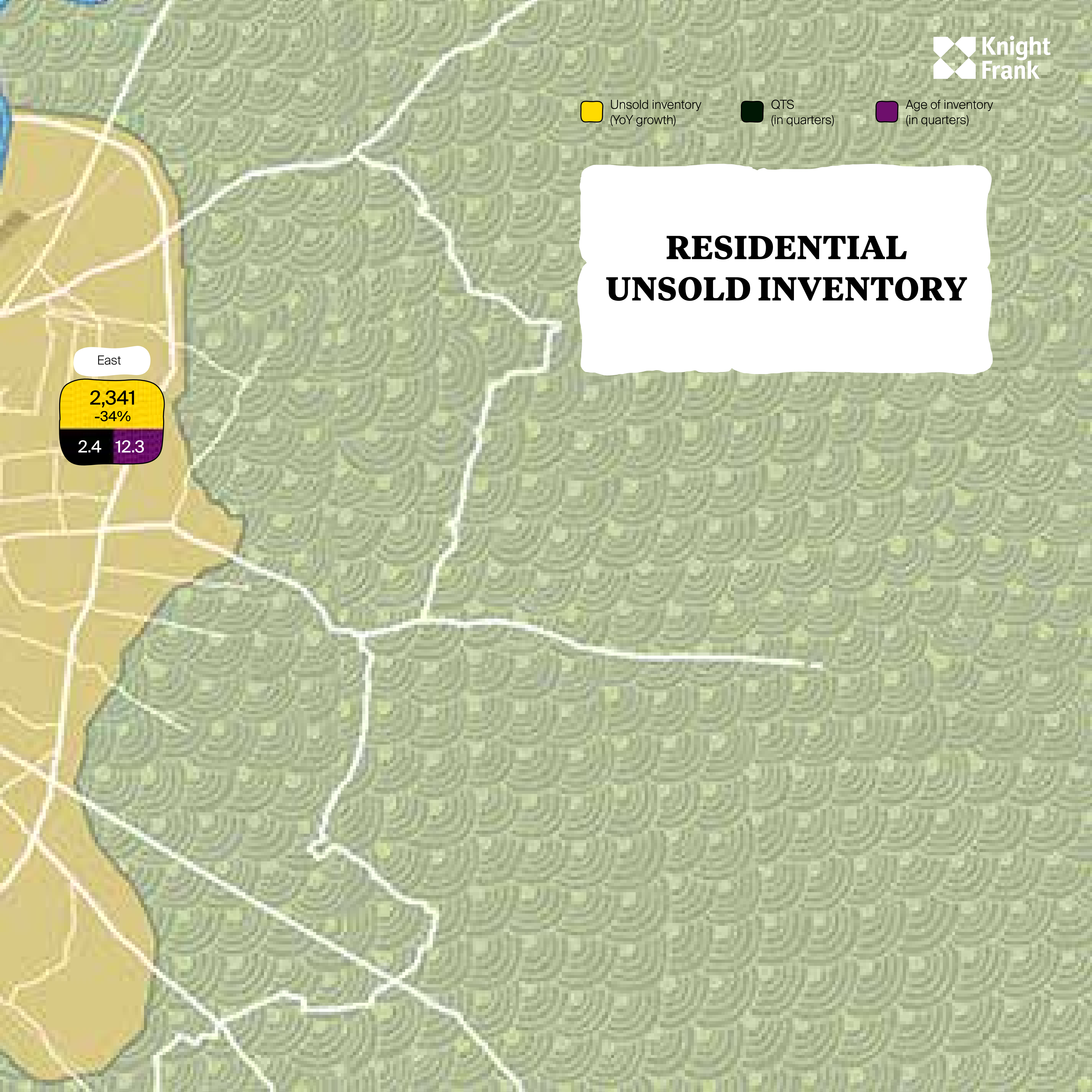
Micro-market Classification

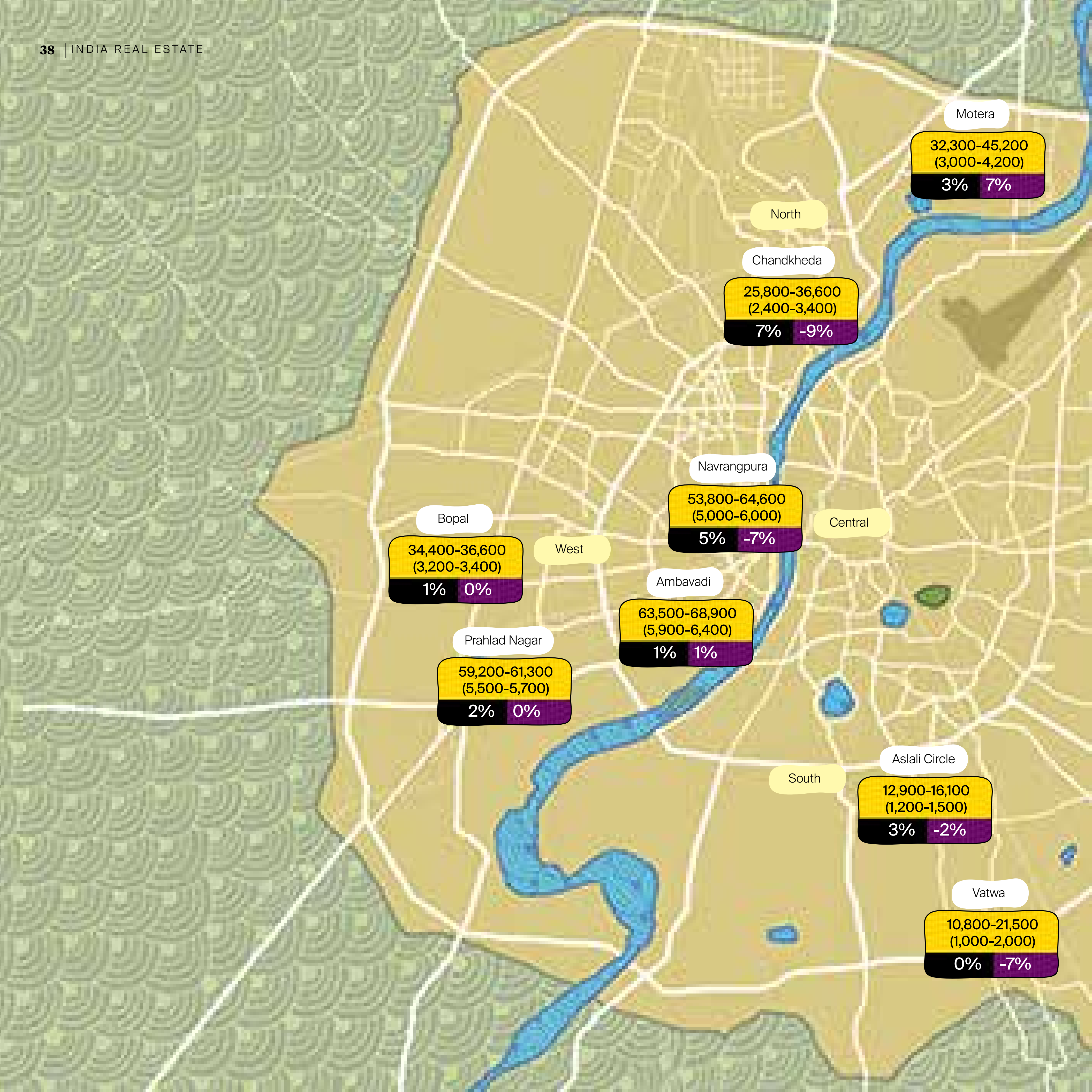
Micro market	Locations
Central	Paldi, Vasna, Navrangpura, Maninagar, Dudheshwar, Ambawadi
East	Naroda, Vastral, Nikol, Kathwada Road, Odhav
North	Gota, New Ranip, Tragad, Chandkheda, Motera
South	Narol, Vatva, Vinzol, Hathijan
West	SG. Highway, Prahlad Nagar, Bopal, Thaltej, Science City Road

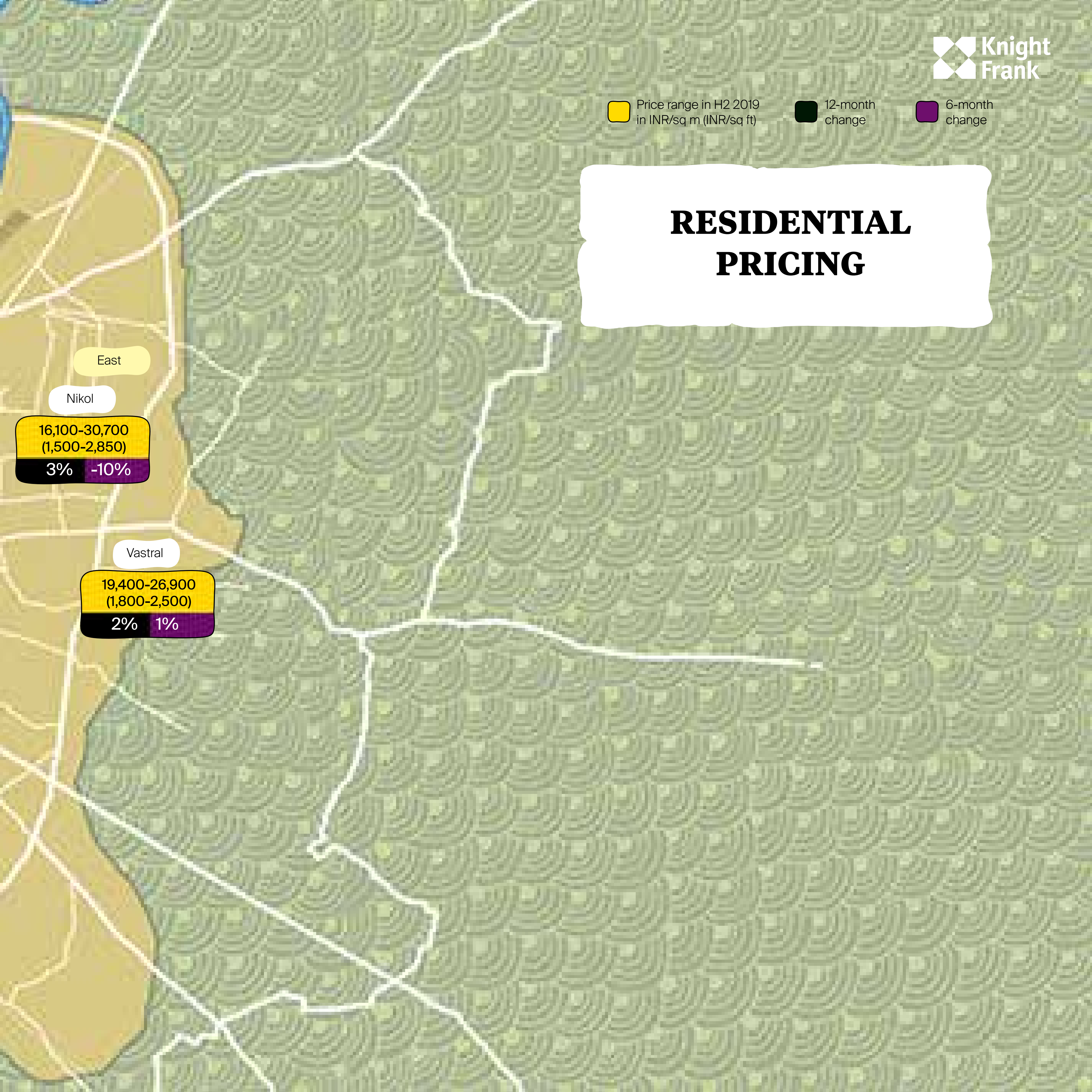
Source: Knight Frank Research


North
2,406
-44%
2.0
10.8
Central
1,509
45%
4.8
10.0
West
2,025
-46%
1.7
12.0
South
1,356
-39%
3.2
16.4

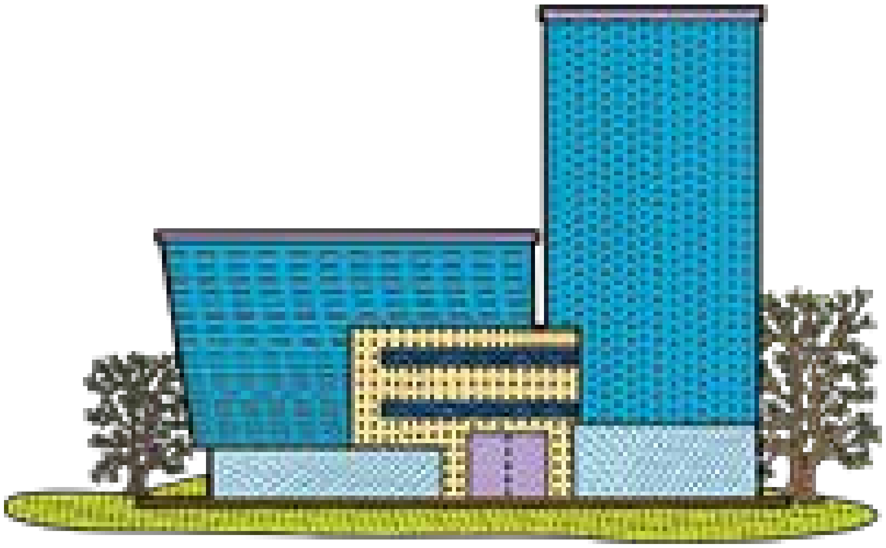
RESIDENTIAL UNSOLD INVENTORY




Motera
32,300-45,200
(3,000-4,200)
3% 7%
North
Chandkheda
25,800-36,600
(2,400-3,400)
7% -9%
Navrangpura
53,800-64,600
(5,000-6,000)
5% -7%
Central
Bopal
34,400-36,600
(3,200-3,400)
1% 0%
West
Ambavadi
63,500-68,900
(5,900-6,400)
1% 1%
Prahlad Nagar
59,200-61,300
(5,500-5,700)
2% 0%
Aslali Circle
South
12,900-16,100
(1,200-1,500)
3% -2%
Vatwa
10,800-21,500
(1,000-2,000)
0% -7%


Knight Frank
Price range in H2 2019 in INR/sq m (INR/sq ft)
12-month change
6-month change
RESIDENTIAL PRICING
East
Nikol
16,100-30,700 (1,500-2,850)
3% -10%
Vastral
19,400-26,900 (1,800-2,500)
2% 1%

Office Market



70%

YoY growth in transactions in H2 2019

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As a lot of quality supply came on the block in the last six months of 2019, the volume of transacted space also witnessed an upsurge.

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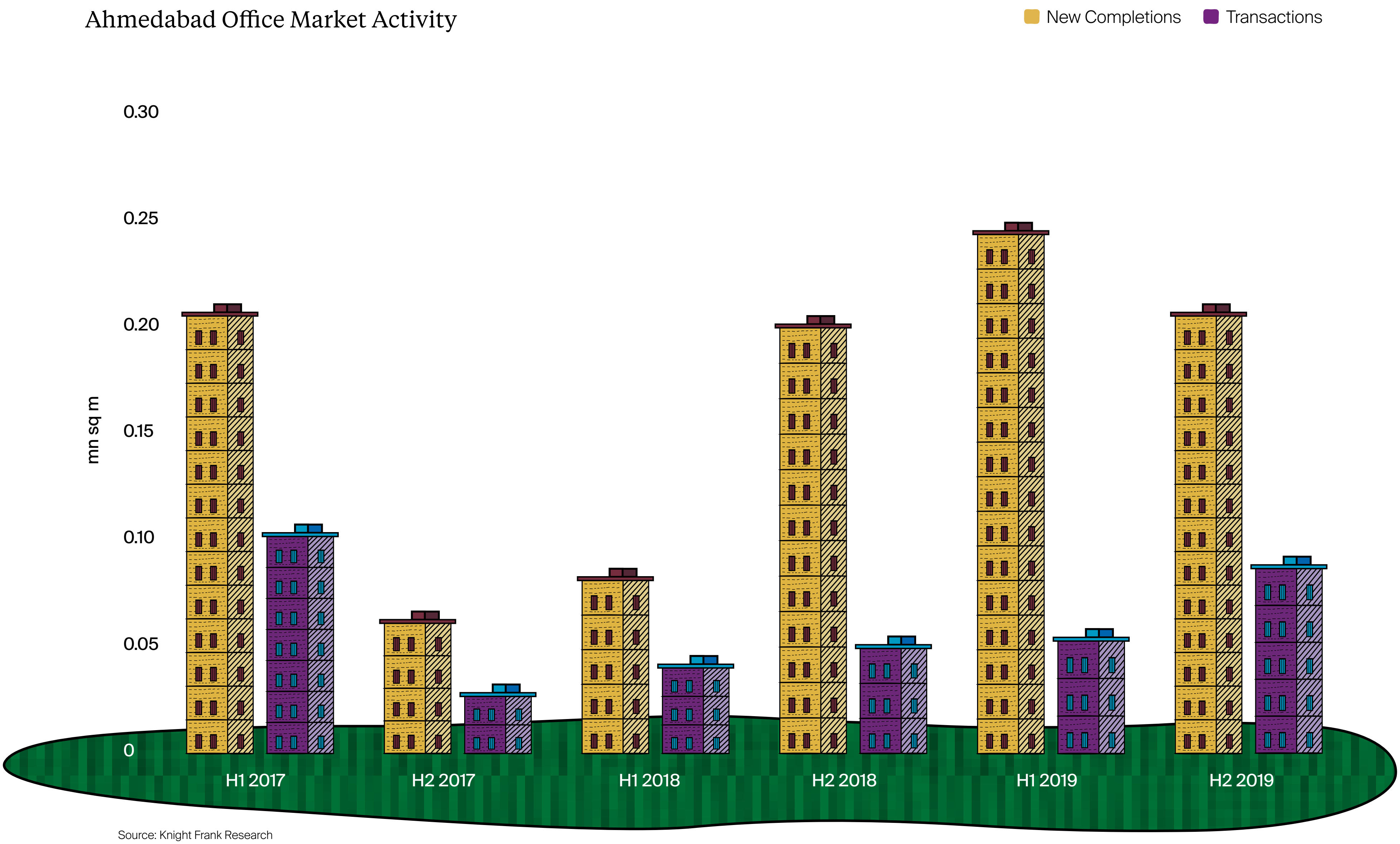
Ahmedabad Market Snapshot

Parameter	H2 2019	Change YoY	2018	2019	Change YoY
New completions mn sq m (mn sq ft)	0.21 (2.23)	3%	0.29 (3.09)	0.45 (4.88)	58%
Transactions mn sq m (mn sq ft)	0.09 (0.96)	70%	0.10 (1.03)	0.14 (1.55)	50%
Weighted average rental in ₹/sq m/month (₹/sq ft/month)*	462.85 (43)	-9%	505.91 (47)	462.85 (43)	-9%
Stock mn sq m (mn sq ft)	-	-	-	2.63 (28.34)	-
Vacancy (%)	35.85%	-	26.40%	35.85%	-

Source: Knight Frank Research

*End of period

Ahmedabad Office Market Activity



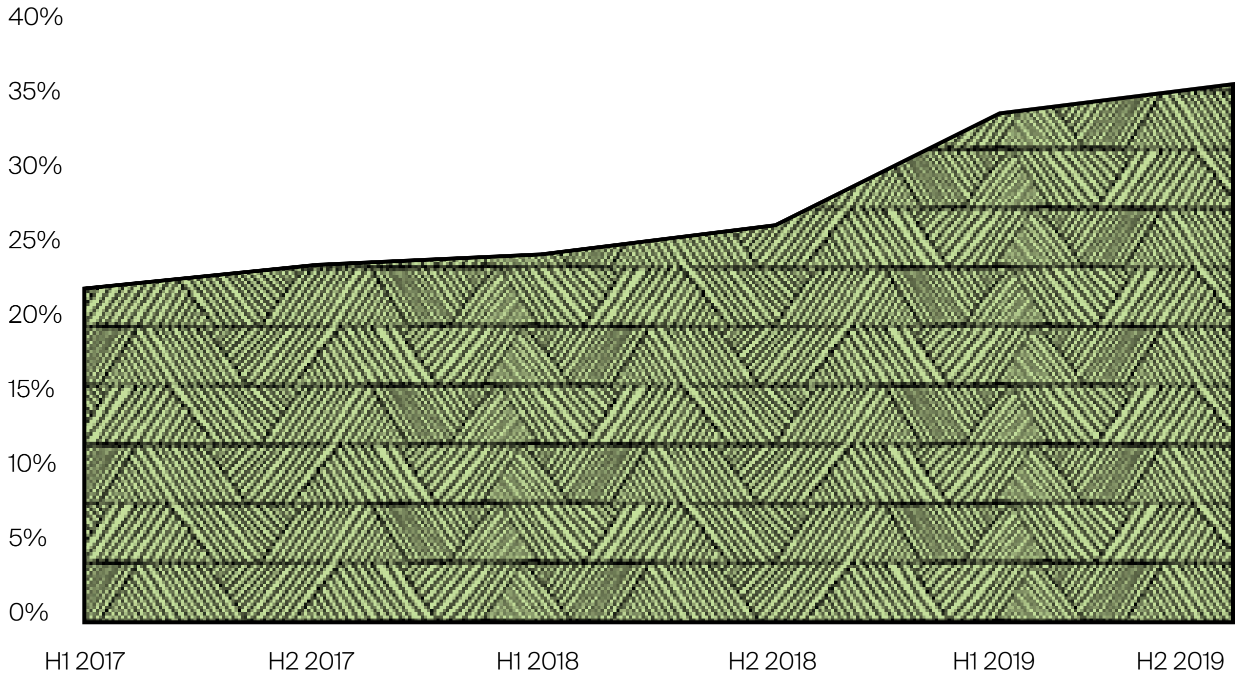
Source: Knight Frank Research

-9%

YoY decline in weighted average rentals in 2019

- During 2019, Ahmedabad witnessed a 50% year-on-year (YoY) jump in the office space leasing. From 0.10 mn sq m (1.03 mn sq ft) in 2018, office space leasing expanded to 0.14 mn sq m (1.55 mn sq ft) in 2019. In the last two and a half years, this is the highest office space transacted in the city. This is mainly due to two factors: a) growing trend of increased space take-up by the Information Technology or Information Technology enabled Services (IT/ITeS) sector in 2019, and b) a healthy increase in new supply infusion in Central Business District West (CBD West) which is a sizeable office market in terms of new stock and occupier enquiries have been increasing in this zone.
- The second half of 2019 witnessed 0.09 mn sq m (0.96 mn sq ft) office space leasing which is a mammoth 70% YoY uptrend over H2 2018. As a lot of quality supply came on the block in the last six months of 2019, the volume of transacted space also witnessed an upsurge.
- Of all the micro-markets, CBD West garnered the largest share in office space consumption in H2 2019. Of the total

Ahmedabad Office Market Vacancy



Source: Knight Frank Research

transacted office space in the city, CBD West accounted for 51%, thereby making it one of the most preferred business districts in the city. Further, within CBD West, SG Highway remained the most preferred location to attract occupiers. In H2 2019, the share of SG Highway was 44% of the total transaction volume of CBD West. This further attests the continued preference of occupiers for SG Highway. Apart from SG Highway, Keshav Baug, Bopal-Ambli Road and Thaltej also witnessed steady occupier traction in the period under review.

- The Peripheral Business District (PBD) accounted for the remainder 49% share of office leasing in H2 2019. Many occupiers from the Banking, Financial Services and Insurance (BFSI) and IT/ITeS sectors set up footprint in the office spaces within the Gujarat International Finance Tec-City (GIFT) which gave a fillip to the overall office space consumption within this business district during H2 2019. Bank of America (BoA), the second largest bank of the United States recently set up its Global Services Centre at the Special Economic Zone (SEZ) in the GIFT City.

- BoA coming to GIFT City should attract other leading global corporations to set up offices here. With rentals in GIFT City hovering in the range of INR 280-325 per sq m per month (INR 26-30 per sq ft per month), they are still cheaper compared to some other business districts in Ahmedabad. With good road connectivity from Ahmedabad and availability of land parcels, GIFT City is well positioned to become an alternate business hub in the satellite town of Gandhinagar in the long run.

- Unlike in the past, when BFSI accounted for the lion's share of total transaction volume, IT/ITeS emerged at the top slot with a 43% share during H2 2019. From an 11% share in total transactions in H2 2018, its share increased significantly on the back of a few big -ticket transactions. Some IT/ITeS occupiers took up space in the new offices which became available in H2 2019 as they offered quality office spaces with good amenities and large floor plates which suited their requirements.

- BFSI accounted for a 36% share as many financial institutions and banks leased spaces in CBD West and PBD. BoA's large space take up in GIFT City has been a major contributor towards this sector commanding more than one-third share in the total office spaces leased within the city in H2 2019.

- New completions in 2019 far outpaced the leasing activity. At 0.45 mn sq m (4.88 mn sq ft), the new supply addition in 2019 represents a 58% YoY increase over 2018. The

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Of all the micro-markets, CBD West garnered the largest share in office space consumption in H2 2019. Of the total transacted office space in the city, CBD West accounted for 51%, thereby making it one of the most preferred business districts in the city.

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Business District Classification

Business district	Micro markets
CBD West	Bodakdev, Keshav Baug, Prahladnagar, Satellite, SG Highway, Thaltej
PBD	Gandhinagar, GIFT City
CBD	Ashram Road, Ellis Bridge, Paldi

Source: Knight Frank Research

availability of quality supply has been a big catalyst behind healthy occupier leasing volume.

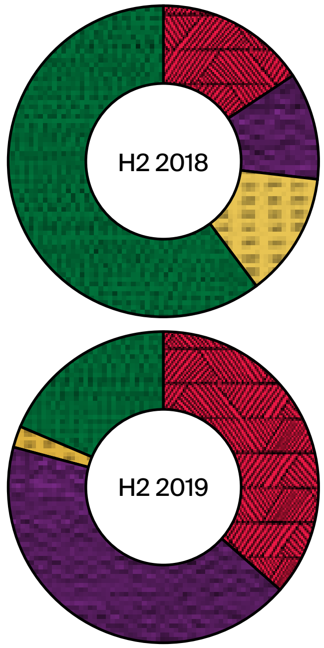
- In H2 2019, 0.21 mn sq m (2.23 mn sq ft) of new office spaces became available representing only a small uptick of 3% YoY over the supply infusion in H2 2018. Of the total new completions in H2 2019, nearly 80% was in CBD West, the new office hub of Ahmedabad. Despite the high vacancy in Ahmedabad, these new office space developments are being lapped up by occupiers who want to set up offices in the city as this new supply meets their specifications in terms of quality, amenities and floor plates and enables scalability when staff strength increases. Unlike the older strata sold buildings, as was the norm in the office market, these new investment grade assets are enabling growth in occupier momentum with each passing half yearly period.

- This huge supply infusion has increased the city level vacancy to 35.85% despite a healthy increase in occupier demand. From 26.40% recorded at the end of 2018, this is a very substantial jump. However, the silver lining is that the availability of new Grade A spaces will enable healthy take-up in 2020, as quality spaces at rentals cheaper than some other commercial hubs of India, will surely make occupiers sit up and take notice in the long term.

- The office market in Ahmedabad is still in its infancy, compared to cities like Mumbai, Bengaluru and Delhi NCR. With the necessary physical infrastructure in place, developers are stepping in to meet the requirements of companies either moving into the city or expanding their presence in the city. In the present day, this has led to a situation where the supply outstrips demand and explains the double-digit vacancy rates in the city.

- Due to this high double-digit vacancy, the weighted average rentals in Ahmedabad have declined by 9% YoY and stand at INR 462.85 per sq m per month (INR 43 per sq ft per month) in H2 2019.

Sector-wise Split of Transactions



Industry	H2 2018	H2 2019
BFSI	16%	36%
IT/ITeS	11%	43%
Manufacturing	13%	2%
Other Services	61%	19%

Note: BFSI includes BFSI support services; Other Services includes co-working, media, telecom etc.

Source: Knight Frank Research

Average deal size and number of deals

1,114 (11,995)
Average deal size in sq m (sq ft)
H2 2018
47
Number of Deals

2,024 (21,789)
Average deal size in sq m (sq ft)
H2 2019
44
Number of Deals

Note - 1 square metre (sq m) = 10.764 square feet (sq ft)

Source: Knight Frank Research

58%

Increase in new completions in 2019 over 2018

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New completions in 2019 far outpaced the leasing activity. At 0.45 mn sq m (4.88 mn sq ft), the new supply addition in 2019 represents a 58% YoY increase over 2018. The availability of quality supply has been a big catalyst behind healthy occupier leasing volume.

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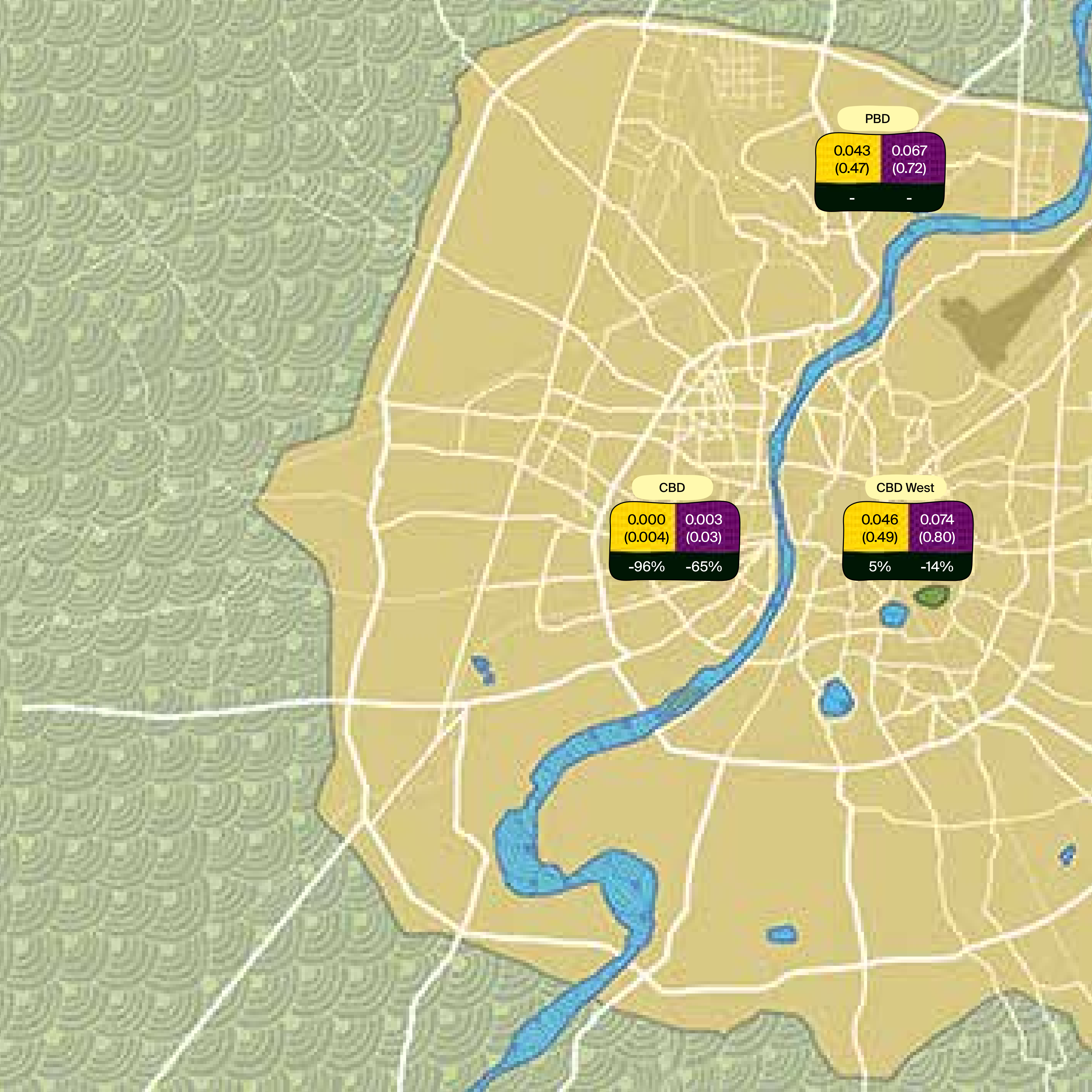
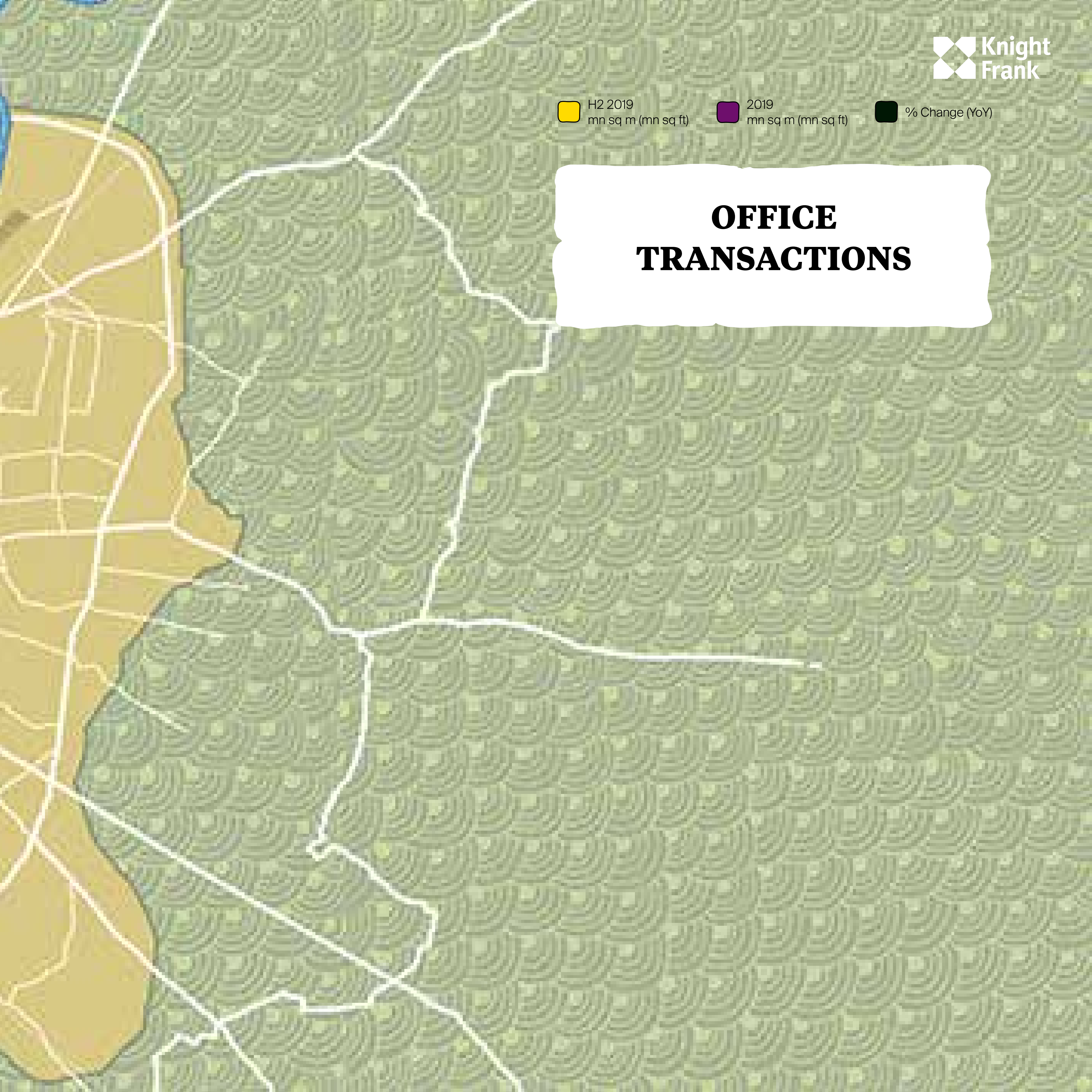
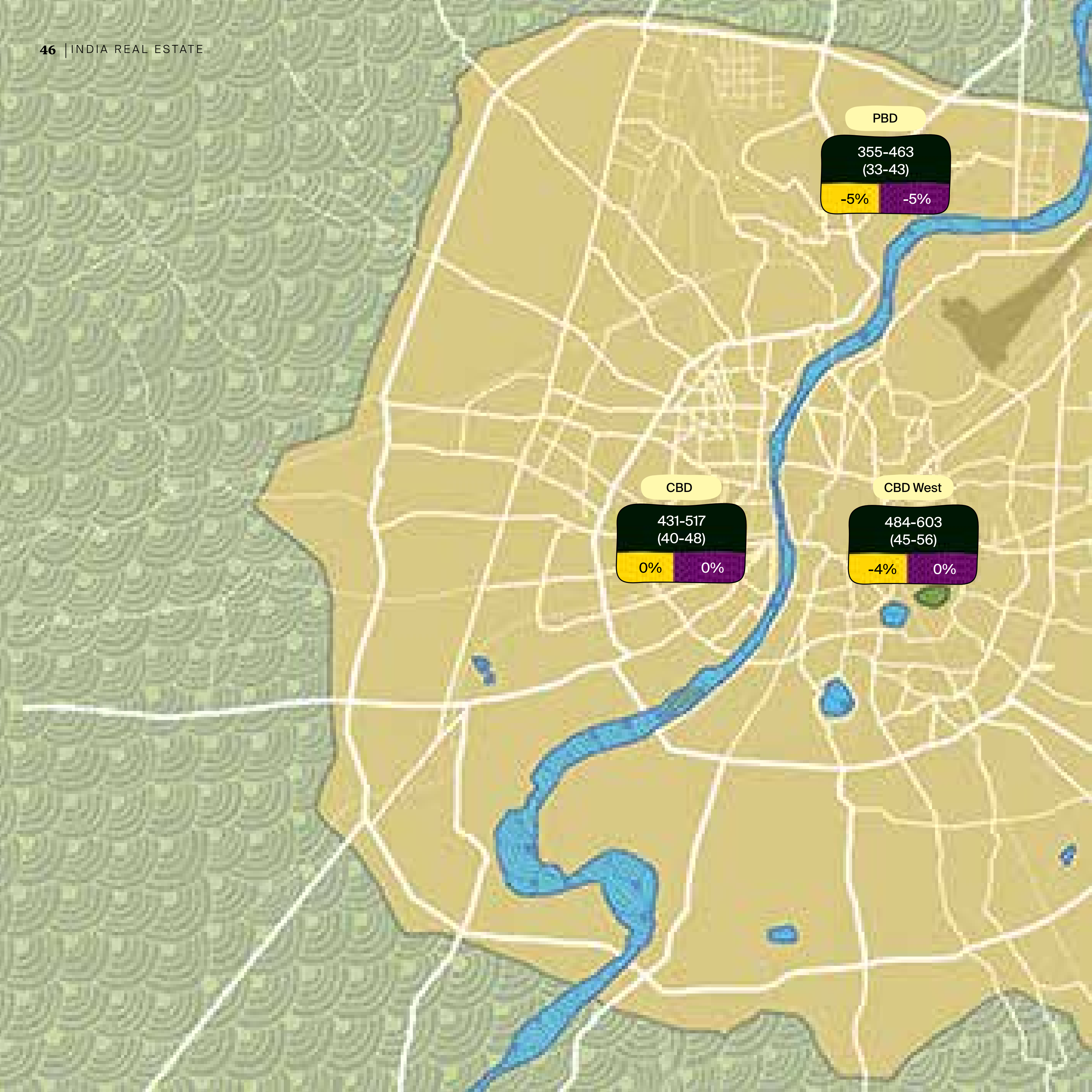


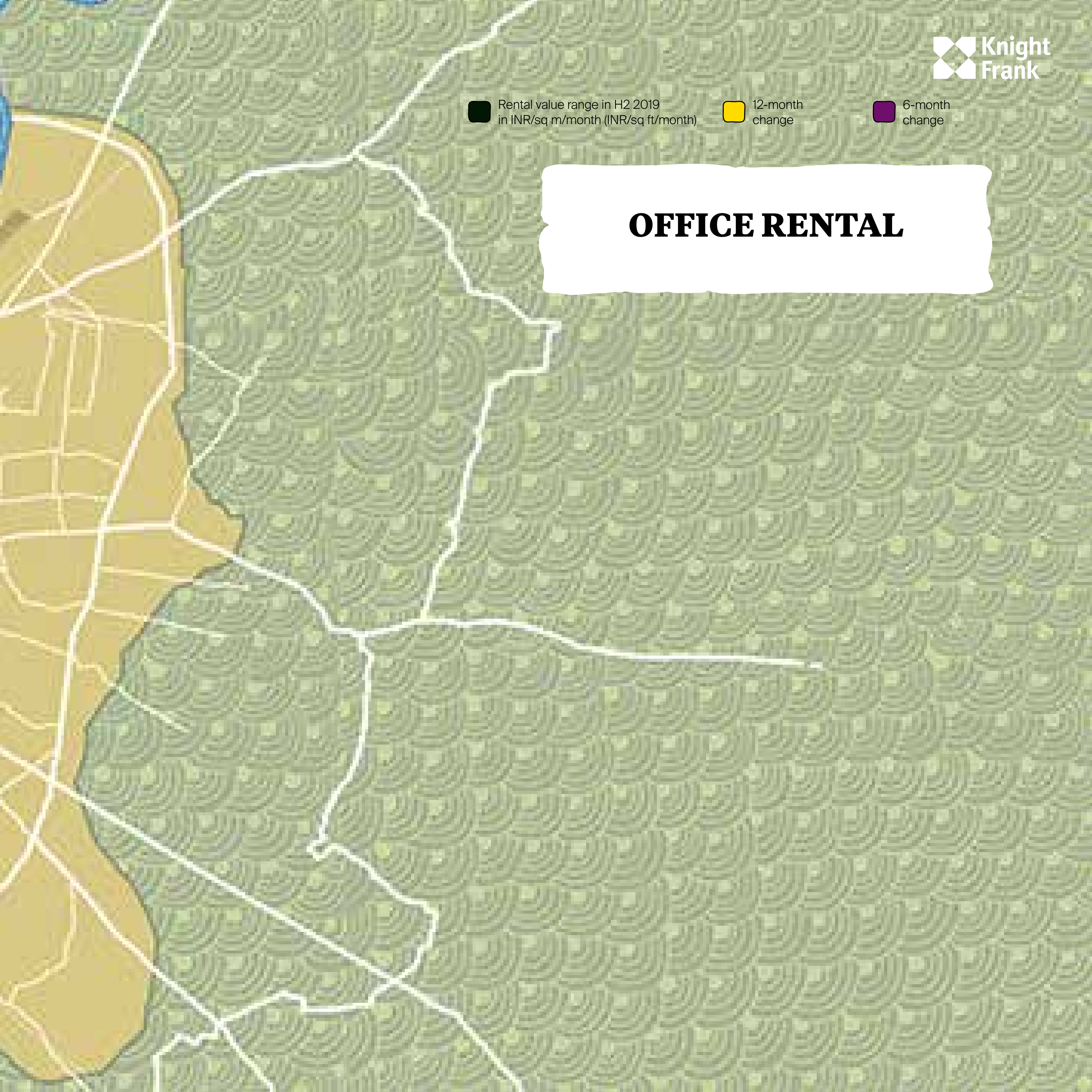
PBD
0.043
(0.47)
0.067
(0.72)
-
-
CBD
0.000
(0.004)
0.003
(0.03)
-96%
-65%
CBD West
0.046
(0.49)
0.074
(0.80)
5%
-14%

OFFICE TRANSACTIONS




PBD
355-463
(33-43)
-5%
-5%
CBD
431-517
(40-48)
0%
0%
CBD West
484-603
(45-56)
-4%
0%

OFFICE RENTAL



Western and south-western peripherals remain residential favourites

- by Divya Grover

Ahmedabad is one of India's largest industrial hubs and its economy is dependent on not one but many sectors. The textile industry developed in Ahmedabad with India's first ever textile mill opening in 1860. Several others were soon established by leading industrialists in the eastern part of Ahmedabad. Reliance Industries and Arvind Mills have a huge presence in Ahmedabad. Since the eastern belt of the city has predominantly been a textile hub, it defines to a large extent the nature of residential development in surrounding locations such as Ramol, Vastral and Nikol which cater to the affordable housing segment. With the turn of the century, Ahmedabad emerged as a key city where headquarters of various public sector banks such as Dena Bank, Gujarat Ambuja Co-Operative Bank and Bank of Rajasthan came up. Two of India's biggest pharmaceutical companies – Zydus Cadila and Torrent Pharmaceuticals are located here; and the city also serves as corporate headquarters of major Indian conglomerates such as Nirma Ltd, Wagh Bakri, Rasna and the Adani Group.

Western zone – the hub of office space consumption

In the past two and a half years, the office space leasing volume in Ahmedabad has steadily increased with each half yearly period. CBD West comprising micro-markets such as Bodakdev, Keshav Baug, Prahladnagar, Satellite Road, Sarkhej-Gandhingar (SG) Highway, Science City Road and Thaltej has noted significant office space demand compared to the other CBD and PBD locations.

The Banking, Financial Services and Insurance (BFSI) sector has been a major occupier of office space in Ahmedabad and has historically garnered the biggest share of the overall leasing pie in the city. In the past few years, the Information Technology and Information Technology enabled Services (IT/ITeS) sector has developed significantly too, and the demand for quality office spaces has been strengthening towards the western part of the city. Though the transaction volume appears low when compared to cities such as Bengaluru, Mumbai or National Capital Region (NCR), the fact that Ahmedabad is a well-planned city with good physical infrastructure, has triggered a spate of office space developments by city-based developers. During the period H2 2017 to H2 2019, new office supply of approximately 0.80 mn sq m (8.7 mn sq ft) came on the block which far outpaces the cumulative leasing of 0.27 mn sq m (2.9 mn sq ft) during the same period. Most of this new supply has come up on the SG Highway belt making it a prime office hub.

	H2 2017	H1 2018	H2 2018	H1 2019	H2 2019
Transaction Volume mn sq m (mn sq ft)	0.03 (0.3)	0.04 (0.5)	0.05 (0.6)	0.05 (0.6)	0.09 (1.0)

Source: Knight Frank Research

Western zone - a bright spot for mid-segment and affordable residential demand

As the skyline along the SG Highway undergoes a makeover with skyscrapers, micro-markets in the vicinity have emerged

The weighted residential real estate price in Ahmedabad has largely remained stagnant in the past two and a half years and currently stand a little under INR 3,000 per sq feet. The enhanced housing affordability in Ahmedabad coupled with upcoming infrastructure developments focused on the western and south-western fringes of Ahmedabad has made these locations very attractive from a real estate standpoint.

as prime residential hotspots. Along with Grade A non-IT buildings and mixed-use developments, a lot of new residential development has been concentrated in the region between SG Highway and the SP Ring Road. Micro-markets such as South Bopal, Sarkhej, Shela, Shilaj and Vastrapur have witnessed considerable organized residential development in the past few years. In recent times, many new residential projects have come up beyond the SP Ring Road. The INR 2.5-7.5 million remains a sweet spot for residential apartments price tag in these micro-markets, and post set-up of Gujarat Real Estate Regulatory Authority, the real estate ecosystem has only become more transparent than what it already was. The weighted residential real estate price in Ahmedabad has largely remained stagnant in the past two and a half years with only a minor 1-2% uptick and currently standing a little under INR 3,000 per sq feet. The enhanced housing affordability in Ahmedabad coupled with upcoming infrastructure developments focused on the western and south-western fringes of Ahmedabad has made these locations very attractive from a real estate standpoint. The widening of the SG Highway to six-lane and construction of flyovers at major junctions on the SG Highway along Pakwan Circle, Ujala Circle and Sanand crossroads will enhance connectivity and reduce traffic congestions on this busy corridor which will give a fillip to residential real estate prices in the long term. Similarly, another infrastructure upgrade in the form of a 4 km long elevated road between Sola Bhagwat junction to Hebatpur near Zydus Hospital will drive demand for residential real estate in the vicinity.

Outlook positive

It is not only the growth in office sector leasing and infrastructure upgrades that are driving the residential real estate demand in the western quadrant of Ahmedabad. Equally, and probably more significant drivers of residential real estate are the ease of connectivity to the automobile hub of Sanand and the planned Dholera Special Investment Region (SIR). With the triple forces of rising office sector demand near the western city limits, multiple physical infrastructure upgrades and dual access to Sanand and Dholera SIR, the residential demand for mid-sized and affordable projects in South Bopal, Vatsrapur, Shela, Shilaj, Bhadaj, Ghuma, Markaba, Thaltej and SG Highway is here to stay and will be driven by white-collared professionals and mid-income home buyers. The age-old residential housing is paving the way for modern residential apartments and complementing this, the social infrastructure is also improving. With steady prices, the mid-segment will continue to pull end-users to this belt.

BENGALURU

RESIDENTIAL MARKET
OFFICE MARKET

Residential Market

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In H2 2019, product categories with ticket sizes of INR 2.5 – 5.0 million garnered 45% of the total new launches. This indicates a very important shift in developer behaviour to the affordable and mid -housing segment as homebuyers have become increasingly price sensitive post regulatory restructuring.

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- After two years of implementation, the Karnataka Real Estate Regulation and Development Act (K-RERA), 2017, witnessed 31% quarterly rise in cases disposed off during the July - September 2019 period. This bodes well for Karnataka's real estate sector as speedy dispute resolution will increase buyer confidence in the city's real estate market. To bring in more transparency in the real estate segment and safeguard the homebuyers' interests, the state real estate regulator has come out with a Circular in November 2019 with mandatory guidelines regarding minute details such as placement and font of RERA related information and the length and breadth it constitutes in all advertisements, whether through electronic media, SMS or print media. Further, to enhance its redressal mechanism, the K-RERA authority has planned to set up an independent conciliation forum with the aim of resolving the issues between stressed homebuyers and promoters, just like Maharashtra and Uttar Pradesh.
- Presently, many small and mid-sized residential developers are consolidating or merging with well-established builders with strong balance sheets as they are facing several challenges relating to compliance. The main reasons for such a phenomenon are the repercussions of events spread over the past three years, such as demonetisation, implementation of the Real Estate (Regulation & Development) Act, 2016 (RERA), introduction of the Goods and Services Tax (GST) and the Non-Banking Finance Companies (NBFC) crisis.
- In H2 2019, residential launches in Bengaluru represented a year on year (YoY) growth of 9%, mainly due to a low base of 11,826 units in H2 2018. Many developers are wary of launching new projects going forward due to delayed start of the revenue cycles and delays in obtaining approvals from various government departments and municipal agencies.
- In H2 2019, product categories with ticket sizes of INR 2.5 – 5.0 million garnered 45% of the total new launches. This indicates a very important shift in developer behaviour to the affordable and mid -housing segment as homebuyers have become increasingly price sensitive post regulatory restructuring. Increasing awareness of the benefits which can be availed for individual taxation, subsidies under CLSS and availability of these smaller ticket-sized products have benefitted many homebuyers. As a result, most developers are now focusing on these price brackets for launching future residential supply. Additionally, due to several government incentives and the strong pent-up demand, many large-

Bengaluru Market Snapshot

Parameter	H2 2019	Change (YoY)	2018	2019	Change (YoY)
Launches (housing units)	12,878	9%	27,382	33,772	23%
Sales (housing units)	19,851	10%	43,776	48,076	10%
Price (wt avg)*	₹ 53,572/sq m (₹ 4,977/sq ft)	6%	₹ 50,390/sq m (₹ 4,681/sq ft)	₹ 53,572/sq m (₹ 4,977/sq ft)	6%
Unsold inventory (housing units)	78,414	-15%	92,718	78,414	-15%
Quarters to sell (QTS)	7.0	-	10.3	7.0	-
Age of unsold inventory (in quarters)	12.7	-	12.7	12.7	-

Source: Knight Frank Research

*End of period

scale developers who had previously stayed away from the affordable and mid-sized segment are also venturing into this category with sub INR 4.0 million products.

- In line with past trends, South Bengaluru remained most popular and garnered the maximum share of 37% in the total launch pie in H2 2019. This can be attributed to a number of residential projects that were launched in peripheral locations such as Doddakannelli, Akshayanagar and Bannerghatta Road. Both Grade A and Grade B developers launched new projects in this belt because of their proximity to and further expansion of employment hubs such as the Electronic City, Outer Ring Road (ORR) and off-Sarjapur Road.
- Locations in the East such as Mahadevapura, Kadugodi, Whitefield and nearby residential belts were severely affected during 2018 due to the ongoing Phase 2 Metro construction and road widening along the planned Metro line. With the advancement of Metro work, developers feel that now is the right time to cash in on the existing demand in this region due to improved physical infrastructure. Growing office leasing activity, mainly driven by Information Technology and Information Technology enabled Services (IT/ITeS) sector, has increased the share of Peripheral Business District (PBD) East to 20% in the overall transactions pie in H2 2019 and is also a major factor behind the new residential supply influx. As a result, the share of eastern belt has increased from 15% in H2 2018 to 31% of the total new launches in H2 2019.
- North Bengaluru, which had witnessed the largest share of new launches at 44% in H2 2018, saw its share shrink to 24% in H2 2019. This cutback in new launches is primarily due to the existing large inventory and due to the region suffering from citizen woes on account of depleting ground water table.
- In H1 2019, the sales momentum was slow due to lack of clarity on the new GST rates for under-construction projects; but as the dust settled in the H2 2019 period,

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In H1 2019, the sales momentum was slow due to lack of clarity on the new GST rates for under-construction projects; but as the dust settled in the H2 2019 period, buyer sentiments seem to have improved.

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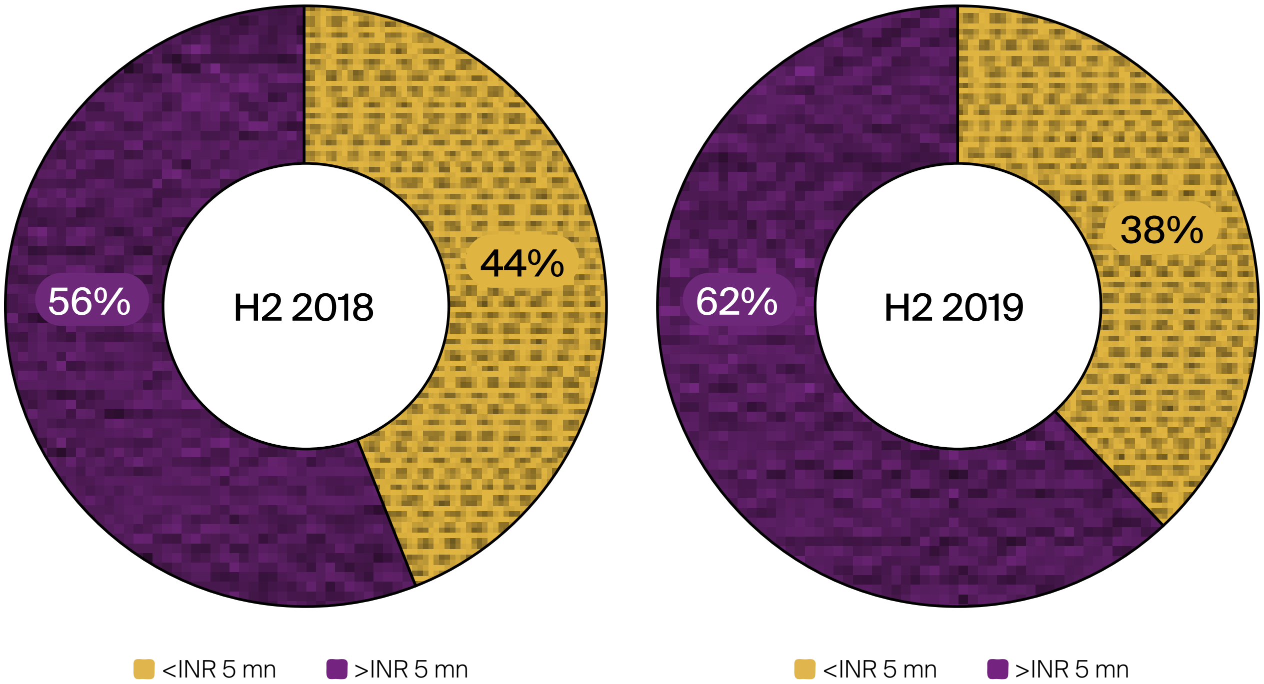
Ticket Size Split of Sales



Source: Knight Frank Research

buyer sentiments seem to have improved. To lure prospective home buyers, many developers rolled out several discounts and freebies not only during the festive period but also in December as a year-end bonanza. These lucrative deals include cash discounts of up to INR 500 per square foot on ready products, GST waivers and freebies such as cars, gold coins and club memberships. Because of these aggressive marketing strategies and the new GST rate structure, Bengaluru witnessed a 10% YoY sales growth.

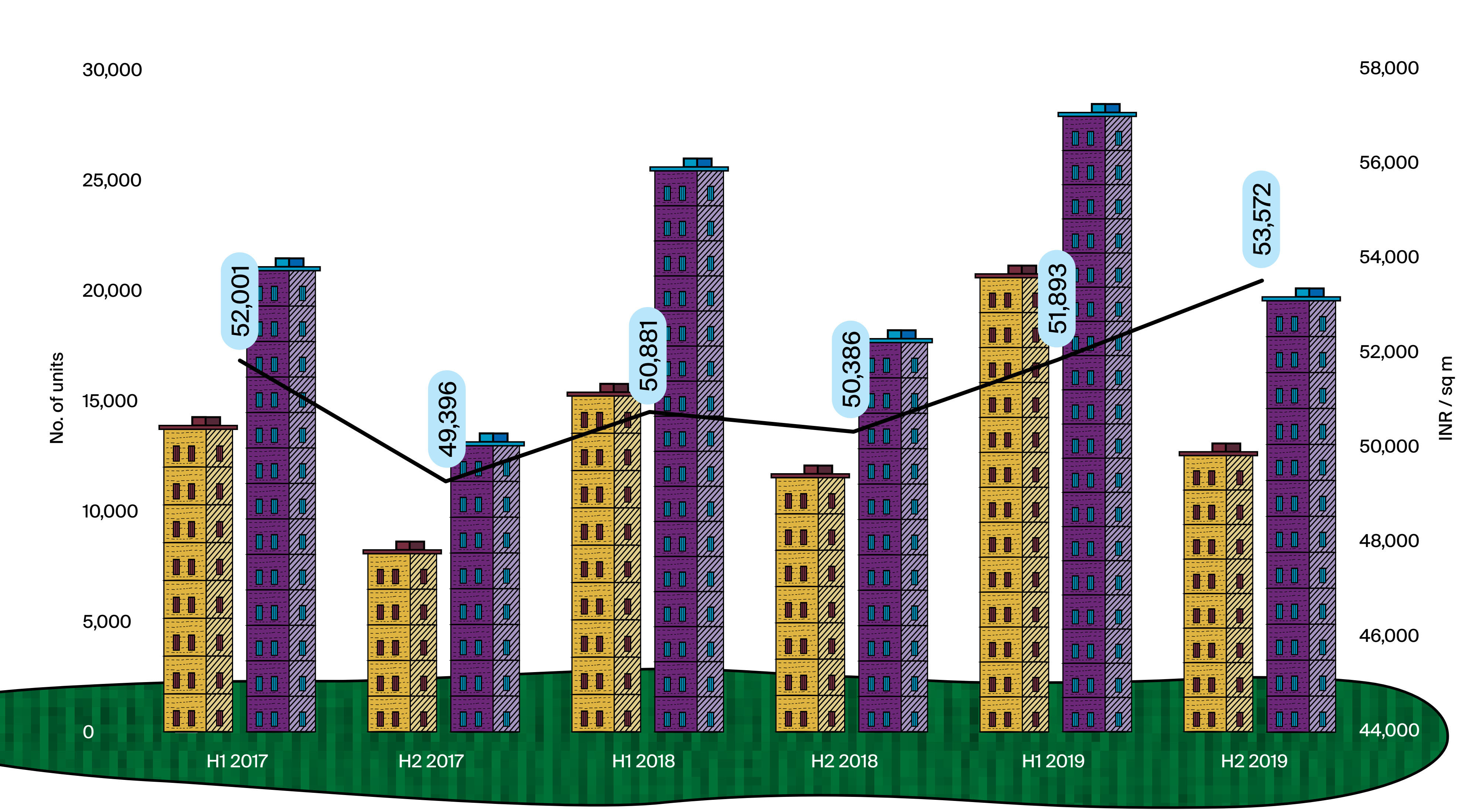
- The focus of home buyers is largely skewed towards projects that are either ready to occupy or nearing completion as they find it difficult to contribute towards both – home rental expenses and home loan EMIs. As buyers remain wary, ready-to-move-in inventory gained traction which also resulted in heightened enquiries for products with ticket sizes less than INR 5.0 million.

- In H2 2019, the weighted average pricing of residential products across Bengaluru rose by 6% YoY and stood at INR 53,572/sq m (INR 4,977/sq ft). The steady sales velocity and increase in end-user enquiries have enabled developers to marginally increase base selling prices of ready-to-move in projects and the ones nearing completion. In terms of micro-markets, strong office space consumption in the eastern peripheral district and progress along the upcoming Metro corridor also facilitated a 3-7% YoY increase in residential prices in East Bengaluru.

- Healthy sales momentum in ready projects, right price tag and developer focus to clear unsold stock have acted as catalysts to bring down the city's unsold inventory to 78,414 units in H2 2019 which represents a 15% YoY reduction. Of all the micro-markets, South and North witnessed a 19% and 17% YoY contraction in unsold residential units respectively.

- The quarters-to-sell (QTS) for Bengaluru scaled down to 7 quarters (or 21 months) from 10.3 compared to the year-ago period which is indicative of a healthy market moving towards recovery. With the product categories of ticket sizes below INR 5.0 million gaining greater traction, the QTS is expected to fall further.

Bengaluru Market Activity



Source: Knight Frank Research

- However, the age of inventory remained high at 12.7 quarters as many developers' residential projects remain work-in-progress and are thus unable to attract buyers. The liquidity crunch has only increased their existing cash flow troubles and is likely to derail the expected completion timelines.
- In November 2019, the Union Cabinet established an INR 250 billion Alternative Investment Fund (AIF) for stalled projects, of which INR 100 billion will be funded by the government. The primary aim is to complete construction of positive net worth projects registered under RERA. The government also approved this scheme for projects declared as Non-Performing Assets (NPA) or projects falling under the National Company Law Tribunal (NCLT). According to government statistics, this initial investment will aid as many as 1,600 unfinished projects comprising 458,000 residential units across different cities, but it remains to be seen how many projects in Bengaluru will benefit from this move. Equally crucial will be the time that the AIF and the Investment Manager take to assess the cases and disburse funding.
- To further benefit the residential realty sector, the industry body - Confederation of Real Estate Developers' Associations of India (CREDAI), Karnataka is trying to persuade the state government to remove No Objection Certificates (NOCs) at the time of plan sanction to ease the approvals' process and improve the delayed timelines for developers.
- The 65 km Peripheral Ring Road (PRR) project has finally received the state government nod at INR 119 billion and the expected year of completion is 2022. The PRR will connect Tumkur Road in the north with Hosur Road in the south via Bellary Road. This project aims to decongest traffic at the ORR and enhance connectivity along the planned route. This will further boost real estate developments along the PRR stretch as well as the surrounding areas and towns.

6%

YoY Increase in weighted average residential prices

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The steady sales velocity and increase in end-user enquiries have enabled developers to marginally increase base selling prices of ready-to-move in projects and the ones nearing completion.

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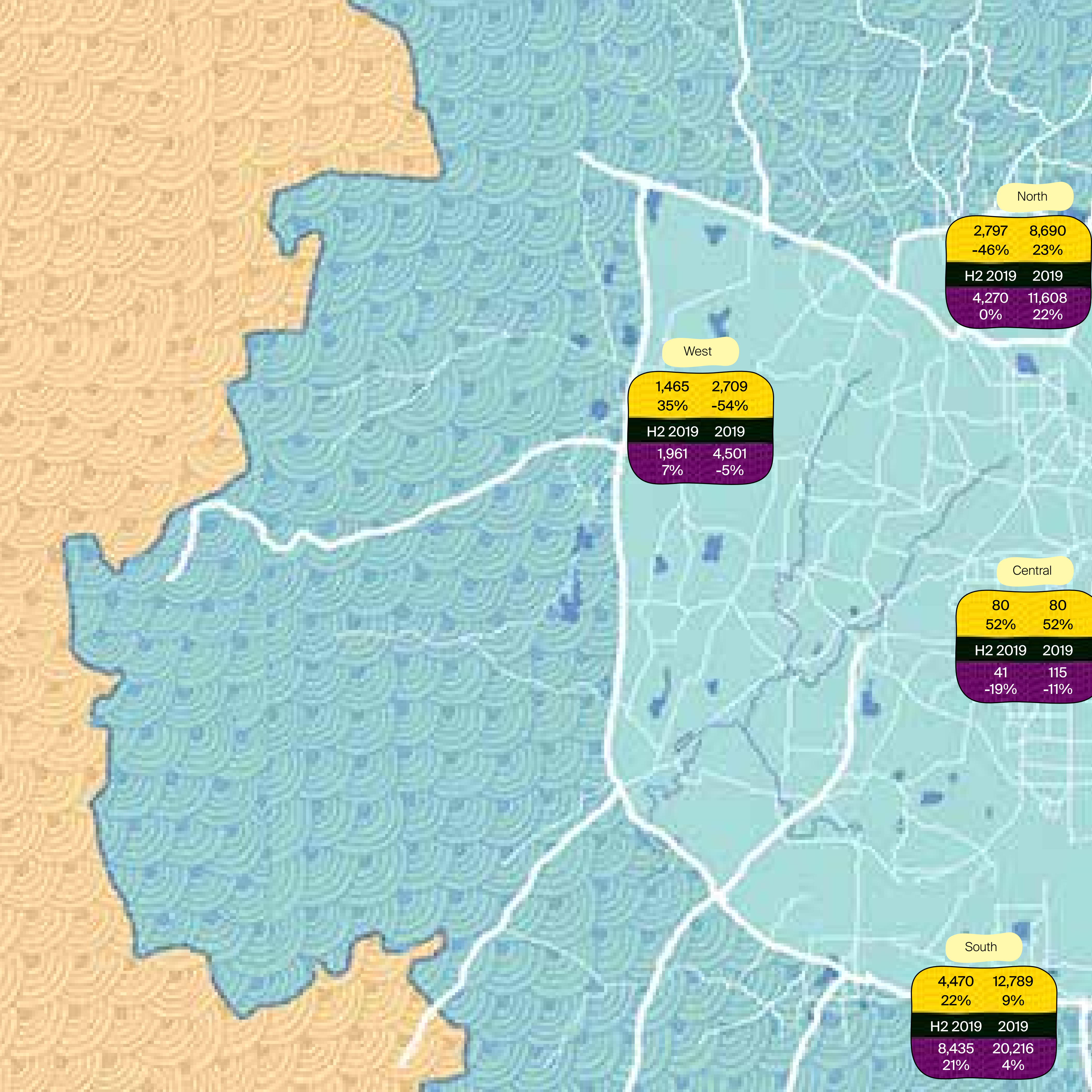
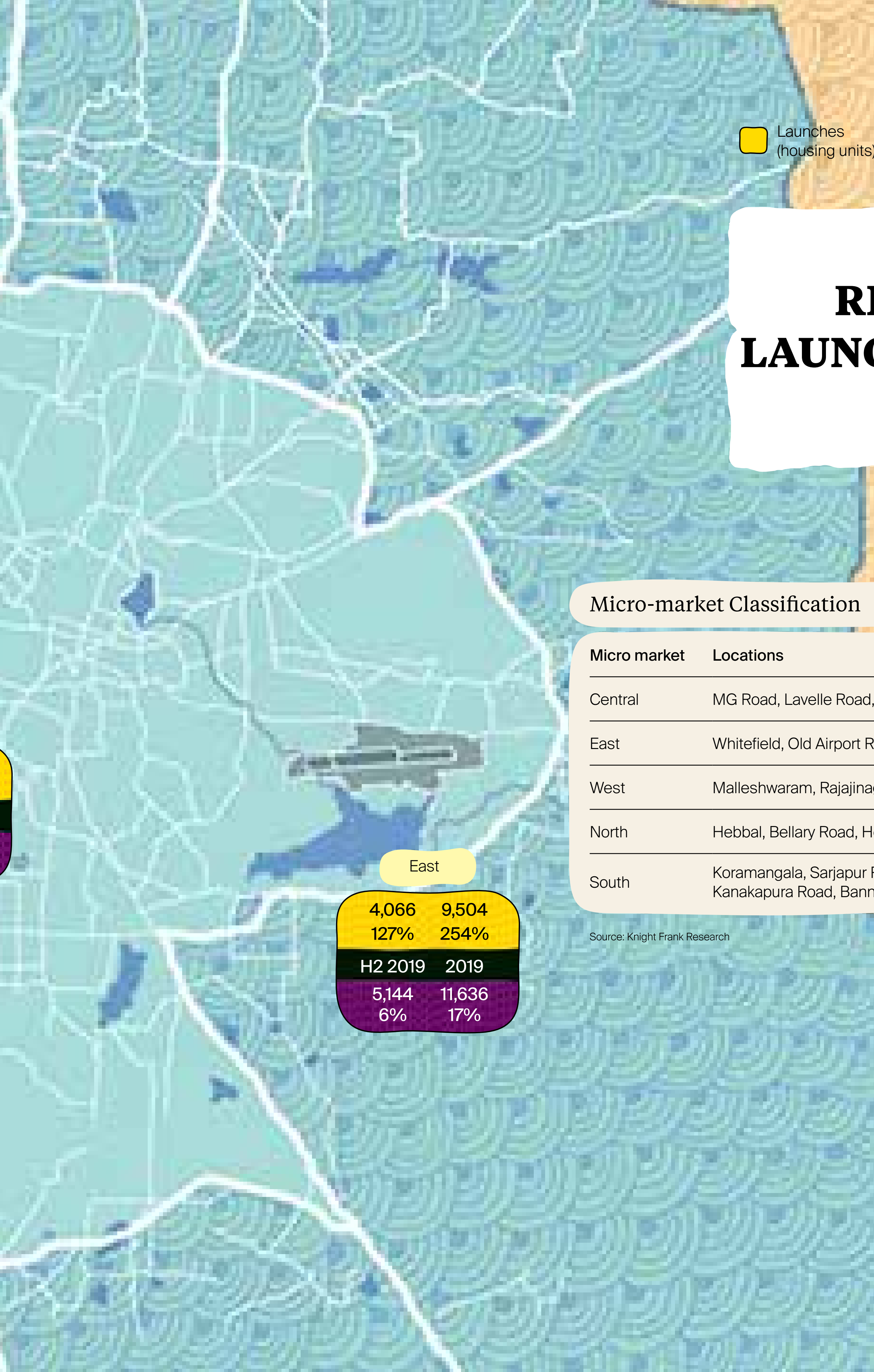


North
2,797 -46%
8,690 23%
H2 2019
2019
4,270 0%
11,608 22%
West
1,465 35%
2,709 -54%
H2 2019
2019
1,961 7%
4,501 -5%
Central
80 52%
80 52%
H2 2019
2019
41 -19%
115 -11%
South
4,470 22%
12,789 9%
H2 2019
2019
8,435 21%
20,216 4%

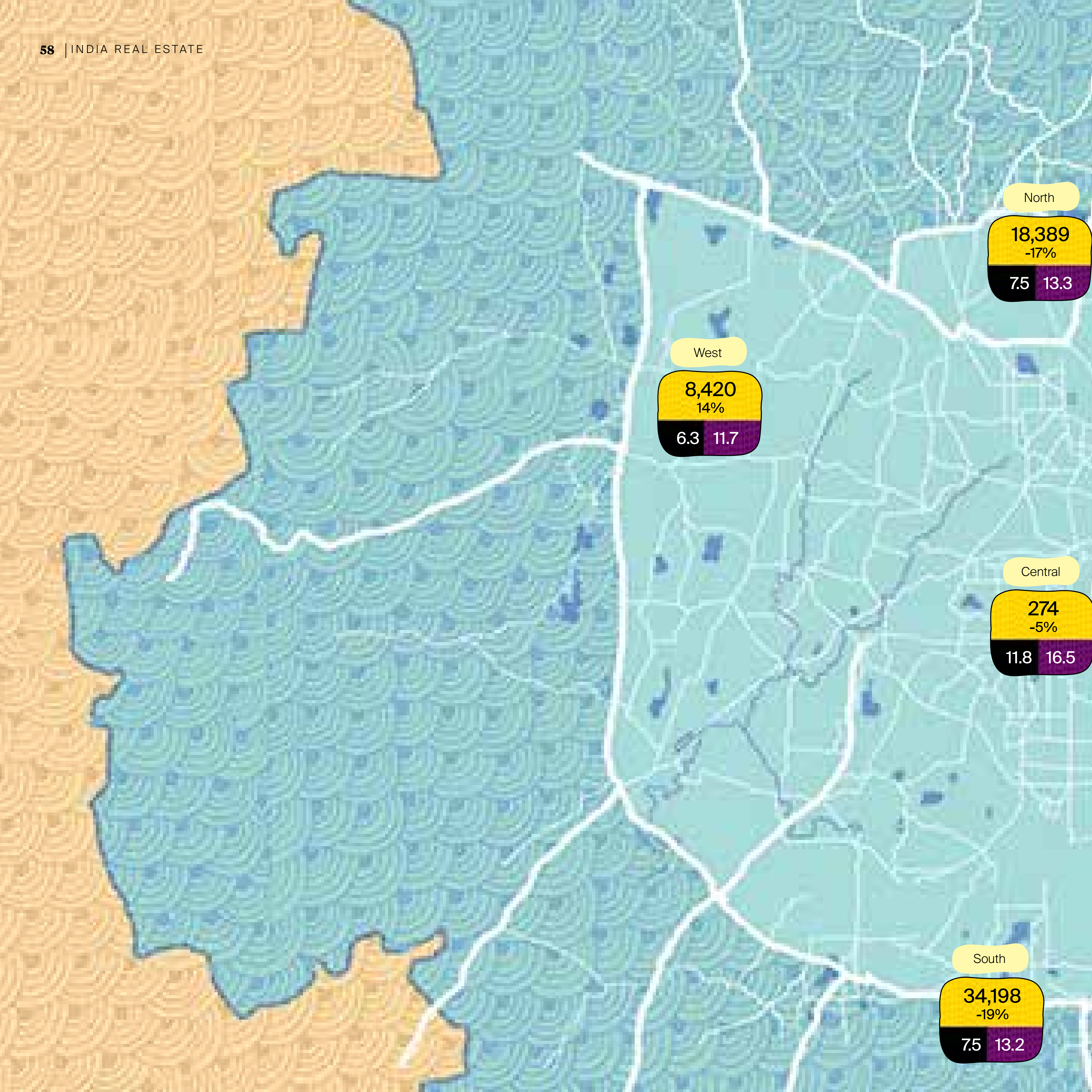
RESIDENTIAL LAUNCHES AND SALES



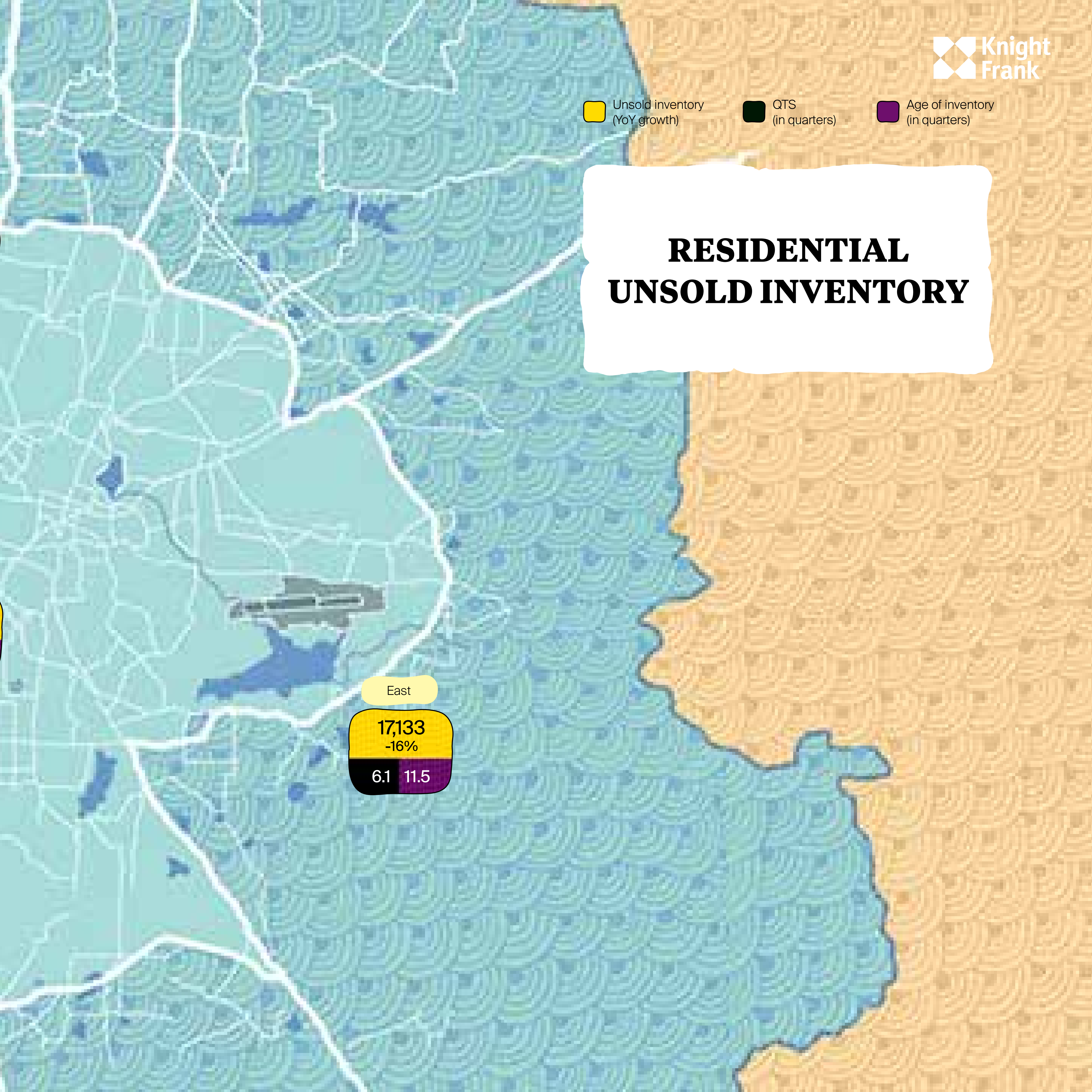
Micro-market Classification

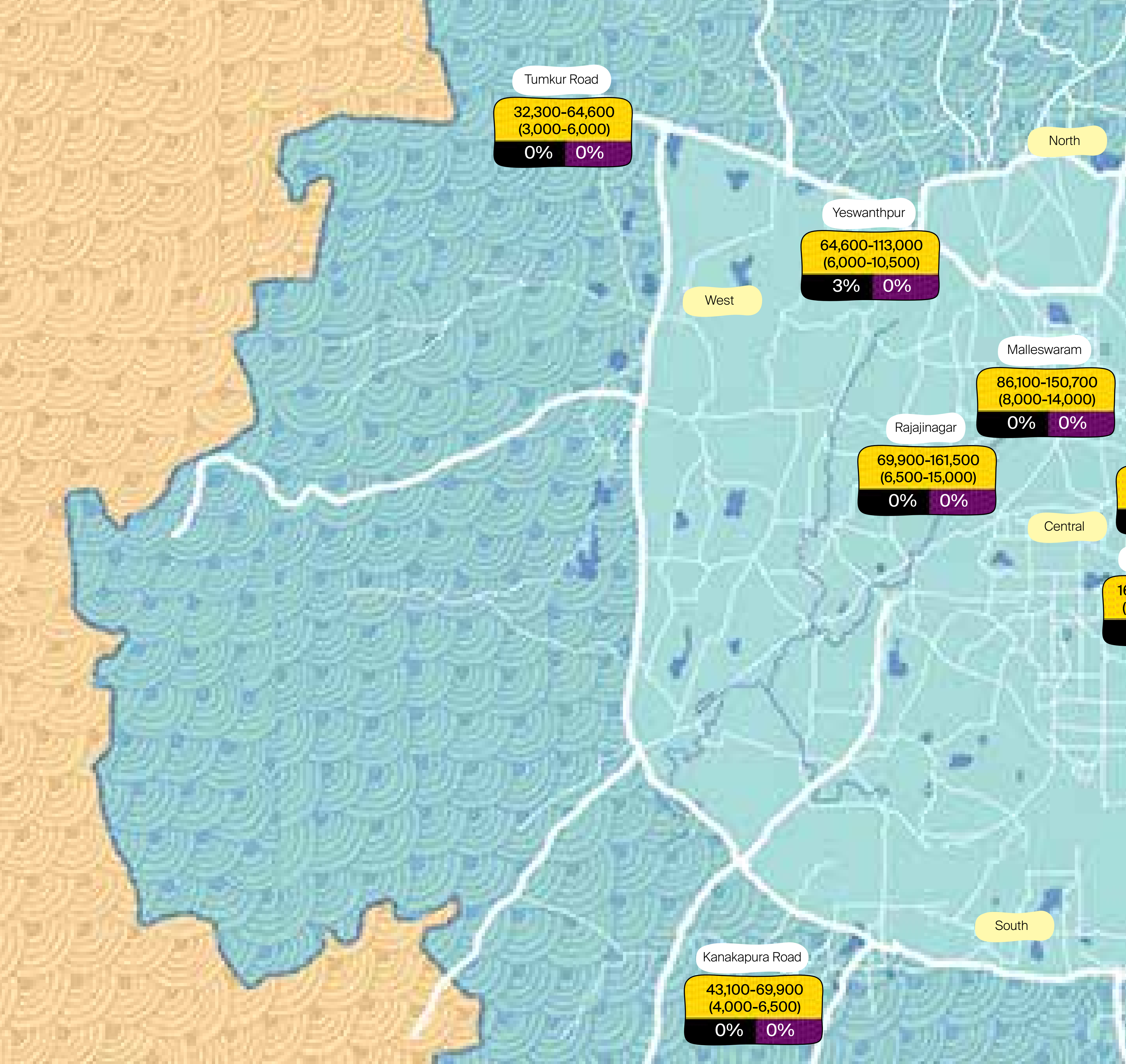
Micro market	Locations
Central	MG Road, Lavelle Road, Langford Town, Vittal Mallya Road, Richmond Road
East	Whitefield, Old Airport Road, Old Madras Road, KR Puram, Marathahalli
West	Malleshwaram, Rajajinagar, Yeswanthpur, Tumkur Road, Vijayanagar
North	Hebbal, Bellary Road, Hennur, Jakkur, Yelahanka,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

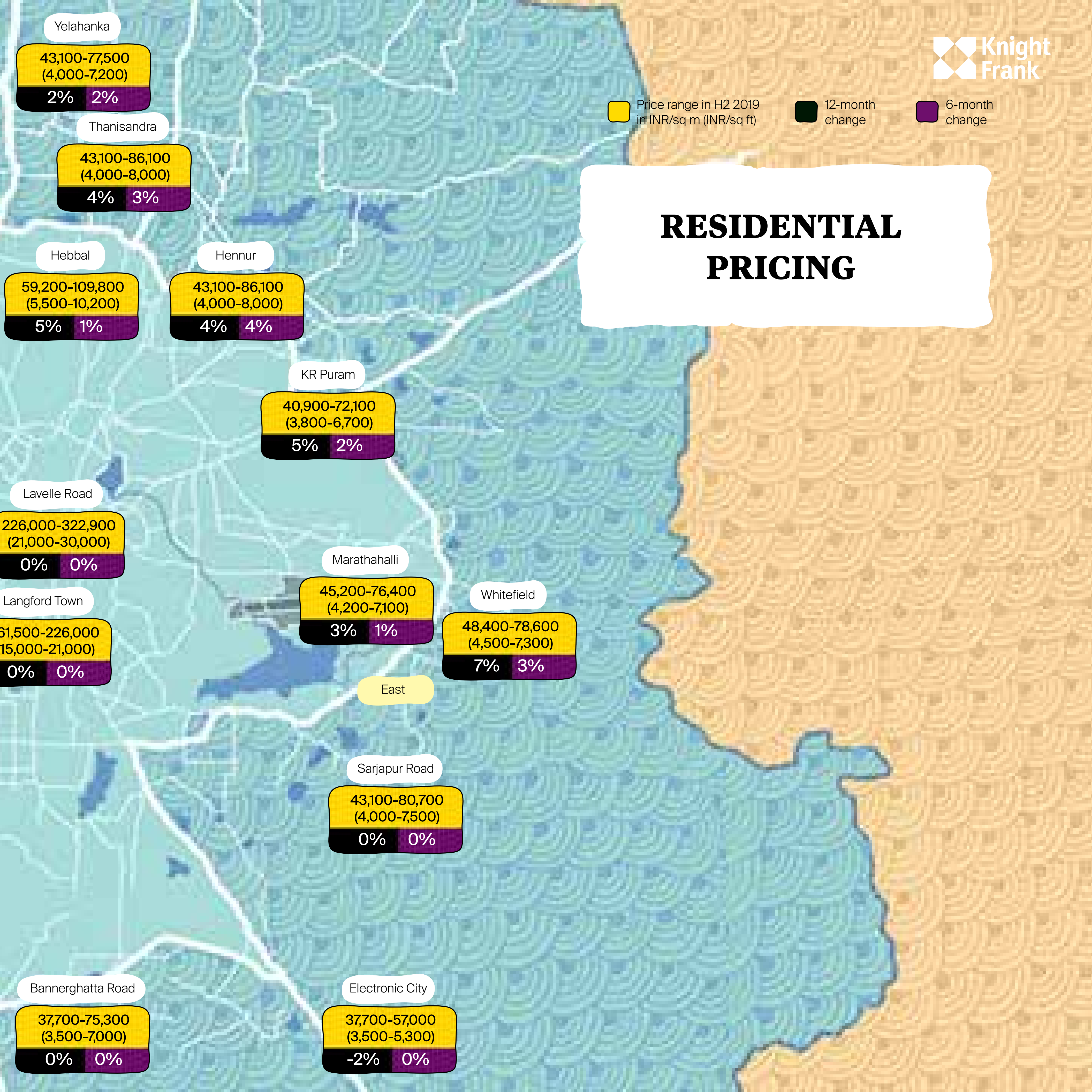
Source: Knight Frank Research


North
18,389
-17%
7.5
13.3
West
8,420
14%
6.3
11.7
Central
274
-5%
11.8
16.5
South
34,198
-19%
7.5
13.2

RESIDENTIAL UNSOLD INVENTORY

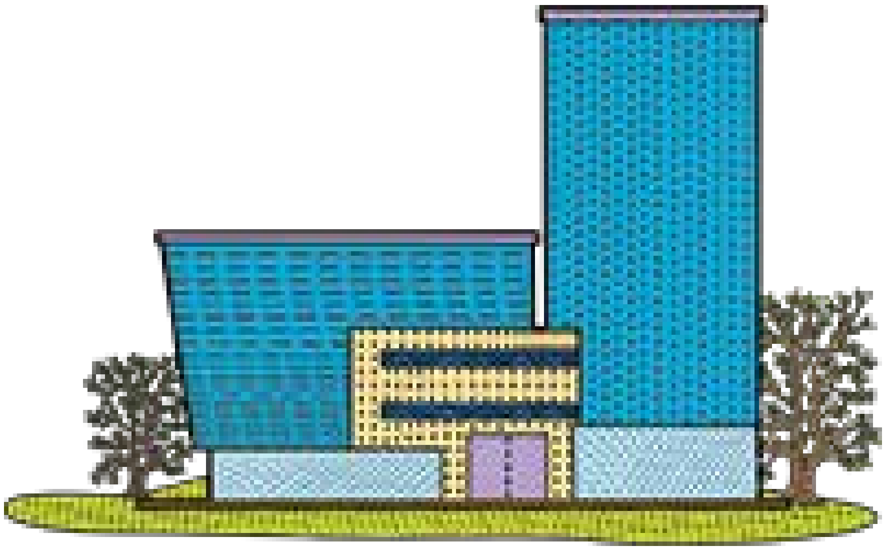



Tumkur Road
32,300-64,600
(3,000-6,000)
0% 0%
North
Yeswanthpur
64,600-113,000
(6,000-10,500)
3% 0%
West
Malleswaram
86,100-150,700
(8,000-14,000)
0% 0%
Rajajinagar
69,900-161,500
(6,500-15,000)
0% 0%
Central
South
Kanakapura Road
43,100-69,900
(4,000-6,500)
0% 0%



Knight Frank
Price range in H2 2019 in INR/sq m (INR/sq ft)
12-month change
6-month change
RESIDENTIAL PRICING
Yelahanka
43,100-77,500 (4,000-7,200)
2% 2%
Thanisandra
43,100-86,100 (4,000-8,000)
4% 3%
Hebbal
59,200-109,800 (5,500-10,200)
5% 1%
Hennur
43,100-86,100 (4,000-8,000)
4% 4%
KR Puram
40,900-72,100 (3,800-6,700)
5% 2%
Lavelle Road
226,000-322,900 (21,000-30,000)
0% 0%
Marathahalli
45,200-76,400 (4,200-7,100)
3% 1%
Whitefield
48,400-78,600 (4,500-7,300)
7% 3%
Langford Town
61,500-226,000 15,000-21,000)
0% 0%
East
Sarjapur Road
43,100-80,700 (4,000-7,500)
0% 0%
Bannerghatta Road
37,700-75,300 (3,500-7,000)
0% 0%
Electronic City
37,700-57,000 (3,500-5,300)
-2% 0%

Office Market



Vacancy levels in Bengaluru office market

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In 2019, Bengaluru's gross leasing maintained its consecutive year-on-year (YoY) growth momentum recording the highest office leasing activity in the past decade.

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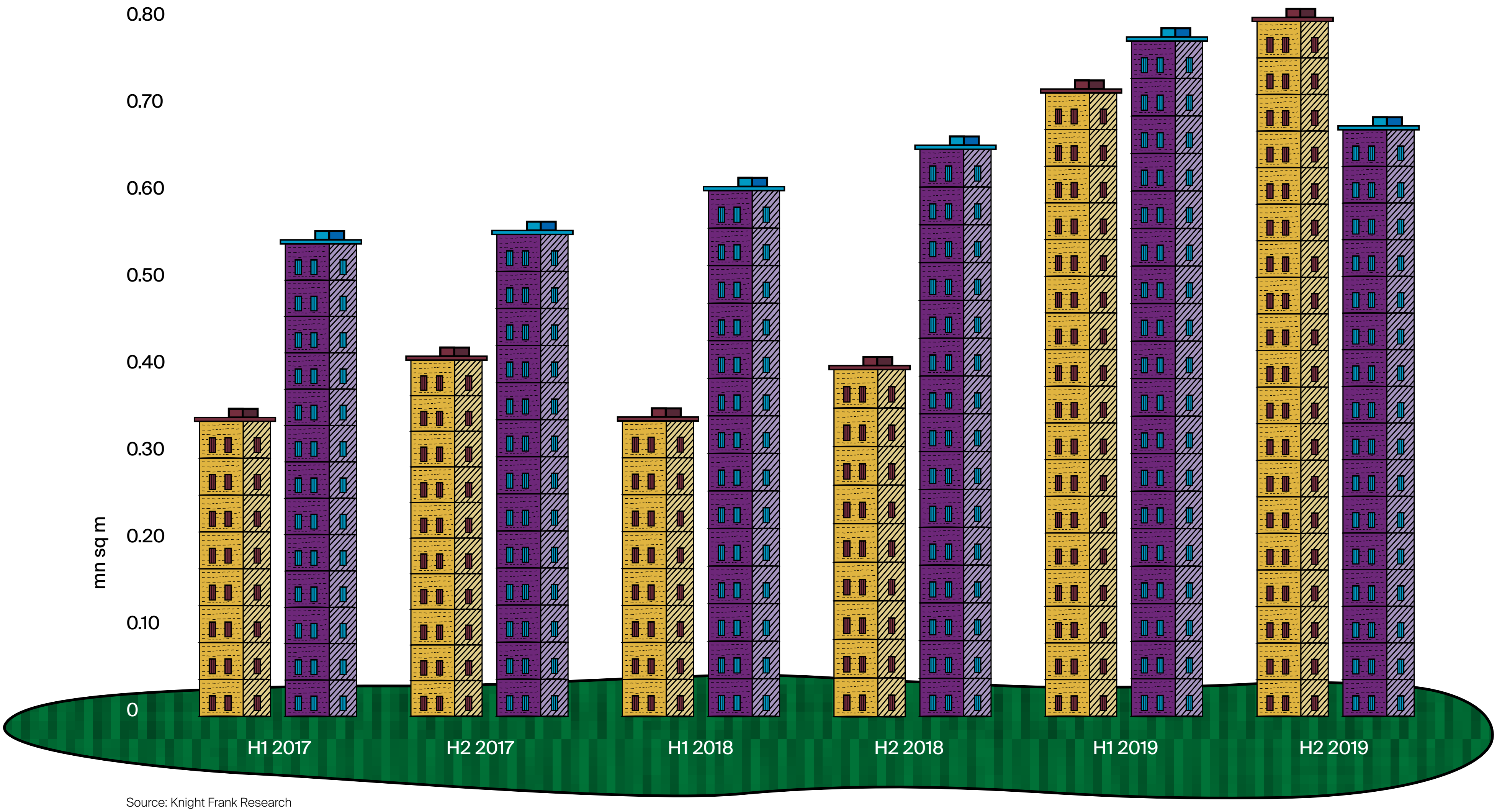
Bengaluru Market Snapshot

Parameter	H2 2019	Change YoY	2018	2019	Change YoY
New completions mn sq m (mn sq ft)	0.78 (8.40)	115%	0.71 (7.60)	1.49 (16.05)	111%
Transactions mn sq m (mn sq ft)	0.65 (6.98)	1%	1.25 (13.45)	1.42 (15.25)	13%
Weighted average rental in ₹/sq m/month (₹/sq ft/month)*	861.12 (80)	8%	796.54 (74)	861.12 (80)	8%
Stock mn sq m (mn sq ft)	15.30 (164.74)	11%	13.81 (148.69)	15.30 (164.74)	11%
Vacancy (%)	4.8%	-	4.3%	4.8%	-

Source: Knight Frank Research

*End of period

Bengaluru Office Market Activity



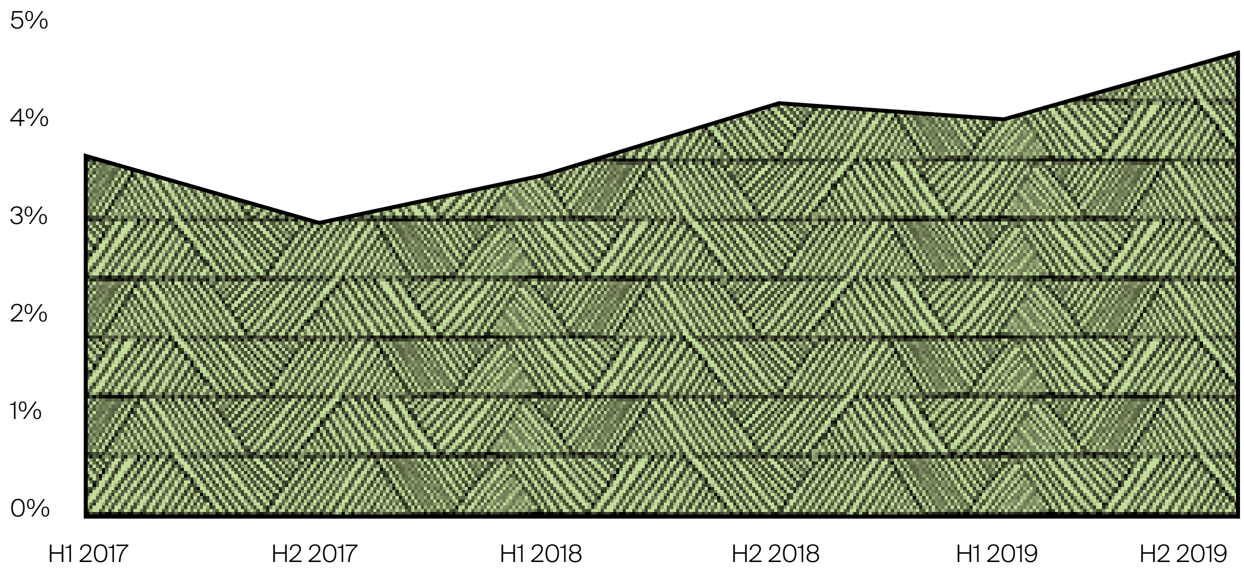
Source: Knight Frank Research

13%

YoY growth in transactions in 2019 over 2018

- In 2019, Bengaluru's gross leasing maintained its consecutive year-on-year (YoY) growth momentum recording the highest office leasing activity in the past decade. The total leasing activity in Bengaluru during 2019 stood at 1.42 mn sq m (15.25 mn sq ft) signifying an annual increase of 13% over 2018. In the past nine years, this is also the first time that new supply influx managed to outpace leasing, albeit marginally.
- Occupiers who were waiting for new quality office spaces to become operational, lapped up most of this new supply which helped achieve this landmark leasing total. In line with past trends, Bengaluru retained its top position across the top eight cities of India with its annual leasing volume accounting for a 25% share.
- During this entire year, a large number of leading developers in Bengaluru witnessed substantial growth in the enquiries for office spaces. Companies which have experienced organic growth in terms of number of employees throughout the year showed keen interest to expand footprint and sign new office space leases.

Bengaluru Office Market Vacancy



Source: Knight Frank Research

- Though the city noted 0.65 mn sq m (6.98 mn sq ft) of leasing volume in the last six months of 2019, the rate of growth in transactions remained only marginally higher at 1% compared to H2 2018. However, in H2 2019, Bengaluru continued to attract substantial global and domestic occupier interest on the back of a congenial business environment and a vast pool of technical talent.

- Of all the business districts, the Outer Ring Road (ORR) market remained the most preferred office destination accounting for 51% of the total leasing volume in H2 2019. The transaction volume in this belt had slowed down over the past one year due to minimal vacancy levels and limited new supply. As a result, occupiers had started scouting for office spaces in other nearby business districts and the share of ORR was limited to 30% in H1 2019. However, completion of many Grade A and B commercial office buildings in ORR has led companies to commit to large office spaces that are ready to occupy.

- This micro-market was followed by Peripheral Business District (PBD) East with a share of 20% in the overall transactions pie in H2 2019. Major factors that helped boost this micro-market's share from 5% in H2 2018 to its present share are (a) progress on the eagerly awaited metro corridor that extends from Baiyappanahalli to Whitefield, and (b) nearly 0.26 mn sq m (2.78 mn sq ft) of prime office buildings witnessing completion in H2 2019 alone. Companies now have a chance to occupy office spaces in this corridor at the existing rentals as these rates are only expected to rise further in the next two years.

- Bengaluru's office market registered an average deal size of 5,249 sq m (56,503 sq ft) in H2 2019 denoting a YoY decline of 14% although the number of office transactions jumped by 73%. This indicates that in H2 2019, the gross leasing activity was dominated by small and medium sized formats with nearly 69% of deals falling below 4,645 sq m (50,000 sq ft).

- On the basis of a sectoral split, the Information Technology and Information Technology enabled Services (IT/ITeS) continued to dominate the gross leasing activity in H2 2019 with a share of 51% as compared to a 37% share in H2 2018. Cognizant, Walmart Labs and Google remain amongst the top occupiers in this sector who leased large office spaces of an area more than 18,580 sq m (200,000 sq ft). Certain software companies related to artificial intelligence and cloud computing continued to expand their operations in the city.

- The co-working sector's share (as a part of Other Services Sector) increased from 5% in H2 2018 to 9% in H2 2019 in the overall transactions pie on the back of robust demand from large corporates as flexible and serviced workspaces gives these companies the freedom to expand quickly based on market conditions. Co-working operators like Smartworks, OYO Workspaces and Simpliwork acquired

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Bengaluru continued to attract substantial global and domestic occupier interest on the back of a congenial business environment and a vast pool of technical talent.

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Business District Classification

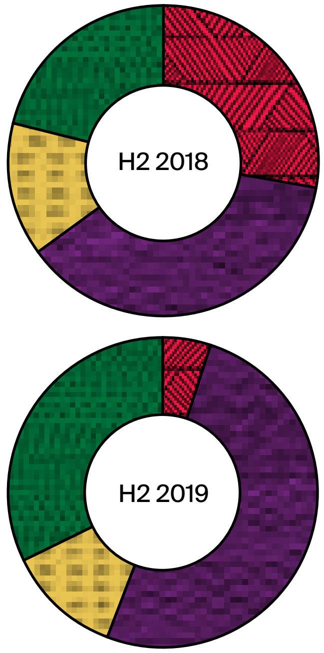
Business district	Micro markets
Central Business District (CBD) and off CBD	MG Road, Residency Road, Cunningham Road, Lavelle Road, Richmond Road, Infantry Road
Suburban Business District (SBD)	Indiranagar, Koramangala, Airport Road, Old Madras Road
Peripheral Business District (PBD) East	Whitefield
Peripheral Business District (PBD) South	Electronic City, Bannerghatta Road
Peripheral Business District (PBD) North	Thanisandra, Yelahanka, Devanahalli
Outer Ring Road (ORR)	Hebbal ORR, Marathahalli ORR, Sarjapur Road ORR

Source: Knight Frank Research

office spaces in older office buildings of the Central Business District (CBD) and off-CBD as they became available, offering start-ups and other new entrepreneurs the option of being centrally located.

- As of H2 2019, Bengaluru witnessed 0.78 mn sq m (8.40 mn sq ft) of new supply infusion registering a remarkable growth of 115%. This large quantum of new supply in the city is expected to ease the limited vacancy levels of certain micro-markets and also support the strong occupier demand. Of the total new supply that came on the block, approximately 40% and 33% became available along the ORR and PBD East respectively. With this substantial growth in new completions, the city's vacancy level increased from 4.3% in H2 2018 to 4.8% in H2 2019 redirecting the downward trend that was prevailing for the last two years.
- The city's office rental values have been on a steady rise given that occupiers are ready to pay premium rental rates for quality office spaces in Grade A buildings. Currently, the weighted average rent in Bengaluru is INR 861.12/sq m/ month (INR 80/sq ft/month) which represents an 8% YoY growth over H2 2018. In CBD, the rentals strengthened by 8% YoY as well. This spike in rentals can be primarily attributed to limited vacancy, fresh stock coming online in the first half of 2019 and significant renovations being affected in older properties that warranted a revaluation in rents. Additionally, close to 80% of the overall transacted space in CBD was accounted for by expansion activity, more than half of which was accounted for by the co-working sector. Another major driver for this growth was the IT/ITeS sector as Bengaluru alone witnessed a 20% upsurge in hiring during H1 2019. While more supply will be infused in the forthcoming periods, demand is expected to keep gross leasing positive as the tech sector continues to grow.
- After receiving a positive response from the residential markets of certain western and northern cities of India, some of the listed Bengaluru-based developers are now actively planning to expand their commercial and hospitality portfolios to other Indian cities to capture a larger market share.
- India's first listed Real Estate Investment Trust (REIT), Embassy Office Parks' REIT experienced success in the commercial office sector and reported a 15% increase in revenue from operations for the quarter ended September 2019 over the previous quarter. This positive result has persuaded several other leading developers such as Prestige Group, RMZ Corp, DLF Ltd and K Raheja Corp to consider expanding their portfolio and thereby attract many institutional investors from across the globe.

Sector-wise Split of Transactions



Industry	H2 2018	H2 2019
BFSI	28%	5%
IT/ITeS	37%	51%
Manufacturing	14%	12%
Other Services	21%	32%

Note: BFSI includes BFSI support services; Other Services includes co-working, media, telecom etc.

Source: Knight Frank Research

Average deal size and number of deals

6,110 (65,769)
Average deal size in sq m (sq ft)
H2 2018
71
Number of Deals

5,249 (56,503)
Average deal size in sq m (sq ft)
H2 2019
123
Number of Deals

Note - 1 square metre (sq m) = 10.764 square feet (sq ft)
Source: Knight Frank Research

8%

YoY growth in weighted average transacted rentals

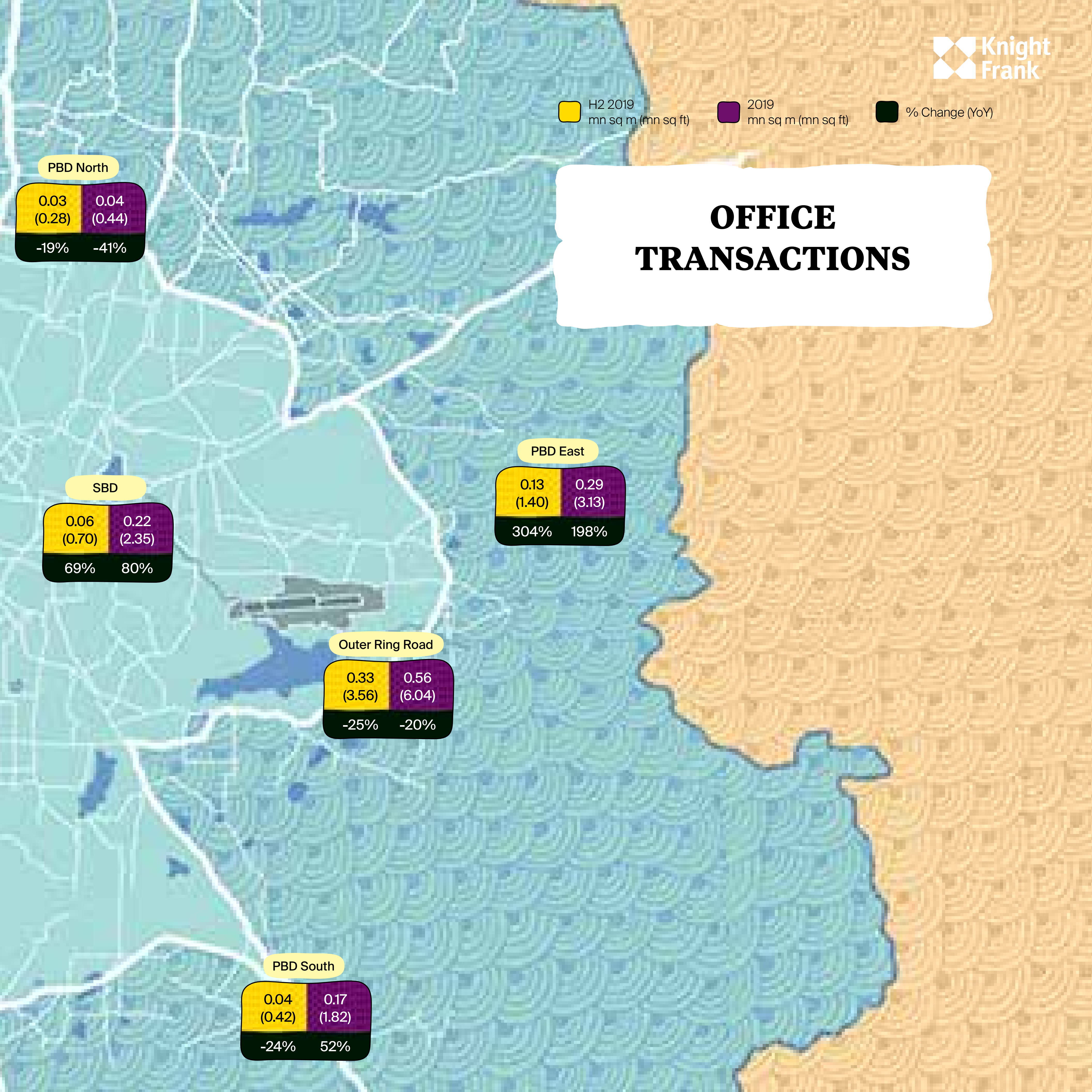
◆◆

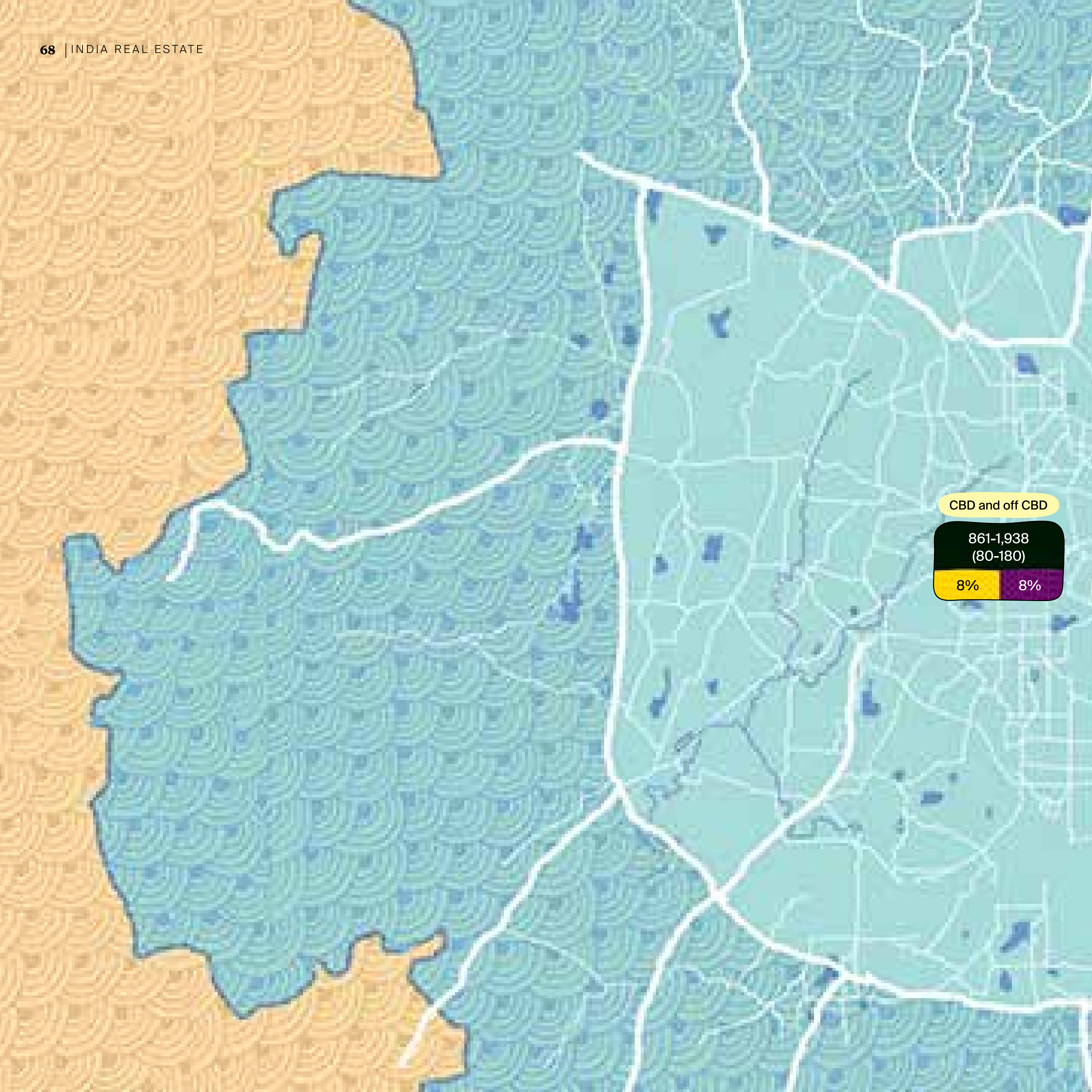
The city's office rental values have been on a steady rise given that occupiers are ready to pay premium rental rates for quality office spaces in Grade A buildings

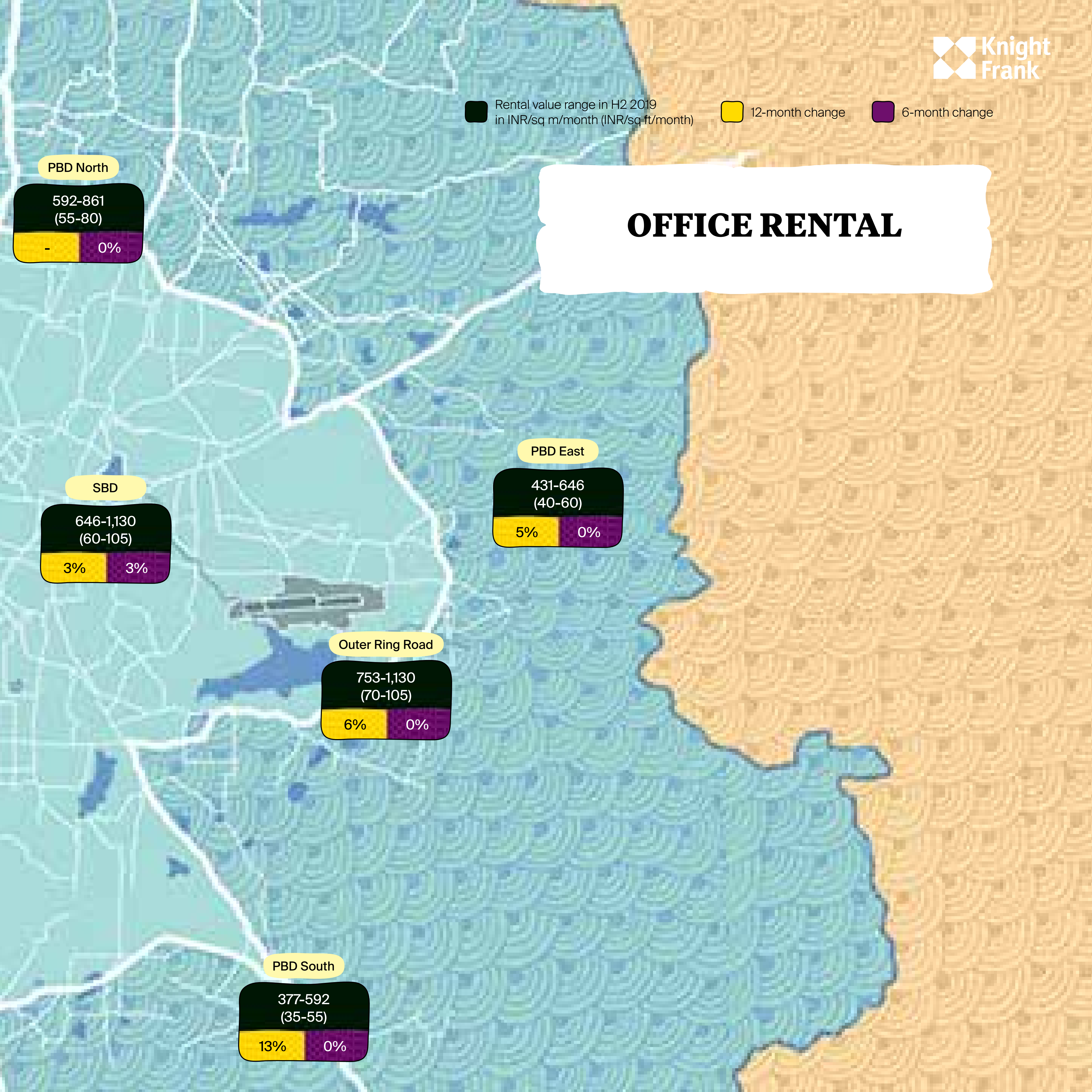
◆◆

CBD and off CBD
0.06 (0.63)
0.14 (1.46)
30%
-7%

OFFICE TRANSACTIONS




CBD and off CBD
861-1,938
(80-180)
8%
8%


Knight Frank
Rental value range in H2 2019 in INR/sq m/month (INR/sq ft/month)
12-month change
6-month change
OFFICE RENTAL
PBD North
592-861 (55-80)
-
0%
SBD
646-1,130 (60-105)
3%
3%
PBD East
431-646 (40-60)
5%
0%
Outer Ring Road
753-1,130 (70-105)
6%
0%
PBD South
377-592 (35-55)
13%
0%

Establishing a competent rental housing environment in India

- by Aishwarya Lalchandani

There are a total of 21.72 million urban rented households in India as per Census 2011 data. Rental housing, an area of great importance, given its potential to resolve India's housing shortage has remained a less prioritised item from a policy intervention perspective as India's housing policies have primarily been targeted towards home ownership. The rapid pace of urbanisation is increasing the pressure on housing markets of India. Coupled with India's huge millennial population pool of 440 million, migration to urban areas for higher education or employment is on the rise. This has created an inherent demand for need based rental housing whether in the form of student housing or co-living, creating a unique opportunity for real estate players to participate in structuring an organized rental housing market.

In order to institutionalise, promote and create a conducive legal environment for rental housing in India, the Ministry of Housing and Urban Affairs (MoHUA) released a Draft Model Tenancy Act (MTA), 2019. The Act mentions several options for rental housing such as individual units, dormitories, hostels, co-living, co-housing, paying guest and employee housing, and outlines the roles of various stakeholders in order to ensure rental housing for all.

The contemporary concept of co-living, short for community living, has become increasingly popular in the Indian residential real estate space over the last few years with one of the first co-living spaces opening its doors for business in Bengaluru. As per Morgan Stanley research, nearly 35% of India's overall population comprises millennials who see homes as transitionary commodities and prefer renting over home ownership and there now exists a huge demand for shared rental spaces.

- **Co-living fills the need gap**
  The millennial population migrating to new cities frequently have to deal with difficult landlords who put forth strict conditions often relating to lifestyle preferences for granting the lease. Co-living operators thus help in making the entire renting process easy for tenants by eliminating middlemen and saving the hassle of dealing with everyday household chores and the burden of paying frequent utility bills. On the other hand, many landlords do not want to rent out their premises to young working professionals and students due to fear of commotion, damage to furnishings, delay in monthly rents and short periods of stay. Co-living operators' free landlords from the trouble of having to deal in an environment with low deposits and alternative lifestyle preferences. Many co-living operators offer memberships for shorter periods of stay which is an added advantage and encourages tenants to keep renewing.

- **Converting vacant homes into ready homes**
  According to Census 2011, there are 11.09 million vacant homes in urban India, despite which one of the key challenges that continues to prevail for such co-living operators is the creation of adequate supply. To address this situation, it is favourable for co-living companies to lease unoccupied residential properties and convert them to fully managed, shared accommodations with the 'community' feature as a part of their core offering. While the Draft MTA, 2019 is yet to be fully developed and implemented, it is necessary to lay down guidelines for future co-living developments operated out of residential and non-residential properties. It is also essential to pin down norms regarding approvals, licenses and fiscal and non-fiscal incentives for co-living operators as well as for developers functioning in this sector.

- **Co-living fetches better rental yields for landlords**
  Low rental yields at 2% - 3% in the residential asset class across different cities of India have kept landlords from investing and letting out their vacant premises to prospective tenants. However, a stable co-living asset presents attractive returns ranging from 10 to 15% which involves low risk and high potential. Hence, co-living provides a better yield on the available space. This is a viable option only if landlords are willing to lease their properties to co-living operators for further sublease to students or working professionals.

- **Developers and investors getting into action**
  Since 2016, India's co-living segment has attracted many private equity and new generation entrepreneurial investment exceeding USD 750 million. Additionally, various Bengaluru-based developers such as Embassy Group, Puravankara, Salarpuria Sattva and Brigade Group have announced their plans to venture into the co-living market. Many other co-living operators have tied up with real estate builders to develop build-to-suit products mainly on an asset-light model. This sub segment is also gaining popularity and is being explored by certain hospitality chains like Oyo Hotels & Rooms as well as Lemon Tree Hotels. The co-living market in India has established approximately 120,000 beds over the last 15 – 20 months. By 2023, nearly 600,000 beds are expected to be added in this shared rental housing segment and this number is expected to grow manifold on the back of robust demand.

Some of the major investments in the co-living and student housing segment in 2019

Operator name	Investor name	Amount (in USD million)
Grexter Living	Venture Catalysts	1.5
Zolo Stays	IDFC Alternatives, Mirae Asset and Nexus Venture Partners + Trifecta Capital	30 + 7
StayAbode	Voyage Group, Akatsuki and Incubate Fund	Undisclosed
Stanza Living	Alteria Capital + Falcon Edge Capital	4 + 50
Oxford Caps	Times Internet, Kalaari Capital, Silicon Valley-based 500 startups	8
CoLive	Salarpuria Sattva Group	9.2
OYO Life	Didi Chuxing, Softbank Vision Fund and Airbnb	Undisclosed
Housr	Abhishek Lodha, Pirojsha Godrej and Harsh Patodia	30
Hello World	Goldman Sachs	4.9

Source: Knight Frank Research

To expand their existing residential portfolio, a few leading developers in India are getting ready to build rental housing stock while some are testing the waters by investing in co-living startups. Apart from urban centres such as Bengaluru, Mumbai and NCR (National Capital Region), these developers are also looking at metro cities like Hyderabad, Pune and Chennai to capture a larger market share. Stimulated by the idea of shared rental spaces, the West Bengal government plans to set up a co-living facility through a joint venture to attract more tech professionals and entrepreneurs to Kolkata.

Promoting the rental housing space, which has been a highly fragmented sector dominated by personal home owners who rent out their spaces, could help meet the acute shortage of affordable housing.

Since the rental housing market in India has been a much-neglected sphere, the draft MTA, 2019 is expected to act as a catalyst in building stock for rental housing purpose and attract global investments. With new age rental laws on the anvil, people in times to come will not have to spend a fortune to obtain one of the necessities of life – a roof over their head. In the absence of adequate rental housing stock in India and rising unaffordability, modernising the rental market is the need of the hour.

CHENNAI

RESIDENTIAL MARKET

OFFICE MARKET

Residential Market

59%

of the total launches in H2 2019 fall in the sub-INR 5 million category.

- 2019 has been a year of much awaited stability and recovery for Chennai's residential real estate. The first half recorded a four-year high in launches along with a stability in the wavering sales numbers. This momentum of slow and steady recovery has continued in the second half of 2019 as well. In H2 2019, launches have dwindled marginally and sales have remained steady.

- Launches took a hit as developers continue to struggle with credit crunch. A slowing demand along with the aggravating Non-Banking Financial Company (NBFC) liquidity crunch have severely hurt developers' cash flows. A significant number of under-construction projects have been stalled and this has deterred developers from launching new projects in this half year period.

- Also, as demand remains concentrated in the affordable housing segment, many developers appear to be making a shift and venturing into this high traction market. 59% of the total launches in H2 2019 fall in the sub-INR 5 million category.

- Supported by the growth in the Information Technology / Information Technology enabled Services (IT / ITeS) and the Banking, Financial Services and Insurance (BFSI) sectors, residential sales have grown by 8% YoY in H2 2019.

- Sales remain concentrated in a select few segments. These are the sub-INR 3 million ticket size, the stilt plus four apartment structures, villas in the range of INR 10-15 million, and plots.

- The sub-INR 3 million ticket size has been and continues to be the most transacted residential segment in the Chennai market. Its sales have been immune to the shocks of disruptive events such as demonetisation, introduction of Goods and Services Tax (GST) and the Real Estate Regulation and Development Authority (RERA) Act. The segment continues to flourish, though the liquidity crisis seems to be creating some hindrance. As retail lending has also been affected by the NBFC crisis, lenders now insist on stringent due diligence and this does not necessarily work in favour of homebuyers of this segment. Fulfilling all documentation criteria and longer processing time for these applications have caused an increased incidence of failed transactions.

- The stilt plus four apartment structures, locally known as special buildings, have regained the favour of homebuyers as they fail to find comfort in high rises. High maintenance costs and the high risk of delivery delays are key reasons for the discomfort of homebuyers with tall, multi-storeyed buildings. For developers, these special buildings are low

Chennai Residential Market

Parameter	H2 2019	Change (YoY)	2018	2019	Change (YoY)
Launches (housing units)	3,780	-2%	10,373	11,542	11%
Sales (housing units)	7,980	8%	15,986	16,959	6%
Price (wt avg)*	₹ 44,883/sq m (₹ 4,170/sq ft)	-5%	₹ 47,245/sq m (₹ 4,389/sq ft)	₹ 44,883/sq m (₹ 4,170/sq ft)	-5%
Unsold inventory (housing units)	13,610	-28%	19,027	13,610	-28%
Quarters to sell (QTS)	3.31	-	4.83	3.31	-
Age of unsold inventory (in quarters)	15.05	-	14.47	15.05	-

Source: Knight Frank Research

risk projects that potentially offer relatively quicker exits with decent profits. Accordingly, developers too are preferring to launch such projects, especially as more and more high storey projects are getting stuck due to the ongoing liquidity crunch. Additional incentive is offered by the revised Floor Space Index (FSI) rules of 1.5 to 2 as they facilitate stilt plus five apartment structures in the same land parcel.

- While launches have dropped, demand continues to be steady. Consequently, a significant portion of the ready-to-move-in unsold inventory has been consumed, bringing down the unsold stock of the Chennai residential market by 28% YoY in H2 2019. However, the under-construction inventory numbers are rising, as continued lack of funds is resulting in stalling of projects.

- Prices show an effective correction of 5% YoY in H2 2019. Homebuyers continue to prefer completed projects to avoid the risk of delays. Developers too are eager to offload ready units. Consequently, more often than not, developers are resorting to discounts and attractive offers to lure buyers and this in effect has resulted in a price correction.

- On the positive side, lower number of launches have revised the quarters-to-sell (QTS) from 4.83 quarters in 2018 to 3.3 quarters in 2019. The age of inventory is now at 15 quarters.

- A new trend seems to be shaping up in Chennai residential market where developers are giving out an entire block from their constructed residential project to co-living players. This arrangement is helping developers bring in cash flow for the time being.

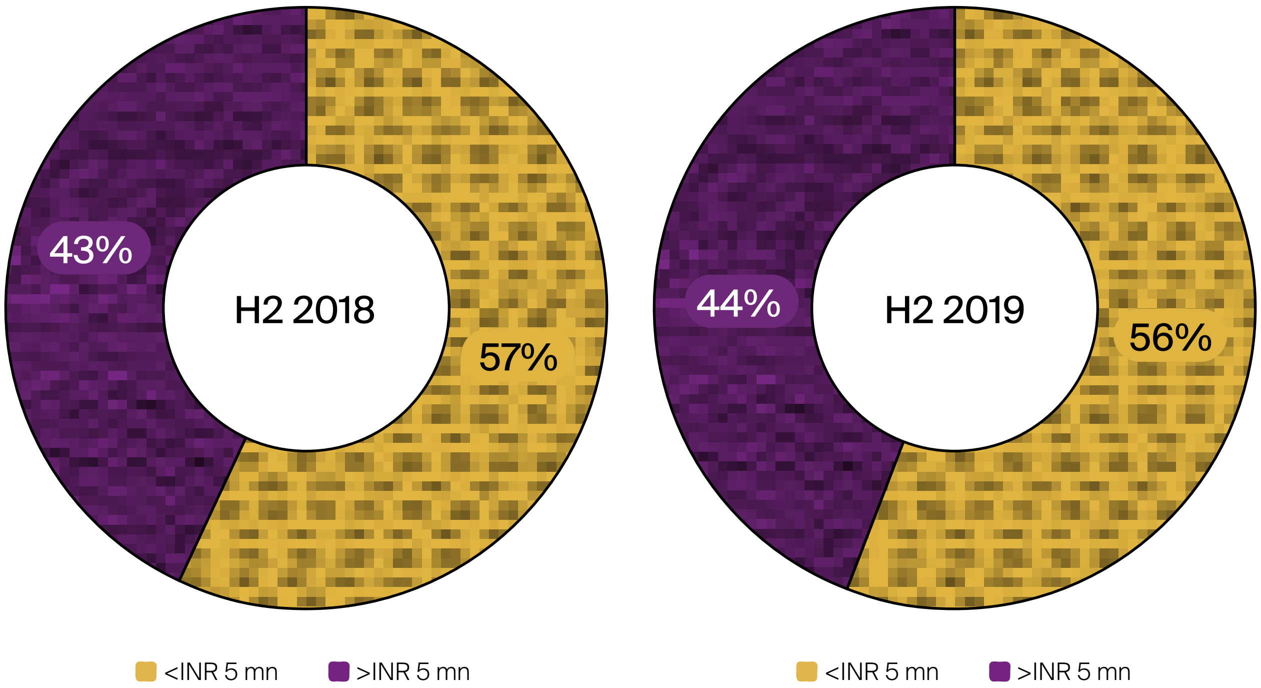
- Tambaram, Avadi, Thiravallur and extension of Porur are shaping up as upcoming residential catchments in Chennai. These areas offer numerous affordable housing options.

- Over the years, a major driver of the Chennai real estate market has been the Information Technology / Information Technology enabled Services (IT/ITeS) and industrial sectors. The ongoing economic slowdown and the resulting low consumption growth has been the cause of lay-offs in certain sectors and industries. This has created a wave of fear in the market as people grapple with job insecurity. As a result, they are holding back on big investment decisions such as home purchases.

- Further, the policy environment has not been conducive for investors and new businesses to set up shop in the city, consequently hampering job creation. This lack of job growth too has impacted growth of residential sales in Chennai.

- Chennai faced a severe water crisis in the first half of 2019. However, the gloom of water stress seems to have

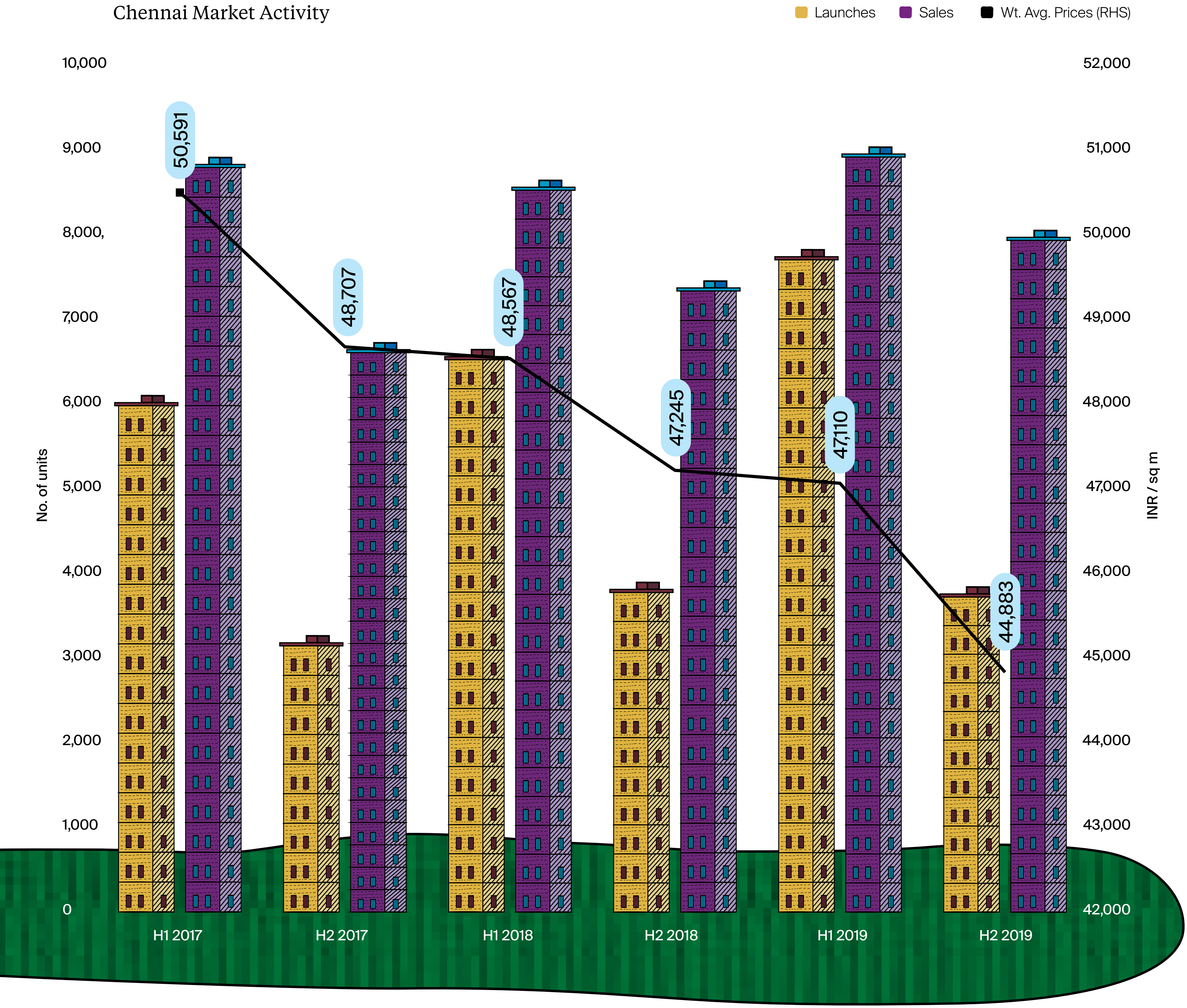
Ticket Size Split of Sales



Source: Knight Frank Research

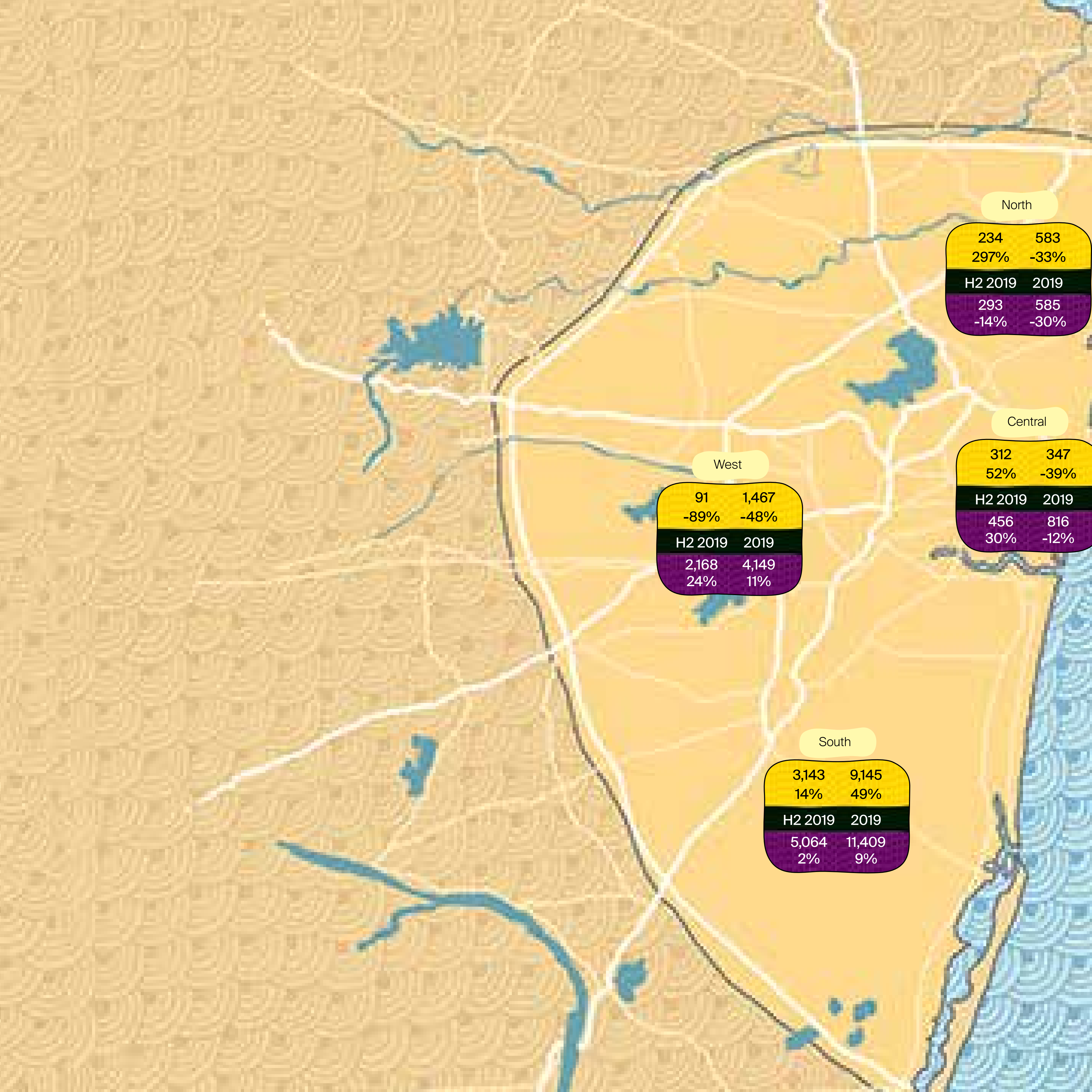
receded. Life is back to normal as far as water is concerned. Nonetheless, it is too early to comment on the 'ground zero' water situation of Chennai and whether it has been fully and completely addressed. Healthy monsoons this year have helped replenish natural aquifers. Also, the government intends to take appropriate measures to address the broader issue of water scarcity such as its plans of setting up four additional desalination plants in Chennai. All in all, Chennai seems to be better prepared for water exigencies now and these should not impact construction activity, going forward.

Chennai Market Activity



Source: Knight Frank Research

Sales remain concentrated in the sub-INR 3 million ticket size, the stilt plus four apartment structures, villas in the range of INR 10-15 million and plots.


North
234
297%
583
-33%
H2 2019
2019
293
-14%
585
-30%
Central
312
52%
347
-39%
H2 2019
2019
456
30%
816
-12%
West
91
-89%
1,467
-48%
H2 2019
2019
2,168
24%
4,149
11%
South
3,143
14%
9,145
49%
H2 2019
2019
5,064
2%
11,409
9%

Launches (housing units)

Sales (housing units)

% Change (YoY)

RESIDENTIAL LAUNCHES AND SALES

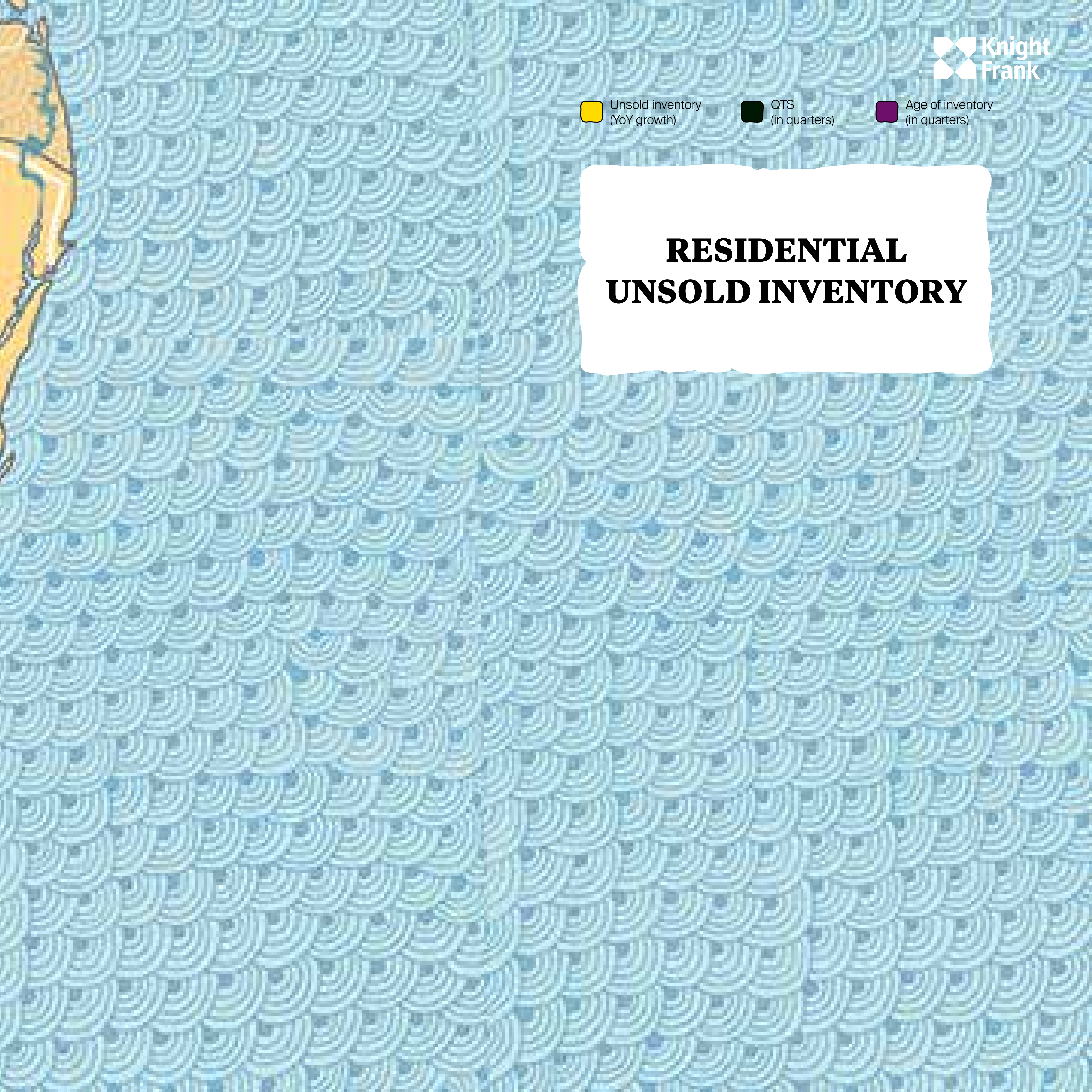
Micro-market Classification

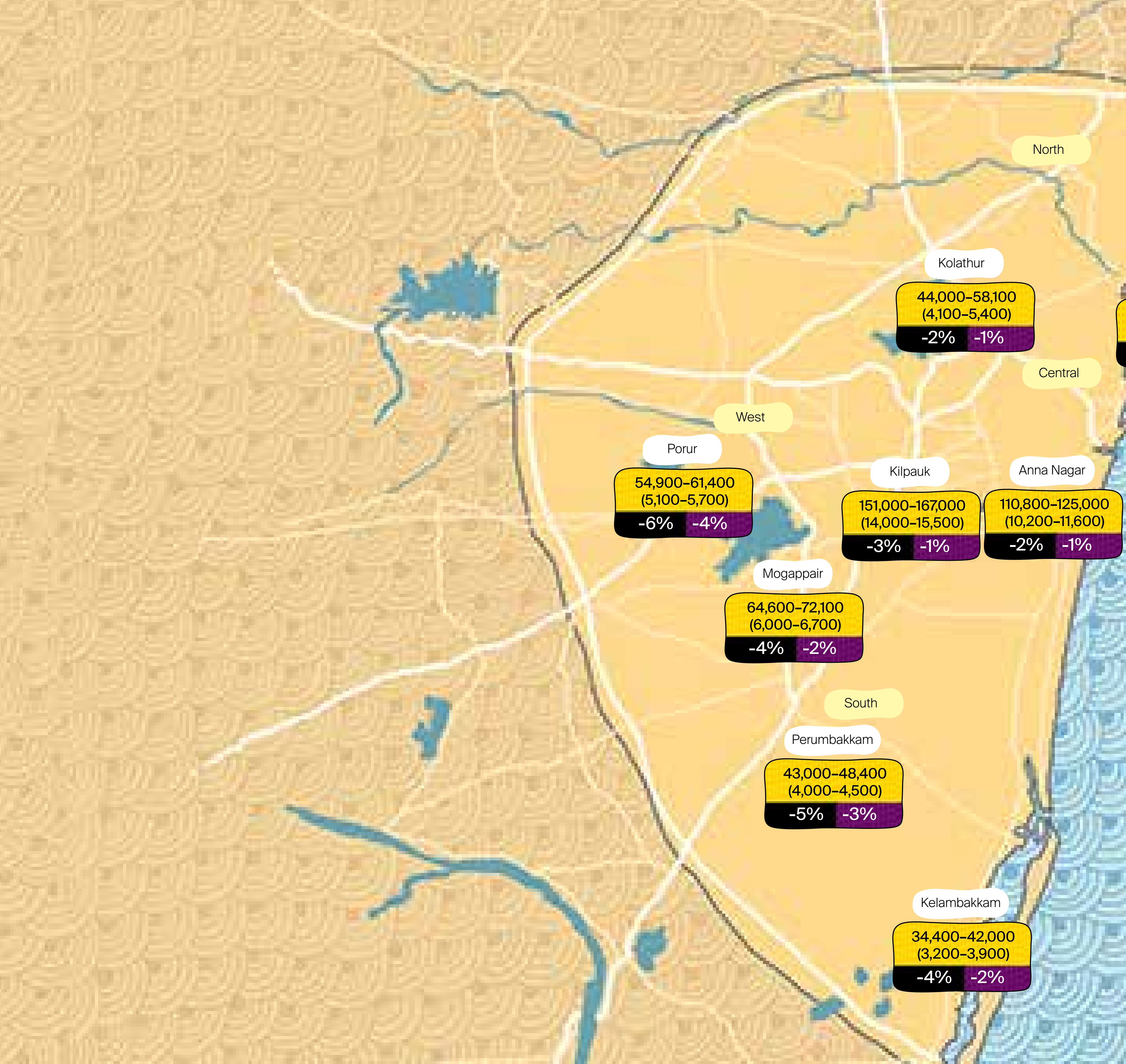
Micro-market	Locations
Central Chennai	T. Nagar, Alandur, Nungambakkam, Kodambakkam, Kilpauk
West Chennai	Porur, Ambattur, Mogappair, Iyyappanthangal, Sriperumbudur
South Chennai	Perumbakkam, Chrompet, Sholinganallur, Guduvancheri, Kelambakkam
North Chennai	Tondiarpet, Kolathur, Madhavaram, Perambur

Source: Knight Frank Research


North
492
-23%
3.20
9
Central
911
-23%
2.46
16
West
3,506
-32%
3.24
16
South
8,702
-28%
3.46
15

RESIDENTIAL UNSOLD INVENTORY




North
Kolathur
44,000–58,100
(4,100–5,400)
-2% -1%
Central
West
Porur
54,900–61,400
(5,100–5,700)
-6% -4%
Kilpauk
151,000–167,000
(14,000–15,500)
-3% -1%
Anna Nagar
110,800–125,000
(10,200–11,600)
-2% -1%
Mogappair
64,600–72,100
(6,000–6,700)
-4% -2%
South
Perumbakkam
43,000–48,400
(4,000–4,500)
-5% -3%
Kelambakkam
34,400–42,000
(3,200–3,900)
-4% -2%

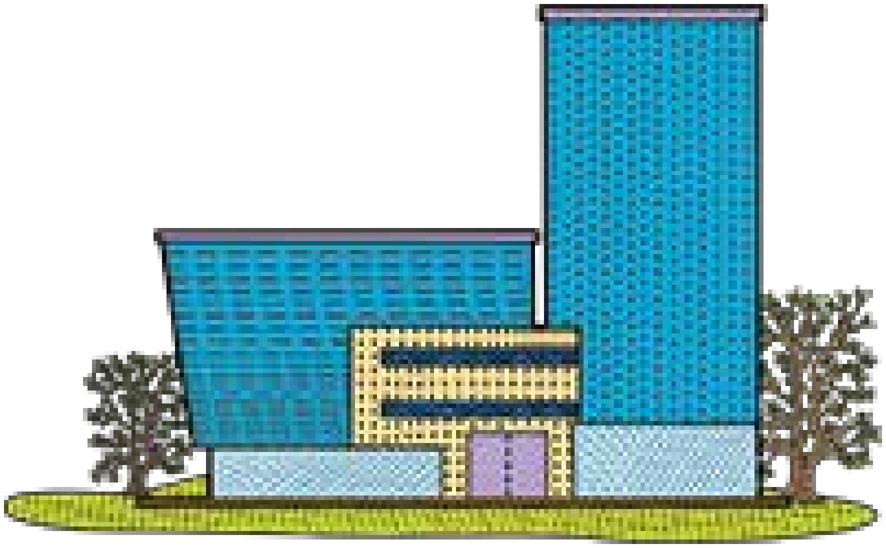
RESIDENTIAL PRICING

Price range in H2 2019 in INR/sq m (INR/sq ft)

12-month change

6-month change

Office Market



95%

YoY growth in transactions in H2 2019

Chennai Market Snapshot

Parameter	H2 2019	Change YoY	2018	2019	Change YoY
New completions mn sq m (mn sq ft)	0.1 (1.5)	872%	0.1 (1.3)	0.2 (1.7)	31%
Transactions mn sq m (mn sq ft)	0.3 (3.4)	95%	0.3 (3.5)	0.5 (5.2)	50%
Weighted average rental in ₹/sq m/month (₹/sq ft/month)	644 (60)	2%	631 (59)	644 (60)	2%
Stock mn sq m (mn sq ft)	-	-	6.6 (71.2)	6.8 (72.9)	2%
Vacancy (%)	-	-	10.6%	8.8%	-

Source: Knight Frank Research

Chennai Office Market Activity

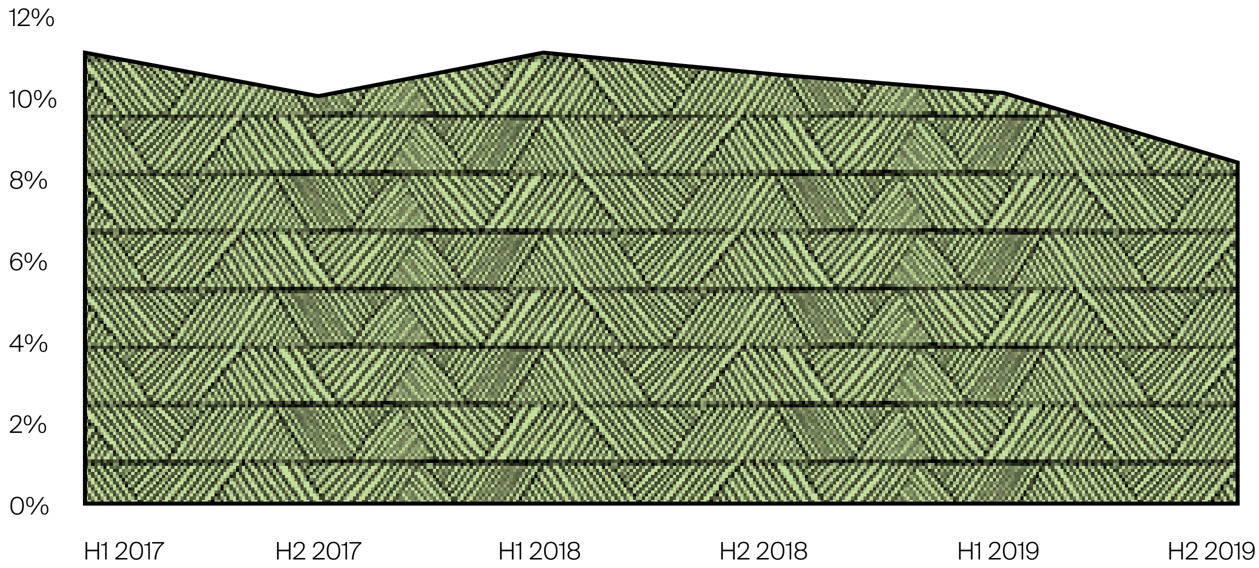
Source: Knight Frank Research

31%

YoY growth in new completions in 2019

- Chennai office market performance in 2019 has been exemplary. Transaction activity was at an all-time high of 0.5 mn sq m (5.2 mn sq ft). Office space transactions recorded a 50% year-on year (YoY) jump from the 2018 numbers. Supply went up by 31% YoY in 2019 as a total of 0.2 mn sq m (1.7 mn sq ft) new office space entered the market. For a market that has supply lagging demand by a long way, these numbers are a welcome relief.
- Transaction numbers of Chennai for H2 2019 stand at 0.3 mn sq m (3.4 mn sq ft) and these too are the highest ever for a half year period. There is a 95% YoY jump in H2 2019 transaction numbers and these can be attributed to the release of pent-up demand for quality supply.
- New supply went up by a significant 872% YoY in H2 2019 as approximately 0.1 mn sq m (1.5 mn sq ft) quality office space hit the market. Even the half-yearly supply numbers are at a five-year high i.e. since H2 2014.
- The Chennai office market has been weighed down with the lack of quality office space for more than three years now. This supply crunch impacted transactions activity as occupiers, especially from the Banking, Financial Services and Insurance (BFSI) sector, did not want to compromise on location and quality. Eventually, about 2.3 mn sq m (25 mn sq ft) of Grade A office space was planned and slated to be launched in phases. While the entire 2.3 mn sq m (25 mn sq ft) is estimated to come online by 2021-22, the first

Chennai Office Market Vacancy



Source: Knight Frank Research

phase of this supply hit the market this year. The held up demand found a release and this resulted in significantly high transaction activity.

- Further, keeping in sync with the increasing demand for quality office space in Chennai, the 2.3 mn sq m (25 mn sq ft) of proposed supply has been bumped up to 3.2 mn sq m (35 mn sq ft). This new supply is planned across three corridors: Guindy and Mount Poonamallee High Road stretch, the Pallavaram corridor and along the Old Mahabalipuram Road (OMR) near Perungudi.

- With Grade A supply came the BFSI occupiers. The sector's falling share in the total transactions pie has finally stopped and has recovered to 13% in H2 2019. Similarly, the Information Technology / Information Technology enabled Services (IT / ITeS) sector share went up from 42% in H2 2018 to 53% in H2 2019 and in transacted area terms this jump has been 0.1 mn sq m (1 mn sq ft).

- As IT / ITeS transactions increased, activity in their preferred business districts also boomed. Peripheral Business District (PBD) – OMR and Grand Southern Trunk Road (GST) and PBD – Ambattur witnessed a 370% and 235% YoY growth respectively, in H2 2019.

- Weighted average rentals have grown by a modest 2% in H2 2019 for the overall Chennai office space. However, as the market is still supply constrained in preferred business districts of Suburban Business District (SBD) and SBD OMR, rentals have gone up by 3% in the last six months.

- An interesting and Chennai-specific trend is the slowdown in co-working activity which is contrary to the all India trend of high growth in the sector. The share of co-working transactions in the total half-yearly transactions of Chennai has come down from 20% in H2 2018 to 5% in H2 2019 and a plausible explanation for this could be the quality supply crunch. With huge supply in the pipeline, this issue

◆◆

Chennai office market performance in 2019 has been exemplary. Transaction activity was at an all-time high of 0.5 mn sq m (5.2 mn sq ft).

◆◆

Business District Classification

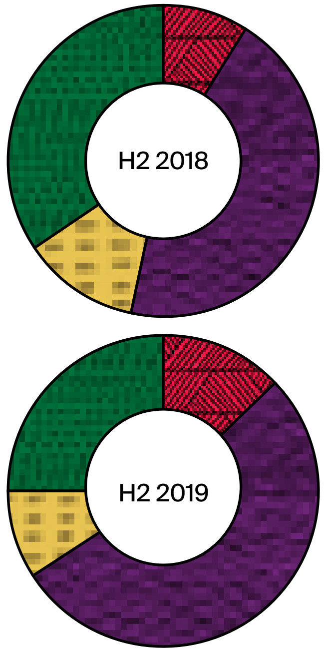
Business district	Micro markets
Central Business District (CBD and off CBD)	Anna Salai, RK Salai, Nungambakkam, Greams Road, Egmore, T. Nagar
Suburban Business District (SBD)	Mount-Poonamallee Road, Porur, Guindy, Nandanam
SBD – Old Mahabalipuram Road (OMR)	Perungudi, Taramani
Peripheral Business District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

Source: Knight Frank Research

is expected to be addressed soon.

- With increase in IT / ITeS transactions, the PBD – OMR and GST business district has seen an upsurge and this trend is expected to continue in the future as well.
- Voluminous new supply has been planned and a bulk of this upcoming supply has already been pre-committed to, minimalizing the possibility of an over-supply in the market.
- Chennai faced a severe water crisis in the first half of 2019. However, the gloom of water stress seems to have receded. Life is back to normal as far as water is concerned. Nonetheless, it is too early to comment on the 'ground zero' water situation of Chennai and whether it has been fully and completely addressed. Healthy monsoons this year have helped replenish natural aquifers. Also, the government intends to take appropriate measures to address the broader issue of water scarcity such as its plans of setting up four additional desalination plants in Chennai. All in all, Chennai seems to be better prepared for water exigencies now and these should not impact construction activity, going forward.
- On the whole, as new supply keeps coming, Chennai's present growth momentum should continue.

Sector-wise Split of Transactions



Industry	H2 2018	H2 2019
BFSI	9%	13%
IT/ITeS	44%	53%
Manufacturing	12%	9%
Other Services	34%	25%

Note: BFSI includes BFSI support services; Other Services includes co-working, media, telecom etc.

Source: Knight Frank Research

Average deal size and number of deals

H2 2018

2,158 (23,232)
Average deal size in sq m (sq ft)

74
Number of Deals

H2 2019

3,026 (32,567)
Average deal size in sq m (sq ft)

103
Number of Deals

Note - 1 square metre (sq m) = 10.764 square feet (sq ft)

Source: Knight Frank Research

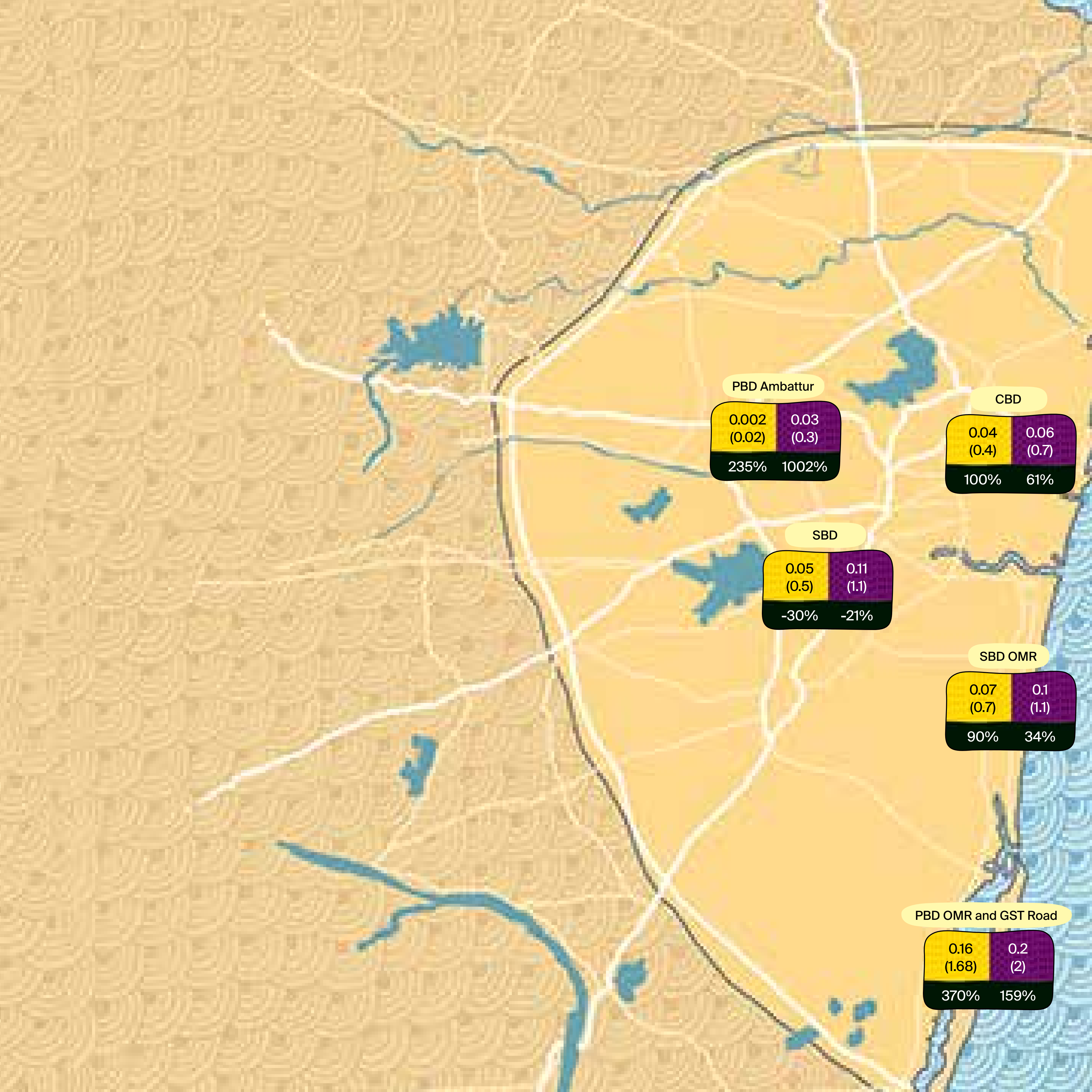
8.8%

Vacancy levels in Chennai office market in 2019

◆◆

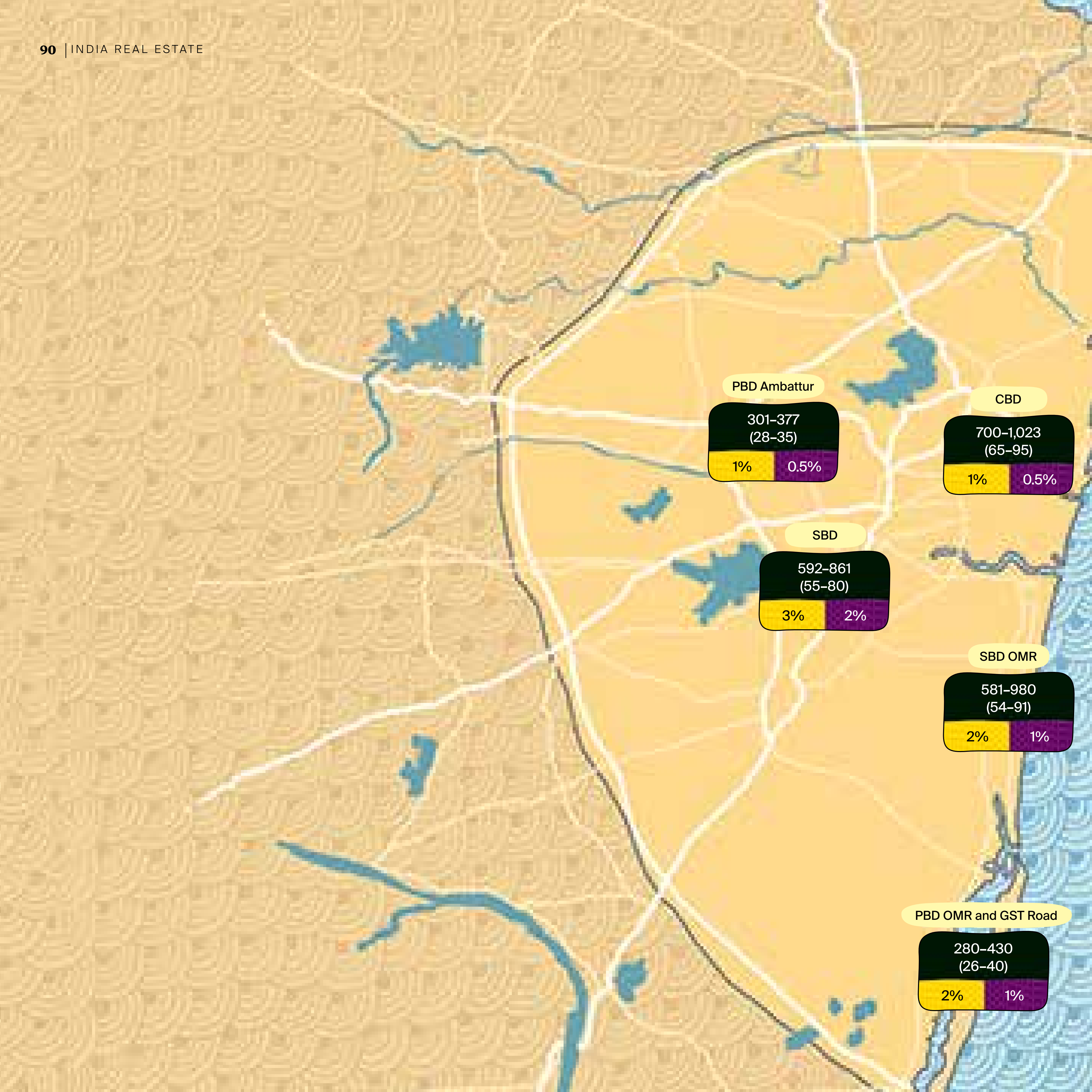
About 3.2 mn sq m (35 mn sq ft) of new Grade A office space is scheduled to come online by 2021-22 in phases. This new supply will span across three corridors: Guindy and Mount Poonamallee High Road stretch, the Pallavaram corridor and along the Old Mahabalipuram Road (OMR) near Perungudi.

◆◆


PBD Ambattur
0.002
(0.02)
0.03
(0.3)
235%
1002%
CBD
0.04
(0.4)
0.06
(0.7)
100%
61%
SBD
0.05
(0.5)
0.11
(1.1)
-30%
-21%
SBD OMR
0.07
(0.7)
0.1
(1.1)
90%
34%
PBD OMR and GST Road
0.16
(1.68)
0.2
(2)
370%
159%

OFFICE TRANSACTIONS

H2 2019 mn sq m (mn sq ft)
2019 mn sq m (mn sq ft)
% Change (YoY)


PBD Ambattur
301–377
(28–35)
1%
0.5%
CBD
700–1,023
(65–95)
1%
0.5%
SBD
592–861
(55–80)
3%
2%
SBD OMR
581–980
(54–91)
2%
1%
PBD OMR and GST Road
280–430
(26–40)
2%
1%

OFFICE RENTAL

Rental value range in H2 2019 in INR/sq m/month (INR/sq ft/month)

12-month change

6-month change

NBFC Crisis: A Real Estate Perspective

- by Pradnya Nerkar

◆◆

According to RBI, the 'real estate exposure to total assets' ratio of NBFCs has come down from 6.7% in 2017-18 to 6% in 2018-19. This lack of credit has hit many developers across the country and numerous under-construction projects have been stalled.

◆◆

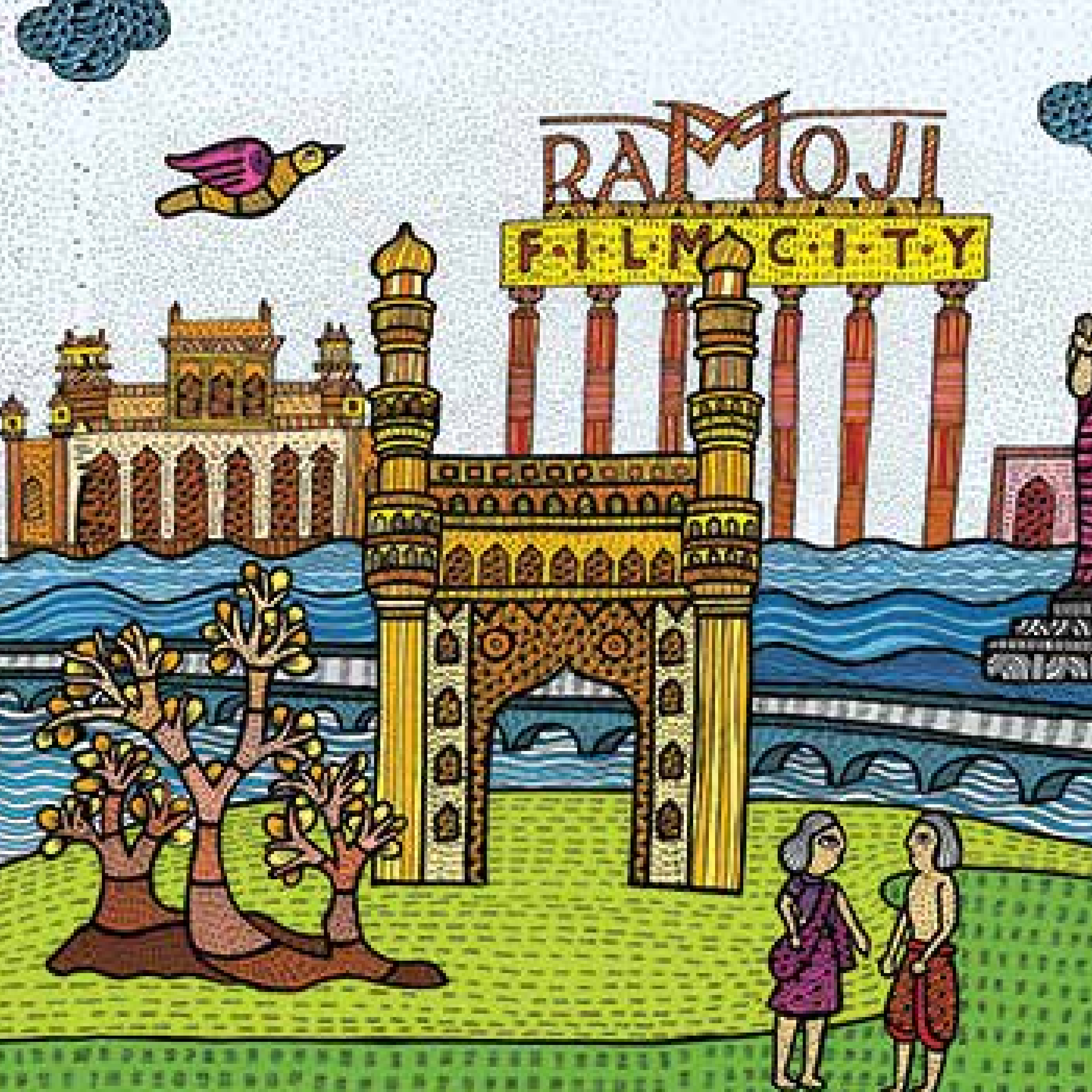
Non-Banking Financial Companies (NBFCs) have been facing a liquidity crunch since the Infrastructure Leasing & Financial Services (IL&FS) event unfolded in September last year. IL&FS failed to honour its debt obligations thus revealing a financial stress that the company was facing. This caused fear in the financial markets about a sector-wide liquidity crunch and as a result, funding costs for NBFCs increased. Since then, recurring events of other NBFC defaults and credit rating downgrades have made the markets more risk averse and the NBFC access to funding scarcer. The real estate sector has been among the worst impacted by this credit crisis and if timely solutions for real estate funding are not provided, the damage to this already beleaguered sector will be major.

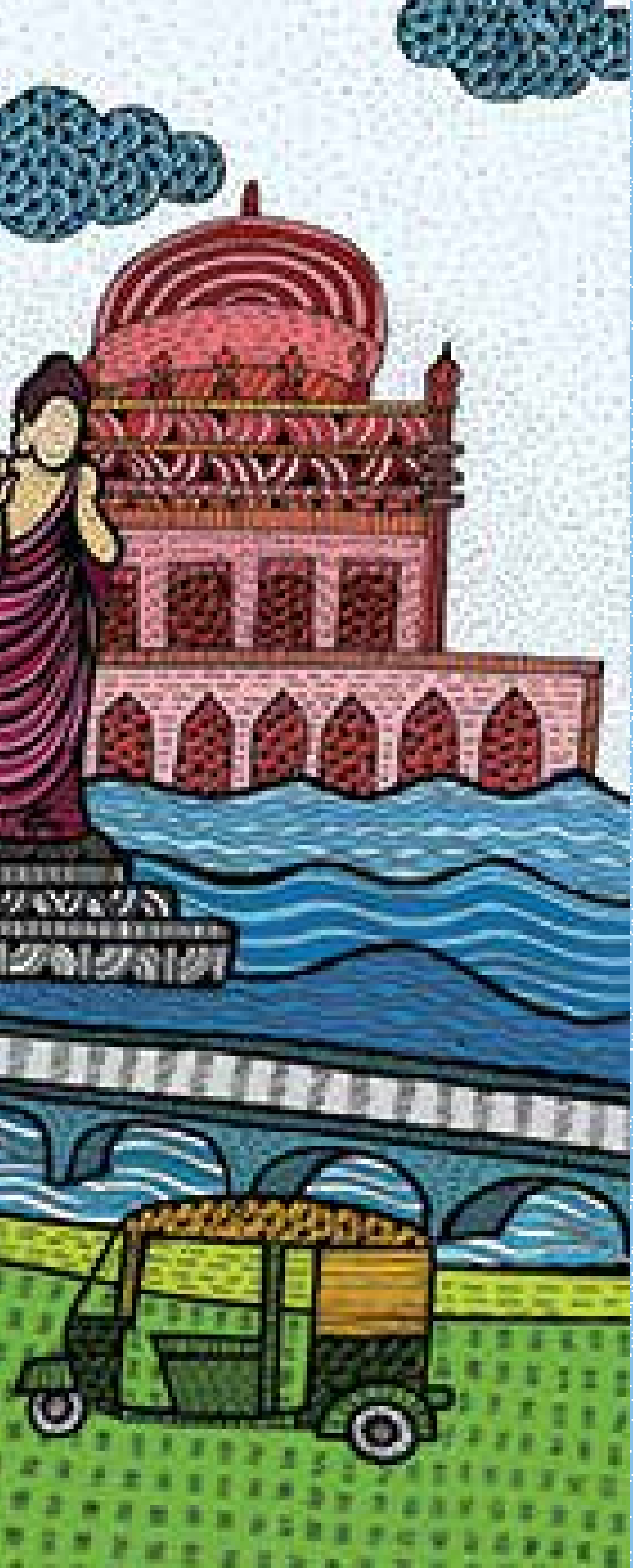
NBFCs have been primary lenders to real estate developers and have a substantial share in retail lending for housing. This real estate dependence on NBFCs started in the aftermath of the Non-Performing Assets (NPA) crisis in Indian banks. The vacuum created by lower bank lending was filled by NBFCs and their focus industries have been the sensitive sectors viz., real estate, infrastructure and Medium & Small Enterprises (MSMEs). While the aggregate credit from certain larger NBFCs / Housing Finance Companies (HFCs) grew by an approximate 45% Compounded Annual Growth Rate (CAGR) in the past five years (Source: Morgan Stanley Research), the real estate loan book of all NBFCs / HFCs grew from INR 1.6 trillion in FY14 to INR 4.7 trillion in FY18. (Source: Morgan Stanley Research).

In the post-demonetisation era, NBFCs aggressively extended loans to real estate; be it construction finance, loan against property or structured finance. After the onset of the liquidity crisis in NBFCs, mutual funds and the fixed income markets (primary sources for NBFC borrowings) have not only constrained their fund flows to NBFCs but have also become extremely particular about their real estate exposure. So even if NBFCs have access to these funds, they are effectively not permitted to on-lend it to real estate and as a consequence, there is a significant reduction in the approximately INR 5 trillion per year NBFC credit that was available to the real estate sector earlier. According to RBI, the 'real estate exposure to total assets' ratio of NBFCs has come down from 6.7% in 2017-18 to 6% in 2018-19. This lack of credit has hit many developers across the country and numerous under-construction projects have been stalled.

So far, steady demand in the affordable housing segment has kept the real estate industry afloat as cash flows from these sales are helping them sustain the slowdown. However, housing loan disbursement from NBFCs and HFCs has started to moderate too and this, coupled with the ongoing economic slowdown, could severely hamper housing demand. All of this will compound the cash flow struggles of developers, exacerbating an already dire situation for the real estate industry. What is therefore needed, is directed policy action at stressed real estate assets such as the setting up of the INR 25,000 crore Alternative Investment Fund (AIF) and at extending funding support to the sector.

Addressing the credit situation in NBFCs is necessary but it is also important to support the sectors that have been severely hit by this credit crunch. Further, though NBFCs are themselves cutting down their exposure to real estate now, credit stability in NBFCs will not necessarily be passed on. Contrary to the ongoing perception, NBFC borrowings have actually gone up from INR 19.7 trillion in September 2018 to INR 21.9 trillion in March 2019 (Source: Edelweiss Research). What has changed is the source-composition of these funds and their costs. Mutual funds have reduced their exposure to NBFCs by 30% since August 2018 but bank lending has gone up by approximately 30% in the last one year (Source: Credit Suisse). The share of Commercial Papers (CPs) and debentures in NBFC borrowings has also come down from 59% to 49% (Source: Edelweiss Research). The cost of funding for NBFCs has gone up by an estimated 120-150 bps overall. Government initiatives such as the recent expansion in the ambit of partial credit guarantee scheme, among others, have helped support the ailing NBFC sector. However, given the extremely pessimistic sentiments for NBFCs, they continue to struggle and so does the real estate sector. The stress being faced by the real estate industry on the whole is substantial and cannot be ignored any further.


RAMOJI
FILMCITY



HYDERABAD

RESIDENTIAL MARKET

OFFICE MARKET

Residential Market

◆◆

Sales numbers for this half-year are up by 9% YoY indicating a steady demand trend. An important reason for this stable residential demand is the strong growth of commercial segment. Hyderabad's office market transaction activity reached a whopping 1.2 mn sq m (12.8 mn sq ft) this year.

◆◆

- Hyderabad residential market has had a much better 2019 as compared to most other cities. There was a 150% year-on-year (YoY) jump in launches this year while sales remained steady with a 4% YoY increase in 2019. Strong price growth has been a function of low supply (from earlier this year) and steady demand, which has also brought down the unsold inventory numbers.
- H2 2019 launches show a massive 375% YoY jump owing to a low base in H2 2018. Irrespective of the base effect on YoY growth, launches in H2 2019 are at a six-year high of 8,065 and there are enough reasons for this. First, the environmental clearance committee was set up in June and started full-fledged operations from September/October this year. As a result, a huge backlog of pending launches got cleared. Second, the state of Telangana went through a 13-month long phase of elections – state elections, followed by Lok Sabha elections and then the Zilla Parishad elections. This phase ended sometime in June this year and soon after that all the held-up launches came through. The spurt in launches is definitely welcome, as demand has been steady but available supply has not been able to match up and so prices have grown significantly. With the new supply, prices should eventually get corrected.
- Sales numbers for this half-year are up by 9% YoY indicating a steady demand trend. An important reason for this stable residential demand is the strong growth of commercial segment. Hyderabad's office market has been growing significantly since 2015, and 2019 was a year of setting new benchmarks as transaction activity reached a whopping 1.2 mn sq m (12.8 mn sq ft). With flourishing commerce comes job growth, increased in-migration and better social infrastructure. This translates to residential demand and this is what is working for Hyderabad. Its residential property is now desired by many and these are not just the local residents.
- A major Unique Selling Proposition (USP) of residential property in Hyderabad has been the trust factor. Developers

Hyderabad Residential Market

Parameter	H2 2019	Change (YoY)	2018	2019	Change (YoY)
Launches (housing units)	8,065	375%	5,404	13,495	150%
Sales (housing units)	7,933	9%	15,591	16,267	4%
Price (wt avg)*	₹ 48,438/sq m (₹ 4,500/sq ft)	10%	₹ 44,025/sq m (₹ 4,090/sq ft)	₹ 48,438/sq m (₹ 4,500/sq ft)	10%
Unsold inventory (housing units)	4,397	-39%	7,169	4,397	-39%
Quarters to sell (QTS)	1.1	-	1.9	1.1	-
Age of unsold inventory (in quarters)	14.1	-	17.5	14.1	-

Source: Knight Frank Research

here are known for their timely deliveries and this is a major attraction point for homebuyers, especially the locals.

- The INR 8-10 million ticket size continues to be the most popular residential segment. However, in recent times, with the growing office market, there is an increase in middle and senior management personnel in the city and they prefer the INR 10-15 million ticket sizes. With respect to location, across different price segments, the preference is still heavily inclined towards West Hyderabad.

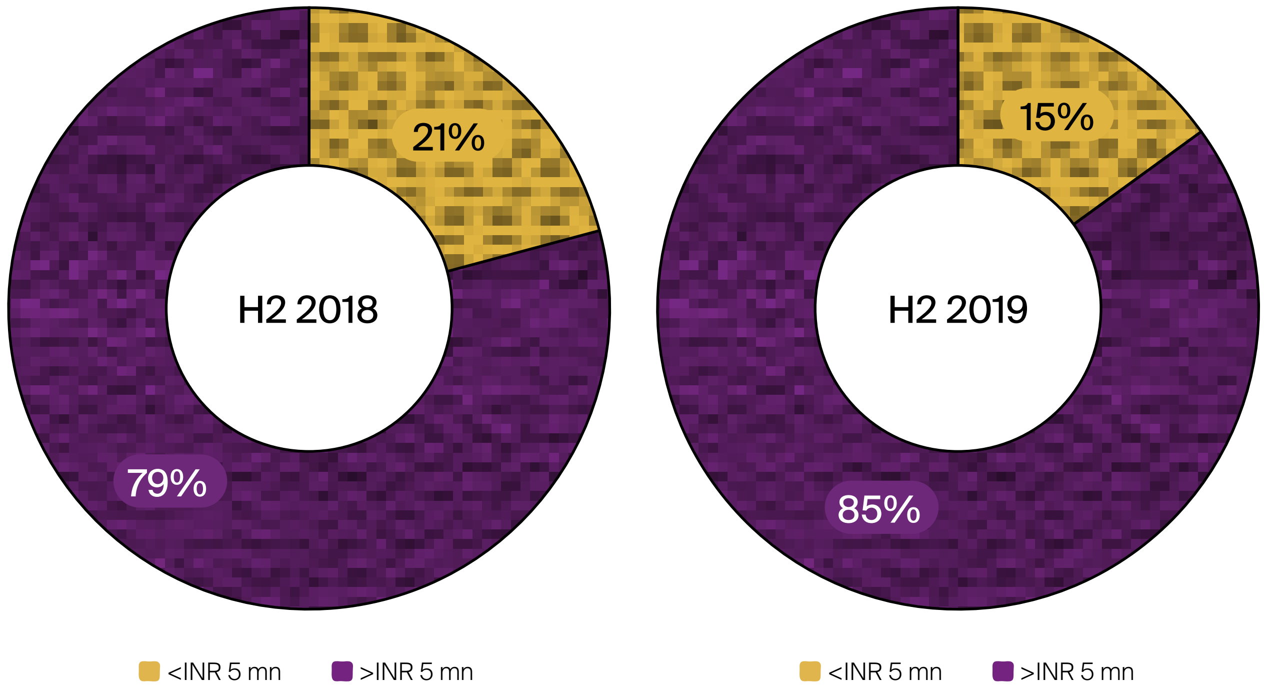
- With respect to sales, two important recent developments warrant a mention. One is the impact of the pan-India Non-Banking Financial Companies (NBFCs) liquidity crisis on home loan disbursals, and the second is the phase of extended Ashadam this half-year. Ashadam is a month in the Hindu calendar that usually comes around July/August each year. In Hyderabad, people refrain from making real estate purchases during this month for religious reasons and sales are usually low during this time. However, in 2019, the Ashadam effect on real estate purchases continued for a little longer than usual. These two developments together brought down the sales momentum by an effective 20-25% between July and October. Going forward, a growing feeling of job insecurity due to the ongoing economic slowdown could also impact sales.

- Price growth has been strong in the Hyderabad residential market for the last three half-year periods and the trend continued in H2 2019 as well. There has been a 10% YoY growth in H2 2019. Rising prices can be explained by the shortfall in launches that diverted homebuyers towards the ready unsold units giving developers a bargaining edge.

- Unsold inventory came down by 39% YoY to 4,397 units in H2 2019. Low launches coupled with steady demand resulted in increase in sales of ready unsold units and this has been a significant factor in the strong growth of prices.

- Further, lower unsold inventory numbers bring down the quarters-to-sell (QTS) which in case of Hyderabad is at a low of 1.1 as of H2 2019.

Ticket Size Split of Sales

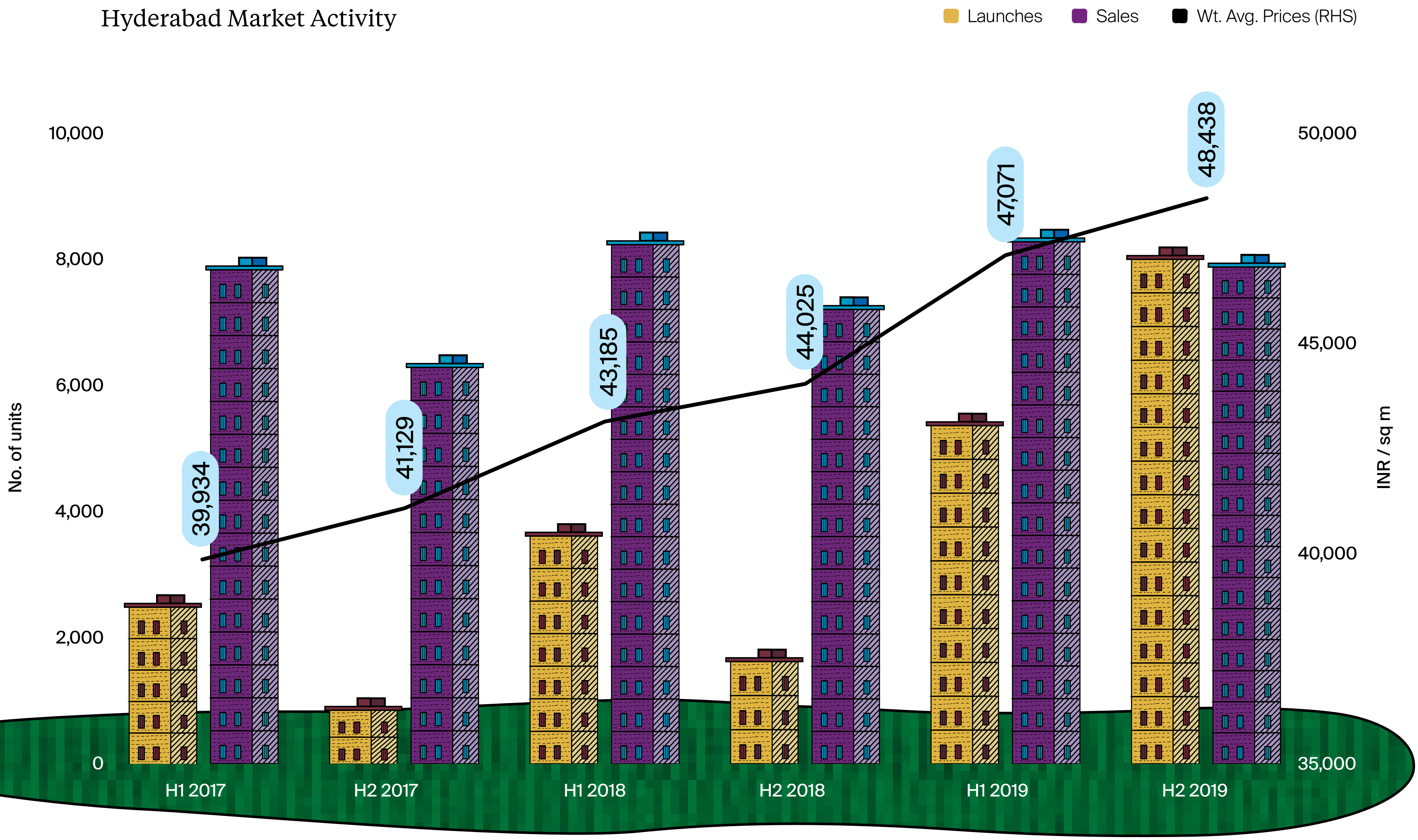


Source: Knight Frank Research

H2 2019 launches show a massive 375% YoY jump owing to a low base in H2 2018, setting up of the environmental clearance committee in June, and the end of a 13-month long phase of elections in the state.

- The NBFC liquidity crisis that has engulfed developers across the country causing many under-construction projects to stall, has had very little impact on Hyderabad. This is because Hyderabad developers are mostly promoter driven, have limited scale and a good reputation for on time delivery. As a result, their dependence on NBFCs is very limited. Further, demand is still strong in Hyderabad so most developers have cash flows coming in, and it is easier for them to raise funds from lenders. Also, conventionally, the practice here has been to launch one project at a time and deliver it on time unlike most other cities where many projects are launched simultaneously. This gives Hyderabad developers a better hold over the project associated risks and therefore keeps their credibility intact. All of these together have kept the Hyderabad developer community immune to the NBFC shock so far.
- In terms of infrastructure, the city has a sound set-up in place and further work is underway. There is a well-planned network of roads, fly-overs, under-passes and wide ring roads that take care of the vehicular movement. The city's Metro offers speedy connectivity. However, as all the economic activity is concentrated in the west of the city, burden on the roads in this part is high and this is increasingly visible in the congestion during peak office hours.
- Micro-markets such as Kollur, Kondapur, Narsingi, Tellapur and Nallagandla could come up as residential catchments on the back of the proposed plotted villas and the numerous INR 8-10 million ticket size projects, in the near future.
- Overall, the Hyderabad residential market is doing well for now. Launches are getting back on track and this will help normalise price growth and balance unsold inventory numbers. With the ongoing growth momentum of Hyderabad office market, residential demand growth will continue to remain steady. The impact of NBFC crisis on home loan disbursals and the job scenario across the economy can pose as threats in the future.

Hyderabad Market Activity

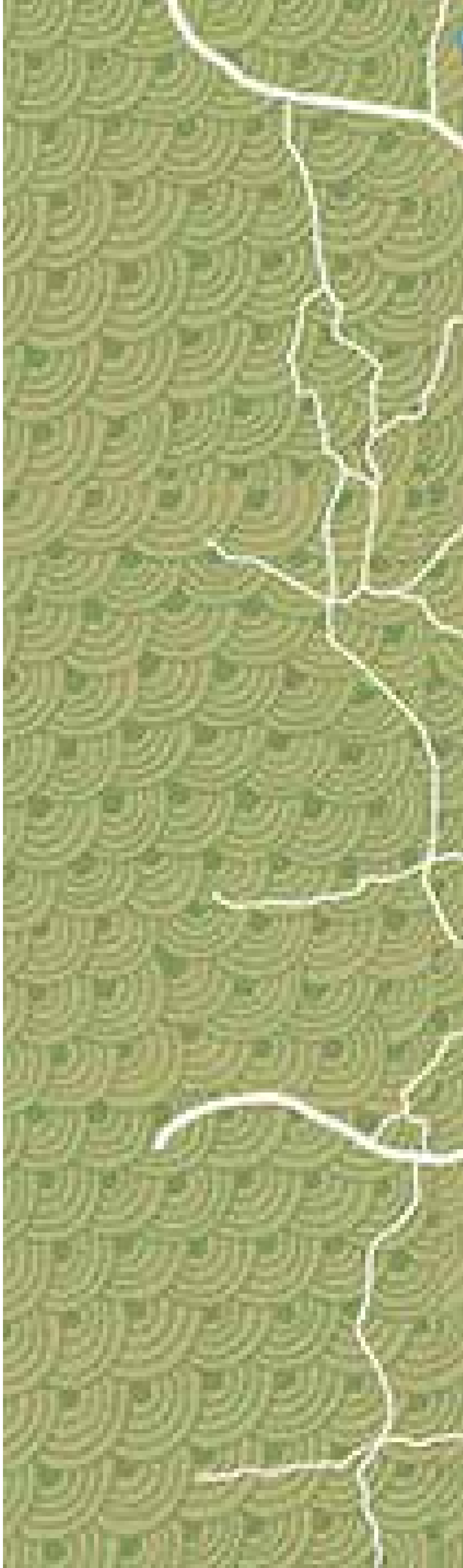


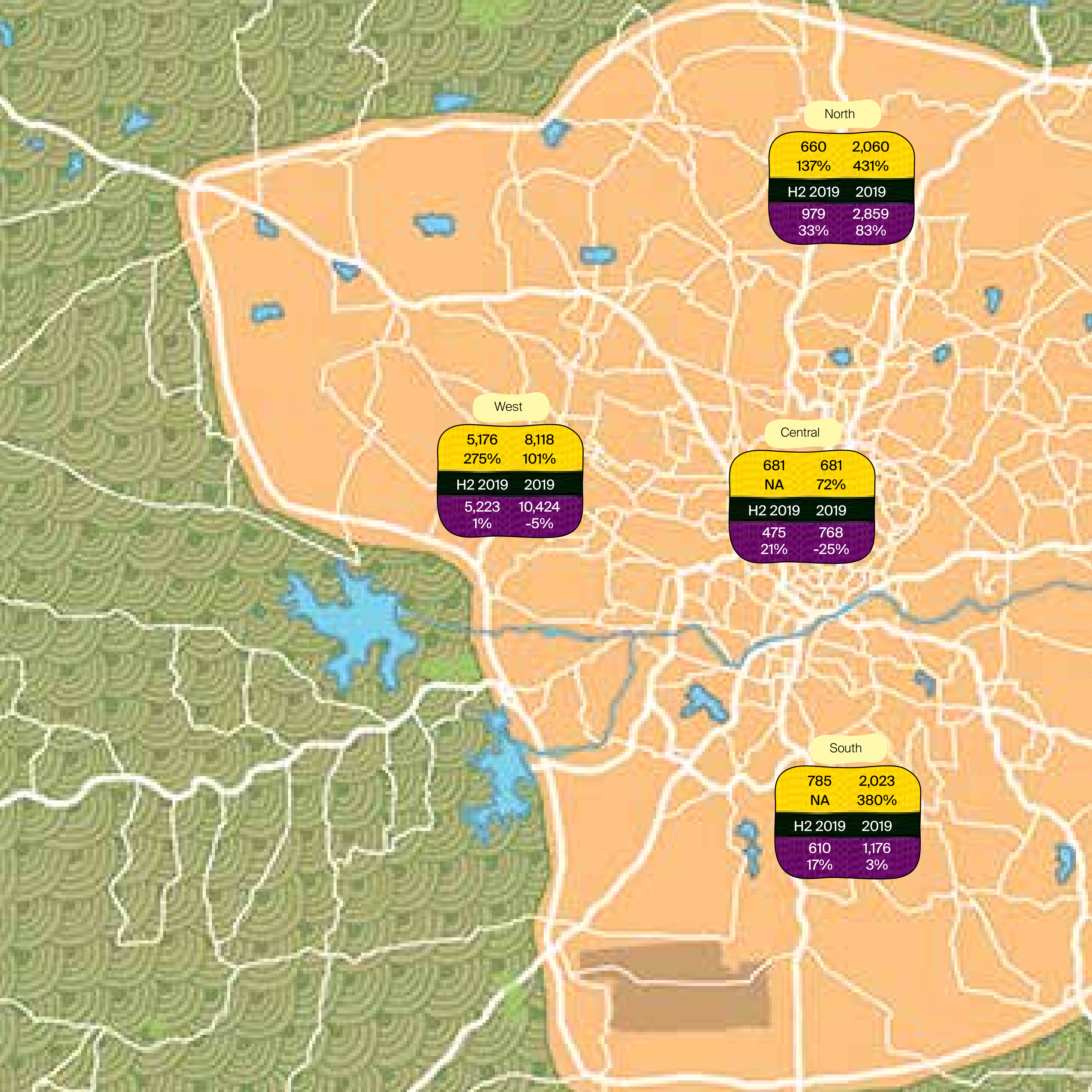
Source: Knight Frank Research

10%

YoY growth in prices in H2 2019

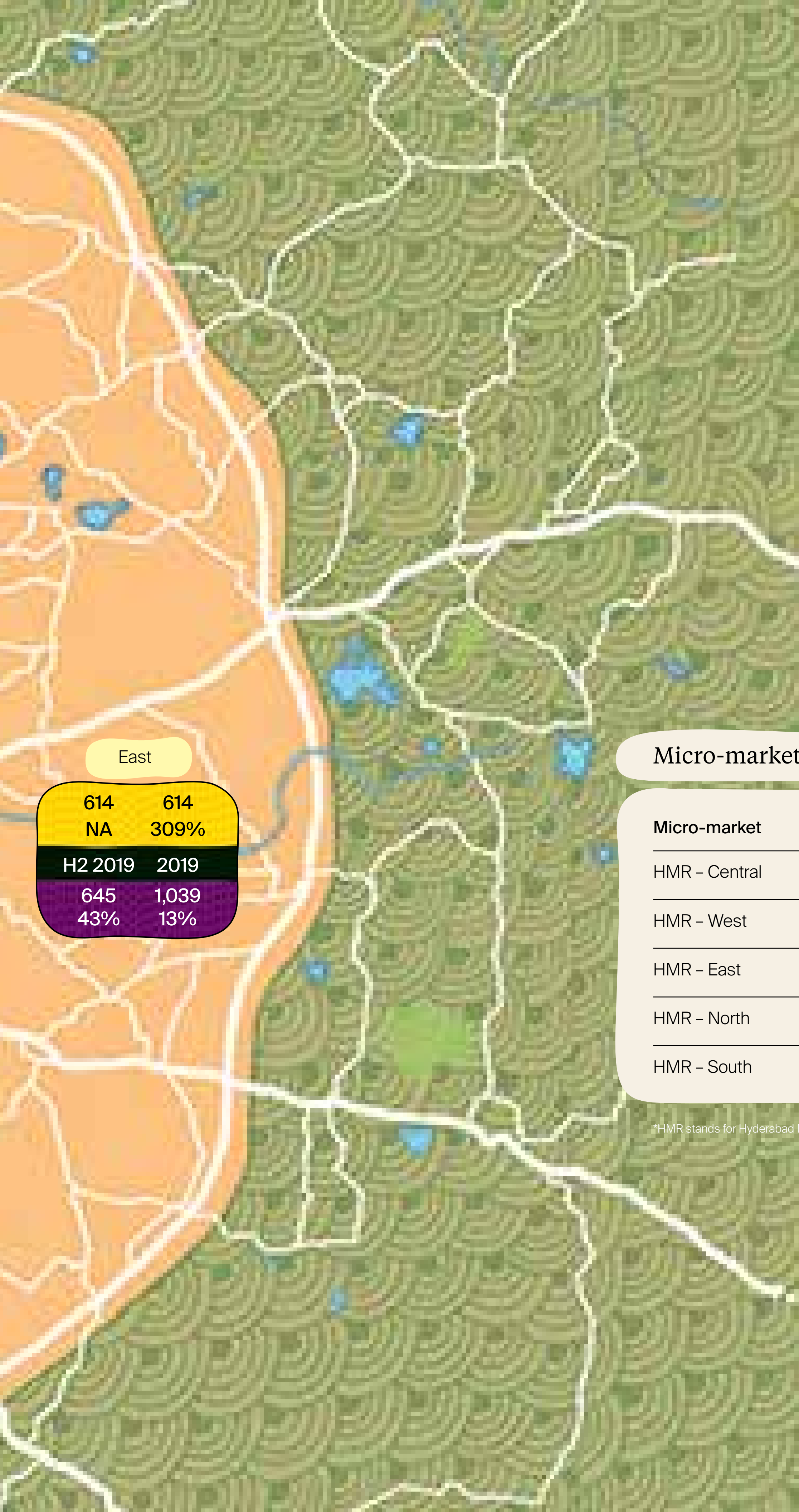
Price growth has been strong in the Hyderabad residential market since the last three half-year periods. Rising prices can be explained by the shortfall in launches that diverted homebuyers towards the ready unsold units giving developers a bargaining edge.




North
660
2,060
137%
431%
H2 2019
2019
979
2,859
33%
83%
West
5,176
8,118
275%
101%
H2 2019
2019
5,223
10,424
1%
-5%
Central
681
681
NA
72%
H2 2019
2019
475
768
21%
-25%
South
785
2,023
NA
380%
H2 2019
2019
610
1,176
17%
3%

Launches (housing units)   Sales (housing units)   % Change (YoY)

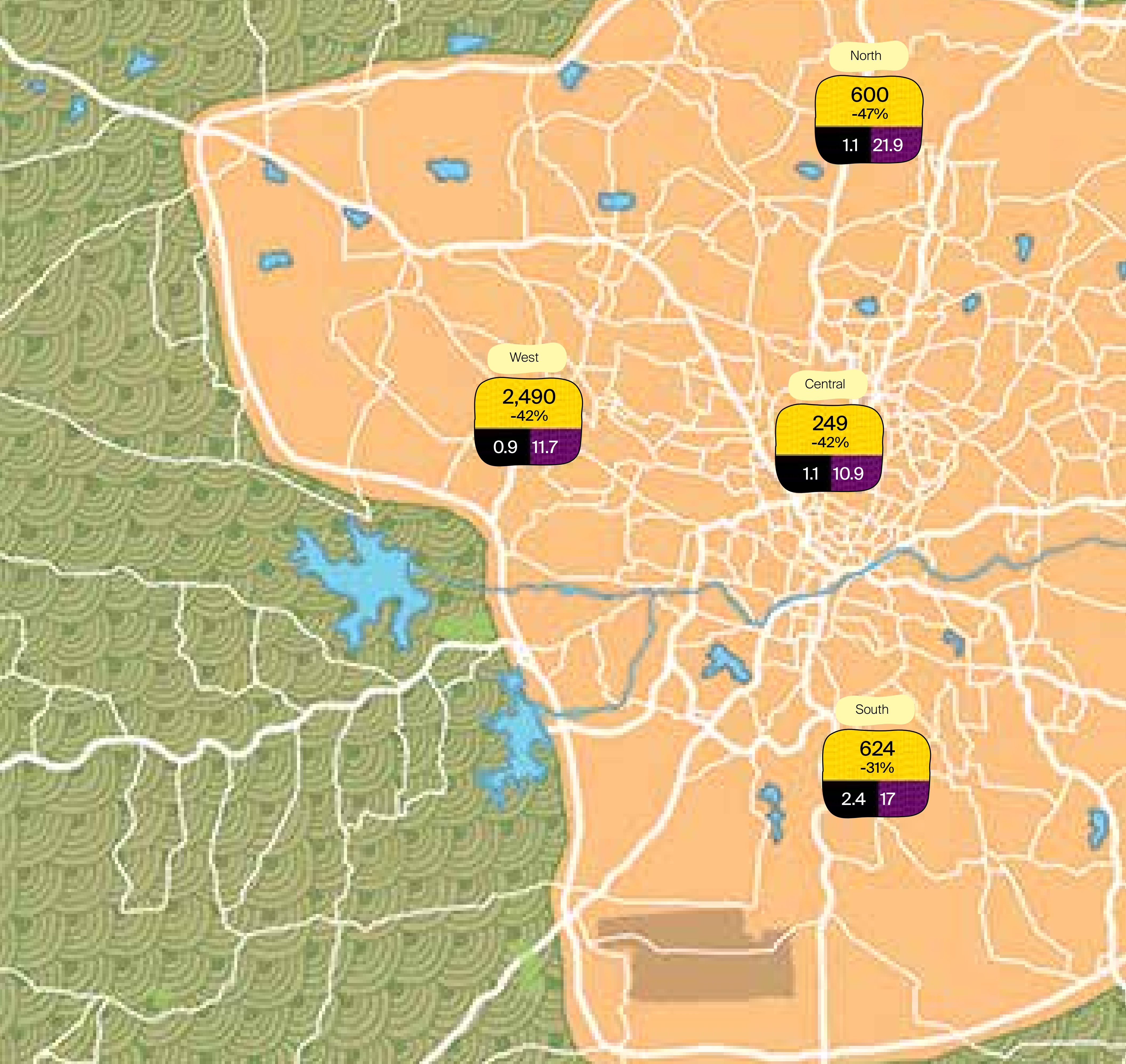
RESIDENTIAL LAUNCHES AND SALES



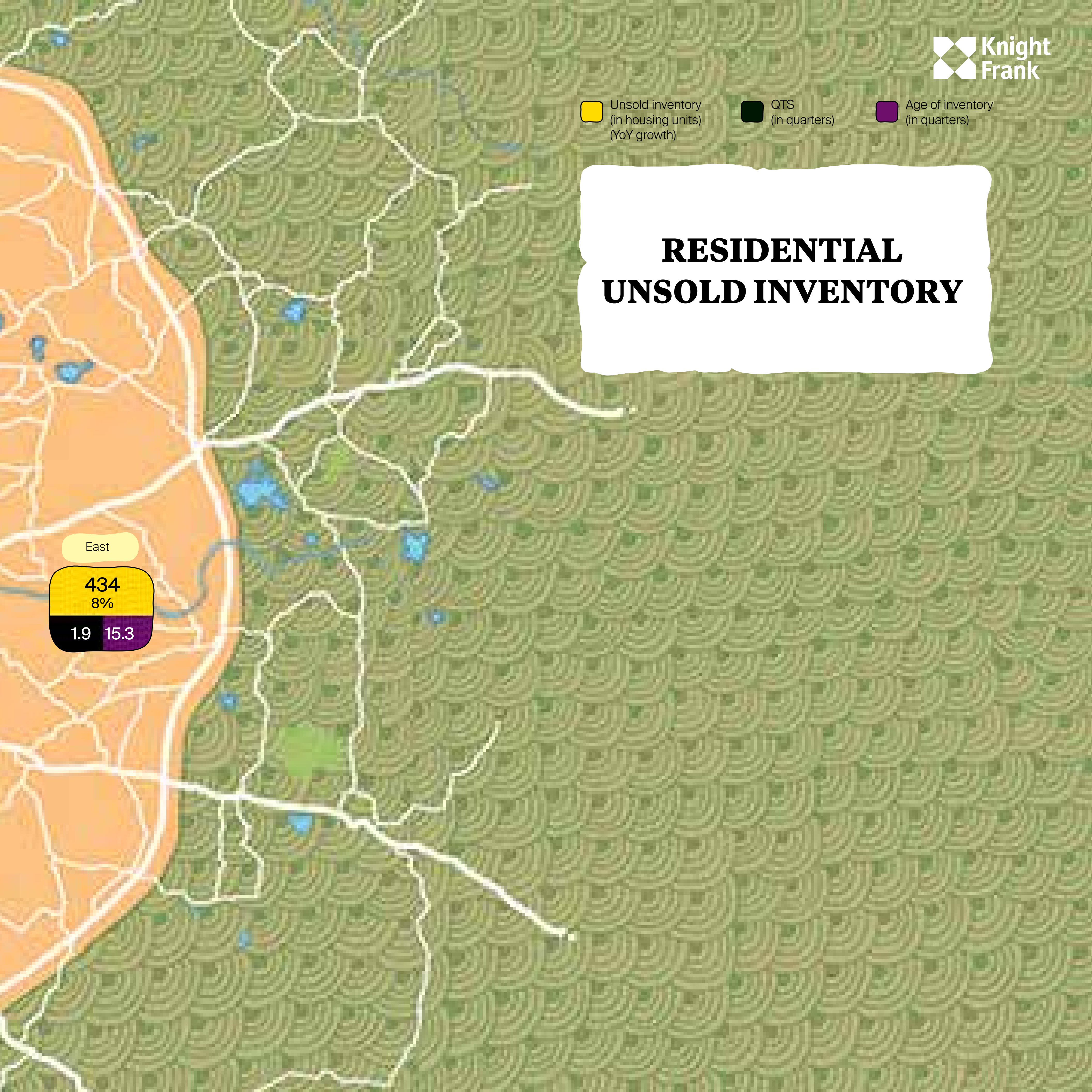
Micro-market Classification

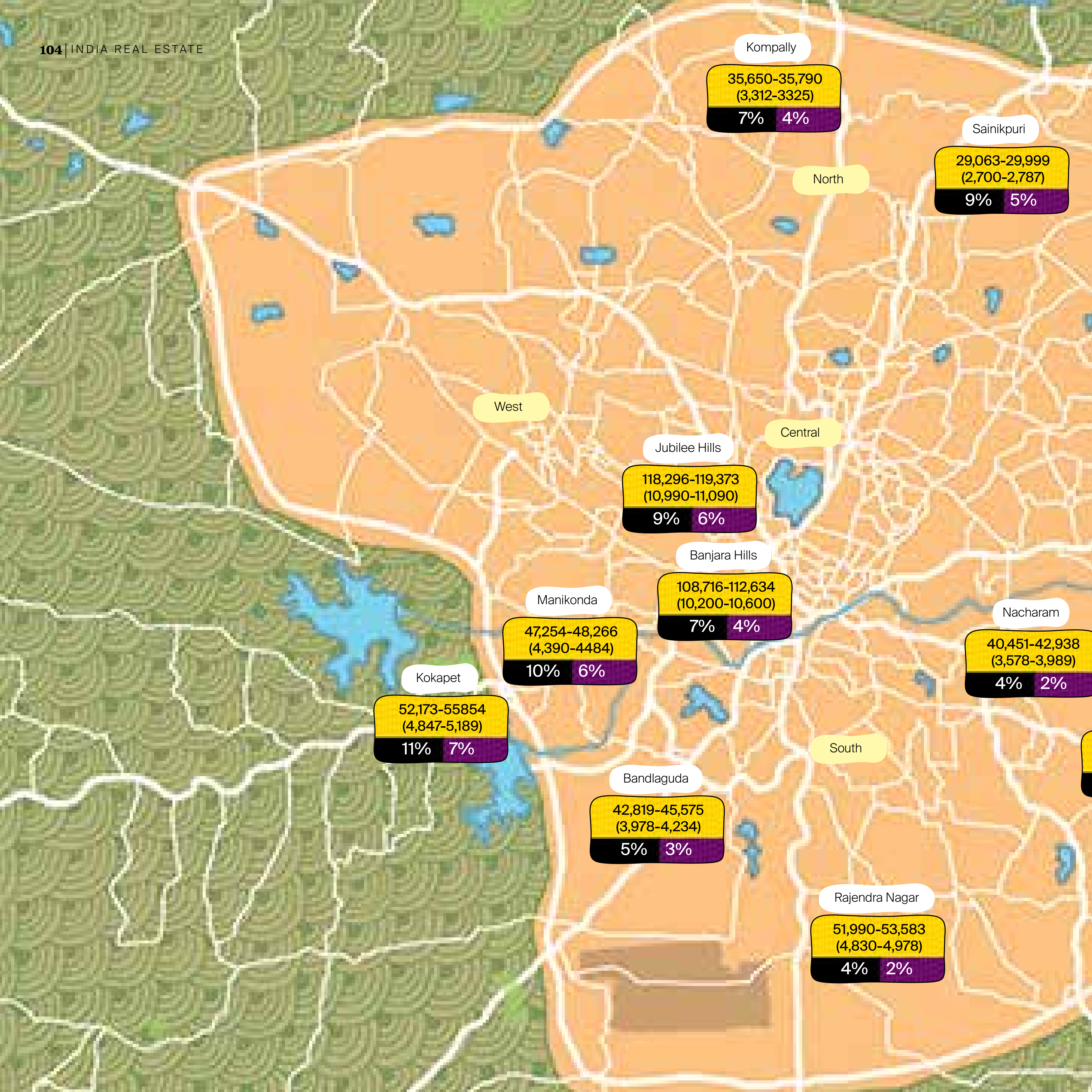
Micro-market	Locations
HMR – Central	Begumpet, Banjara Hills, Jubilee Hills, Panjagutta, Somajiguda
HMR – West	Kukatpally, Madhapur, Kondapur, Gachibowli, Raidurgam, Kokapet
HMR – East	Uppal, Malkajgiri, LB Nagar
HMR – North	Kompally, Medchal, Alwal, Quthbullanpur
HMR – South	Rajendra Nagar, Shamshabad

*HMR stands for Hyderabad Metropolitan Region

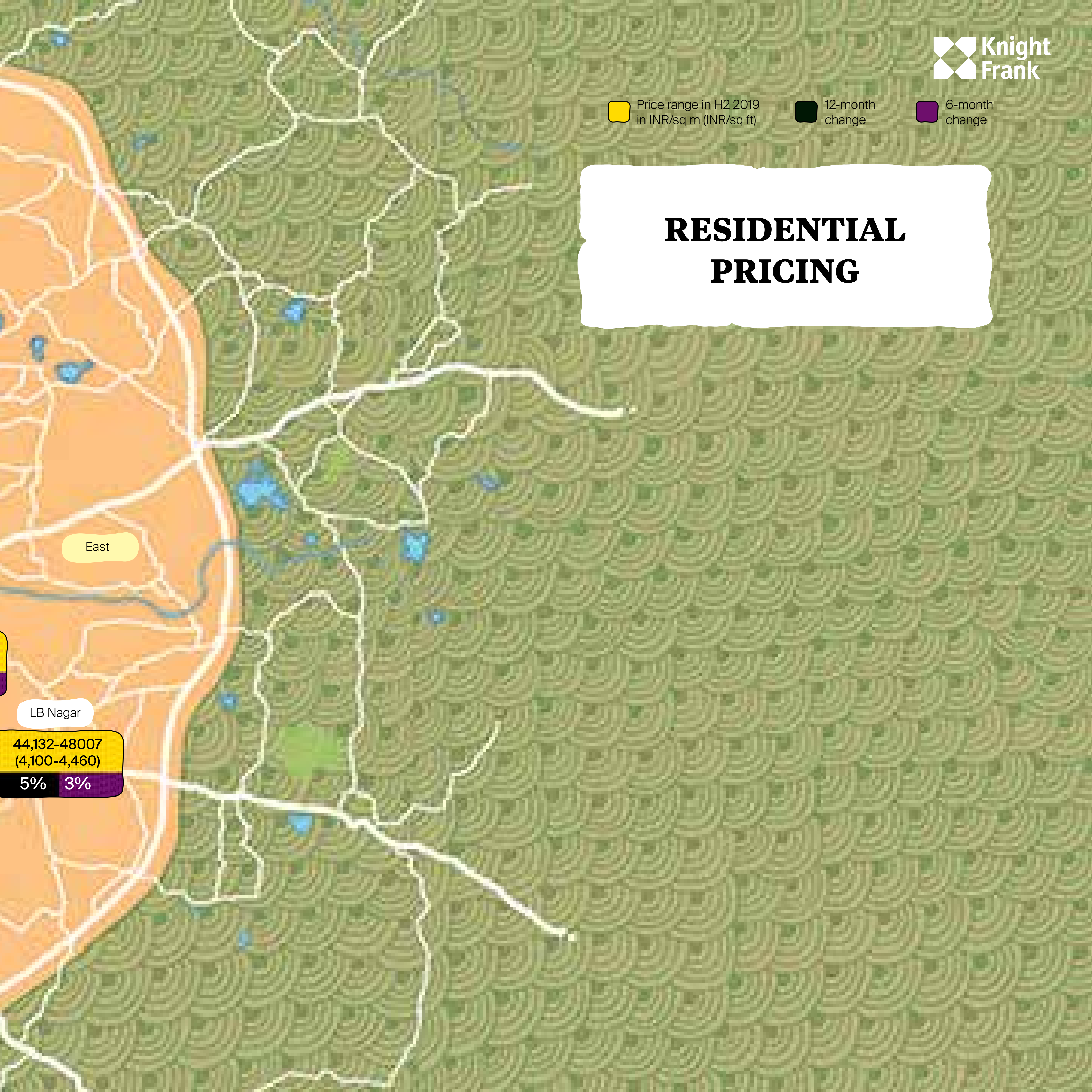

North
600
-47%
1.1
21.9
West
2,490
-42%
0.9
11.7
Central
249
-42%
1.1
10.9
South
624
-31%
2.4
17

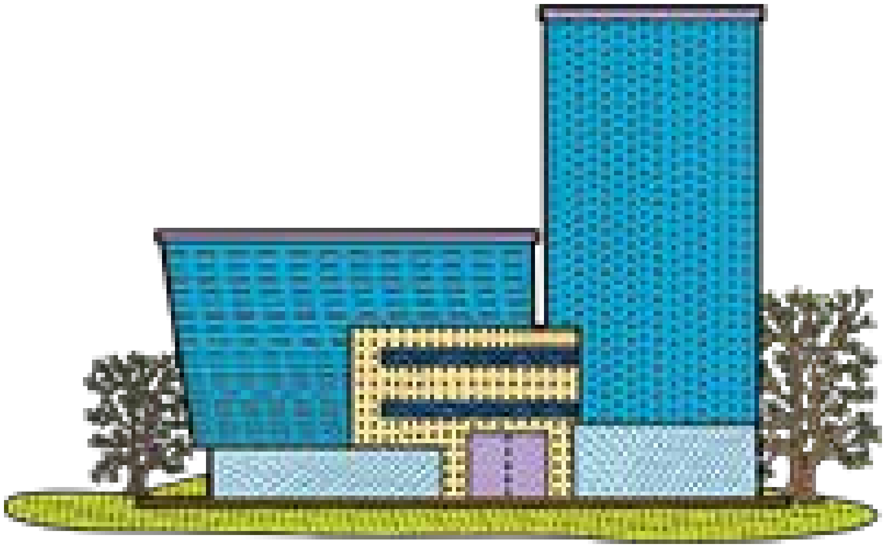
RESIDENTIAL UNSOLD INVENTORY




Kompally
35,650-35,790
(3,312-3325)
7% 4%
Sainikpuri
29,063-29,999
(2,700-2,787)
9% 5%
North
West
Central
Jubilee Hills
118,296-119,373
(10,990-11,090)
9% 6%
Banjara Hills
108,716-112,634
(10,200-10,600)
7% 4%
Manikonda
47,254-48,266
(4,390-4484)
10% 6%
Nacharam
40,451-42,938
(3,578-3,989)
4% 2%
Kokapet
52,173-55854
(4,847-5,189)
11% 7%
South
Bandlaguda
42,819-45,575
(3,978-4,234)
5% 3%
Rajendra Nagar
51,990-53,583
(4,830-4,978)
4% 2%

RESIDENTIAL PRICING





Office Market

105%

YoY growth in transactions in H2 2019

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Hyderabad office market transactions clocked an all-time high of 1.2 mn sq m (12.8 mn sq ft) in 2019.

◆◆

Hyderabad Market Snapshot

Parameter	H2 2019	Change (YoY)	2018	2019	Change (YoY)
New completions mn sq m (mn sq ft)	0.6 (6.9)	224%	0.4 (3.9)	1 (10.9)	181%
Transactions mn sq m (mn sq ft)	0.8 (8.9)	105%	0.7 (7)	1.2 (12.8)	82%
Weighted average rental in ₹/sq m/month (₹/sq ft/month)	657 (61)	5%	624 (58)	657 (61)	5%
Stock mn sq m (mn sq ft)	-	-	6 (64.4)	7 (75.3)	17%
Vacancy (%)	-	-	7.4%	7%	-

Source: Knight Frank Research

Hyderabad Office Market Activity

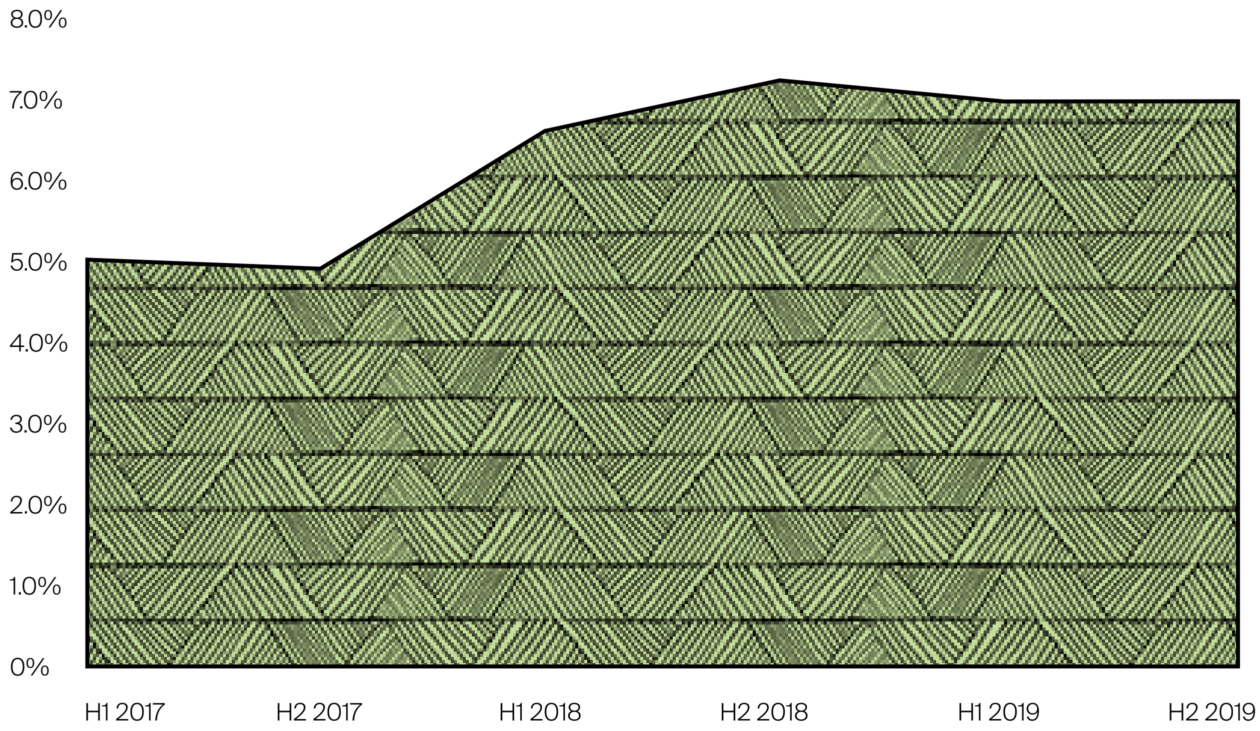
Source: Knight Frank Research

181%

YoY growth in new completions in 2019

- The Hyderabad real estate market has delivered a stellar performance in 2019. Its office market transactions clocked an all-time high of 1.2 mn sq m (12.8 mn sq ft) last year, a significant 82% growth from the last year. At the same time, 1 mn sq m (10.9 mn sq ft) of new supply entered the market.
- New supply for H2 2019 saw a 224% year-on-year (YoY) growth while transaction volumes peaked at 0.8 mn sq m (8.9 mn sq ft), a 105% YoY growth in H2 2019.
- The addition in supply is conducive to the thriving market activity. As demand continues to grow, more than 4.7 mn sq m (50 mn sq ft) quality supply has been proposed and planned for the coming years. Most of this upcoming supply is being planned in and around HITEC City, the hub of business activity in Hyderabad.
- A massive 0.8 mn sq m (8.9 mn sq ft) of office space was consumed in H2 2019, almost double than the 0.4 mn sq m (4.3 mn sq ft) of H2 2018. This growth in transaction volumes can be attributed to the increased activity of the Information Technology (IT) / Information Technology enabled Services (ITeS) industry and of the co-working sector.
- The share of IT / ITeS sector in the office space

Hyderabad Office Market Vacancy



Source: Knight Frank Research

◆◆

Co-working transactions stood at 0.13 mn sq m (1.36 mn sq ft) for H2 2019, a significant 15% of the total H2 2019 transactions, with two co-working deals featuring in the top ten transactions of H2 2019 in terms of total transacted area.

◆◆

consumption pie of Hyderabad has jumped up from 44% in H2 2018 to 58% in H2 2019. In terms of the total transacted area, there is a significant 173% YoY growth in IT / ITeS transactions for H2 2019. This increased presence of IT markets can be attributed to two factors: one is the marked shift of these occupiers toward value-added operations and the other is the infrastructure constraints in Bengaluru that is increasingly encouraging the IT / ITeS companies to consider Hyderabad.

- The mainstay of Hyderabad's office market has for long been the IT sector, but this was limited to the backend operations and outsourced processes i.e. Business Process Outsourcing (BPOs) and Knowledge Process Outsourcing (KPOs). Today, the focus of these occupiers is on captive production and development functions. This transition toward core and primary functions is a result of the availability of a rich and diverse talent pool in Hyderabad which can, in part, be attributed to the presence of premier educational institutions such as the Indian School of Business (ISB) and Indian Institute of Technology (IIT) in the city.

- On account of infrastructure constraints in Bengaluru, IT / ITeS occupiers have started considering Hyderabad for their expansion plans.

- The space consumed by Other Services sector went up by 81% YoY and co-working accounted for approximately 60% of this consumption. On the whole, co-working transactions activity stood at 0.13 mn sq m (1.36 mn sq ft) for H2 2019, a significant 15% of the total H2 2019 transactions, with two co-working deals featuring in the top ten transactions of H2 2019 in terms of total transacted area.

- An upcoming and noteworthy trend in the co-working sector is the enterprise model where large scale enterprises take up co-working seats in bulk or sometimes an entire co-working centre and get their required office specifications

Business District Classification

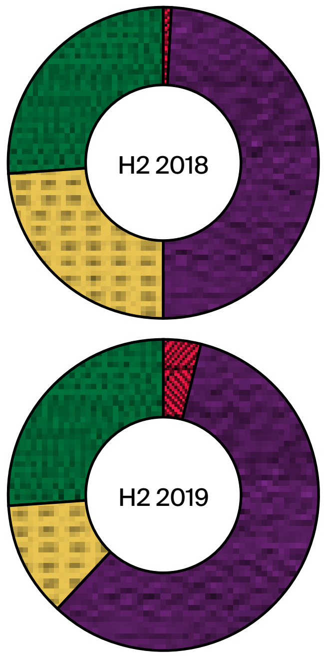
Business district	Micro markets
Central Business District (CBD and off CBD)	Banjara Hills, Jubilee Hills, Begumpet, Ameerpet, Somajiguda, Himayat Nagar, Raj Bhavan Road, Punjagutta
Suburban Business District (SBD)	HITEC City, Kondapur, Manikonda, Kukatpally, Raidurg
Peripheral Business District (PBD) West	Gachibowli, Kokapet, Madinaguda, Nanakramguda, Serilingampally
Peripheral Business District (PBD) East	Uppal, Pocharam

Source: Knight Frank Research

incorporated. The co-working operator obliges with the Built-To-Suit (BTS) requirements in exchange for a longer lock-in period, ranging from one to three years. Occupiers benefit from the hassle-free plug and play set-up at comparatively lower costs of capital and operating expenditures than the conventional leasing model whereas the operator benefits from a longer and guaranteed occupancy.

- Weighted average rental growth stands at 5% for the entire Hyderabad office market for the second half of 2019. However, transactions at rents as high as INR 80 per square feet have been locked in this year, for Grade A office spaces in HITEC City.
- Demand continues to be concentrated in West Hyderabad, mainly in and around the HITEC City, and the IT / ITeS sector continues to be the main driver of Hyderabad office market. Peripheral Business District (PBD) West transactions went up by a whopping 544% YoY in H2 2019.
- Two long-terms risks that could threaten the present office market growth momentum include the over-dependence on one sector i.e. IT / ITeS and the skewed development of the city i.e. heavy concentration in West Hyderabad. In the short term, the large upcoming supply of more than 4.7 mn sq m (50 mn sq ft), could distort the demand-supply balance and bring down rentals in the market. Hence, it is important that all pre-commitments materialise.
- Going forward, Hyderabad office market should continue to grow on account of the growth in the higher value processes of IT / ITeS sector and the share of co-working transactions is expected to continue to increase.

Sector-wise Split of Transactions



Industry	H2 2018	H2 2019
BFSI	1%	4%
IT/ITeS	49%	58%
Manufacturing	24%	12%
Other Services	26%	26%

Note: BFSI includes BFSI support services; Other Services includes co-working, media, telecom etc.

Source: Knight Frank Research

Average deal size and number of deals

H2 2018

2,079 (22,377)
Average deal size in sq m (sq ft)

120
Number of Deals

H2 2019

7,403 (79,865)
Average deal size in sq m (sq ft)

112
Number of Deals

Note - 1 square metre (sq m) = 10.764 square feet (sq ft)
Source: Knight Frank Research

5%

YoY growth in weighted average rentals in H2 2019

◆◆

Weighted average rental growth stands at 5% for the entire Hyderabad office market for the second half of 2019. However, transactions at rents as high as INR 80 per square feet have been locked in this year, for Grade A office spaces in HITEC City.

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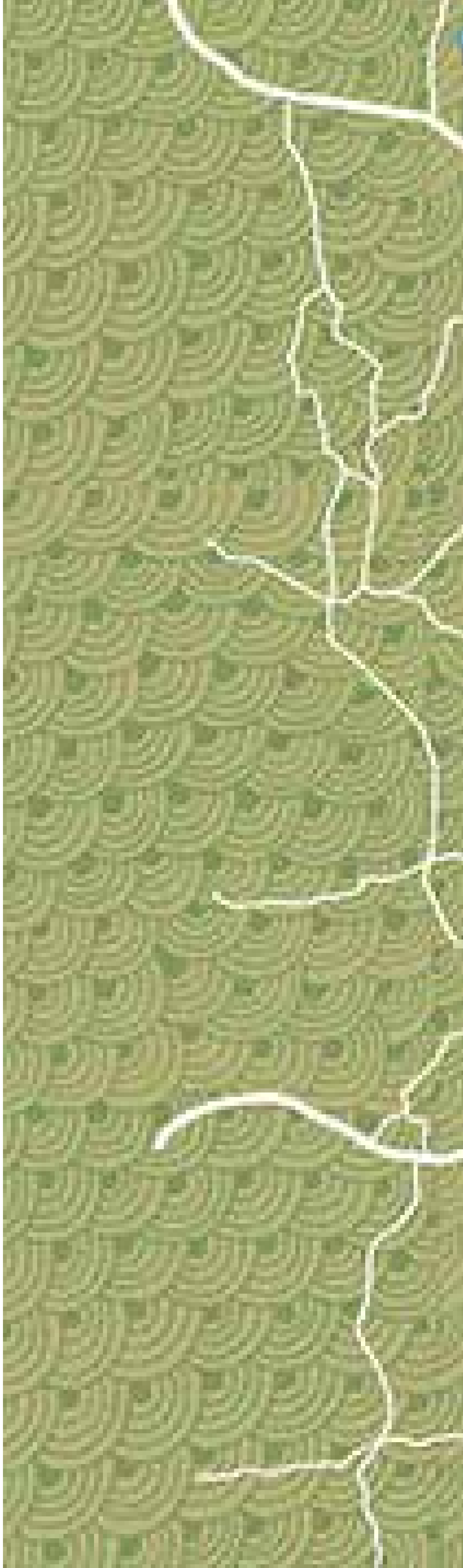
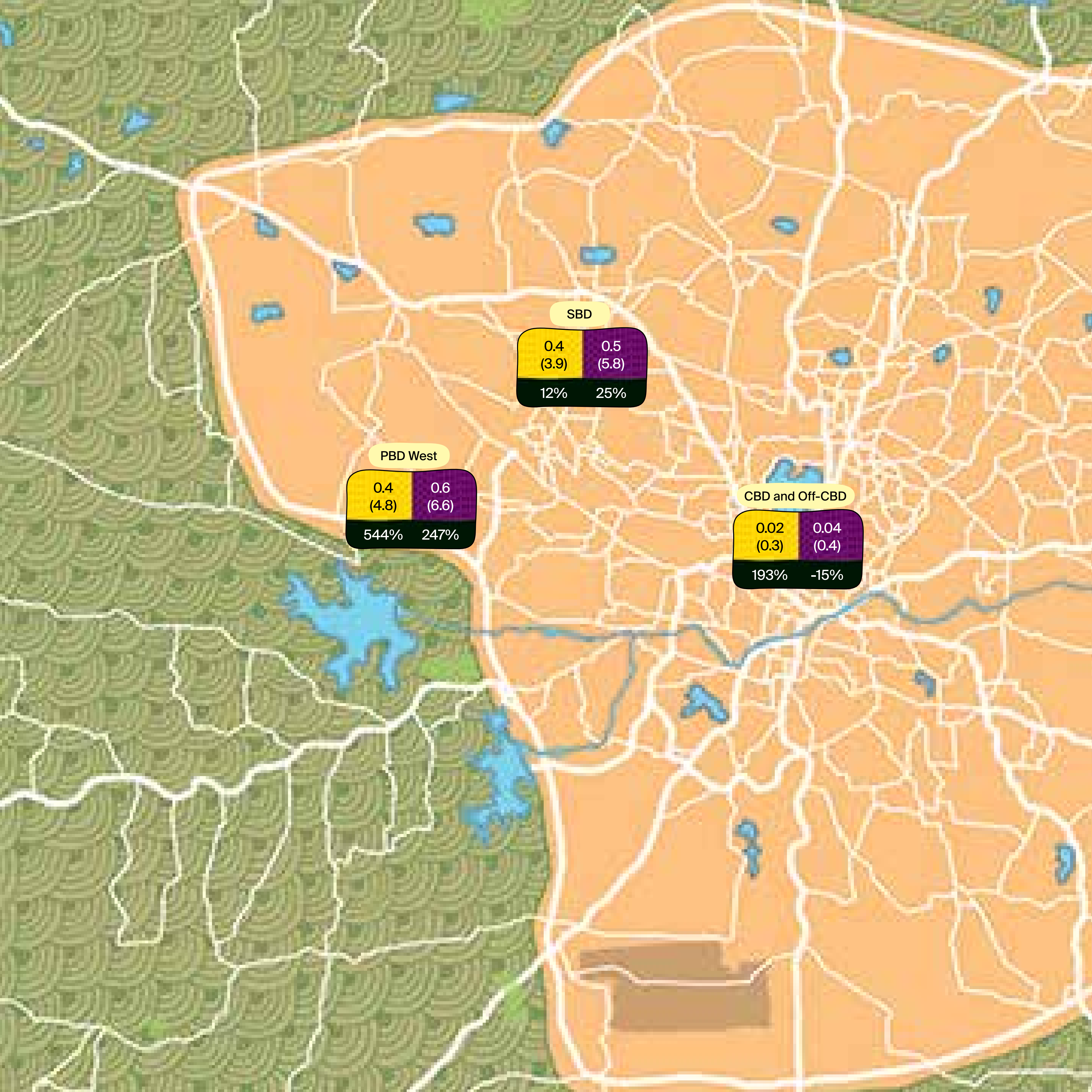
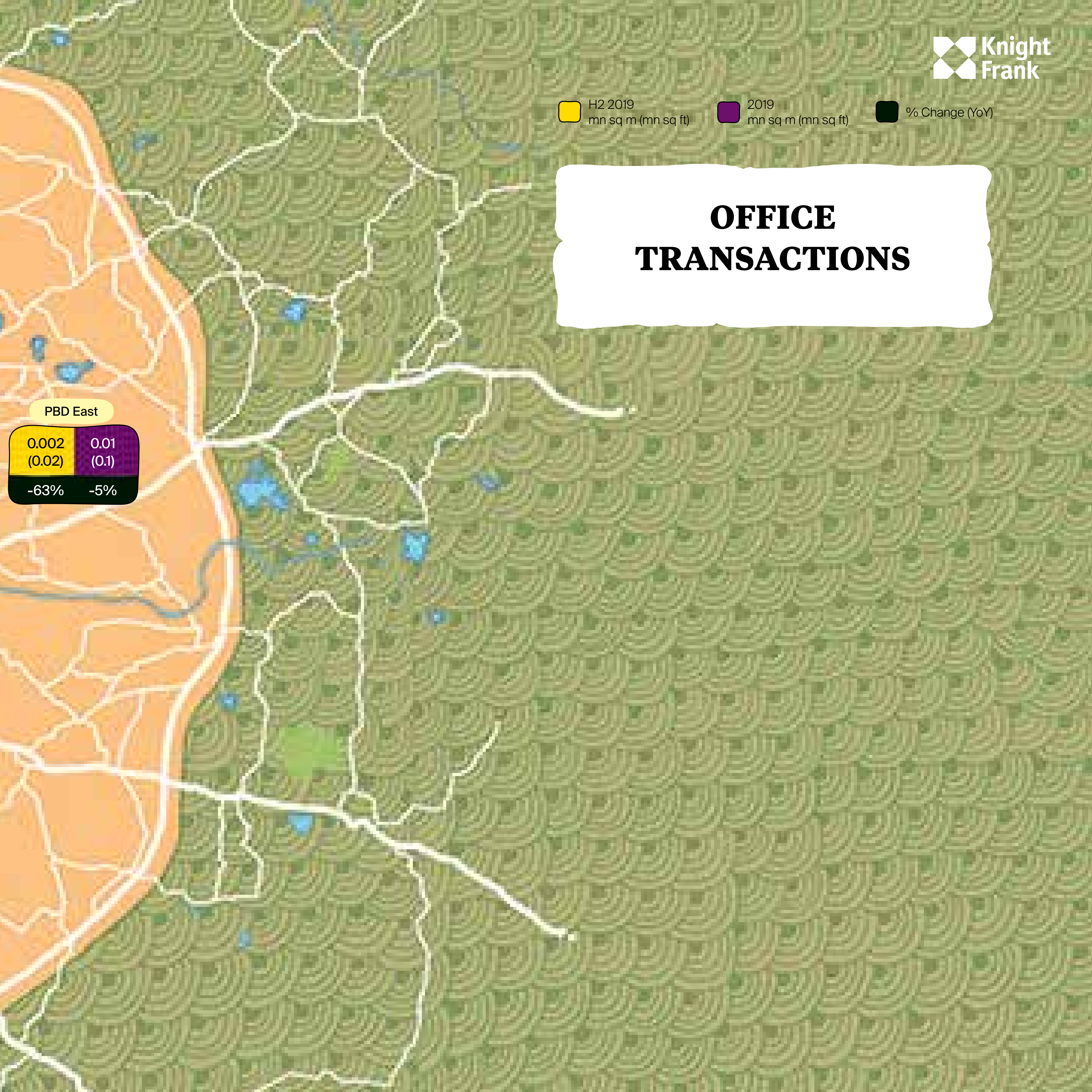
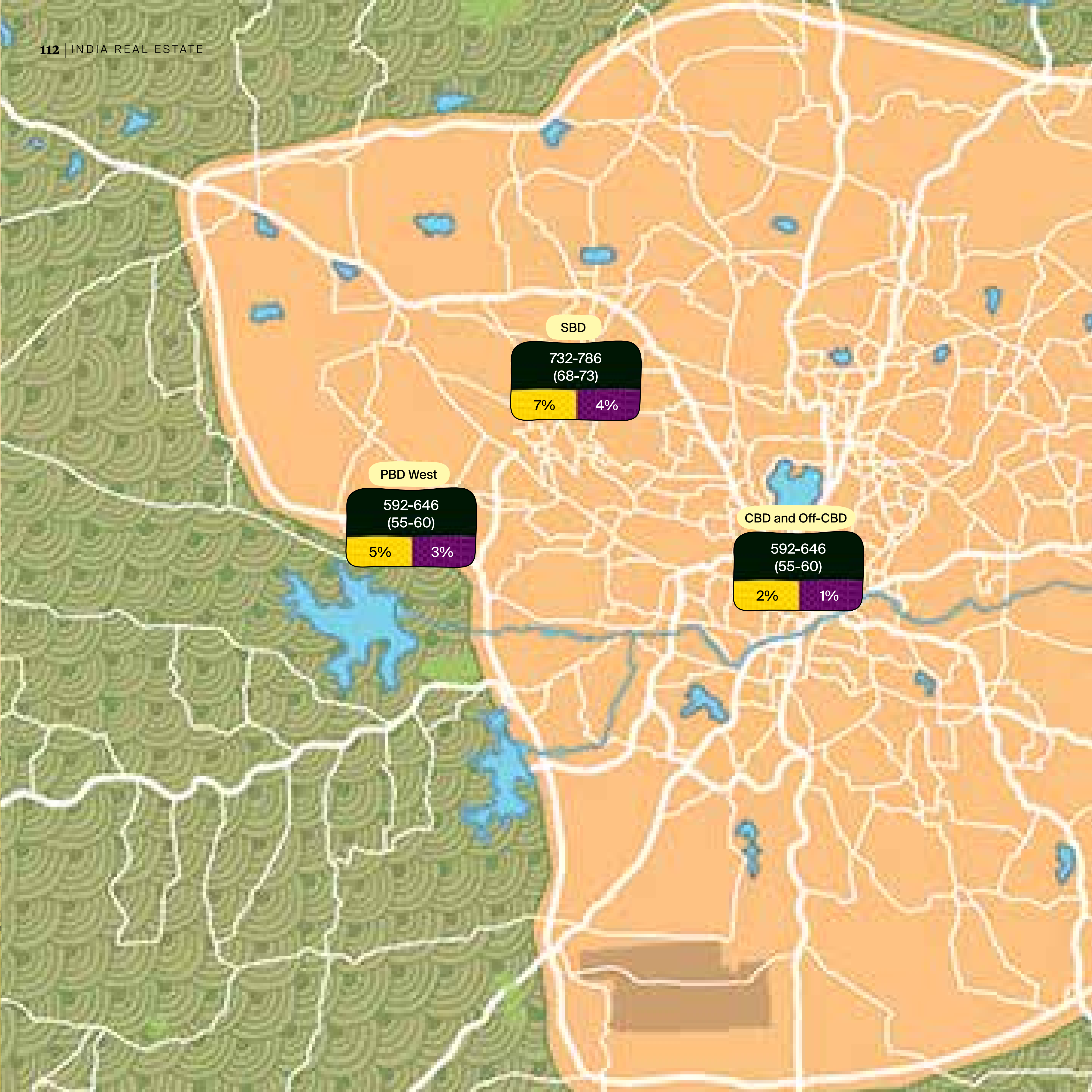


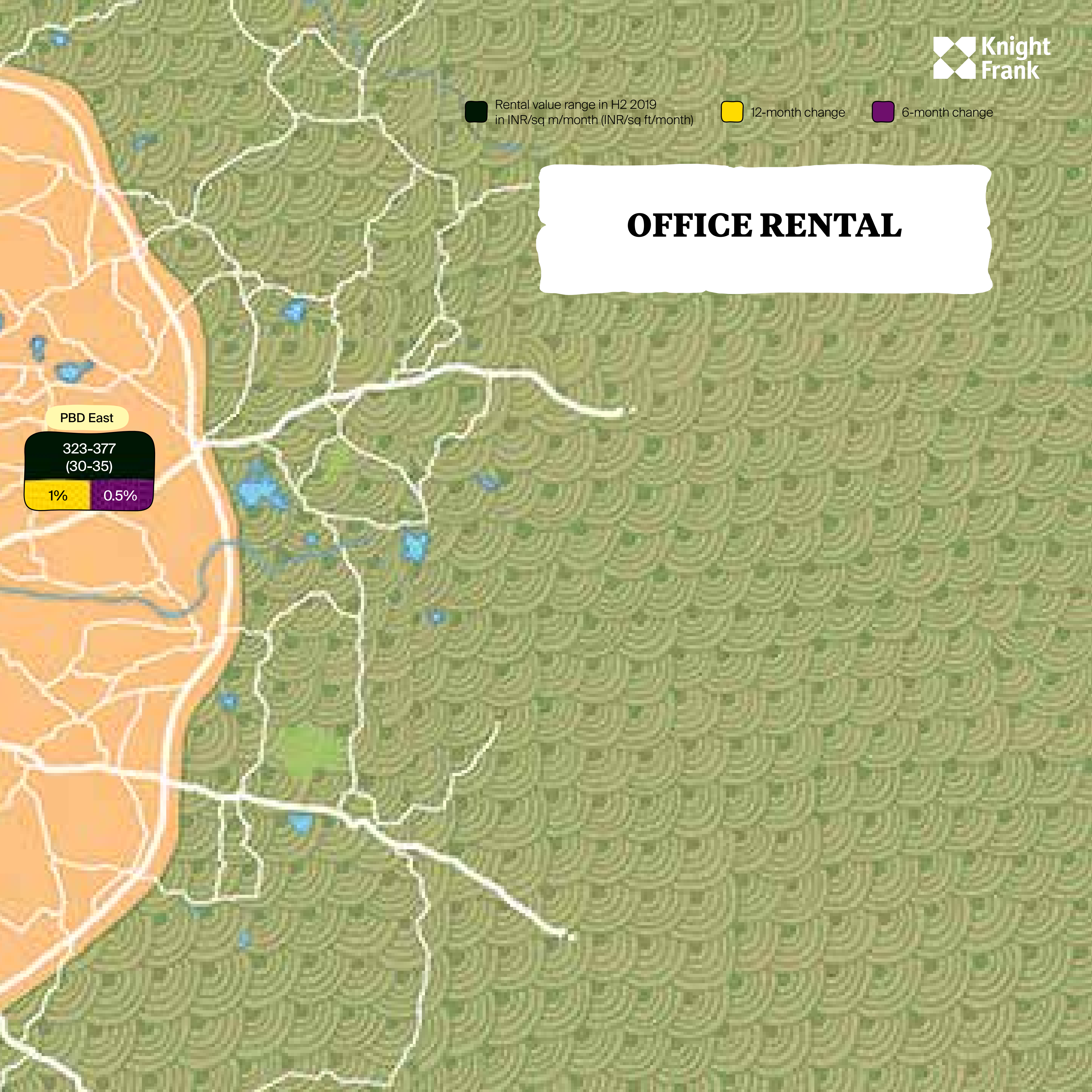

SBD
0.4
(3.9)
0.5
(5.8)
12%
25%
PBD West
0.4
(4.8)
0.6
(6.6)
544%
247%
CBD and Off-CBD
0.02
(0.3)
0.04
(0.4)
193%
-15%

OFFICE TRANSACTIONS




SBD
732-786
(68-73)
7%
4%
PBD West
592-646
(55-60)
5%
3%
CBD and Off-CBD
592-646
(55-60)
2%
1%

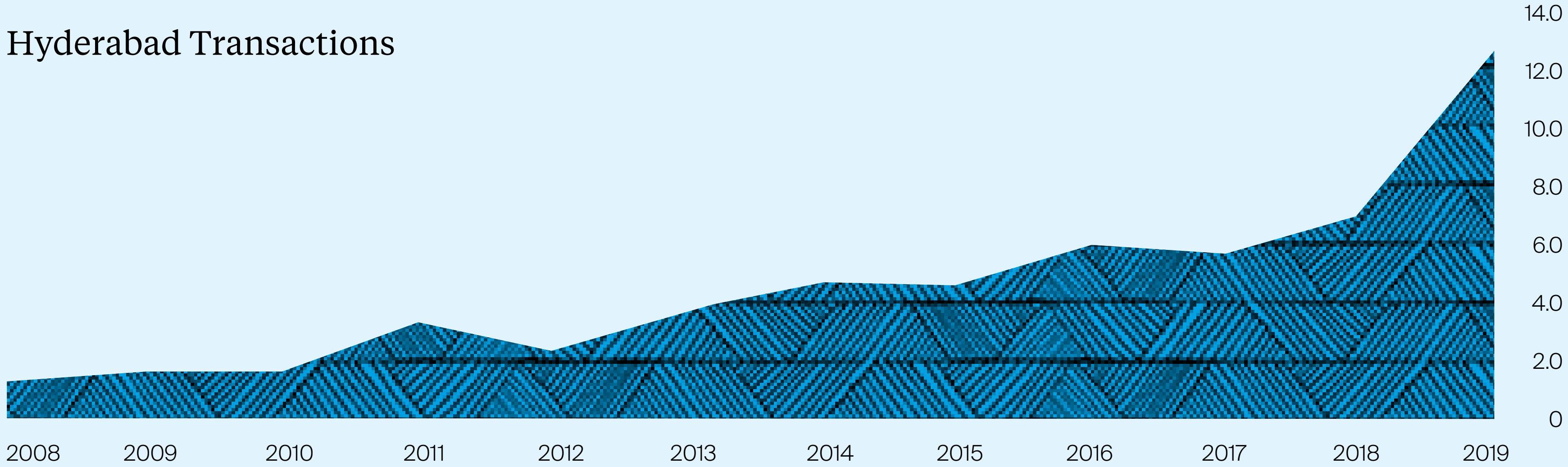
OFFICE RENTAL



Hyderabad's Juggernaut Continues to Roll

- by Pradnya Nerkar

Hyderabad Transactions



Hyderabad's outstanding growth story comes as a pleasant surprise to many. The city's unprecedented rate of development has left many wondering about the how and the when. More so because this idea was unthinkable about four to five years ago when Hyderabad was a significant but small metro. In that light, Hyderabad is like the 'new kid on the block'! Sound infrastructure, cosmopolitan crowd and a budding job market, the city has it all. Even the Googles and the Apples of the world could not resist its appeal. And the momentum continues to grow. The real estate sector in Hyderabad has also been influenced by the charm of this growth. Driven by the Information Technology (IT) dominated commercial market, the city's real estate engine is at full throttle crossing the 10 mn sq ft mark in commercial office transactions in 2019. In the All India* office space consumption pie, Hyderabad's contribution has been consistently growing, going from 0.3 mn sq m (3.7 mn sq ft) i.e. 11% in 2013 to 1.2 mn sq m (12.8 mn sq ft) i.e. 22% in 2019.

Hyderabad's commercial real estate market has seen a record growth of 172% in its transaction volumes in the last five years. In 2019, it clocked its highest ever transaction volume of 12.8 mn sq ft of office space transactions which is the second highest transaction activity across the country* for 2019, the first being Bengaluru at 15.3 mn sq ft. Hyderabad's major driver, the IT / Information Technology enabled Services (ITeS) sector's office space consumption has gone up by 211% from 2014 to 2019. Google set up its biggest campus outside of US in Hyderabad in 2015. This sprawling 0.2 mn sq m (2 mn sq ft) facility is also its first company-owned office in Asia. Microsoft, Apple and Facebook soon followed. The latest big ticket entrant is the global furniture giant IKEA which has set up a massive 13 acre complex (approximately 0.5 mn sq m / 5 mn sq ft) in the heart of Hyderabad city.

The growing demand is also being driven by the change in functions of present occupiers. The mainstay of Hyderabad's office market has for long been the IT sector but this was limited to the backend operations and outsourced processes i.e. Business Process Outsourcing (BPOs) and Knowledge Process Outsourcing (KPOs).
Today, the focus of these occupiers is on captive production and product development functions. This transition in functionalities is a result of the availability of a rich and diverse talent pool in Hyderabad which can, in part, be attributed to the presence of premier educational institutions such as the Indian School of Business (ISB) and Indian Institute of Technology (IIT) in the city.

Another noticeable trend of Hyderabad's present office market demand is its link with the present situation of Bengaluru. For long, Bengaluru has been a favourite in South India for IT / ITeS occupiers and even today, the city's share is the highest amongst South Indian markets. However, the city's infrastructure constraints such as congestion and water stress are posing significant challenges and this is making IT / ITeS occupiers consider the infrastructurally sound Hyderabad for their expansion plans. While Bengaluru still dominates

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Hyderabad's commercial real estate market has seen a record growth of 172% in its transaction volumes in the last five years. In 2019, it clocked its highest ever transaction volume of 12.8 mn sq ft of office space transactions which is the second highest transaction activity across the country* for 2019, the first being Bengaluru at 15.3 mn sq ft. Hyderabad's major driver, the IT / Information Technology enabled Services (ITeS) sector's office space consumption has gone up by 211% from 2014 to 2019.

◆◆

the all India market in terms of office space transactions, Hyderabad is catching up fast. It has already left Chennai far behind and is now a strong contender for the top position in office market activity in the country.

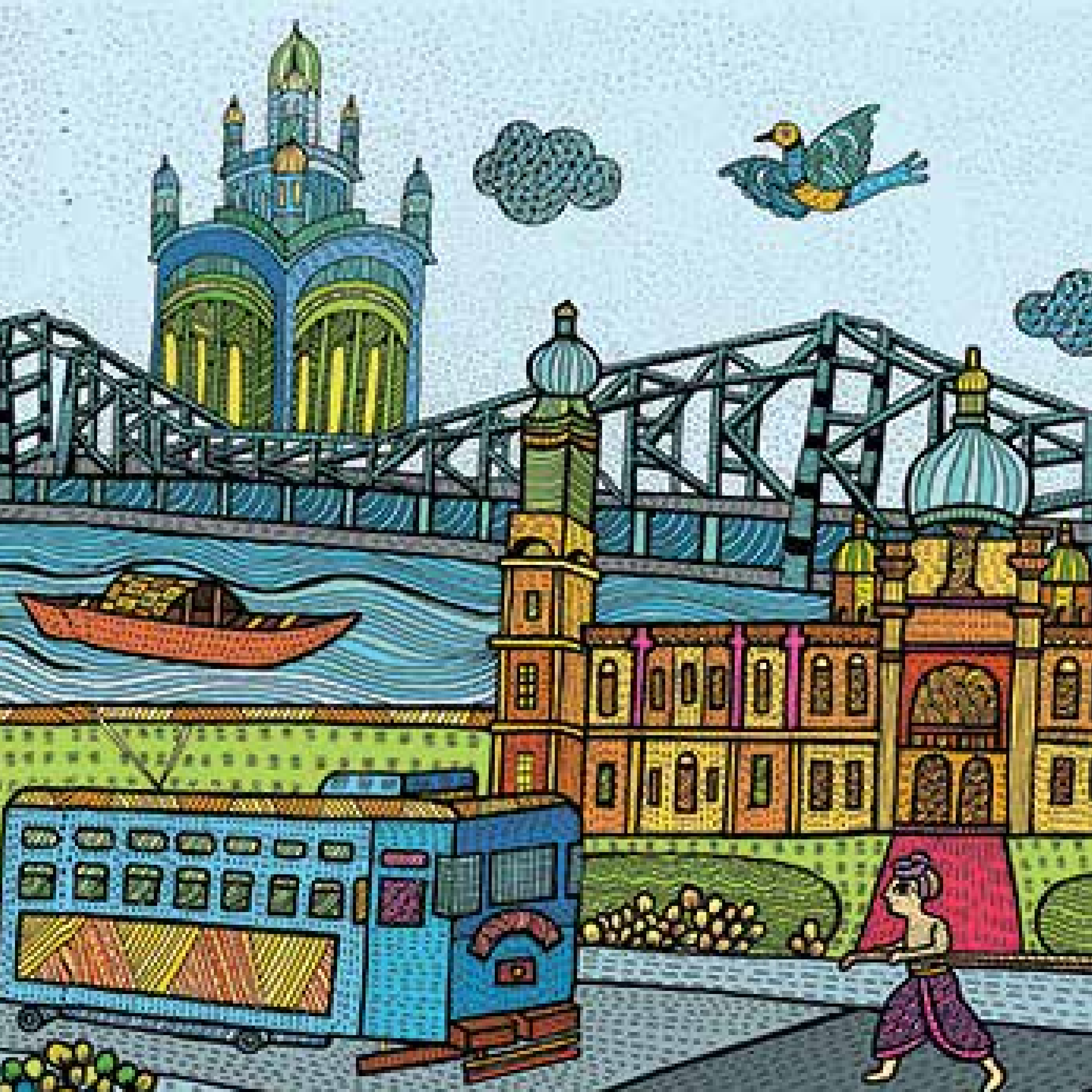
In recent times, the burgeoning co-working industry has been driving office market activity across India and Hyderabad is no exception. Co-working players accounted for a significant 1.36 million square feet i.e. 15% of the total office transactions of Hyderabad in H2 2019. While the above numbers paint a rosy picture of Hyderabad, the city's long struggle with externalities cannot be forgotten.

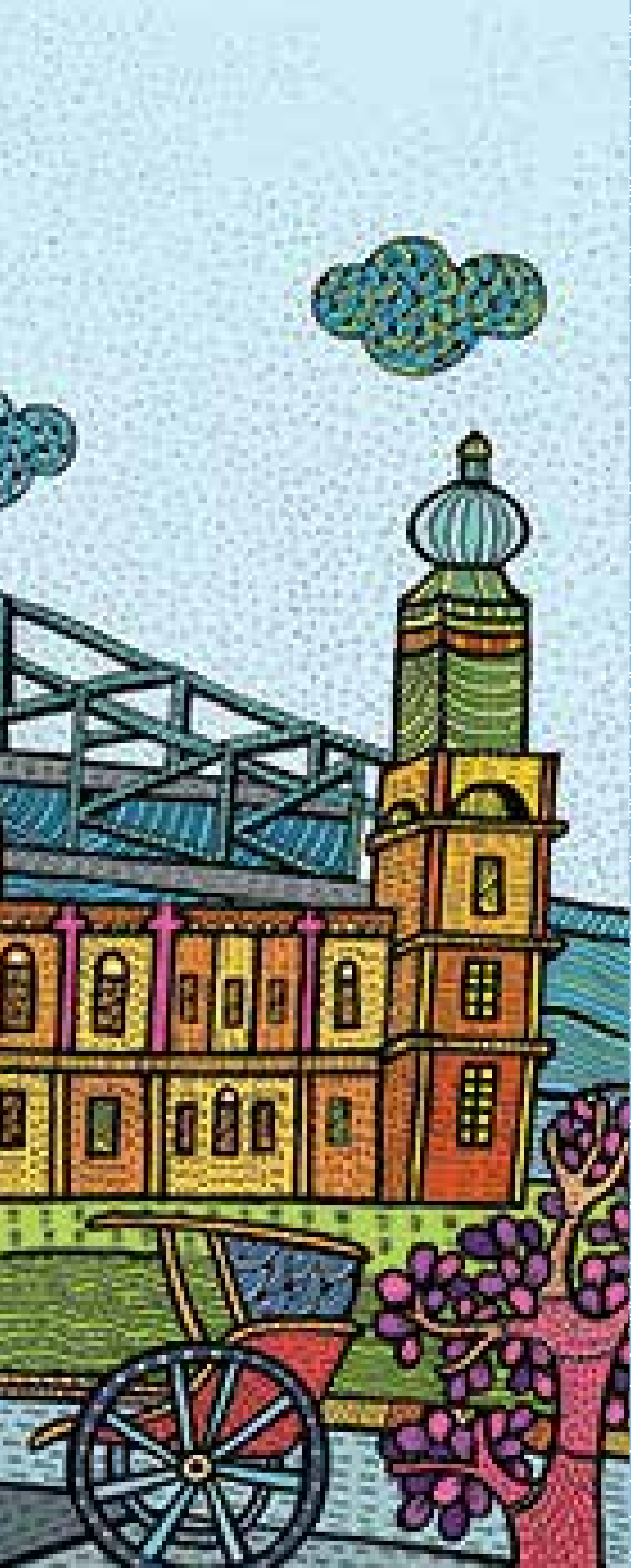
Hyderabad has been an IT-centric market from the beginning. Most US tech giants and other developed world Multi-National Companies (MNCs) had their operations outsourced from off-shore locations and Hyderabad in India was one of them. This attractive global market presence turned into a big disadvantage in 2008 when the US subprime crisis hit US economic growth and jobs, and the tremors were strongly felt in Hyderabad too. Office market hit a low and the city struggled to grow. As growth rate in office demand decelerated, residential demand growth was impacted too. With lower sales volume, developers took to discount pricing to offload their inventories and this resulted in an effective price correction of approximately 10-15%. Then, just as the market equilibrium was being set, a new shockwave hit Hyderabad and this time it was a full-blown catastrophe. The erstwhile state of Andhra Pradesh of which Hyderabad was the capital witnessed a growing and intensified demand for state separation. Driven by the internal political strife, riots and disruption of law and order became a regular affair. Such a hostile environment was certain to drive away business interests and this impacted the already fragile office market. Residential demand growth went down further and so did the price growth. Come 2014, an independent state of Telangana was formed and Hyderabad was declared as a shared capital for the two states. Peace has prevailed since then, not entirely but largely, and the newly formed state is focusing on its development plans. This was the turning point for Hyderabad. The new political leadership was and continues to be focused on the development agenda and since 2015, Hyderabad has developed by leaps and bounds. The extremely supportive policy environment has literally turned the tide in the last five years. Infrastructure has been planned and developed, government has been taking active interest in harnessing the immense IT potential that the city has to offer and the who's who of the corporate world have set up shop in Hyderabad. Thus, Hyderabad has come a long way and its success today is in fact a restoration to the pre-2008 levels, only much advanced. This most certainly is not a temporary spurt that would wither away with a change in winds.

The growing commercial activity has also helped restore Hyderabad's residential market. An increasing number of people are now migrating to Hyderabad. Not only are job opportunities lucrative but the growing cosmopolitan vibe of the city with sound infrastructure too is attracting the young job seekers. Residential prices in the prime locations i.e. the west of Hyderabad have gone up by almost 18-20% since 2015. While some of this price rise could be temporary with a scope for correction, most stakeholders believe that a major chunk of it is actually normalisation of prices to the pre-2008 levels. At a time when the entire country's residential real estate sector is struggling to find its feet, Hyderabad's residential market continues to remain strong.

To summarise, an active political leadership and an enabling policy environment have played a major role in Hyderabad's present success. As long as the political will remains strong, the growth momentum should continue. Two risks to Hyderabad's present growth pattern are the over-dependence of its office market on IT / ITeS sector, especially US-based IT companies, and the highly skewed nature of development in the city, concentrated in the west of Hyderabad. Both these can pose major challenges if not taken cognizance of. Otherwise, Hyderabad's success is here to stay and the juggernaut will continue to roll.

(*All India denotes top eight cities viz., Ahmedabad, Bengaluru, Chennai, Hyderabad, Kolkata, Mumbai, National Capital Region and Pune)





KOLKATA

RESIDENTIAL MARKET

OFFICE MARKET

Residential Market

Kolkata Residential Market

Parameter	H2 2019	Change (YoY)	2018	2019	Change (YoY)
Launches (housing units)	5,027	-11%	12,015	5,654	-53%
Sales (housing units)	6,678	9%	12,731	11,266	-12%
Price (wt avg)*	₹ 36,156/sq m (₹ 3,359/sq ft)	3%	₹ 35,080/sq m (₹ 3,259/sq ft)	₹ 36,156/sq m (₹ 3,359/sq ft)	3%
Unsold inventory (housing units)	32,924	-15%	38,536	32,924	-15%
Quarters to sell (QTS)	11.0	-	12.6	11.0	-
Age of unsold inventory (in quarters)	13.9	-	13.4	13.9	-

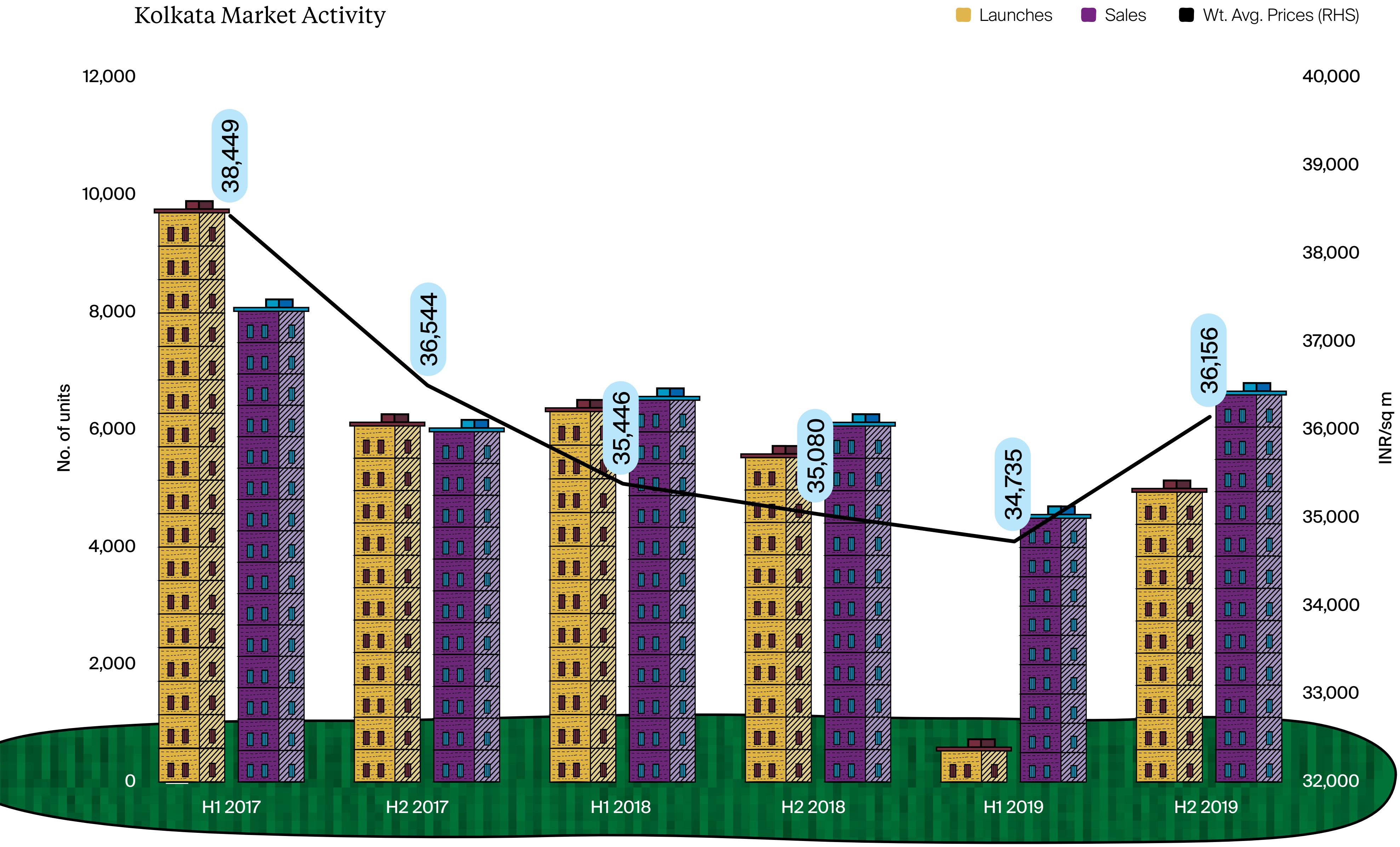
Source: Knight Frank Research

*End of period

The initial setbacks for developers due to teething troubles with understanding the project registration process under HIRA has negatively impacted the new residential launches in H2 2019.

- West Bengal government's own version of the Real Estate (Regulation and Development) Act, 2016 (RERA) came into effect on June 1st, 2018 with the setting up of West Bengal Housing Industry Regulatory Authority (WBHIRA). As of November 3rd, 2019, 195 real estate projects in Kolkata district have been registered under HIRA which is only a small proportion of the real estate stock in the city. Though this is a peculiar situation w.r.t. West Bengal's acceptance of RERA, HIRA implementation has created the regulatory ecosystem to take errant developers to task and protect the homebuyers' interest.
- The initial setbacks for developers due to teething troubles with understanding the project registration process under HIRA has negatively impacted the new residential launches

Kolkata Market Activity



Source: Knight Frank Research

11%

YoY decline in new launches in H2 2019

in H2 2019. Coupled with the significant delay in obtaining approvals from various government departments and municipal agencies, the developers are now faced with a situation where the project planning to project launch cycle has become a tediously long-drawn process. As a result, new launches remained low at 5,027 units. Whilst this is a stark improvement compared to H1 2019 when new residential launches came to a standstill, this depicts an 11% year-on-year (YoY) decrease.

- In terms of ticket sizes, the INR 2.5-5.0 million category noted a mammoth 78% of the total launches in H2 2019. The concessional Goods and Services Tax (GST) structure levying 1% without Input Tax Credit (ITC) for the affordable housing segment prompted developers to plan future projects as these ticket sizes have been prime drivers of sales velocity in recent times. The ticket size category accounting for <INR 2.5 million accounted for 8% of the total launches while the remaining were distributed across the INR 5.0-7.5 million and >INR 20 million categories. Interestingly, the high-end product categories of INR 7.5-20 million did not witness any new launches as the demand slowdown has deterred developers from focussing on this category.
- The South Zone accounted for the lion's share of 78% of the total launches in H2 2019. Locations in South such as Joka, Tollygunge, Mukundpur, Narendrapur and Garia witnessed new project launches in the mid-segment category.

Prominent national and regional developers launched several apartment projects in these locations to capitalize on the future end-user demand on the back of enhanced connectivity and physical infrastructure upgradation. The planned road widening of the 7.5 kms stretch of Joka to Majerhat to a four-lane road which is being taken up in phases with Phase 1 comprising the Diamond Harbour Road stretch, will improve the commute between Behala, Joka and beyond. It will also reduce traffic congestion near the Tartala flyover. Joka has also witnessed a lot of end-user enquiries in H2 2019 due to the presence of many under construction projects by Grade A developers in this micro-market.

- Rajarhat, which used to command more than one-third share in the city's overall launches on an average, has lately witnessed a slowdown in influx of new residential supply. This is mainly due to an oversupply of residential units in this cluster. In H2 2019, Rajarhat accounted for 12% share in new launches with New Town remaining a prime micro-market for mid-segment project launches. The new launch activity in North zone has weakened due to dreary buyer sentiments for some locations which reduced its share in new launches to a mere 4% in this half yearly period.

- After a drastic fall in sales in H1 2019, Kolkata's residential market bounced back with a 9% YoY upswing in the number of units sold in H2 2019. Barring a minor 2% uptick in sales in H2 2018, the past 3.5 years have been particularly bad for Kolkata's residential market with sequential sales decline in each half yearly period. The negative end-user sentiment which had set in the market post the multiple policy reforms starting from demonetisation has finally tapered off post the April 1st, 2019 GST reduction to 1% without ITC on affordable housing projects under construction. This announcement has changed the buyer perception and set in motion the sale of units nearing completion. The additional deduction of INR 0.5 million for interest paid on housing loans taken upto March 31st, 2020 for purchasing a house upto INR 45 lakhs in value has acted as a demand side catalyst and helped middle-income segment buyers to come forward and close transactions.

- Ticket sizes upto INR 5.0 million witnessed two-thirds of the total sales volume in H2 2019. The new GST rate structure has reduced the price gap for under-construction and ready to move in products upto INR 45 lakhs. With previous buyer resistance gone, the unsold inventory in this bracket has witnessed growth in sales momentum in this half yearly period. Developers have been aggressively marketing these projects through project hoardings and digital media to increase outreach to end-users and maintain visibility.

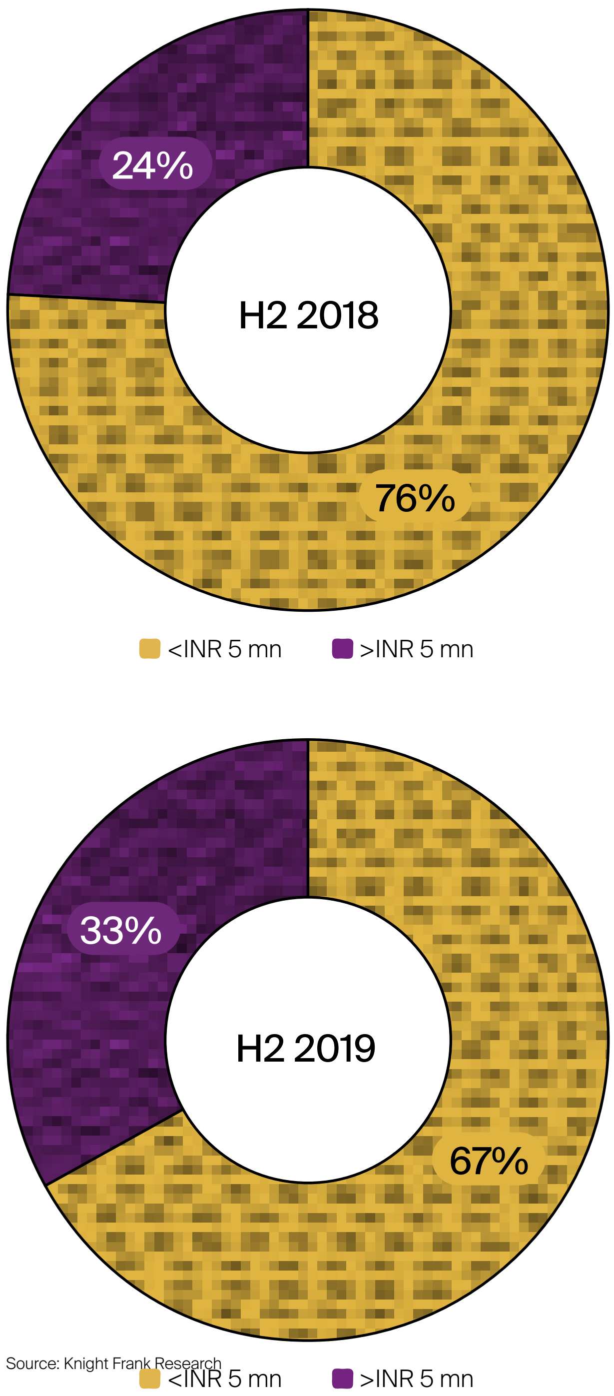
- Besides the affordable segment, mid-segment ticket sizes ranging from INR 5.0-7.5 million also noted an uptrend in sales on a YoY basis and accounted for 19% of the total sales volume. Due to oversupply in this segment, developers are offering a lot of discounts and cashbacks in different forms which has helped drive sales for this segment.

- In line with the trend witnessed for new launches, the South Zone leads with a 35% share in total sales. Micro-markets in South such as Joka have noted high sales velocity due to the presence of many comparable projects in the vicinity by Grade A developers which has reinstated confidence amongst first home buyers. The road widening for the connecting highway to Tartala is attracting buyers from nearby locations such as Thakurpukur and Behala. Other fringe locations such as Garia, Sonarpur and Baruipur have also witnessed improvement in sales for rightly priced products.

- Rajarhat, the second-best performing zone with a 26% share in sales volume noted a significant jump in units sold in H2 2019 as compared to the year ago period. This is mainly due to the curtailment of new launches in H1 2019 and stable prices which translated into strong sales momentum in the current period.

- Some micro-markets in North also fared well in sales volume, especially in the < INR 2.5 million category which led to this cluster contributing

Ticket size split of sales



Source: Knight Frank Research

17% to the city total. Availability of a variety of affordable housing schemes gave a fillip to sales velocity in Barasat, Madhyamgram and Dum Dum once the GST rate was slashed in July this year.

- Due to absence of adequate funding in the wake of the NBFC crisis and low sales volume, developers have been struggling to generate cash flows. As a result, the total marketing budget for many developers have reduced and spending on print media has come down drastically. Instead, the media mix percentage has increased for digital channels despite its limitations of low conversions in absolute numbers. Increase in compliance costs from 2-3% to 5-10% have also added on to the total costs for projects along with other input costs such as cement. In such an environment, developers are left with no choice but to increase channel partner commissions to get the unsold inventory moving to keep up with increasing cost pressures. Lucrative freebies such as vouchers worth INR 50,000 for Make My Trip and Amazon, lottery schemes to get flats at INR 1 for all monthly registrations, car parking at INR 1 and early bird cashback offers are rampant. To grab eyeballs, some developers are also offering modifications in the apartments to keep end-users happy.
- Increasing costs and reduction in unsold inventory in H1 2019 led to a marginal improvement of 3% YoY in weighted average prices for the city. With fence-sitters back in the market and rise in enquiries, base selling prices of many projects nearing completion and ready to move in have witnessed marginal uptick.
- Due to a healthy sales volume and curtailed launches in H2 2019, the unsold inventory for Kolkata reduced by 15% YoY. This is the highest percentage decrease in unsold inventory recorded in the past two years and puts the residential market back on a positive trajectory. Though the market completely remains end-user driven, the regulatory framework for real estate sector and government's continued impetus towards affordable housing is gradually taking the sector out of its worst days.
- Improving sales velocity and reduction in unsold inventory over a period led to a slight downward revision in the Quarters-To-Sell (QTS) for the city. From a QTS of 12.6 in H2 2018, it has now reduced to 11.0, which is the lowest QTS level recorded in the past two years.
- However, many real estate projects are still stalled and reeling under the pressure of low sales velocity. While HIRA implementation has wiped out fly-by-night operators and promoted consolidation in the real estate development fraternity, there are several developers for whom project completion and avoiding customer complaints has become a big challenge. As a result, the age of inventory has increased from 13.4 in H2 2018 to 13.9 in H2 2019 as there are fewer takers for such projects.
- HIRA implementation has also given a chance to Grade B developers to get big as the ground rules for real estate development space have changed. Now, it is purely about survival of players with good project execution and funding capabilities and many mid-sized developers are using the level playing field to fast-track execution of projects to win buyers' trust and create brand visibility. There are a lot of development management opportunities available for Grade A developers at very attractive terms as landowners are now willing to negotiate and listen to developers to ensure sustained returns in a joint venture (JV) arrangement.
- In the short-term, the real estate sector in Kolkata has got organized and consumers can reach out to HIRA to voice their concerns. But, from a long-term perspective, it is important to have clarity on HIRA's co-existence with RERA. Especially, in the current economic environment where developers have extremely limited funding avenues. In the current scenario, there is widespread ambiguity as to whether the Centre's INR 250 billion bailout package for real estate will benefit developers in West Bengal as their projects are registered under HIRA and not RERA. The state's own Act might hinder developers seeking to avail funding through the special window for stalled projects as they do not meet the eligibility criteria. While clarity is awaited, if such a scenario were to pan out, it would be detrimental for Kolkata's residential market which is finally coming back on track and showing positive signs of demand revival.

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Increasing costs and reduction in unsold inventory in H1 2019 led to a marginal improvement of 3% YoY in weighted average prices for the city. With fence-sitters back in the market and rise in enquiries, base selling prices of many projects nearing completion and ready to move in have witnessed marginal uptick.

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9%

YoY increase in residential sales in H2 2019

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The negative end-user sentiment which had set in the market post the multiple policy reforms starting from demonetisation has finally tapered off post the April 1st, 2019 GST reduction to 1% without ITC on affordable housing projects under construction. This announcement has changed the buyer perception and set in motion the sale of units nearing completion.

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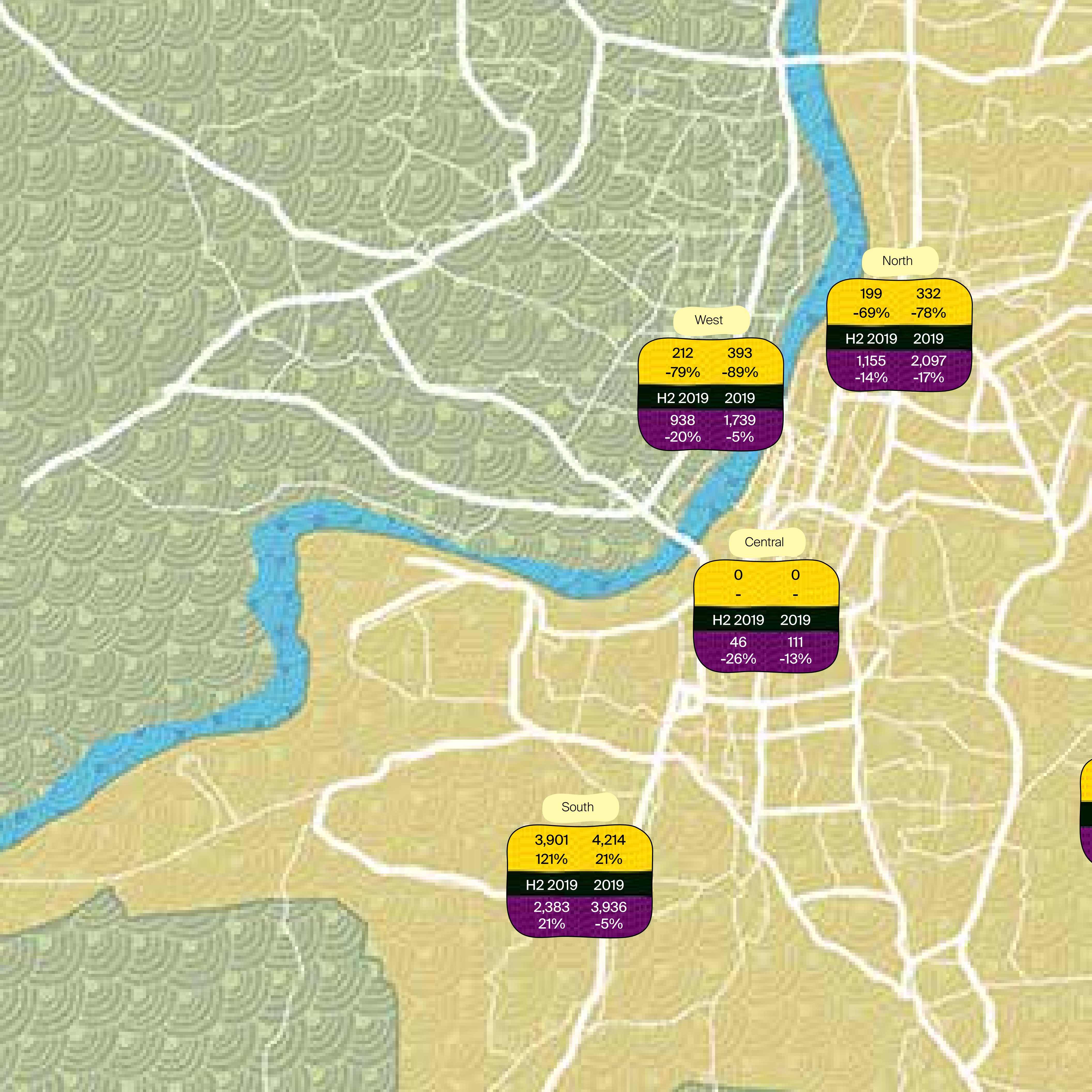
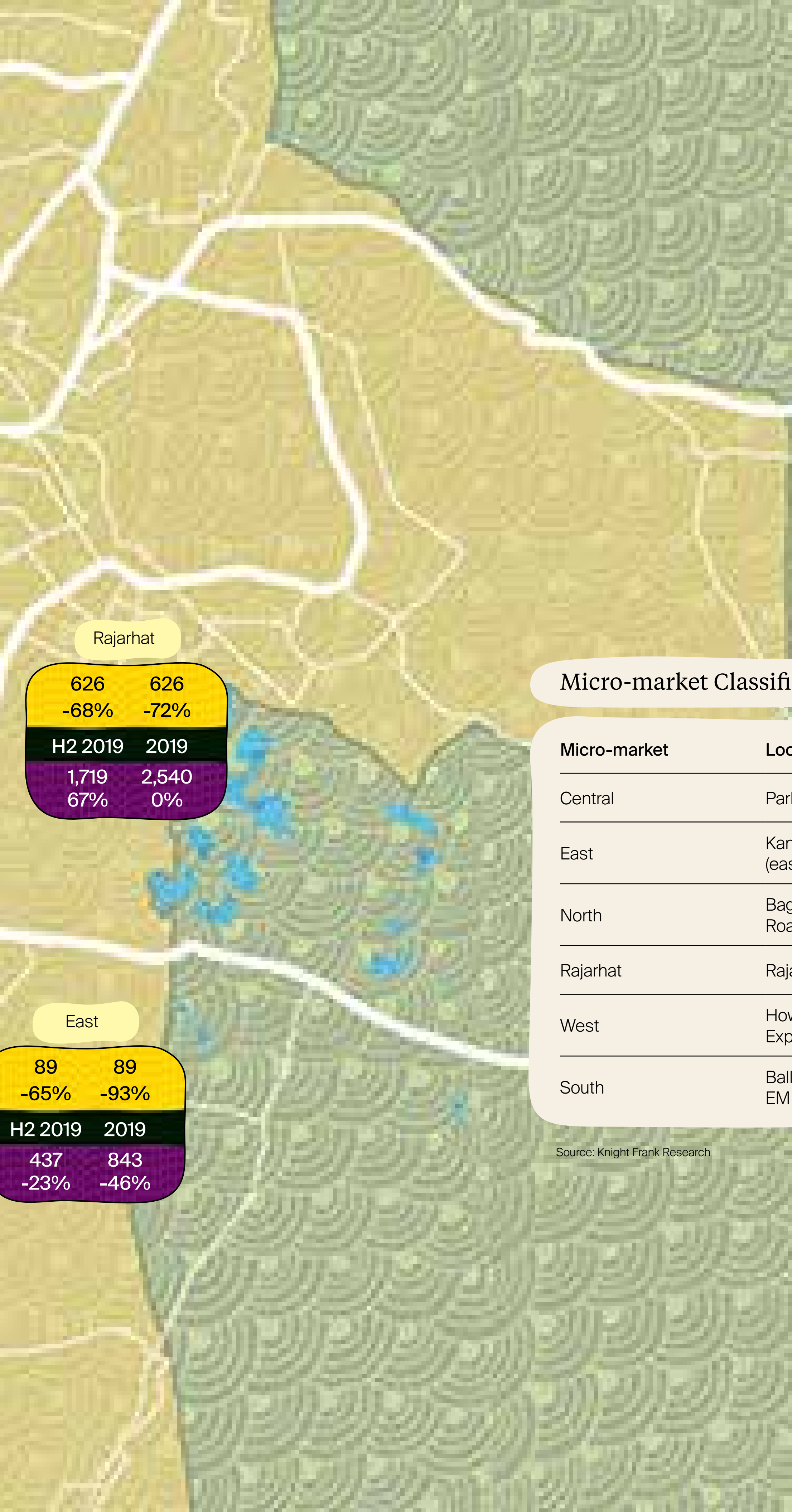

North
199
-69%
332
-78%
H2 2019
2019
1,155
-14%
2,097
-17%
West
212
-79%
393
-89%
H2 2019
2019
938
-20%
1,739
-5%
Central
0
-
0
-
H2 2019
2019
46
-26%
111
-13%
South
3,901
121%
4,214
21%
H2 2019
2019
2,383
21%
3,936
-5%

RESIDENTIAL LAUNCHES AND SALES

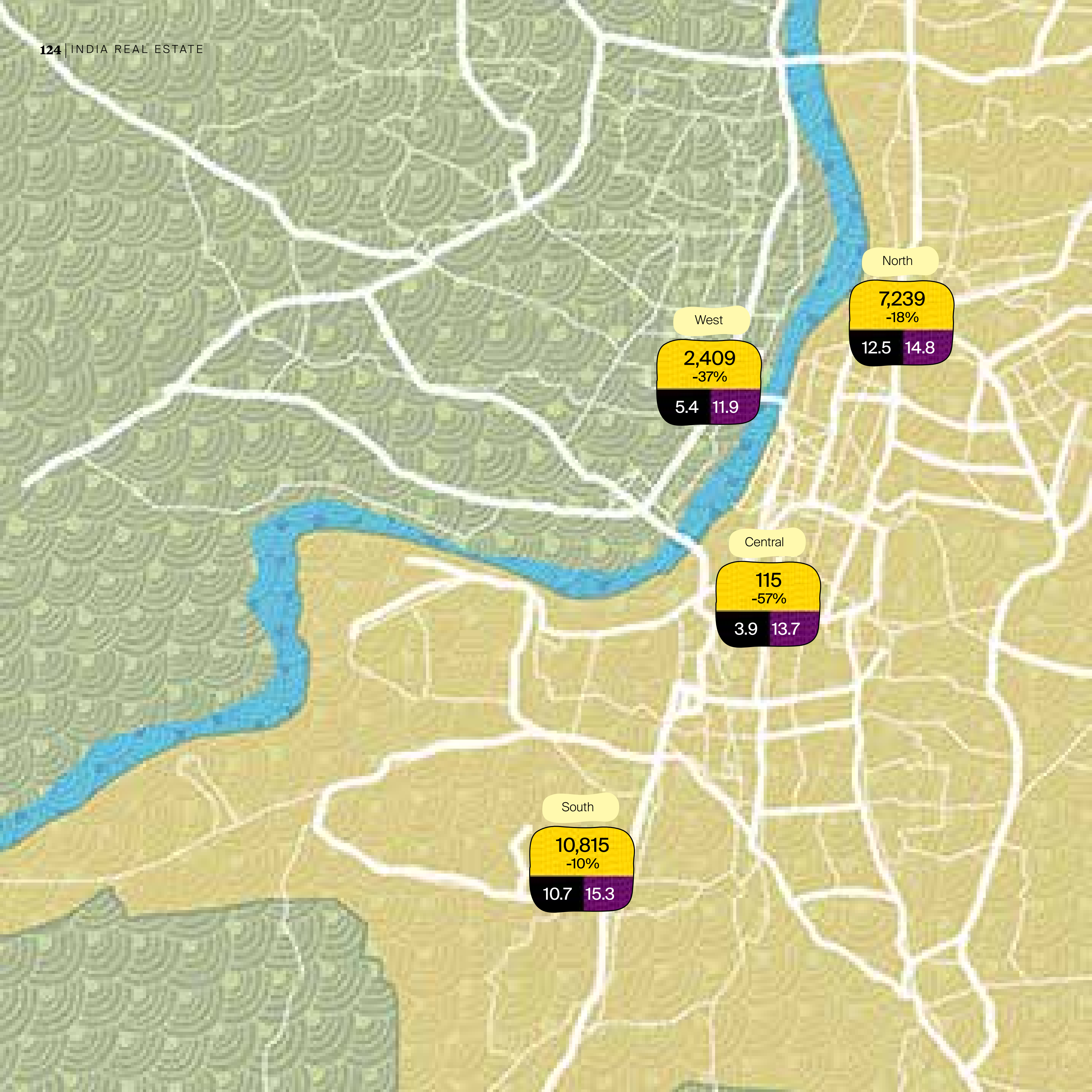
Launches (housing units) | Sales (housing units) | % Change (YoY)

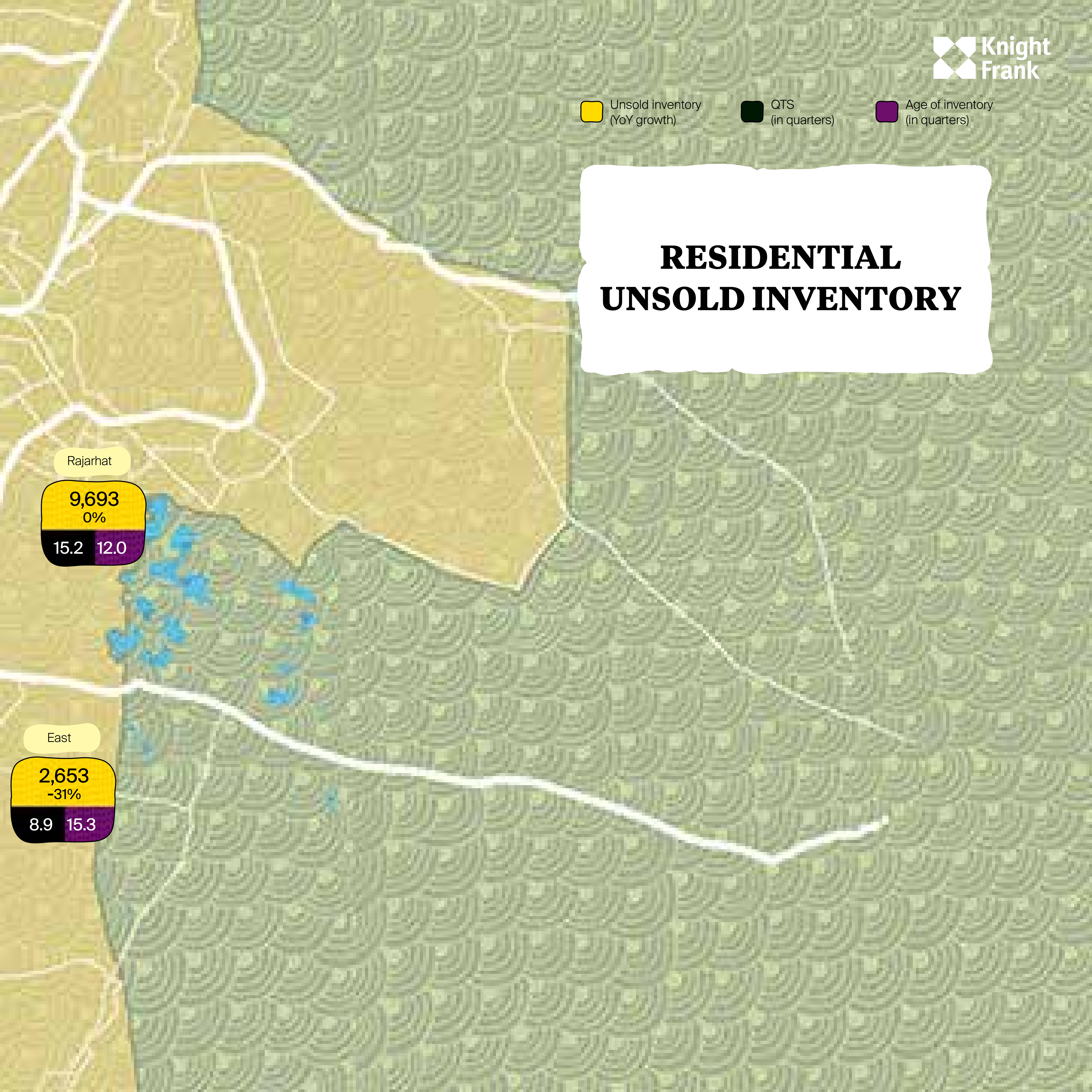


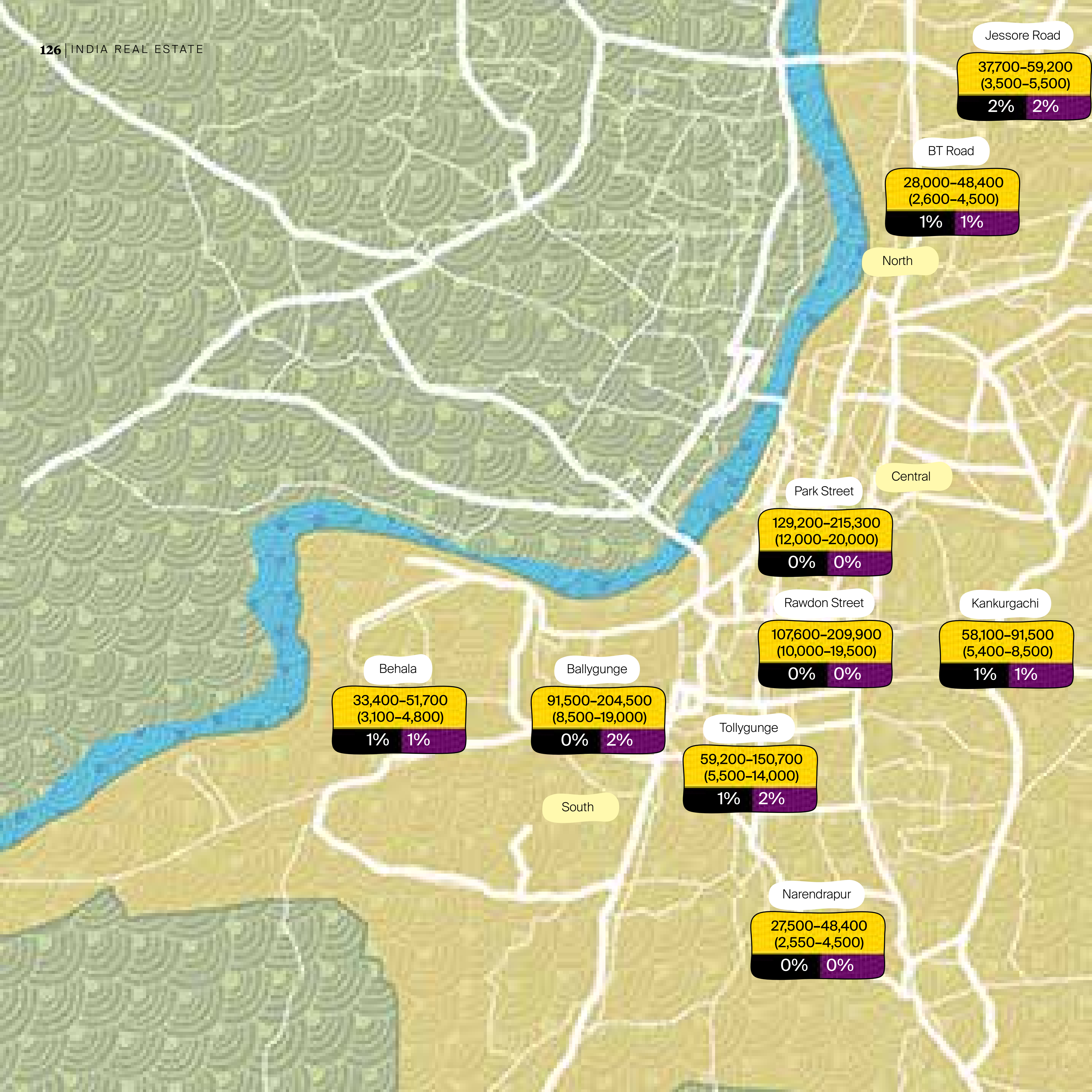
Micro-market Classification

Micro-market	Locations
Central	Park Street, Rawdon Street, AJC Bose Road, Minto Park, Elgin Road
East	Kankurgachi, Beliaghata, Salt Lake, Narkeldanga, Keshtopur, EM Bypass (eastern parts)
North	Baguiati, Ultadanga, Jessore Road, Shyambazar, Lake Town, BT Road, VIP Road
Rajarhat	Rajarhat New Town
West	Howrah, Rishra, Hooghly, Uttarpara, Chandan Nagar, Rajpur, Kona Expressway
South	Ballygunge, Alipore, Tollygunge, Narendrapur, Behala, Garia, Maheshtala, EM Bypass (southern parts)

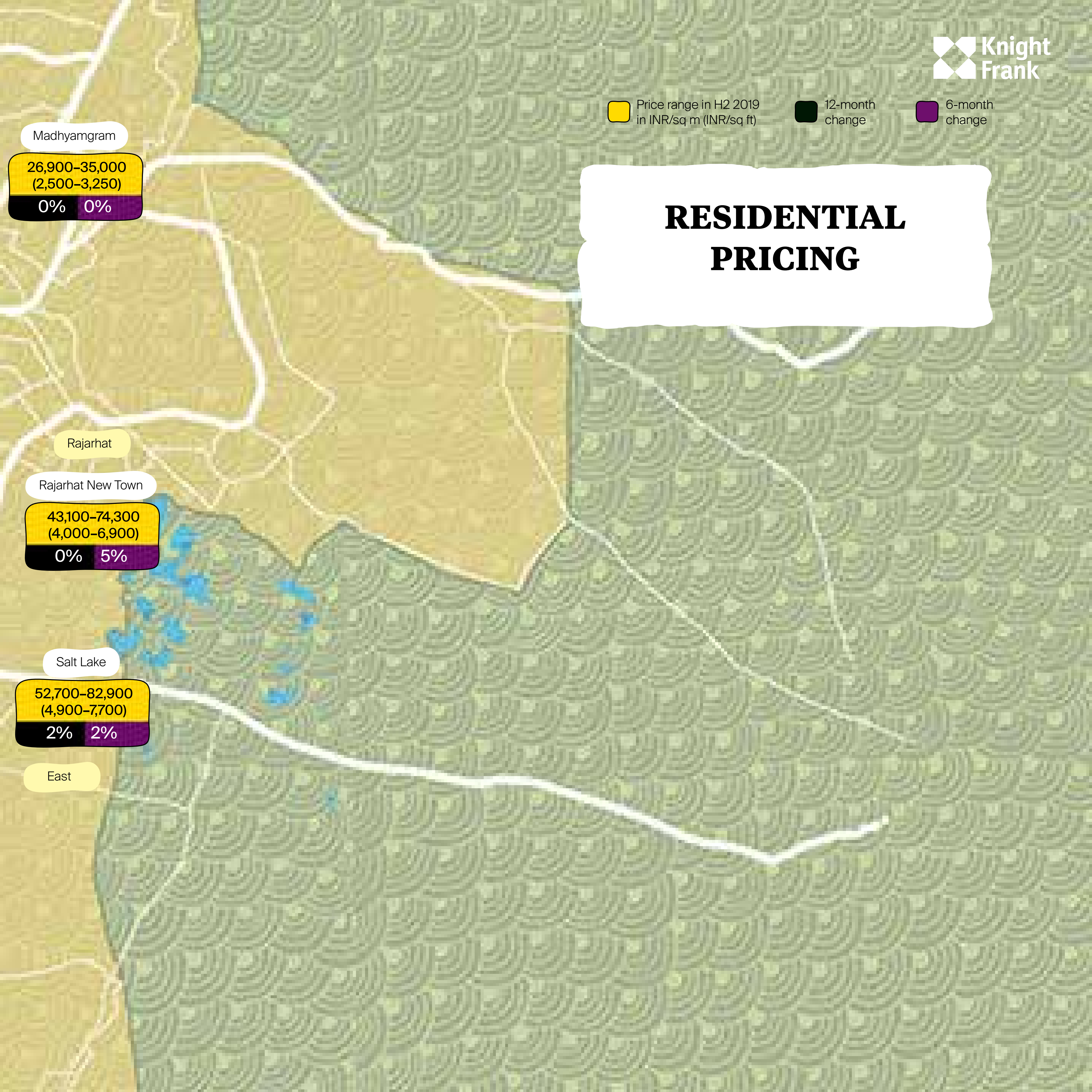
Source: Knight Frank Research


North
7,239
-18%
12.5
14.8
West
2,409
-37%
5.4
11.9
Central
115
-57%
3.9
13.7
South
10,815
-10%
10.7
15.3

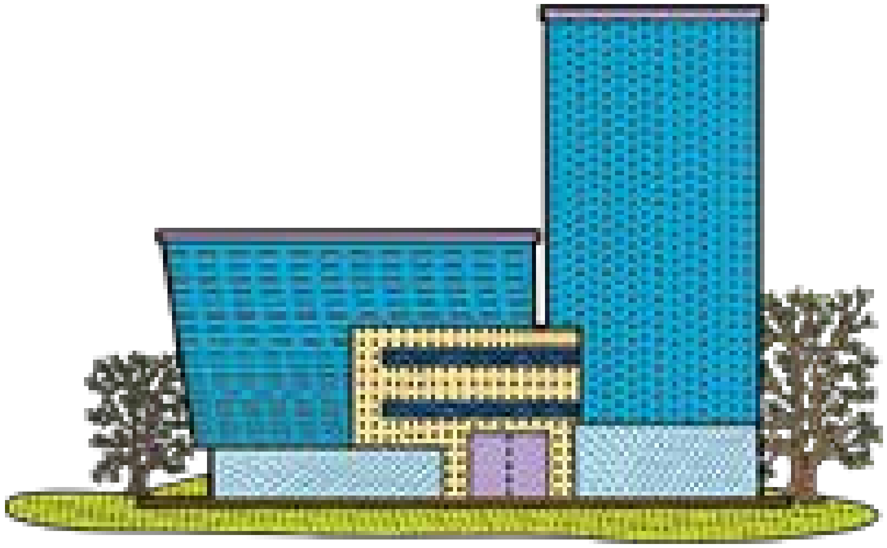

Knight Frank
Unsold inventory (YoY growth)
QTS (in quarters)
Age of inventory (in quarters)
RESIDENTIAL UNSOLD INVENTORY
Rajarhat
9,693
0%
15.2
12.0
East
2,653
-31%
8.9
15.3


Jessore Road
37,700–59,200
(3,500–5,500)
2% 2%
BT Road
28,000–48,400
(2,600–4,500)
1% 1%
North
Central
Park Street
129,200–215,300
(12,000–20,000)
0% 0%
Rawdon Street
107,600–209,900
(10,000–19,500)
0% 0%
Kankurgachi
58,100–91,500
(5,400–8,500)
1% 1%
Behala
33,400–51,700
(3,100–4,800)
1% 1%
Ballygunge
91,500–204,500
(8,500–19,000)
0% 2%
Tollygunge
59,200–150,700
(5,500–14,000)
1% 2%
South
Narendrapur
27,500–48,400
(2,550–4,500)
0% 0%

RESIDENTIAL PRICING



Office Market



24%

YoY growth in transactions in H2 2019

◆◆

While the transaction volume of 0.13 mn sq m (1.35 mn sq ft) constitutes a small percentage of the total leasing across the top eight cities, this is a welcome surprise for Kolkata's commercial real estate market. This healthy rise in occupier demand has come after nearly four years of staid office space consumption by corporates.

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Kolkata Market Snapshot

Parameter	H2 2019	Change YoY	2018	2019	Change YoY
New completions mn sq m (mn sq ft)	0.56 (6.0)	162%	0.22 (2.37)	0.56 (6.0)	153%
Transactions mn sq m (mn sq ft)	0.07 (0.72)	24%	0.07 (0.80)	0.13 (1.35)	69%
Weighted average rental in ₹/sq m/month (₹/sq ft/month)*	413.44 (38.41)	-10%	458.01 (42.55)	413.44 (38.41)	-10%
Stock mn sq m (mn sq ft)	2.93 (31.54)	23%	2.37 (25.54)	2.93 (31.54)	23%
Vacancy (%)	43%	-	35%	43%	-

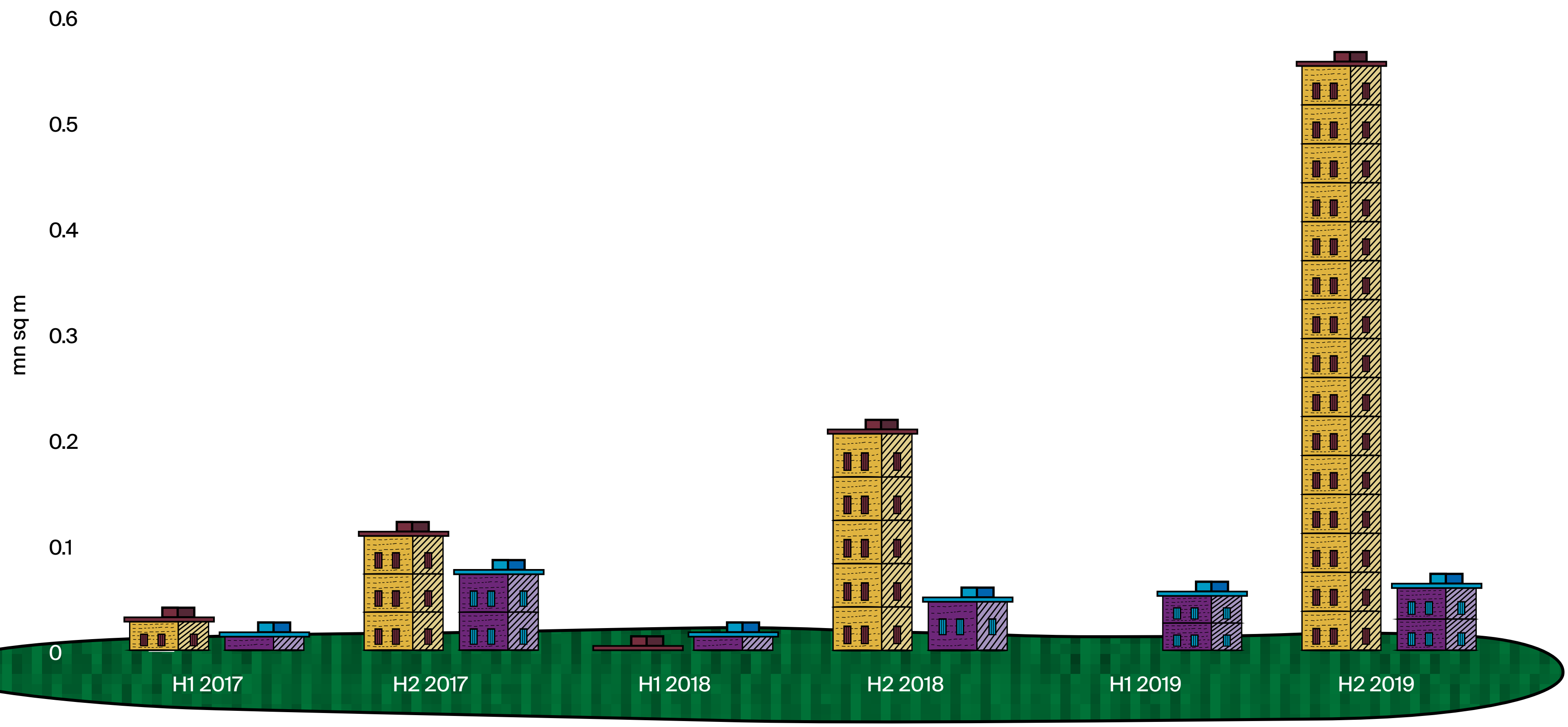
Source: Knight Frank Research

*End of period

- In 2019, Kolkata's office market witnessed a 69% annual increase in the overall leasing volume due to a demand uptick from some Information Technology (IT) companies for large office spaces. While the transaction volume of 0.13 mn sq m (1.35 mn sq ft) constitutes a small percentage of the total leasing of office spaces across the top eight cities in India, this is a welcome surprise for Kolkata's commercial real estate market. This is mainly because this healthy rise in occupier demand has come after nearly four years of staid office space consumption by corporates.

Kolkata Office Market Activity

New Completions Transactions



23%

YoY growth in stock in 2019

- In H2 2019, 0.07 mn sq m (0.72 mn sq ft) of office space was leased which represents a 24% year-on-year (YoY) increase. In line with past trends, small ticket-sized transactions dominated the overall leasing volume. At 2,083 sq m (22,417 sq ft), the average ticket size of transactions represent a 35% YoY increase while the total number of deals declined by 11% during the same period. Though it indicates an expansion in the average space take-up by companies, this trend is too new to conclude any major shift in occupier preference for larger spaces than what the market has witnessed so far.

- The Information Technology/Information Technology enabled Services (IT/ITeS) sector accounted for 47% of the total transactions in H2 2019. This is largely due to a big-ticket sized relocation and consolidation by an IT major to set up footprint in a Special Economic Zone (SEZ) in Rajarhat. Occupiers from IT/ITeS sector expanded footprint in PBD-1 (Salt Lake City) which contributed to this sector's overall share in the city total.

- In H2 2019, a huge drop in the office sector consumption of the Banking, Financial Services and Insurance (BFSI) sector came to the fore as the office space area leased shrunk in both absolute sq footage terms as well as percentage. From a 27% share in total leasing in H2 2018, the share of BFSI sector reduced to 14% during this period. This is largely due to very limited transactions by the companies in BFSI space due to expansion activities focused on cities other than Kolkata. Since Kolkata is neither a financial nor an IT hub, the BFSI sector companies did not scout for office spaces to set up back offices or expand existing footprint for front offices.

- The share of Other Services Sector gradually increased from 19% in H2 2018 to 32% in H2 2019. Leasing volume in absolute space take-up by this sector expanded during this period due to small sized transactions from various sectors, mainly in the PBD-1 (Salt Lake City) area. As the co-working culture has not taken off in Kolkata, it accounted for only 3% of the total transactions, which is slightly lower than what

Business District Classification

Business district	Micro markets
Central Business District (CBD) and off CBD	Park Street, Camac Street, Theatre Road, AJC Bose Road, Elgin Road, Rabindra Sadan, Esplanade, Lenin Sarani, S N Banerjee Road, Central Avenue, Dalhousie Square, Mango Lane, Brabourne Road, Chandni Chowk, Rawdon Street, Loudon Street, Lee Road, Lord Sinha Road, Hastings, Hare Street, Kiran Shankar Ray Road, Upper Wood Street, Hungerford Street, Circus Avenue, Syed Amir Ali Avenue, Chowringhee
Suburban Business District - I (SBD -1) Park Circus Connector	Topsia, JBS Haldane Avenue, EM Bypass-Park Circus Connector
Suburban Business District (SBD-2) Rashbehari Connector	EM Bypass-Rashbehari Connector, Anandapur Main Road, Rajdanga, South Ballygunge, Ashutosh Mukherjee Road, Gariahat, Hazra, Chetla, Jessore Road, Nagerbazar
Peripheral Business District -1 (PBD-1) Salt Lake City	Salt Lake Sector V
Peripheral Business District (PBD-2) Rajarhat New Town	Rajarhat New Town, BT Road, Bantala

Source: Knight Frank Research

was noted during the year ago period.

- Co-working, as an offshoot of the 'shared economy' model has failed to interest real estate developers and occupiers in Kolkata as the local economy of the city and its industrial output is not at par with others and lags far behind key Indian cities witnessing much higher leasing volume. The e-commerce sector, too, did not have any sizeable contribution to office space consumption, though this sector has been at the forefront to drive warehousing leasing in Kolkata.

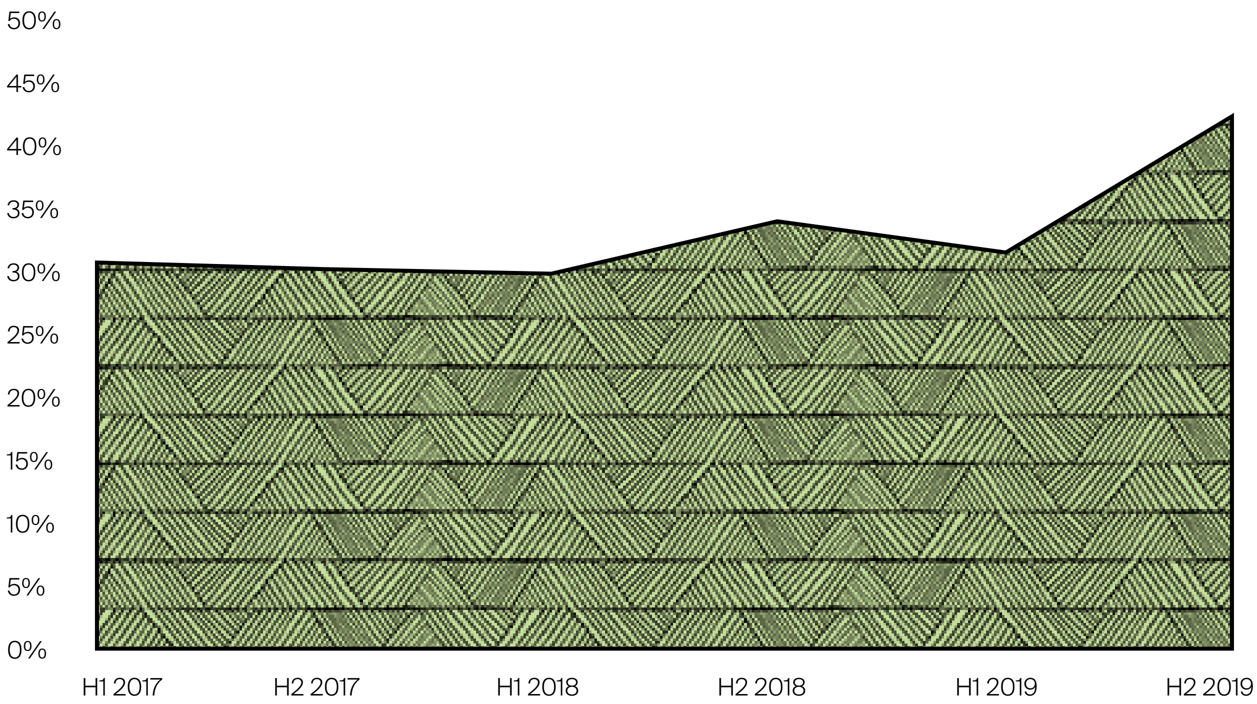
- PBD-1 (Salt Lake City) accounted for 62% of the total leasing volume due to steady occupier demand for office spaces in the prime Salt Lake Sector V business district. This business district continued to remain the preferred location for occupiers due to large space office formats, good connectivity to the central areas and city outskirts alike. Despite the city witnessing a miniscule share in office sector demand across the top eight Indian cities, PBD-1 (Salt Lake City)'s share has inched up steadily as similar tenant profile has helped attract many companies from IT/ITeS sector.

- PBD-2 (Rajarhat New Town) comprised a 33% share in leasing in H2 2019, mainly due to an IT major's relocation and consolidation of multiple offices to a large SEZ in New Town. This large transaction not only gave a fillip to this business district's share in total leasing but was a major contributor to Kolkata clocking in 0.13 mn sq m (1.35 mn sq ft) annually.

- Occupier demand for spaces in Central Business District and Off Central Business District (CBD & Off CBD) locations remained subdued with only a 2% share in H2 2019. This is mainly because of two factors: a) non-availability of large office space formats with modern amenities and b) ongoing metro construction and several traffic bottlenecks due to which the CBD & Off CBD locations have lost their appeal. Any new buildings in Kolkata's CBD & Off CBD locations are primarily mixed-use buildings with high demand from retailers leaving very little room for pure plug and play office formats to flourish.

- A similar situation also prevails with respect to occupier interest in Secondary Business Districts (SBD) of Park Circus Connector and Rashbehari Connector as largely all

Kolkata Office Market Vacancy



Source: Knight Frank Research

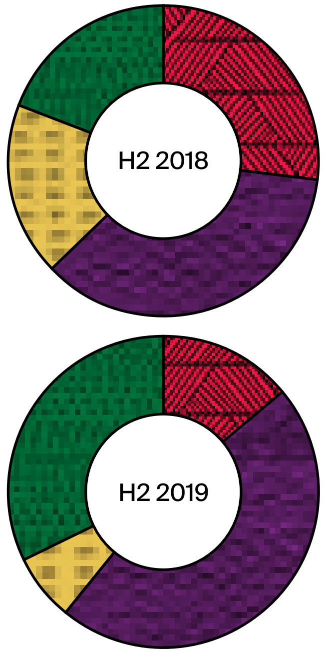
occupier demand remained concentrated in PBD-1 (Salt Lake City) and PBD-2 (Rajarhat New Town). In the absence of any new supply, these business districts failed to attract occupiers.

- 2019 was also a landmark year for new office supply influx for Kolkata with the highest new completions recorded in the past five years. While the first half of 2019 did not witness any new supply, completion of business parks in the latter half brought 0.56 mn sq m (6.00 mn sq ft) supply to the market. On a YoY basis, this is a stark 162% jump over the H2 2018 period. With this new supply, occupiers who want to operate closer to CBD & Off CBD and yet remain in buildings with large floor plates will have more options to consider.

- With this huge supply addition, available office stock in the city far outpaces the average annual leasing momentum. With occupier demand that accounts for hardly 1-2% of the total leasing across the top eight cities in India, this vast demand-supply mismatch has only aggravated the high vacancy levels. The city level vacancy, which was already high at 35% at the end of H2 2018 skyrocketed to 43% at the end of H2 2019.

Despite a healthy rise in office space consumption in 2019 compared to the past four years, the high vacancy levels and massive supply infusion led to a 10% YoY decline in weighted average rentals for office spaces in Kolkata. Of all the micro-markets, only PBD-1 (Salt Lake City) noted an 8% YoY increase in weighted average rentals in H2 2019 due to sustained occupier stickiness.

Sector-wise Split of Transactions



Industry	H2 2018	H2 2019
BFSI	27%	14%
IT/ITeS	36%	47%
Manufacturing	18%	7%
Other Services	19%	32%

Note: BFSI includes BFSI support services; Other Services includes co-working, media, telecom etc.

Source: Knight Frank Research

Average deal size and number of deals

1,541 (16,589)
Average deal size in sq m (sq ft)
H2 2018
36
Number of Deals

2,083 (22,417)
Average deal size in sq m (sq ft)
H2 2019
32
Number of Deals

Note - 1 square metre (sq m) = 10.764 square feet (sq ft)
Source: Knight Frank Research

162%

YoY growth in new office supply in H2 2019

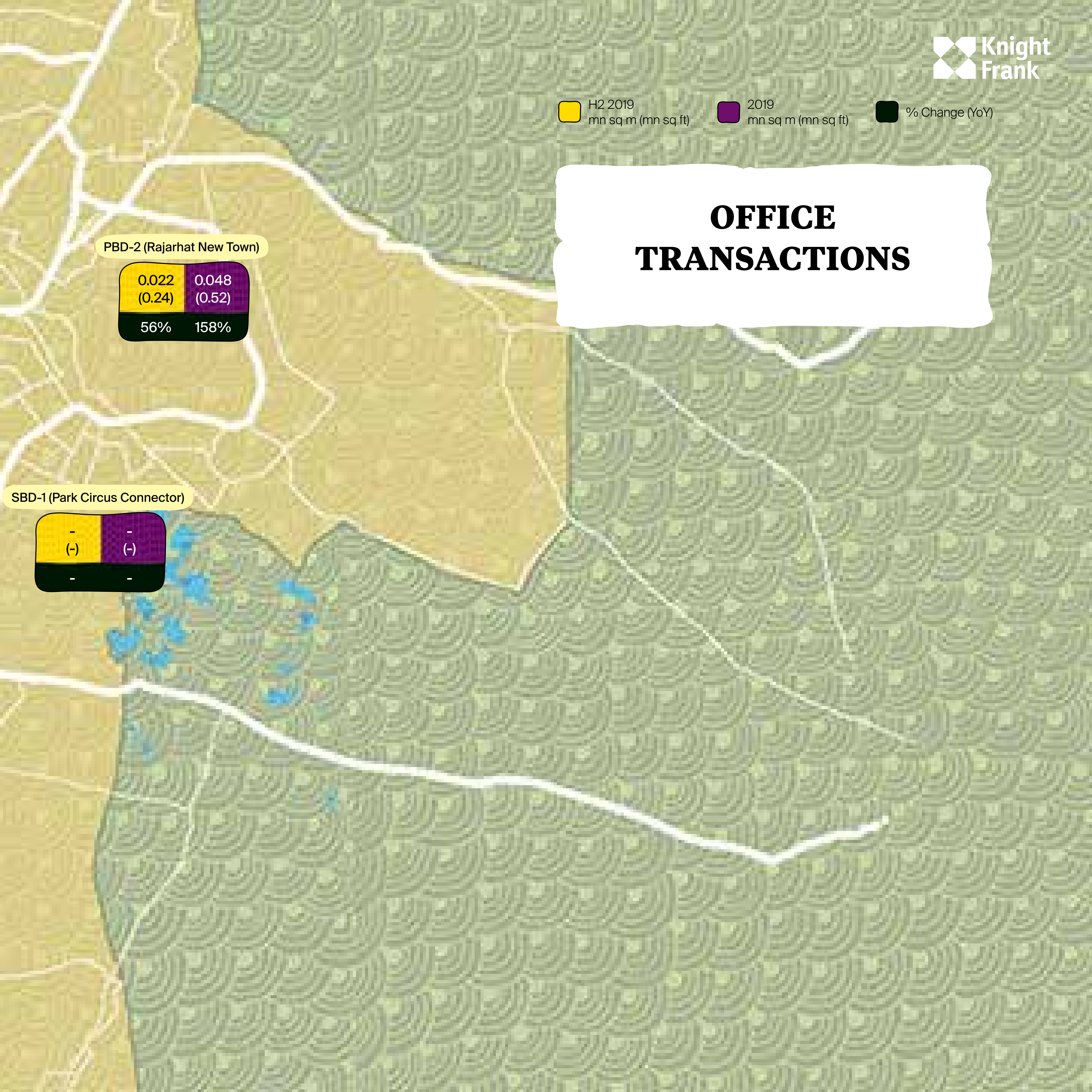
◆◆

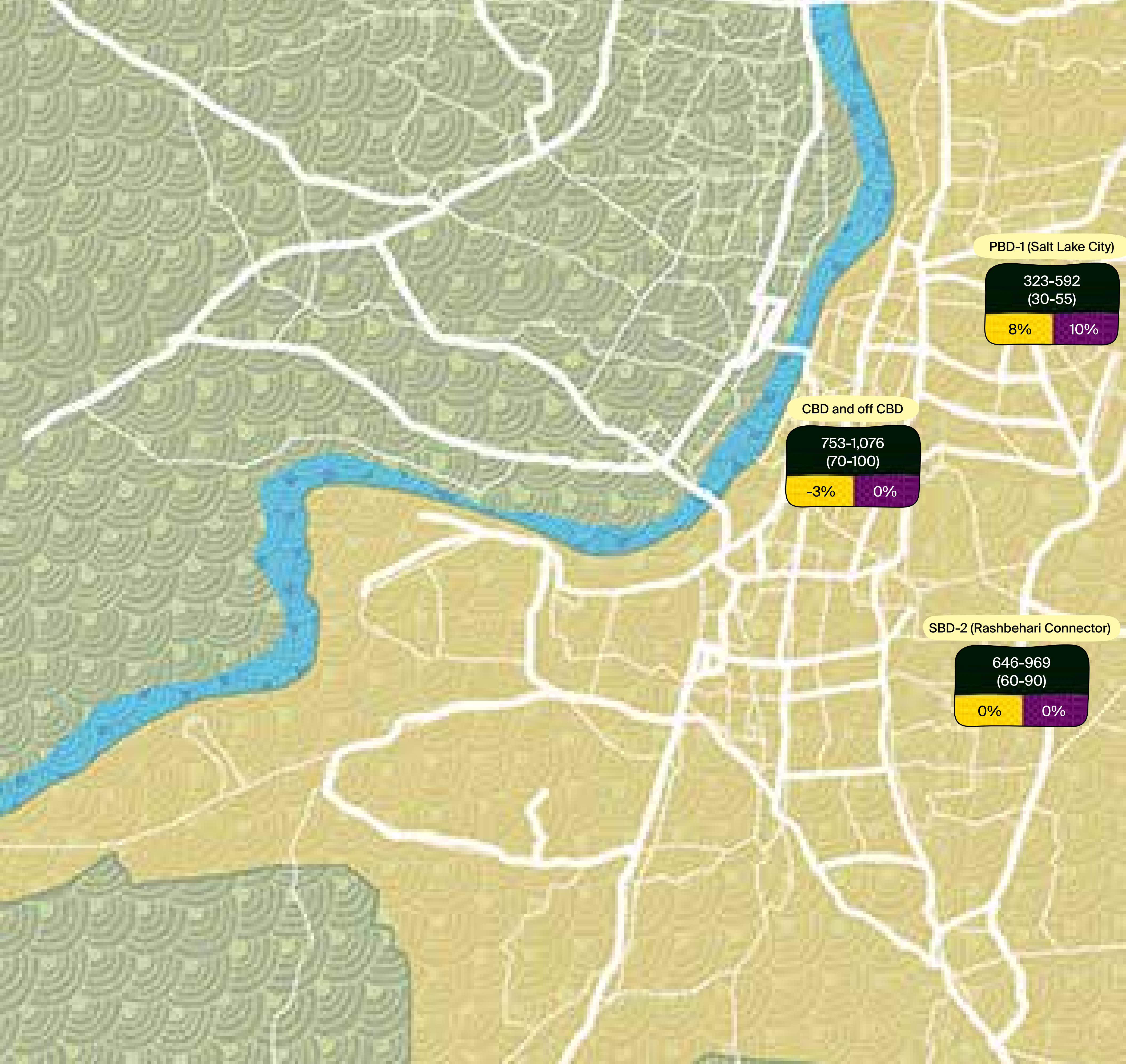
2019 was also a landmark year for new office supply influx for Kolkata with the highest new completions recorded in the past five years. While the first half of 2019 did not witness any new supply, completion of business parks in the latter half brought 0.56 mn sq m (6.00 mn sq ft) supply to the market.

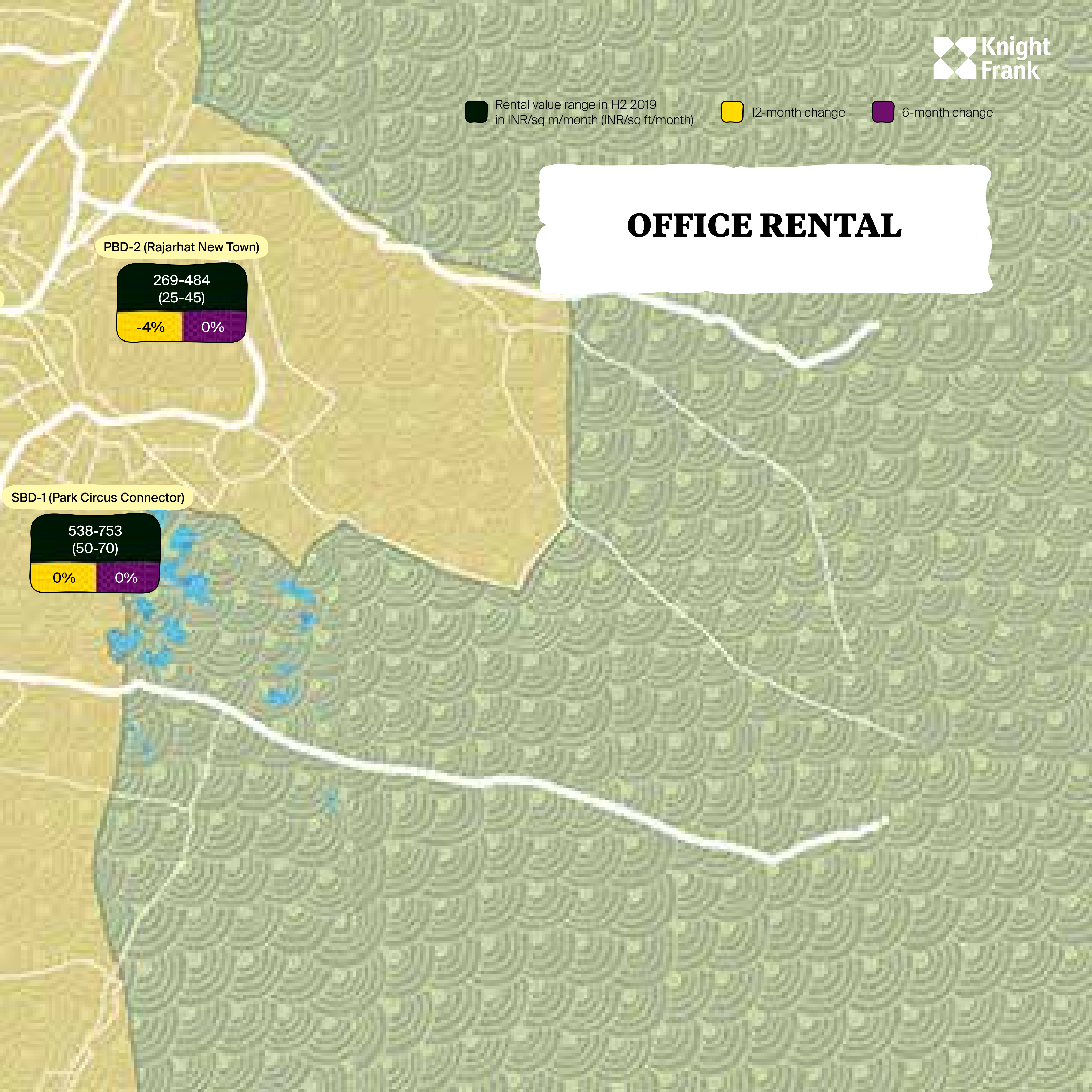
◆◆


PBD-1 (Salt Lake City)
0.041 (0.44)
0.072 (0.78)
22%
46%
CBD and off CBD
0.001 (0.01)
0.002 (0.02)
-74%
-62%
SBD-2 (Rashbehari Connector)
0.002 (0.02)
0.003 (0.03)
169%
248%

OFFICE TRANSACTIONS




PBD-1 (Salt Lake City)
323-592
(30-55)
8%
10%
CBD and off CBD
753-1,076
(70-100)
-3%
0%
SBD-2 (Rashbehari Connector)
646-969
(60-90)
0%
0%



OFFICE RENTAL
Rental value range in H2 2019 in INR/sq m/month (INR/sq ft/month)
12-month change
6-month change
PBD-2 (Rajarhat New Town)
269-484
(25-45)
-4%
0%
SBD-1 (Park Circus Connector)
538-753
(50-70)
0%
0%

‘Neo-affordable’ housing sales keep the residential segment alive in a depressed market

- by Divya Grover

Since H1 2016, Kolkata’s primary residential market has been battered due to a sales degrowth trend as multiple policy reforms unfolded in the backdrop nationally. In particular, the delayed implementation of West Bengal Housing Industry Regulation Act (WB HIRA), 2017 and the previously rolled out Goods and Services Tax (GST) rates on under-construction housing projects led to the weakening of buyer sentiments to such an extent that new residential launches almost came to a standstill with mounting unsold inventory pressures. The low sales volume scenario worsened in the aftermath of the Non-Banking Financial Companies (NBFC) crisis which only prolonged the weak residential sales cycle for the under construction residential inventory. In such an environment, project completions have become a major challenge for real estate developers as they are struggling to generate cash flows for operational sustenance with all avenues of funding having dried up.

However, with effect from 1st April 2019, the new GST rates on all under-construction residential real estate was pegged at 1% without Input Tax Credit (ITC) for the affordable housing segment and 5% without ITC for the non-affordable housing segment. This concessional GST structure did not work wonders immediately as confusion over the old and new GST rates led to uncertainty in the homebuyers’ mind, impacting sales negatively in the first half of 2019. As awareness about the same picked up steam, end-users started coming back to the table in hopes of getting a better bargain, which largely benefitted units nearing completion. Coupled with the re-definition of an ‘affordable home’ by the GST council to encompass units up to 60 sq meters in carpet area size and within INR 4.5 million, these measures have acted as a demand side intervention. It has nudged fence sitters who were indecisive till now to come forward, the visible impact of which is noticeable on the ground in Kolkata. In the H2 2019 period, not only did the overall residential sales in Kolkata note a 9% YoY uptick, ticket sizes specifically in the INR 2.5-5.0 million category accounted for a mammoth 41% of the total pie. Though the residential market is yet to recover fully, sales of residential units in this ticket size bracket have recorded a demand escalation in the past two and a half years. The share of this category in the overall sales pie has only increased gradually from 29% in H1 2017 to 41% in H2 2019.

In the same period, sales of residential units with ticket sizes less than INR 2.5 million have consistently dropped and its share has reduced from 45% of the overall pie in H1 2017 to 26% in H2 2019.

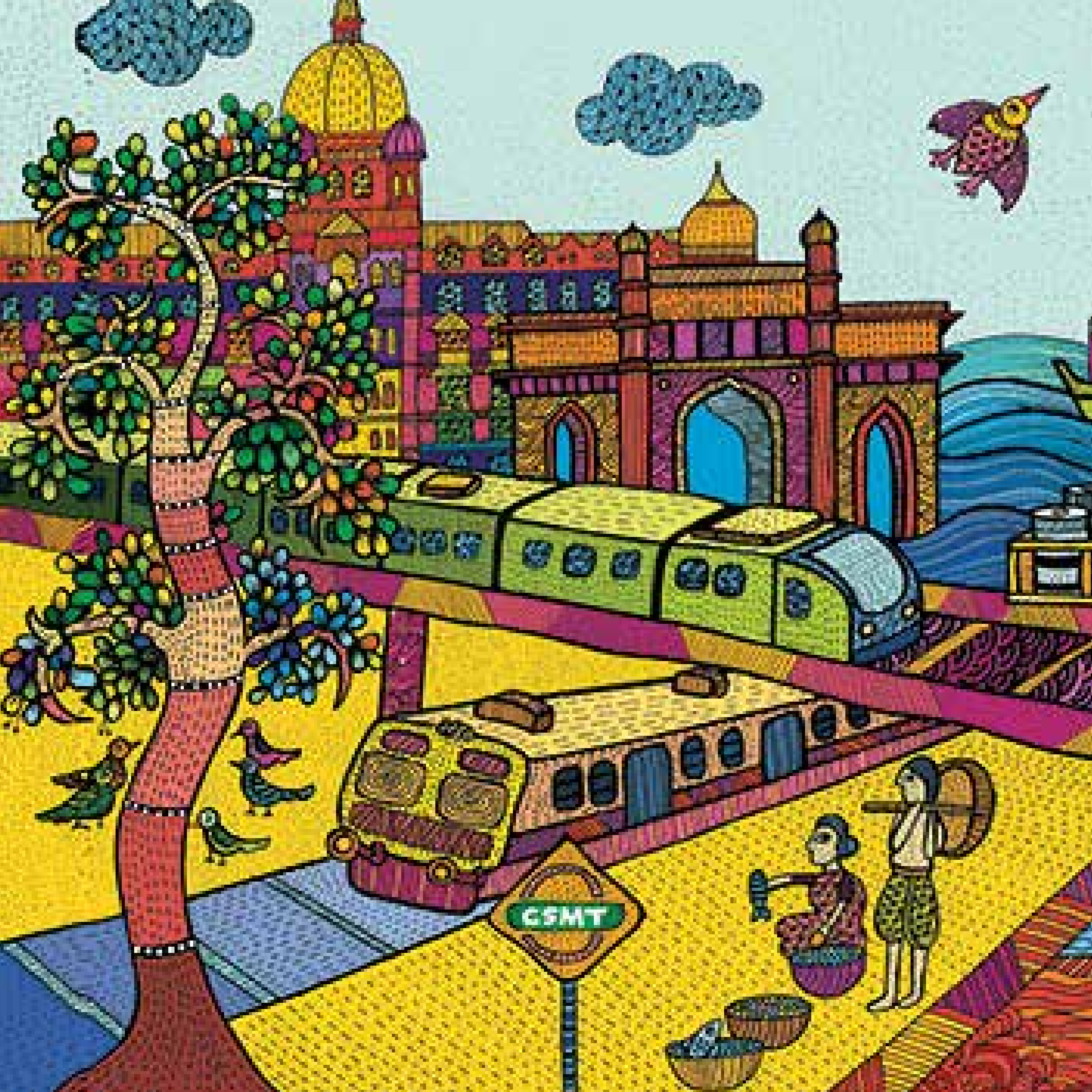
In the past two and a half years, there is a clear trend reversal with the maximum sales traction having shifted from the less

Developers, who were previously not offering any residential products in the 'neo-affordable' segment with ticket sizes in the INR 2.5-5.0 million, are focusing their marketing strategies to create a buzz around availability of these products in their portfolio. This is impacting the sales volume positively, a trend which should continue in 2020.

than INR 2.5 million bracket to INR 2.5-5.0 million bracket, which now accounts for an explicit 40% share for the city and can easily be termed as the new or 'neo-affordable' category where a bulk of the end-user demand is concentrated. Being the smallest Indian metropolitan in India in terms of office space consumption, this is no mean feat for Kolkata as this is "the" silver lining that real estate developers had been waiting for, as the cash flows generated from sales can be used to revive stalled projects in such challenging times.

In the past two years, prominent locations in South zone such as Joka, New Garia, Tollygunge and Narenderpur as well as Rajarhat such as New Town Action Area I and Action Area III which had become hotspots for new residential supply influx had noted poor sales volume due to weak buyer sentiments and oversupply. In the past six months however, end-user enquiries have gone up and apartment sales deals which were stuck in the pipeline are finally witnessing closure. Developers are also making hay while the sun shines and are trying to keep the fence sitters engaged with innovative promotional campaigns such as lucky draws, PLC waivers, cashbacks and offering modifications in the unit to be sold to boost sales. With reduced expenditure on print media, they are going all out to capitalize on digital media marketing to reach out to the end-users in the target segment. Developers, who were previously not offering any residential products in the 'neo-affordable' segment with ticket sizes in the INR 2.5-5.0 million, are focusing their marketing strategies to create a buzz around these products to entice buyers, impacting sales volume positively, a trend which should continue in 2020.

With uncertainty looming large over the time lag in disbursal of funds under the Alternate Investment Fund (AIF) under the Special Window approved by the Indian government, there is a big question mark on how much relief would be provided to developers that require funding. Also, whether a part of it will be apportioned for stalled housing projects in the affordable and middle-income housing sector in Kolkata remains to be seen. As West Bengal government's HIRA is not outlined after the Central government's RERA, these projects are not 'RERA registered' in letter and spirit. In such challenging times, cash inflows from the sales in this 'neo-affordable' category is what will help developers weather the storm until the environment changes for the better.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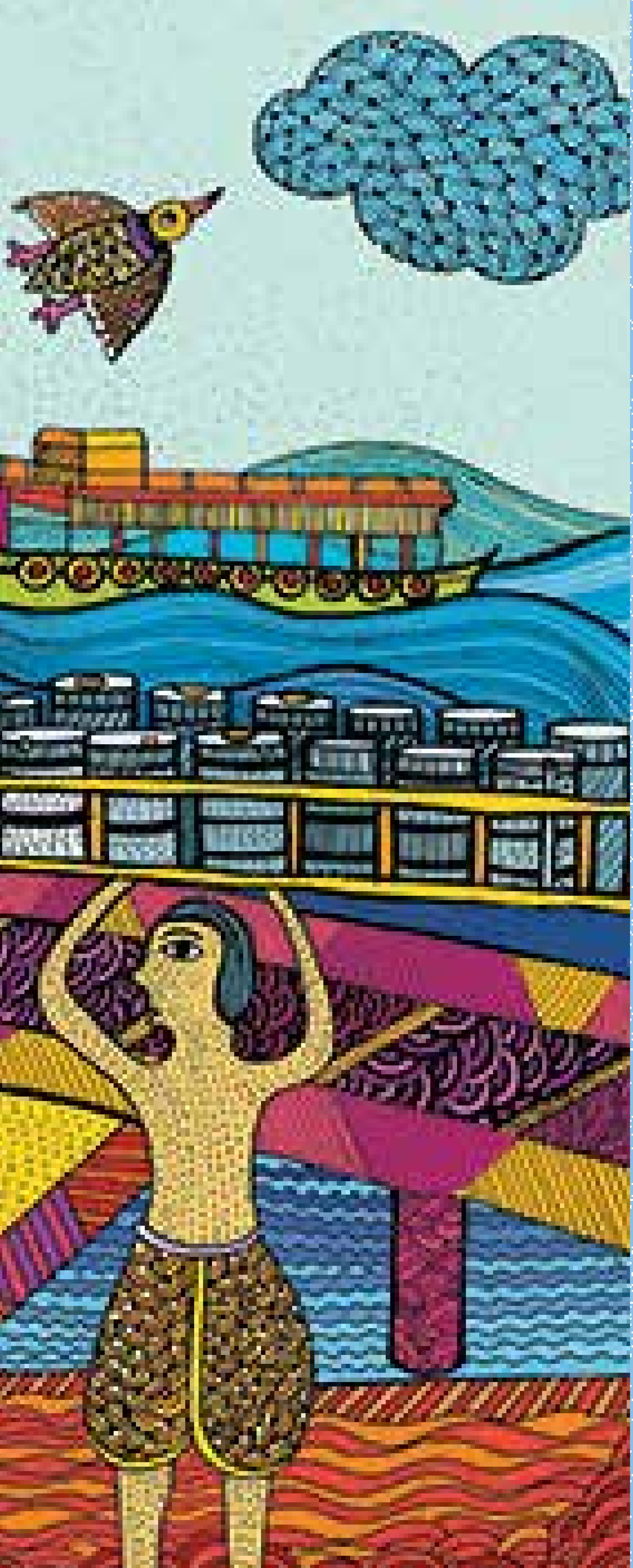


MUMBAI

RESIDENTIAL MARKET

OFFICE MARKET

Residential Market

◆◆

With homebuyers being sceptical about the prospects of their future income due to job losses, the confidence to make a long-term high cost commitment like real estate is low.

◆◆

- 2019 has been a lacklustre year for real estate as the sector continued to limp along due to the prolonged crisis in the NBFC sector. The IL&FS fiasco of Q3 2018 continued to cast its shadow in 2019 as well, with two more Non-Banking Financial Companies (NBFCs) going bankrupt and others slowing down their pace of lending or shrinking their books. The NBFC crisis along with the economic slowdown has compounded the problem for real estate. Many developers have gone bankrupt and their projects have ended up at the doors of NCLT.
- The trend of strong growth in new launches of 2018 in the Mumbai Metropolitan Region (MMR) had already tapered down in H1 2019. In H2 2019, the trend reversed and the launches in H2 2019 were lower by 6% YoY. However, for 2019, the launches were up 7% YoY due to the growth of 22% YoY in H1 2019.
- Developers continued to launch compact homes to get the ticket size right. Over a 5-year period between 2014 and 2019, the average size of apartments has shrunk by 25%. Affordable houses continued to dominate launches in MMR with 61% of the new launches in H2 2019 coming in the sub INR 7.5 mn category. Thane market recorded the highest growth of new launches in H2 2019 of 36% YoY, as there were many mega launches by some of the biggest and reputed developers of Mumbai.
- Residential real estate in MMR faced a difficult year with sales declining by 14% YoY in H2 2019 and by 5% YoY in 2019. While sales have declined across markets in H2 2019, the extent of decline was lower in the affordable and mid-segment markets of Peripheral Suburbs and Thane.
- The Indian economy is going through a slowdown, with GDP growth dropping to a 6-year low in the September quarter. The economic slowdown and the resultant job losses, has affected the homebuyer sentiments at large. The sombre mood is reflected not just in real estate but across other sectors such as automobiles, white goods, FMCG, etc. With homebuyers being sceptical about the prospects of their future income due to job losses, the confidence to make a long-term high cost commitment like real estate is low.
- It is not just the salaried class but also the business/self-employed communities who have been affected. The self-employed population constitute a significant percentage of homebuyers in MMR. These segments are generally catered to by NBFCs for their credit requirements. After the recent collapse of two more NBFCs, many lending institutions have slowed down the volume of disbursals and the access to credit has become challenging. Thus, the economic slowdown and crisis in NBFC sector has hit that segment of buyers hard and impacted their demand for real estate.
- The impact of election in India is generally visible in the buyer sentiments, with people at large slowing down their decision

MMR Residential Market

Parameter	H2 2019	Change (YoY)	2018	2019	Change (YoY)
Launches (housing units)	35,988	-6%	74,363	79,810	7%
Sales (housing units)	27,212	-14%	63,893	60,943	-5%
Price (wt avg)*	₹ 75,494/sq m (₹ 7,014/sq ft)	-2%	₹ 77,418/sq m (₹ 7,192/sq ft)	₹ 75,494/sq m (₹ 7,014/sq ft)	-2%
Unsold inventory (housing units)	145,301	15%	126,434	145,301	15%
Quarters to sell (QTS)	9.3	-	8.0	9.3	-
Age of unsold inventory (in quarters)	13.2	-	15.9	13.2	-

Source: Knight Frank Research

*End of period

making. In 2019, there were 2 major elections - the national elections took place during H1 2019 and the state elections took place during H2 2019. Both had their share of impact on consumer sentiments and also affected demand for real estate.

- The homebuyer preferences and purchase behaviour too has changed. Homebuyers have become risk averse with many wanting to purchase only in an Occupancy Certificate (OC) ready project and are ready to wait for the project to receive the same. The ones willing to purchase an under-construction apartment are taking longer to close the deals. A few years back, homebuyers took 3-4 visits over a period of 1 month to decide on a property. Now due to the availability of several options in the market, they are taking 10-12 visits over a period of 3-4 months to decide on the purchase. Further, if the construction activity during those 10-12 visits is not progressing, the homebuyers become cautious and their confidence in the developer to execute the project goes down.

- The interest rate cuts have failed to have any impact on real estate sales in MMR as banks are yet to pass on the benefit of 135 bps repo rate cut by RBI to homebuyers. Till date, around 30-40 bps has been passed on by banks to new customers. Several banks have recently introduced repo-linked home loans but the margin/spread over the repo rate has been very high and the repo-linked home loans are priced closer to the earlier MCLR linked loans. Hence, customers are yet to benefit from RBI's interest rate reduction.

- The prices of apartments in MMR continued to correct although marginally. The weighted average prices were down 2% YoY in H2 2019. The prices have corrected by 14% from the peak of H2 2016. Apart from reduction in base prices, several freebies such as no-floor rise, two-year free maintenance, free clubhouse membership, various subvention plans, GST waivers, assured two-year rental schemes and a host of other indirect discounts continue to remain in the market. As the market has been subdued for a few years now, some developers have continued to offer deferred payment plans even for OC-ready projects.

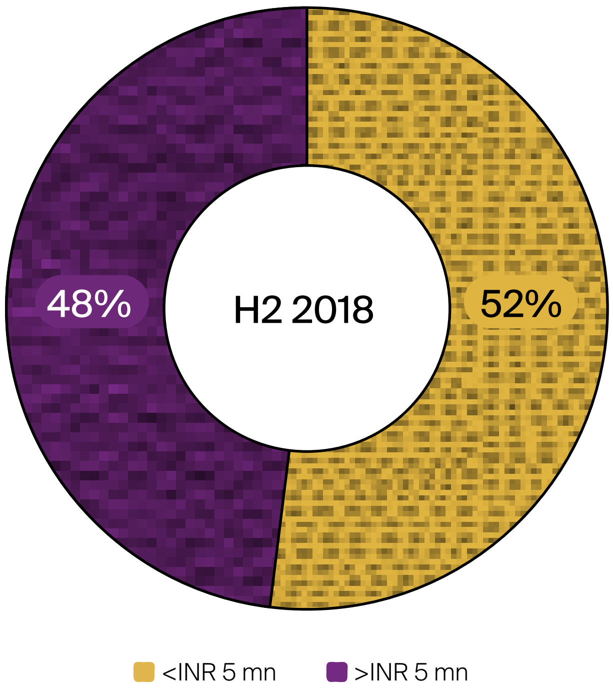
- Apart from the price cuts mentioned above, the actual discount offered during the transaction would be higher, as developers are more than happy to negotiate on the pricing in order to ensure that the deal is closed. It is completely a buyer's market.

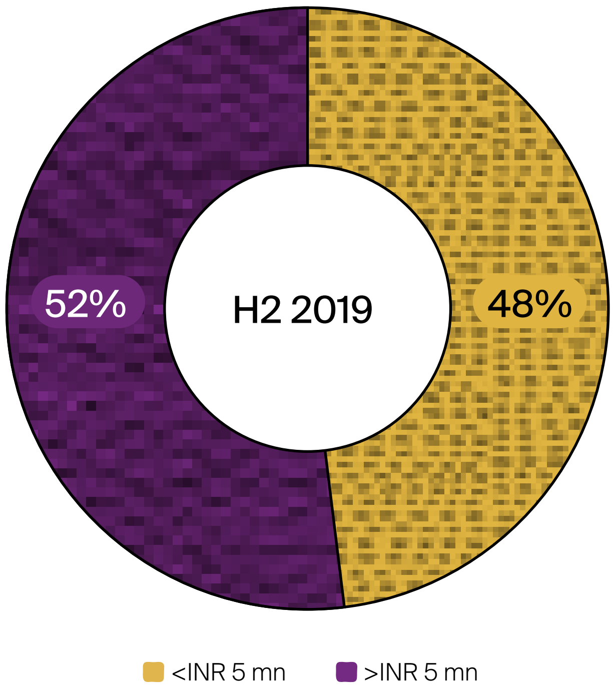
- The Quarters-To-Sell (QTS) has gone up from 8 quarters in H2 2018 to 9.3 quarters in H2 2019 due to slower sales velocity in this period. The sales have lagged behind launches in this period. The age of inventory for MMR was 13.2 quarters. This implies that the existing unsold inventory has been languishing in the market for almost three years

and it will take over two and half years to sell assuming no new launches come in.

- The current residential demand is driven by end users and the scale is tilted in the favour of buyers. Developers who have been willing to negotiate on prices are able to generate sales. But it has been observed that if the developer is not willing to reduce prices, most buyers are ready to wait and are in no hurry to close the transaction. They are expecting the price to come down in the future, which was not the case until a few years back.

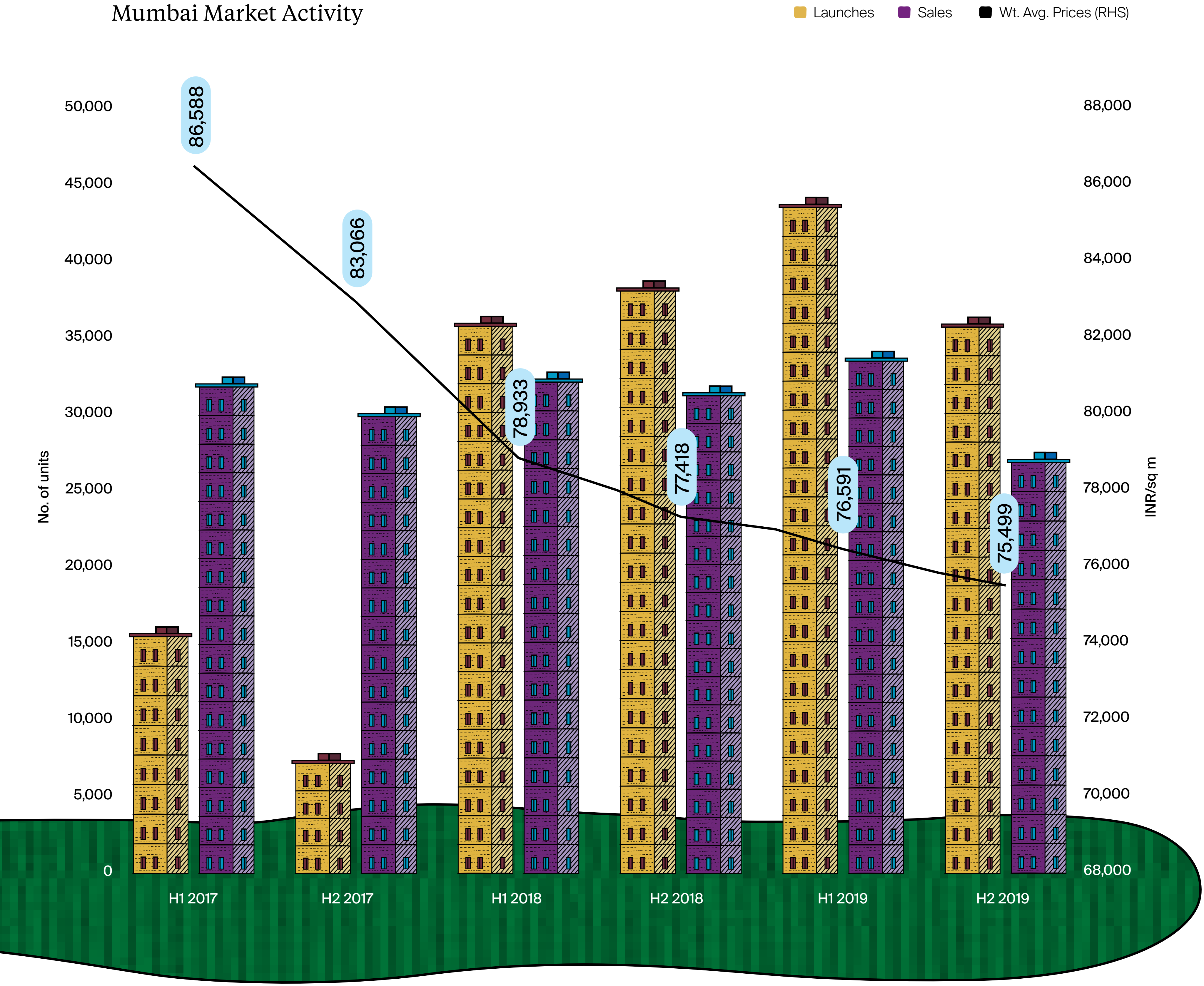
Ticket Size Split of Sales





Source: Knight Frank Research

Mumbai Market Activity



Source: Knight Frank Research

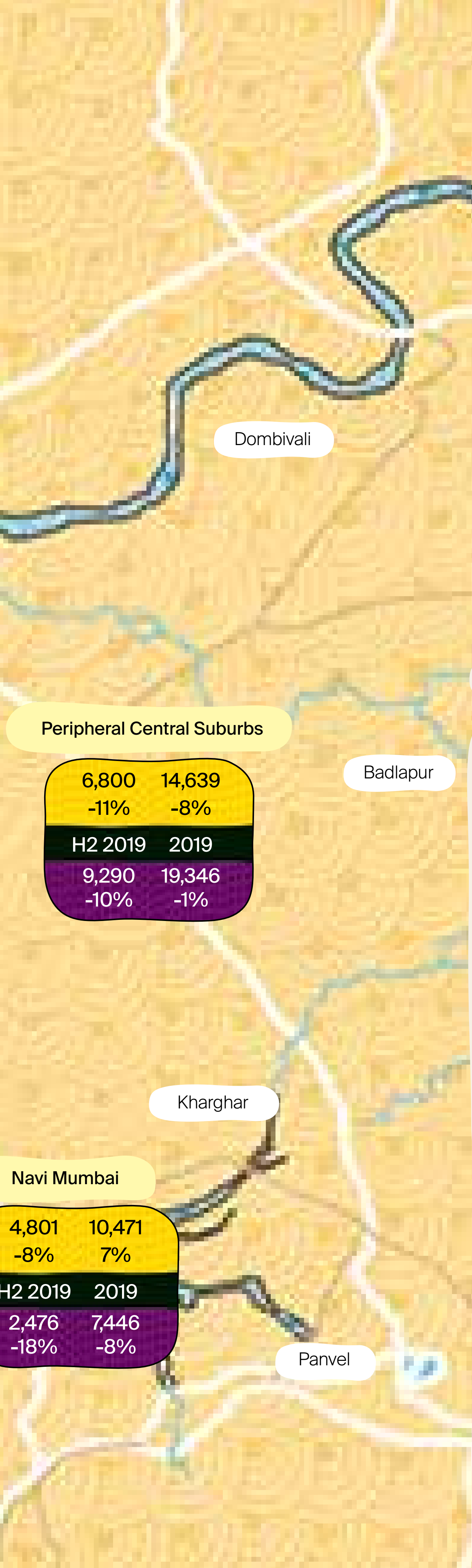
A few years back, homebuyers took 3-4 visits over a period of 1 month to decide on a property. Now due to the availability of several options in the market, they are taking 10-12 visits over a period of 3-4 months to decide on the purchase. Further, if the construction activity during those 10-12 visits is not progressing, the homebuyers become cautious and their confidence in the developer to execute the project goes down.


Virar
Mira Road
Dahisar
Peripheral Western Suburbs
8,117 -16%
16,092 4%
H2 2019
2019
6,743 -11%
13,753 -5%
Borivali
Ghodbunder Road
Naupada
Thane
5,800 36%
14,009 42%
H2 2019
2019
3,080 -12%
6,477 -3%
Mulund
Goregaon
Western Suburbs
4,020 -31%
10,969 6%
H2 2019
2019
2,539 -19%
7,368 -6%
Powai
Ghatkopar
Central Suburbs
5,172 17%
10,737 4%
H2 2019
2019
2,675 -22%
5,391 -10%
Bandra (West)
Vashi
Central Mumbai
973 6%
1,903 -9%
H2 2019
2019
246 -22%
817 -7%
South Mumbai
305 -18%
990 50%
H2 2019
2019
163 -20%
345 -14%
Tardeo

Knight Frank

Launches (housing units)
Sales (housing units)
% Change (YoY)

RESIDENTIAL LAUNCHES AND SALES



Micro-market Classifcation

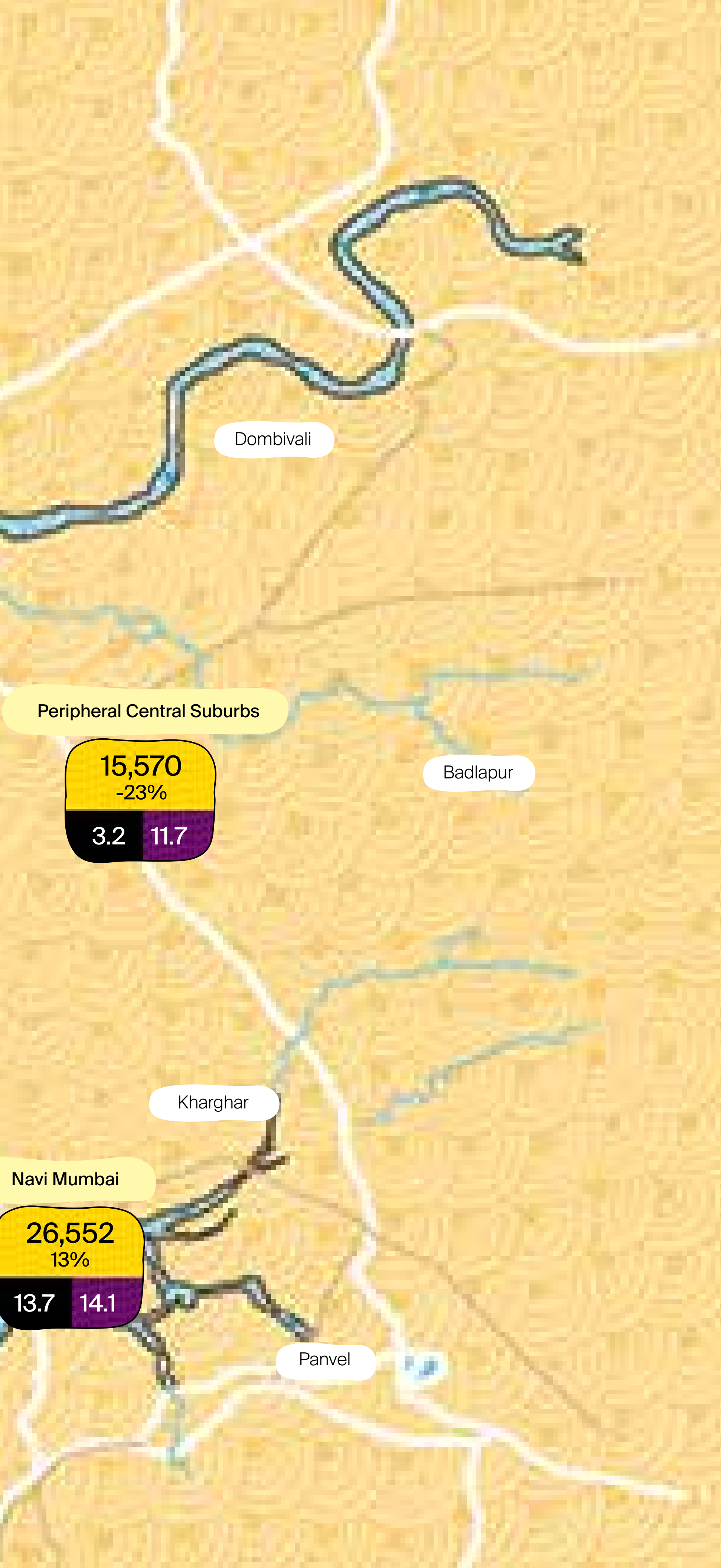
Micro market	Locations
Central Mumbai	Dadar, Lower Parel, Mahalaxmi, Worli, Prabhadevi
Central Suburbs	Sion, Chembur, Wadala, Kurla, Ghatkopar, Vikhroli, Bhandup, Mulund
Navi Mumbai	Vashi, Nerul, Belapur, Kharghar, Airoli, Panvel, Ulwe, Sanpada
Peripheral Central Suburbs	Kalyan, Kalwa, Dombivli, Ambernath, 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

Source: Knight Frank Research

Virar
Mira Road
Dahisar
Peripheral Western Suburbs
18,959
14%
5.4
15.4
Ghodbunder Road
Borivali
Naupada
Thane
22,448
50%
13.7
8.2
Mulund
Goregaon
Western Suburbs
25,430
16%
13.4
14.8
Powai
Ghatkopar
Central Suburbs
28,036
24%
19.7
13.9
Bandra (West)
Vashi
Central Mumbai
6,470
20%
30.5
18.2
South Mumbai
1,835
54%
19.7
16.0
Tardeo

RESIDENTIAL UNSOLD INVENTORY

Unsold inventory (YoY growth)
QTS (in quarters)
Age of inventory (in quarters)



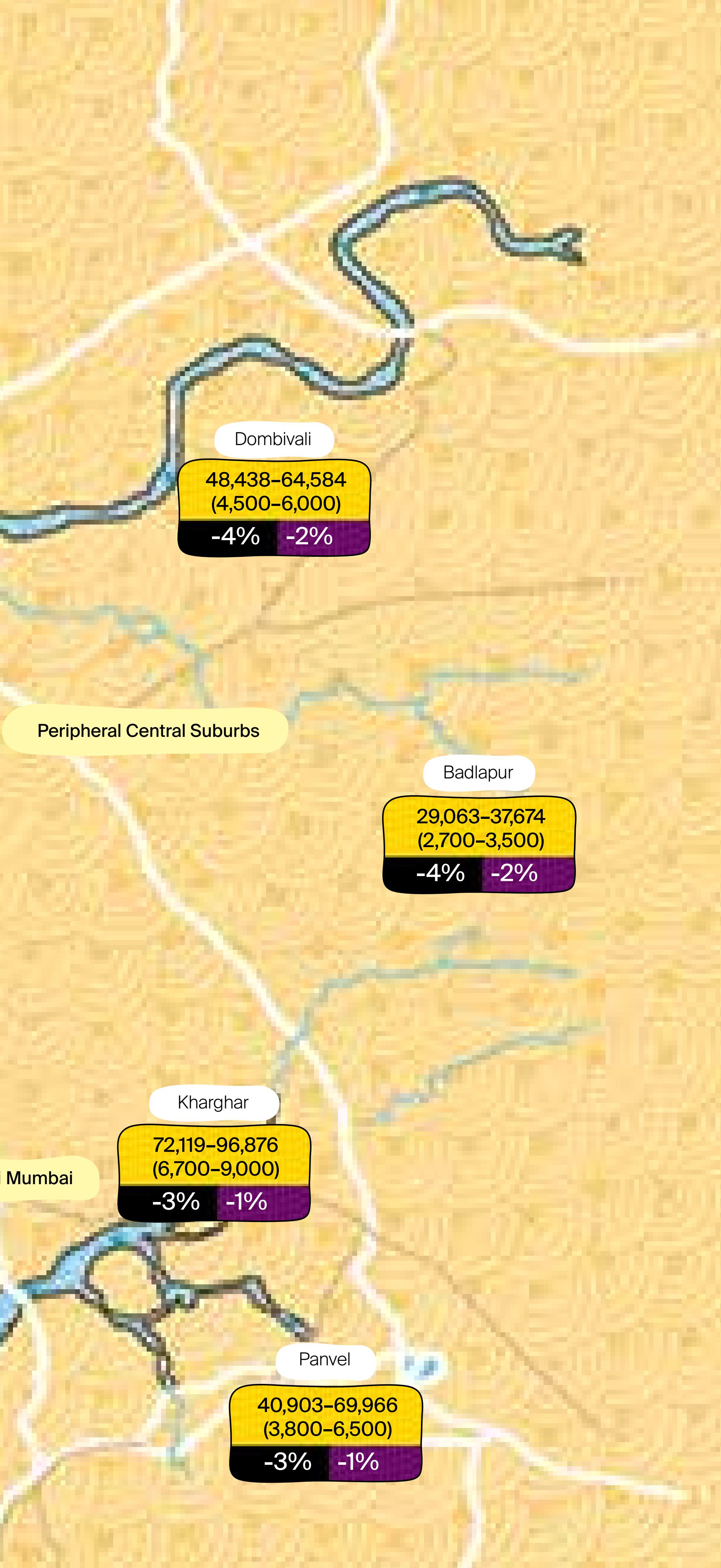

Virar
47,362–59,202
(4,400–5,500)
-2% -2%
Mira Road
59,202–78,577
(5,500–7,300)
-3% -2%
Peripheral Western Suburbs
Ghodbunder Road
64,584–107,640
(6,000–10,000)
-4% -3%
Dahisar
96,876–118,404
(9,000–11,000)
-2% -1%
Naupada
150,696–193,752
(14,000–18,000)
-2% -2%
Borivali
118,404–161,460
(11,000–15,000)
-3% -2%
Thane
Goregaon
139,932–161,460
(13,000–15,000)
-2% -2%
Mulund
115,174–150,696
(10,700–14,000)
-6% -6%
Western Suburbs
Powai
156,078–215,280
(14,500–20,000)
-1% -1%
Andheri
161,460–236,808
(15,000–22,000)
-2% -1%
Ghatkopar
129,168–236,808
(12,000–22,000)
1% 0%
Bandra (West)
430,560–645,840
(40,000–60,000)
-2% -2%
Central Suburbs
Vashi
107,640–161,460
(10,000–15,000)
-1% -1%
Central Mumbai
Navi
Worli
333,684–592,020
(31,000–55,000)
-4% -1%
South Mumbai
Lower Parel
269,100–387,504
(25,000–36,000)
-4% -3%
Tardeo
430,560–645,840
(40,000–60,000)
-1% -1%

RESIDENTIAL PRICING

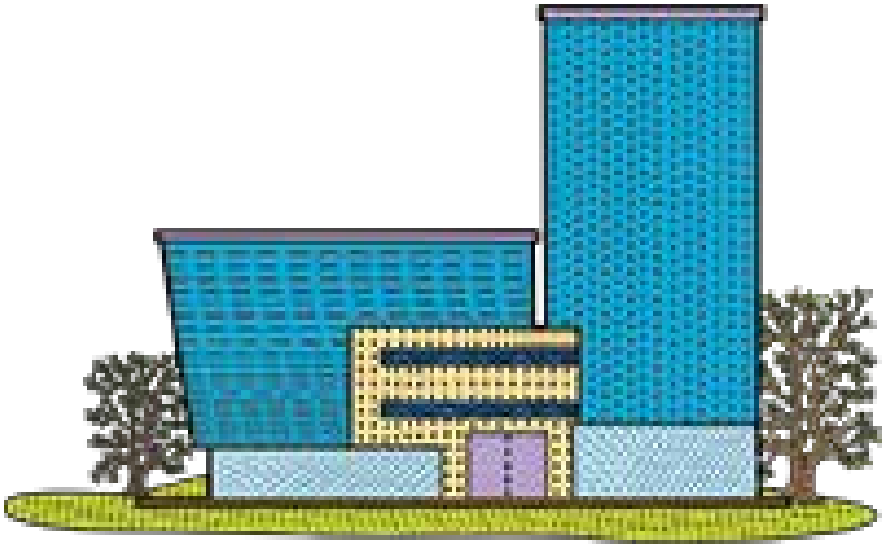
Price range in H2 2019 in INR/sq m (INR/sq ft)

12-month change

6-month change



Office Market



17.5%

Vacancy levels in MMR office market

Since the beginning of H2 2018 till date i.e. for 3 consecutive half yearly periods, the new completions have lagged behind transaction activity; as a result, vacancy level in MMR has declined from 21.5% during H1 2018 to 17.5% during H2 2019.

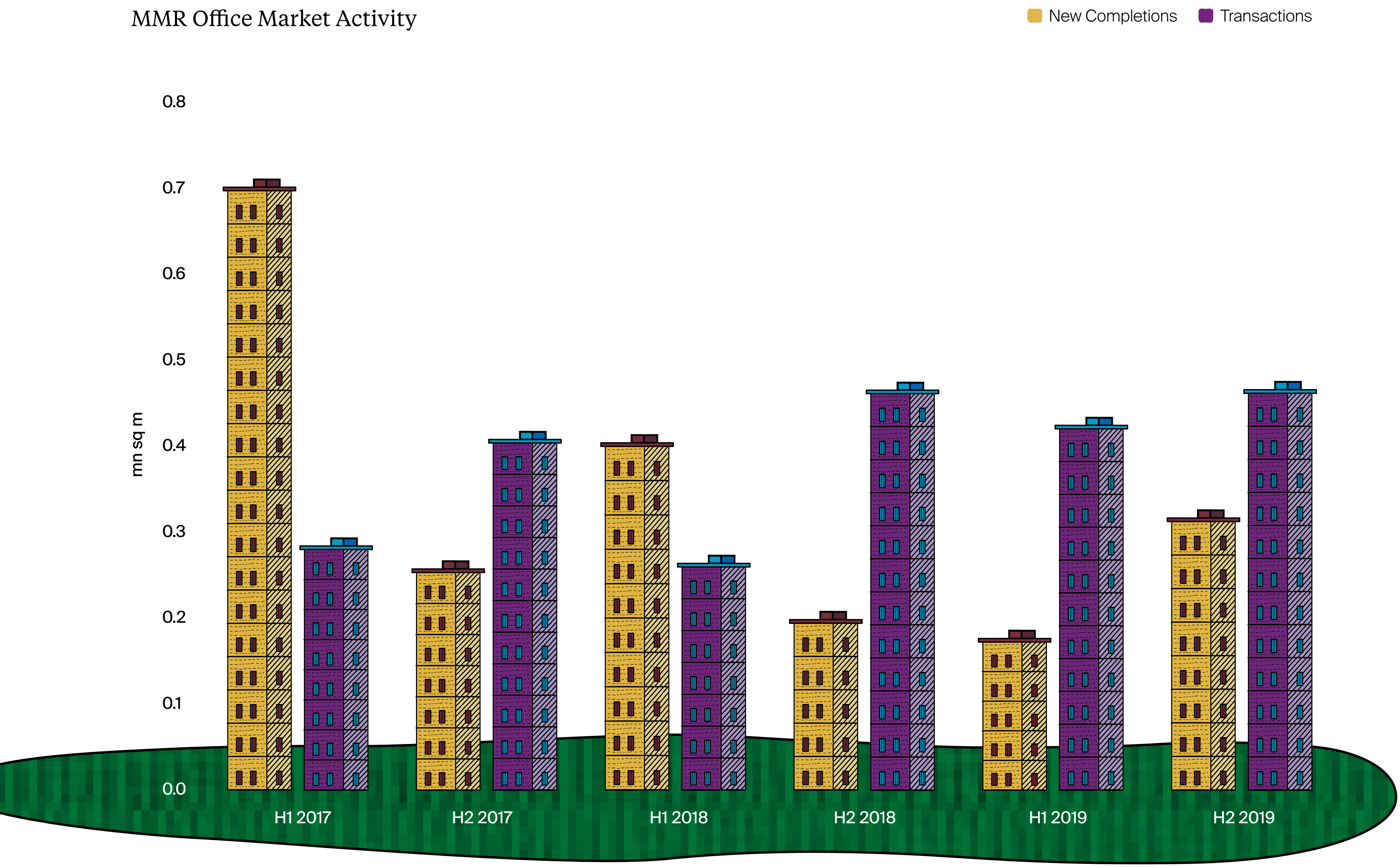
MMR Market Snapshot

Parameter	H2 2019	Change YoY	2018	2019	Change YoY
New completions mn sq m (mn sq ft)	0.32 (3.5)	61%	0.61 (6.5)	0.50 (5.4)	-18%
Transactions mn sq m (mn sq ft)	0.47 (5.1)	0%	0.74 (7.9)	0.90 (9.7)	22%
Weighted Average Rental INR/sq m/month (INR/sq ft/ month)*	1,320 (123)	5%	1,259 (117)	1,320 (123)	5%
Stock mn sq m (mn sq ft)	-	-	13.1 (141)	13.6 (146)	4%
Vacancy (%)	-	-	19.6%	17.5%	-

Source: Knight Frank Research

*End of period

MMR Office Market Activity



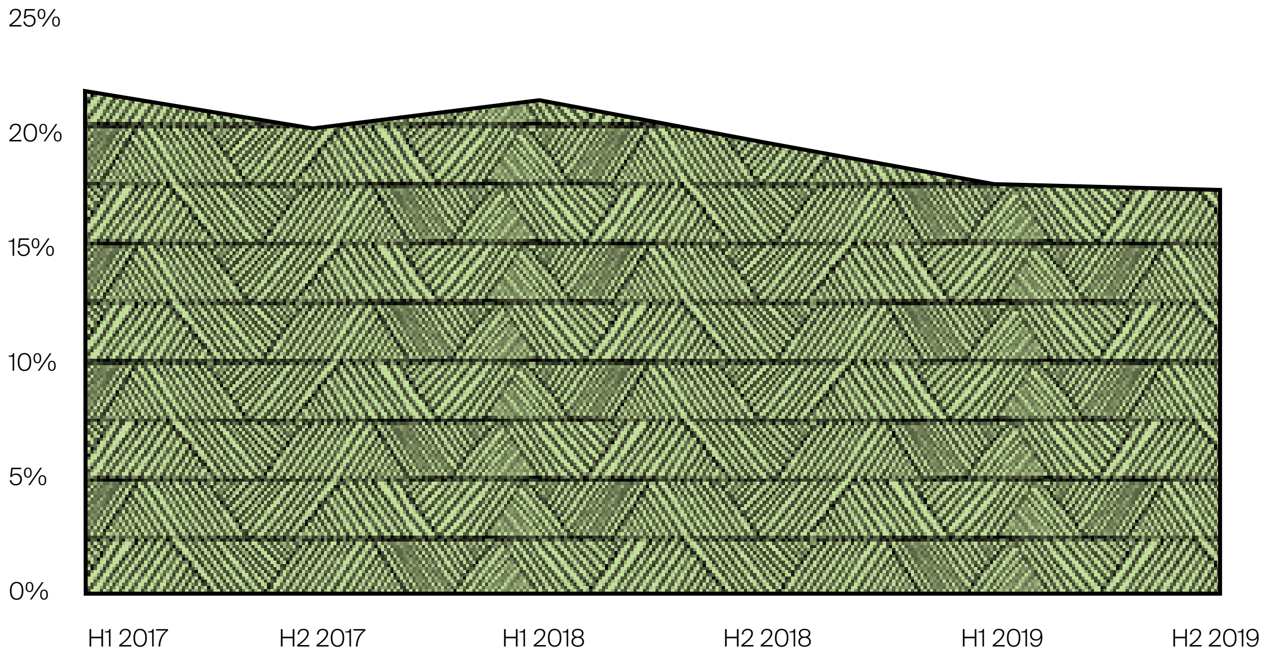
22%

YoY growth in transactions in 2019

- New supply of office space is generally variable and does not represent any predictable trend. In H2 2019, new completions were higher by 61% YoY but lower by 18% YoY for the entire 2019. The full year numbers for 2019 represent a decline on account of fewer completions in H1 2019. In H2 2019, four out of six business districts witnessed an addition of supply.

- While the transaction activity was stable in H2 2019 compared to the same period last year, the office market of MMR witnessed a historic year in 2019. Transactions grew by 22% YoY in 2019 reaching 0.9 mn sq m or 9.7 mn sq ft. This is the highest ever transaction recorded in the MMR office market. This robust growth in transaction activity in 2019 was driven by large pre-commitment deals.

MMR Office Market Vacancy



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The preference of occupiers to consolidate their offices at a single location has been witnessed for several years now and the inclination to consolidate continues to remain strong. However, despite the city having vacancy of 17.5%, finding large office spaces in good quality or Grade-A buildings at a single location in the Non-Peripheral Business Districts of MMR is a challenge.

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- The preference of occupiers to consolidate their offices at a single location has been witnessed for several years now and the inclination to consolidate continues to remain strong. However, despite the city having vacancy of 17.5%, finding large office spaces in good quality or Grade-A buildings at a single location in the Non-Peripheral Business Districts of MMR is a challenge. As a result, occupiers are forced to enter into pre-commitment for under-construction projects by reputed developers which are slated to be delivered in the next 2 to 3 years. In H2 2019, MMR witnessed 2 mn sq ft or 0.19 mn sq m of under-construction office space being pre-committed by two large occupiers in the BFSI sector. These buildings are likely to be ready by 2021-22.

- The trend of pre-commitments has been witnessed on a regular basis in other cities of India such as Pune, Hyderabad and Bengaluru, but in MMR such transactions have been few and far between. It remains to be seen if this trend is likely to continue in MMR.

- In H2 2019, SBD West garnered the highest share of transactions (63%) followed by SBD Central at 14%. The share of SBD West was the highest on account of the 0.9 mn sq m or 2 mn sq ft of pre-commitment activity recorded in this business district. Due to limited supply, low vacancy levels and greater transaction activity recorded in other business districts in MMR, the share of Central Mumbai was low at 1% of overall transactions during H2 2019.

- As the share of the cheaper Peripheral Business District (PBD) was lower and the share of SBD West was higher in H2 2019 compared to that in H2 2018, the weighted average transacted rentals in MMR increased by 5% YoY to INR 1,320 per sq m per month (or INR 123 per sq ft per month).

- Central Mumbai and SBD Central witnessed the highest rental growth of 7% YoY each during H2 2019, followed by BKC at 4% YoY and SBD West at 3% YoY. The strong rental growth in the business districts of Central Mumbai and SBD Central was on account of lower vacancy levels coupled with strong demand from occupiers to take up space in these markets.

- Since the beginning of H2 2018 till date i.e. for 3 consecutive

Business District Classification

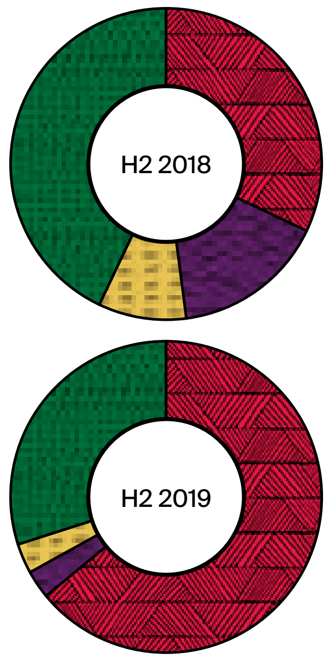
Business district	Micro markets
CBD & Off CBD	Nariman Point, Cuffe Parade, Ballard Estate, Fort, Mahalaxmi, Worli
Bandra Kurla Complex & Off-Bandra Kurla Complex (BKC & Off-BKC)	BKC, Bandra (E), Kalina and Kalanagar
Central Mumbai	Parel, Lower Parel, Dadar, Prabhadevi
SBD West	Andheri, Jogeshwari, Goregoan,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

Source: Knight Frank Research

half yearly periods, the new completions have lagged behind transaction activity; as a result, vacancy level in MMR has declined from 21.5% during H1 2018 to 17.5% during H2 2019. Amongst business districts, PBD continued to have the highest vacancy of nearly 26.8% followed by SBD West at 21.9%.

- BFSI garnered 64% share of total transactions in H2 2019 on account of large pre-commitment deals from occupiers of this segment. This was followed by Other Services sector which constituted 30% of the total transactions in H2 2019.
- Co-working operators have been taking up space aggressively over the past few years and they have now established their presence in almost all major business districts of the city. Co-working operators took up 0.03 mn sq m or 0.34 mn sq ft of office space in H2 2019 and constituted 22% of the transactions by the Other Services sector in H2 2019. In the overall city transactions, these players had a share of 7%. Many co-working centres in MMR are witnessing robust transaction activity and are running at or reaching full capacity. The transaction volumes indicated above do not capture the space subleased by co-working operators. The concept of co-working has been adopted widely by occupiers across sectors and is not limited to just start-ups.
- The trend of consolidation of space by occupiers continues across the MMR office market. Despite the number of transactions decreasing from 145 in H2 2018 to 138 in H2 2019, the average size of deals increased from 3,241 sq m (34,887 sq ft) to 3,404 sq m (36,649 sq ft) in the same period.

Sector-wise Split of Transactions

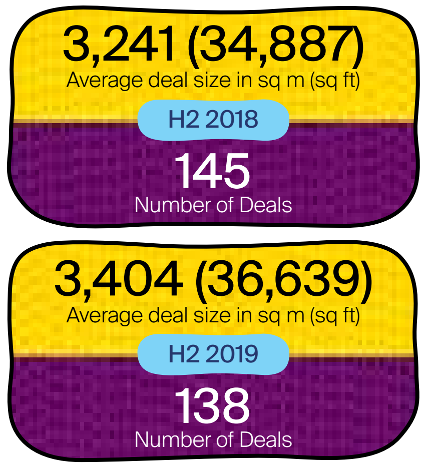


Industry	H2 2018	H2 2019
BFSI	32%	64%
IT/ITeS	16%	3%
Manufacturing	9%	3%
Other Services	43%	30%

Note: BFSI includes BFSI support services; Other Services includes co-working, media, telecom etc.

Source: Knight Frank Research

Average deal size and number of deals



Note - 1 square metre (sq m) = 10.764 square feet (sq ft)
Source: Knight Frank Research

5%

YoY growth in weighted average transacted rentals

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In H2 2019, MMR witnessed 2 mn sq ft or 0.19 mn sq m of underconstruction office space being pre-committed by two large occupiers in the BFSI sector. The trend of pre-commitments has been witnessed on a regular basis in other cities of India such as Pune, Hyderabad and Bengaluru, but in MMR such transactions have been few and far between. It remains to be seen if this trend is likely to continue in MMR.

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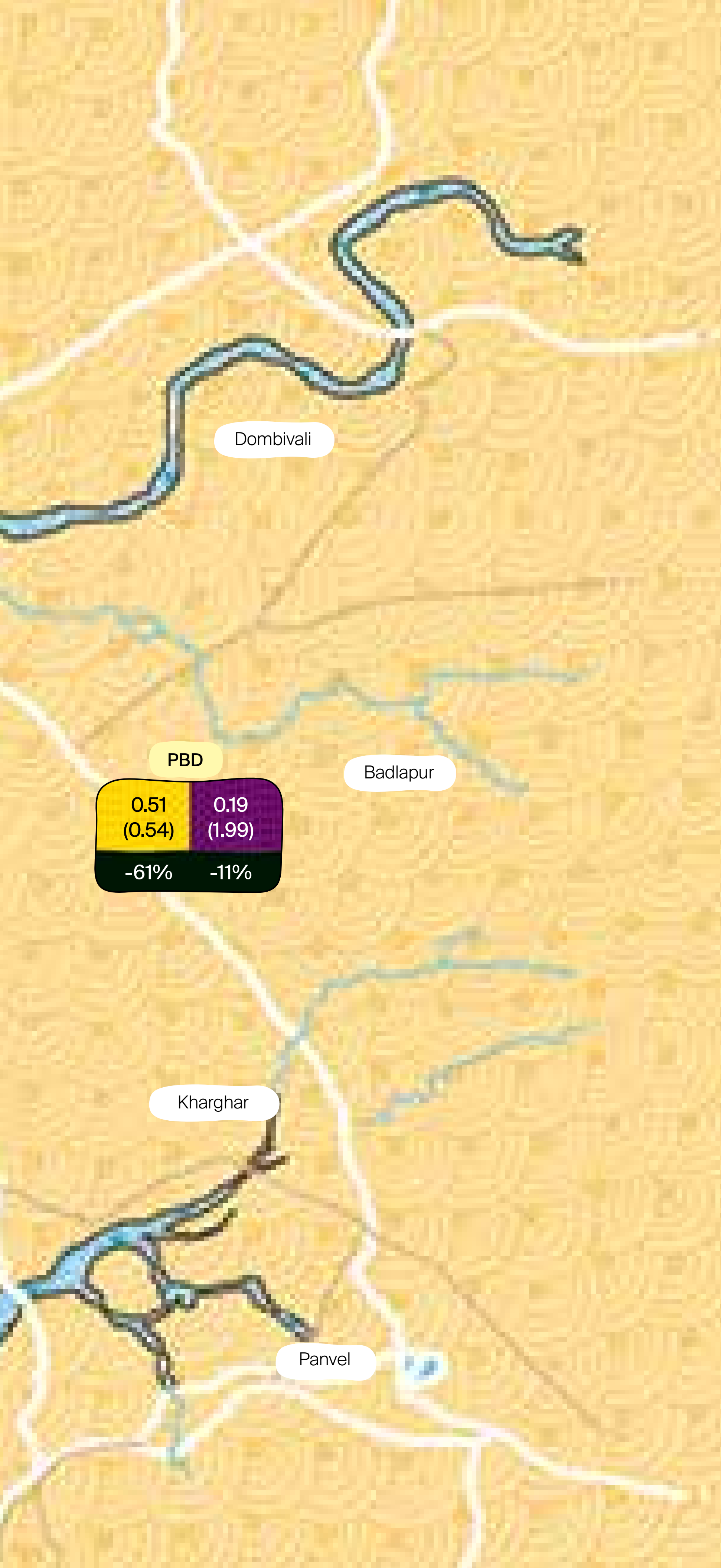
Virar
Mira Road
Dahisar
Ghodbunder Road
Borivali
Naupada
Thane
Mulund
Goregaon
SBD West
0.30 (3.2)
0.39 (4.2)
95%
62%
Powai
SBD Central
0.66 (0.71)
0.19 (2.1)
-50%
4%
Ghatkopar
BKC and off BKC
0.02 (0.26)
0.09 (0.92)
-22%
52%
Bandra (West)
Vashi
Central Mumbai
0.006 (0.07)
0.02 (0.19)
-66%
-50%
CBD and off CBD
Tardeo
0.03 (0.29)
0.04 (0.38)
286%
145%

OFFICE TRANSACTIONS

H2 2019 mn sq m (mn sq ft)
2019 mn sq m (mn sq ft)
% Change (YoY)



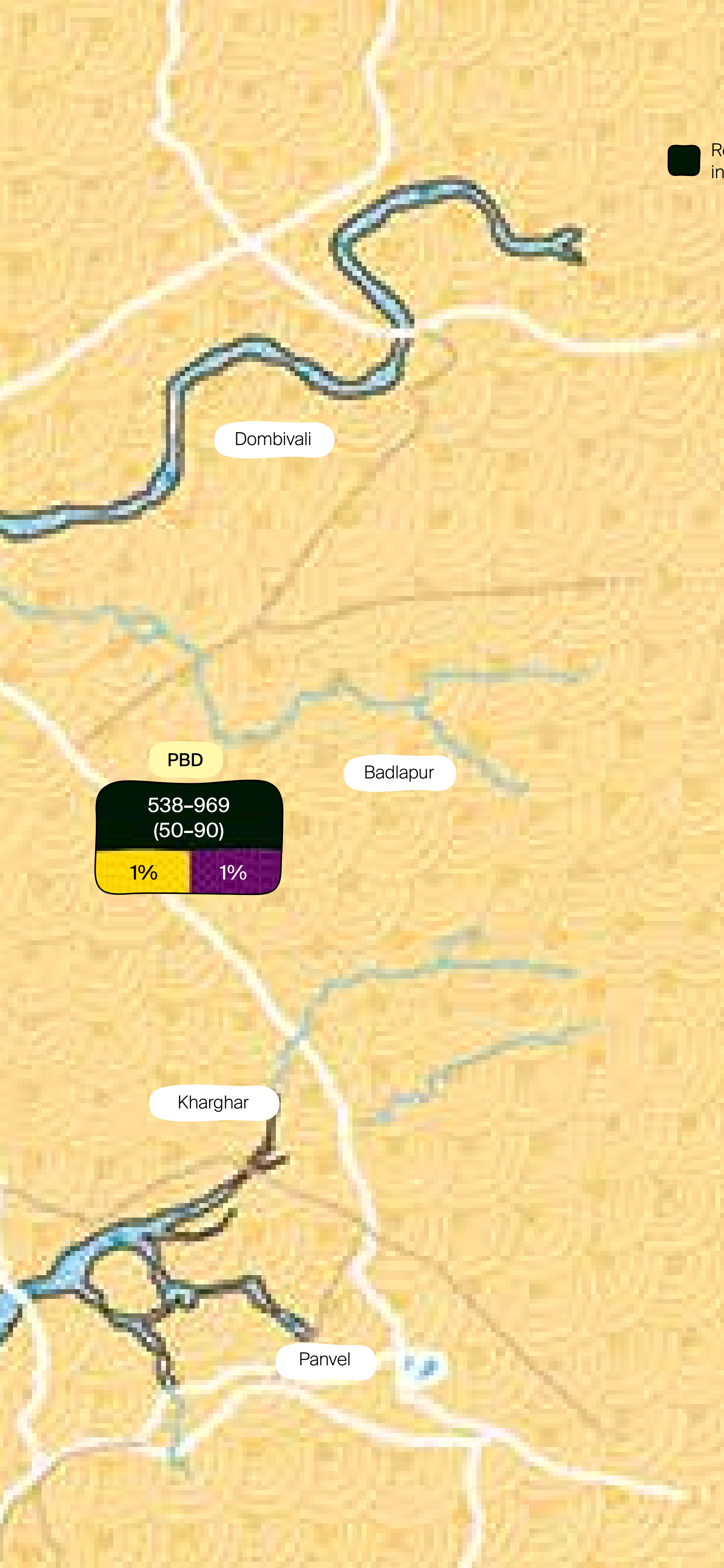

Virar
Mira Road
Dahisar
Borivali
Ghodbunder Road
Naupada
Thane
Mulund
Goregaon
SBD West
861–1,507
(80–140)
3%
2%
Powai
SBD Central
861–1,615
(80–150)
7%
4%
Ghatkopar
BKC and off BKC
2,368–3,552
(220–350)
4%
2%
Bandra (West)
Vashi
Central Mumbai
1,830–2,153
(170–210)
7%
3%
CBD and off CBD
Tardeo
1,722–2,691
(160–250)
1%
1%

Rental value range in H2 2019 in INR/sq m/month (INR/sq ft/month)

12-month change

6-month change

OFFICE RENTAL



Increasing Avenues for Retail Participation in Commercial Real Estate

- by Nibodh Shetty

Indians are known for their penchant for real estate with each individual aspiring to own one or more real estate assets in their lifetime. There are many who claim to have made fortunes by investing in real estate and have strong conviction about the ability of the asset class to generate returns and stand the test of time.

During the last residential real estate cycle, several investors made phenomenal returns by investing in residential real estate. However, now that the tide has turned and the residential segment across most cities in India is on a downward spiral, the investor flock has abandoned residential and are now scouting for opportunities in commercial real estate. When it comes to investing in commercial real estate, the High Net Worth Individuals (HNIs) who have deep pockets and can purchase the asset on sole ownership basis, are generally more active compared to retail investors.

For a retail investor, investing in commercial is a more complex affair compared to investing in residential. As the rental yields on commercial real estate are higher - being in the range of 7.5% to 9.5% compared to 2.5% to 3.5% for residential - the aspect of leasing and ensuring occupancy of the commercial asset becomes as paramount as selecting the right location. This is because the Internal Rate of Return (IRR) achieved from a commercial asset is dependent on both the rental income as well as capital appreciation. Further, the ticket size for investing in commercial real estate is generally higher acting as a huge barrier. As a result, a large segment of retail investors are not able to invest in commercial real estate. This entry barrier is now being addressed to some extent by the Real Estate Investment Trust (REIT) and fractional ownership structures.

The country recently witnessed the debut of its first REIT which has given phenomenal returns to its investors since listing. REITs are new in India but have been traded across the globe for several decades now and investors are now well aware of the operating structure of REITs.

The concept of fractional ownership in India has been in practice for several years but awareness amongst retail investors and their participation is low. The traditional fractional ownership model is similar to joint ownership or co-ownership of an asset, where a group of investors form a company or a Limited Liability Partnership (LLP) to invest in commercial real estate. The asset is purchased in the name of the company or LLP and shares are distributed in the ratio of their investment. An alternative method is dividing the asset in terms of area into distinct units and registering each unit in the name of a particular investor.

While these were the traditional methods of fractional ownership, the new age start-ups which have come up in this space are trying to take it to the masses using blockchain technology and marketplace model. This newer model involving blockchain technology is where the asset is purchased in the name of a trust and the entire area of the asset is divided into smaller blockchain units in terms of area, be it square meter, square feet or even as small as a square inch. The trust allots these fungible blockchain units to investors in the proportion of their investments. These blockchain units of a particular asset are listed on an online marketplace for trading. This model is similar to the REIT, however, there are certain differences w.r.t structuring of the transaction and the taxation aspects. Further, REITs are regulated by Securities Exchange Board of India (SEBI) whereas fractional ownership businesses are not. The clear advantage that fractional ownership offers over REIT is giving the choice of selecting the asset (property) to the investor. In REITs, the investment manager selects the properties on behalf of the investor, while in fractional ownership, the investors choose it themselves based on the various assets available on the marketplace. If the investor is confident about the prospect of a property in a particular locality which the investor is acquainted with, they can purchase it through the fractional ownership marketplace. The table below highlights the nuances amongst the various avenues of investing.

While the fractional ownership concept is yet to reach its inflection point and

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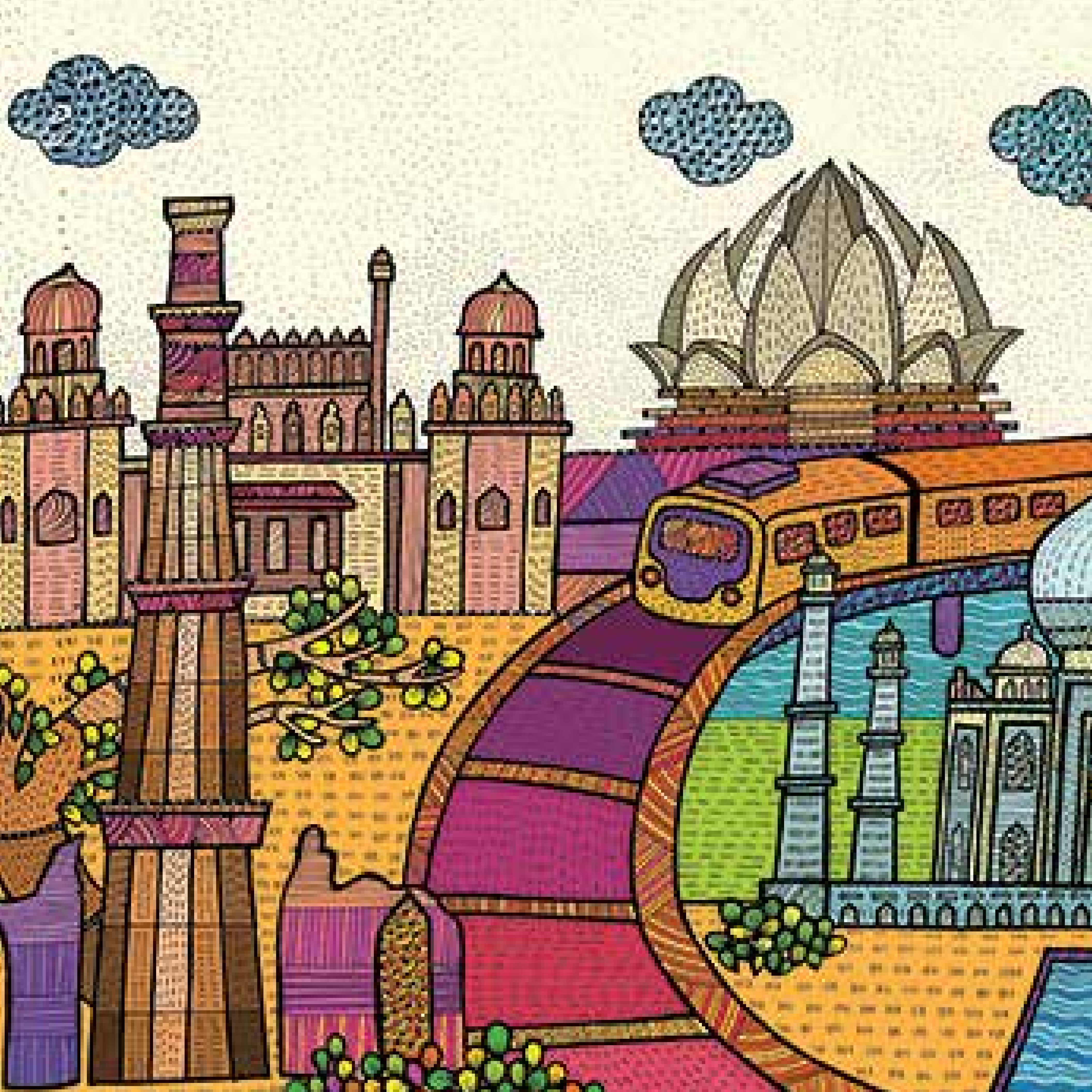
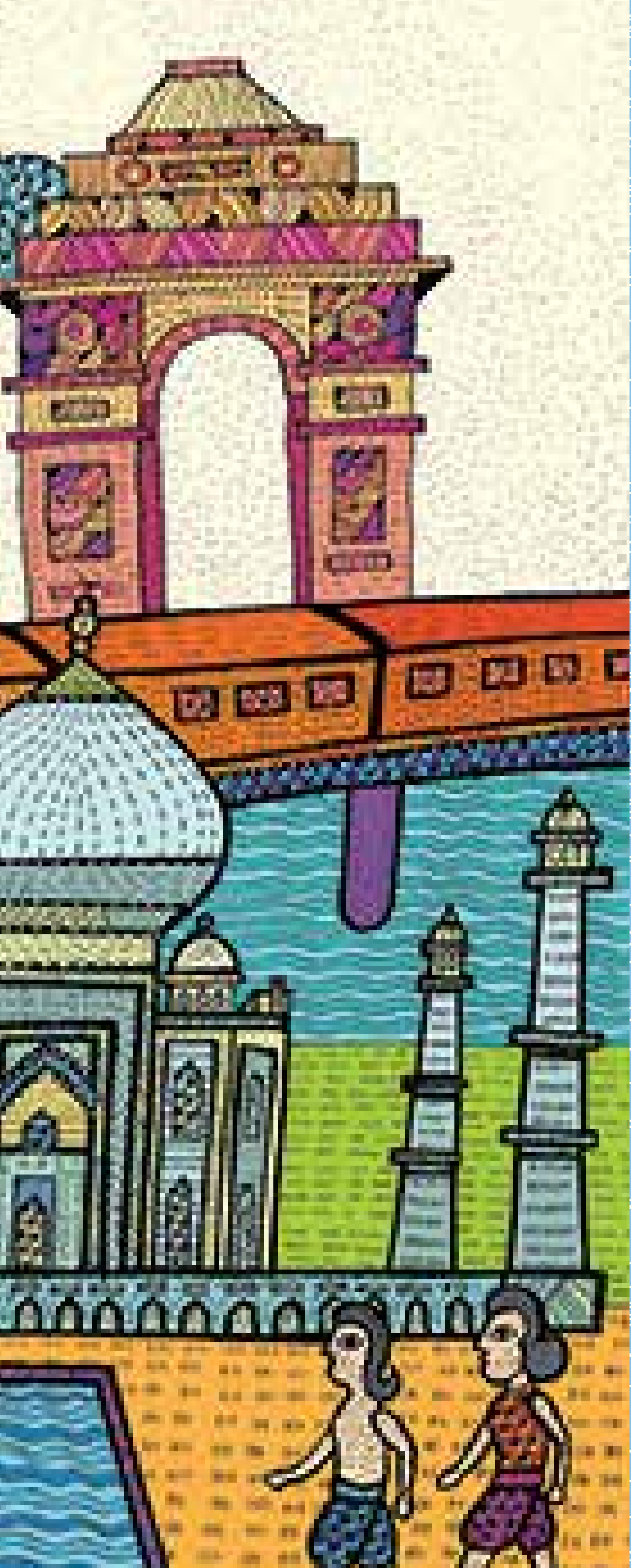
Comparison of different ownership structures presently available to retail investors for investing in commercial real estate

Investment type	Fractional ownership		REITs	Direct purchase
	Traditional	Blockchain		
Minimum investment size	Low to moderate	Low	INR 50,000	High
Asset selected by	Investor	Investor	Investment manager	Investor
Control over the asset	Moderate	Moderate	Low	High
Units allotted in the form of	Shares or area of property	Area/blockchain units	Units	Area
Divisibility of investment	Easy	Very easy	Moderate (in lots)	Difficult
Selling part investment	Moderate	Very easy	Moderate (in lots)	Difficult
Taxation at the time of sale (best case)	Same as sale of shares of unlisted company	Capital gains + stamp duty + registration	15% if sold in less than 36 months and 10% if sold after that	Capital gains + stamp duty + registration
Minimum number of assets	1	1	As per SEBI norms	1
Regulated by SEBI	No	No	Yes	No
Time required to list the asset	Low to moderate	Low to moderate	High	Not applicable

Source: Knight Frank Research

the space is unregulated, it has started gaining traction amongst retail investors. If these companies offering fractional ownership are able to deliver the desired returns to investors, fractional ownership can emerge as a credible avenue for investing in commercial real estate.





NCR

RESIDENTIAL MARKET

OFFICE MARKET

Residential Market

NCR Residential Market

Parameter	H2 2019	Change (YoY)	2018	2019	Change (YoY)
Launches (housing units)	15,059	125%	15,819	22,905	45%
Sales (housing units)	22,976	2%	40,646	42,827	5%
Price (wt avg)*	₹ 47,691/sq m (₹ 4,431/sq ft)	4%	₹ 45,639/sq m (₹ 4,240/sq ft)	₹ 47,691/sq m (₹ 4,431/sq ft)	4%
Unsold inventory (housing units)	1,22,084	-14%	1,42,007	1,22,084	-14%
Quarters to sell (QTS)	11.7		14.5	11.7	
Age of unsold inventory (in quarters)	23		22	23	

Source: Knight Frank Research

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Growth in new launches signifies that the developers in the region are carefully assessing demand and concentrating on completing projects at hand.

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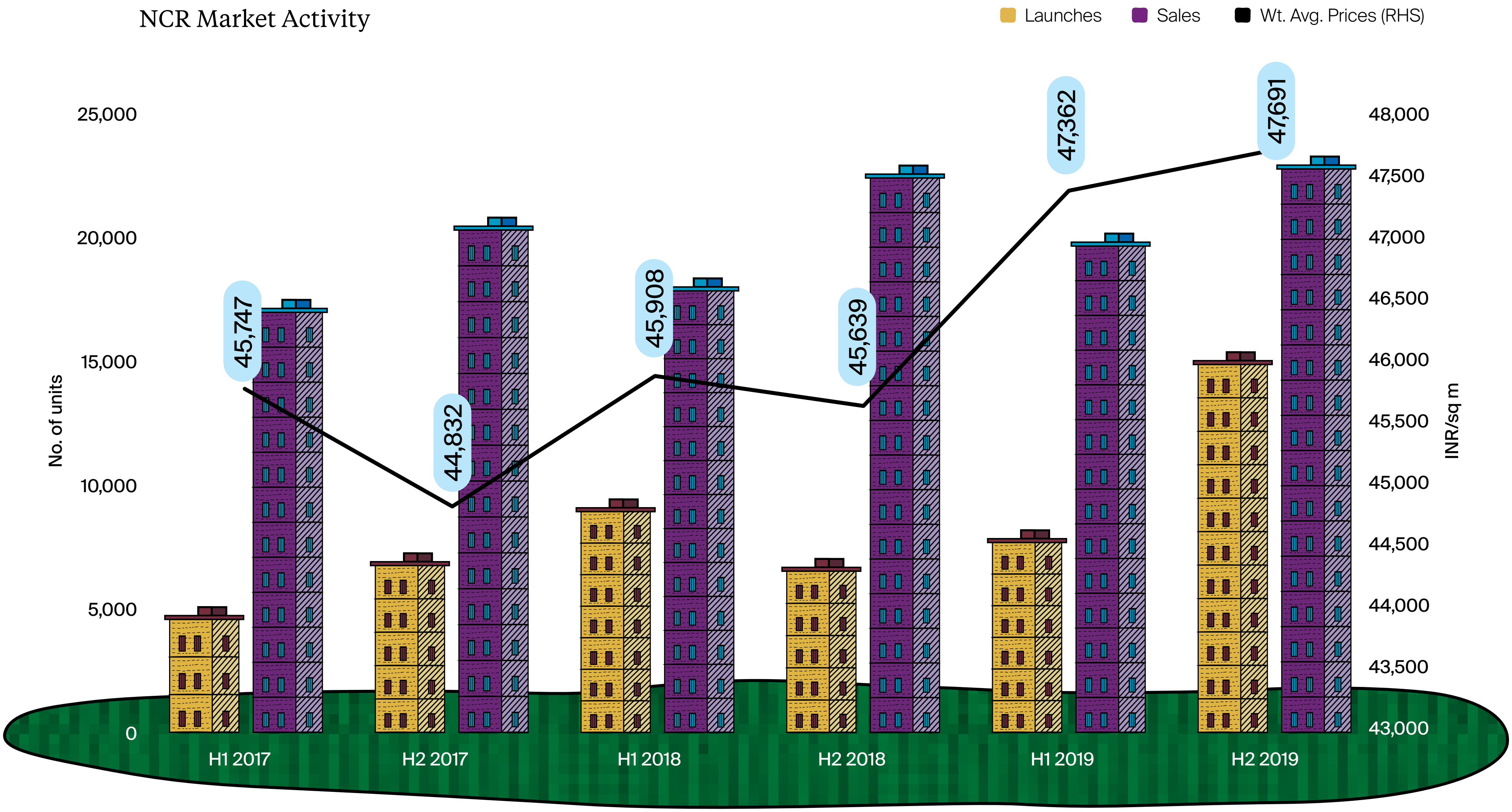
- The National Capital Region (NCR) maintained its steady pace of sales volume in the year 2019, and we see it as a positive sign for the reeling NCR residential market. The market also witnessed a growth in new project launches testifying that unlike 2010-2011, developers in the region are carefully assessing demand and concentrating on completing projects at hand rather than launching new ones.
- Weighted average prices remain unmoved in 2019 signalling the price resistance in the market. The developers have also taken cognisance of the slow sales velocity and are keeping a lid on any upward increase in prices. Having said that, research suggests that the ready-to-move-in inventory is seeing increased traction and may even command a premium over the under construction or newly launched inventory.
- The market saw a resurgence of new launches after the downward trend that started in 2016. New launches in NCR registered a 45% growth YoY in the number of units launched in 2019, with approximately 57% of the newly launched units concentrated in Gurugram and Greater Noida.

NCR Market Activity



Source: Knight Frank Research

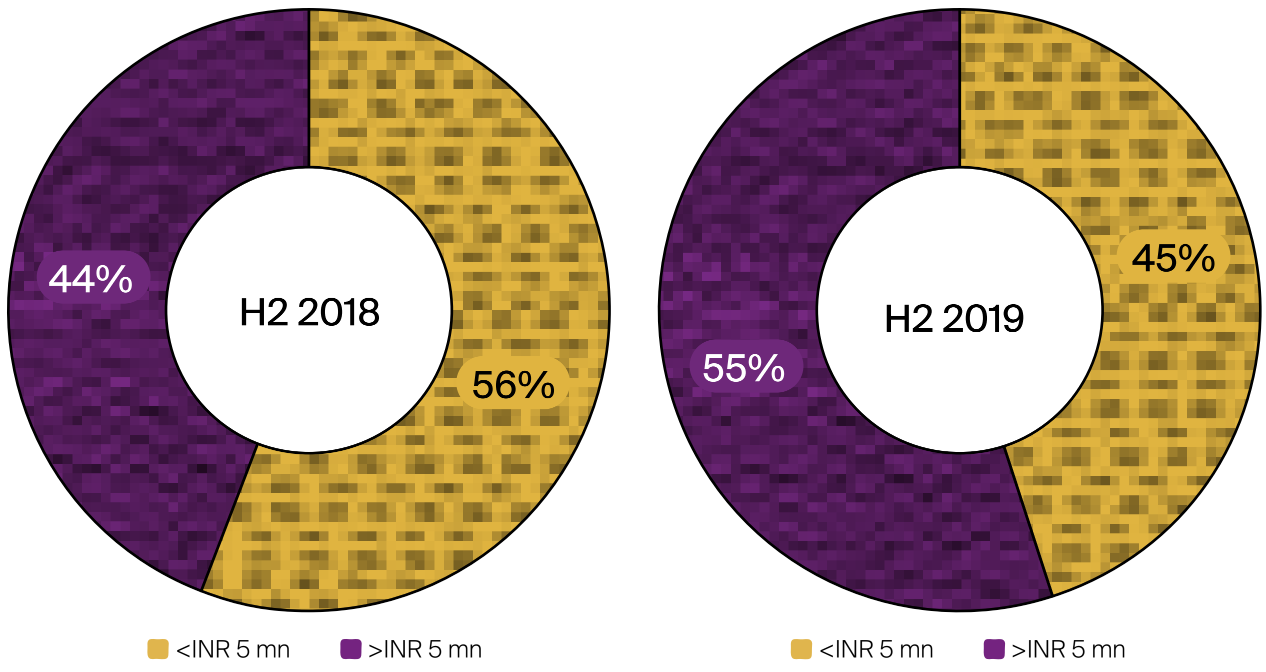
The market saw 22,905 units launched in 2019 compared to 15,819 units in 2018.

- It is to be noted that the period between 2016 to 2019 was the transitioning phase in the sector with the implementation of the Real Estate (Regulation and Development) Act, 2016 and the Goods and Services Tax Act (GST) in 2017. These policy changes took the steam off the new launches in the region. Coupled with this, the recent Non-Banking Financial Companies (NBFCs) crisis has also tightened the purse strings for the cash strapped developers who are shying away from launching new projects. With this backdrop, on a half yearly comparison, the new launches in NCR stand at 15,059 units in H2 2019, registering a 125% growth over the low base in the same period of 2018.

- The new launches in NCR have been on a downward slide since 2015 and many factors have contributed to this decline. For instance, new speculative locations in Delhi NCR such as Bhiwadi, Dwarka Expressway which were marketed as investment destinations around the boom of 2010-2011, failed to yield expected returns for the buyers due to delays in projects. Along with this, the lag in infrastructure completions and delays due to various land related litigations pulled the reins of the real estate market in NCR.

- Furthering the worries of the developers, the apex court ban on construction activities

Ticket Size Split of Sales



Source: Knight Frank Research

in Delhi - NCR in the wake of increased pollution levels in November has negatively impacted projects nearing completion. After a standstill in construction activities, the Supreme Court has however partially lifted the ban on 9th December 2019, allowing construction between the window of 6:00 am to 6:00 pm only.

The recent INR 250 billion stress fund set up by the government to complete stalled projects will exclude Jaypee Infratech, Unitech and Amrapali Developers as the matter is sub judice. Aimed to complete projects in the affordable and mid segment, we see projects in Ghaziabad, Noida and Greater Noida taking the benefit of this outlay.

- On the demand side, NCR is now a cautious end user market. Demand in NCR stood at 42,827 units in 2019 registering a YoY 5% increase from 2018 with the maximum demand coming from Greater Noida and Gurugram closely followed by Ghaziabad. On a half yearly comparison, there is not much deviation in trends with sales at 22,976 units in H2 2019 compared to 22,599 units in the same period in 2018.

- Cautious new launches and steady sales have improved the unsold inventory levels in NCR in 2019. Registering a YoY 14% drop, the unsold inventory in NCR stands at 1,22,084 units at the end of 2019. Consequently, the quarters-to-sell (QTS) has also come down from 14.5 to 11.7 quarters in 2019. The quarters-to-sell unsold inventory 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 to arrive at the QTS number for that quarter. A lower QTS indicates a healthier market. Steady sales velocity in Gurugram and a low-ticket price as in the case of Greater Noida has helped these micro markets emerge as better performing markets in NCR, closely followed by Ghaziabad and Noida.

- Weighted average prices have registered a marginal YoY 4% increase over H2 2018 which indicates a stable price environment for the market. Post the price correction in 2013 and then again in 2016, residential prices in NCR have been moving in close ranges, with no upward spike. Taking cognizance of waned investor interest, cautious end-user and the credit tightening after the shadow bank crisis, developers are keeping a lid on any upward price increase. Our research suggests that discounts in various guises are offered across tables to offload the inventory.

Gurugram

- Gurugram takes up 35% share from the overall new launches in 2019, with only 2 percentage points increase

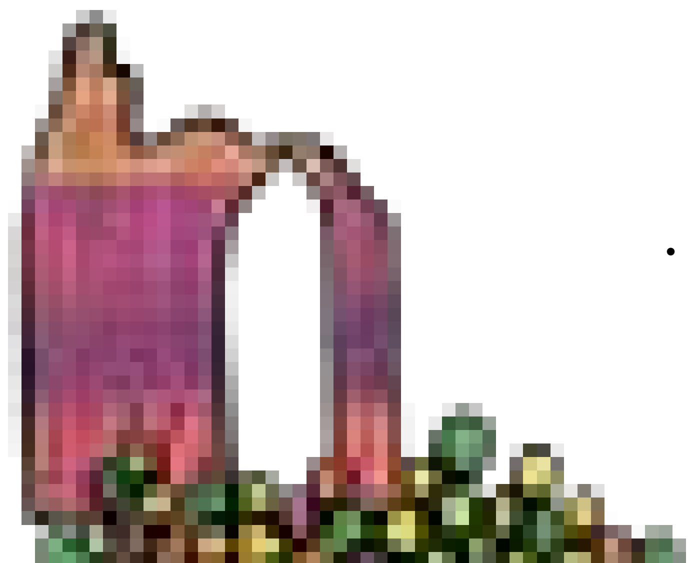
With Metro connectivity right up to Pari Chowk and the government's recent nod to an extension of the current aqua line to Greater Noida (West), we expect Greater Noida to see increased traction for ready-to-move-in inventory in the coming months.

from 2018. In the second half of 2019, Gurugram saw new launches in the affordable segment in sectors such as 63A, 95A, 76, 85 and 86. The micro market took up 37% share of the total new launches and registered a 60% jump in the number of new launches in the second half of the year, unlike the same period in 2018, where new launches were reduced to less than 5,000 units. This increase however comes on the back of the low base in the same period in 2018.

- Though registering an increase in sales, demand in Gurugram is well below its half yearly peak levels of 2011 -2012. Registering a 38% increase in sales in H2 2019 compared to H2 2018 and a 9% yearly increase from 2018, the numbers indicate that though the market is gathering momentum, it is too soon to term the scenario as a revival of demand.
- Our research suggests that completing major infrastructure projects such as the Dwarka Expressway and the Sohna Elevated Road will guide demand to areas where a lot of inventory is either stuck with investors or where the builder has failed to attract any buyers at all. Projects along the southern peripheral road and the Dwarka Expressway are still dependent to a great extent, on the completion of their respective connecting roads.
- An encouraging development that is in sharp contrast to the past is that Gurugram now has a mix of property options ranging from the less that INR 2.5 million affordable segment to the mid and premium segment which can cater to all categories of buyers.
- The Gurugram bench of Haryana-RERA has, in a recent, one of its kind ruling, ordered attachment of a developer's 10 acre unused land parcel in Gurugram and four plots in Noida to generate funds in order to complete a four-year delayed project in Sector 89 in Gurugram. We believe this straightjacketing will only improve buyer sentiments towards the market.

Greater Noida and Noida

- Greater Noida takes up 22% of the overall new launches in NCR in 2019, registering a YoY increase of 22%. The micro-market saw new project launches to the tune of 3,870 units in H2 2019 in Sector 1, 2, 4, 19 and Tech Zone IV. On an average, a market that saw new project launches in the range of 25,000 – 30,000 units annually, has dwindled to the current levels, signaling oversupply and stress in the market.
- Being the affordable market in the sweet spot of INR 2.5–INR 5 mn price bracket, Greater Noida has been able to keep a steady pace of sales in the current market slowdown. Taking 52% of the overall market share of sales in 2019, Greater Noida registers a positive YoY growth of 8% in 2019. This is the second instance of sales growth in Greater Noida after the downward dip in 2016 and 2017. Demand in H2 2019 was in the same range seen in the same period in 2018.
- Greater Noida (West) which houses the majority share of residential development in the region is slowly taking shape after the land acquisition row of 2010–2011. With Metro connectivity right up to Pari Chowk and the government's recent nod to an extension of the current aqua line to Greater Noida (West), the ready-to-move-in inventory in the region will see increased traction in the coming months.
- Noida significantly improved on its new launches in 2019 with 4,901 units launched in 2019 as against the low volume of 1,370 units in 2018. Increasing its percentage share in the overall NCR tally from a mere 9% in 2018 to 21% in 2019, Noida saw a majority of new launches in the first half of the year. Sector 150 in Noida housed most of the new launches in 2019 in the broad range of INR 5 mn–INR 12.5 mn price bracket.
- At 5,574 units, Noida registered a 13% YoY growth in sales in 2019. The numbers however are nowhere close to the annual peaks of 2010–2012. Being the affordable kin to Gurugram, residential market in Noida has been bearing the brunt of the unscrupulous ways of fly-by-night developers, as also of those who could not complete their projects because of a market slump. We believe, until there is clarity on the delivery of the major projects stuck in Noida, buyer confidence in the market will take time to translate into substantial sales numbers. The increased office leasing activity in Noida in 2019 suggests that the commercial market is warming up to the new supply and we expect that the positive sentiment will translate into residential demand in a paced manner.



5%

YoY growth in annual sales volume

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The recent INR 250 billion stress fund set up by the government to complete stalled projects will exclude Jaypee Infratech, Unitech and Amrapali Developers as the matter is sub judice. Aimed to complete projects in the affordable and mid segment, we see projects in Ghaziabad, Noida and Greater Noida taking the benefit of this outlay, which in turn will improve market sentiments.

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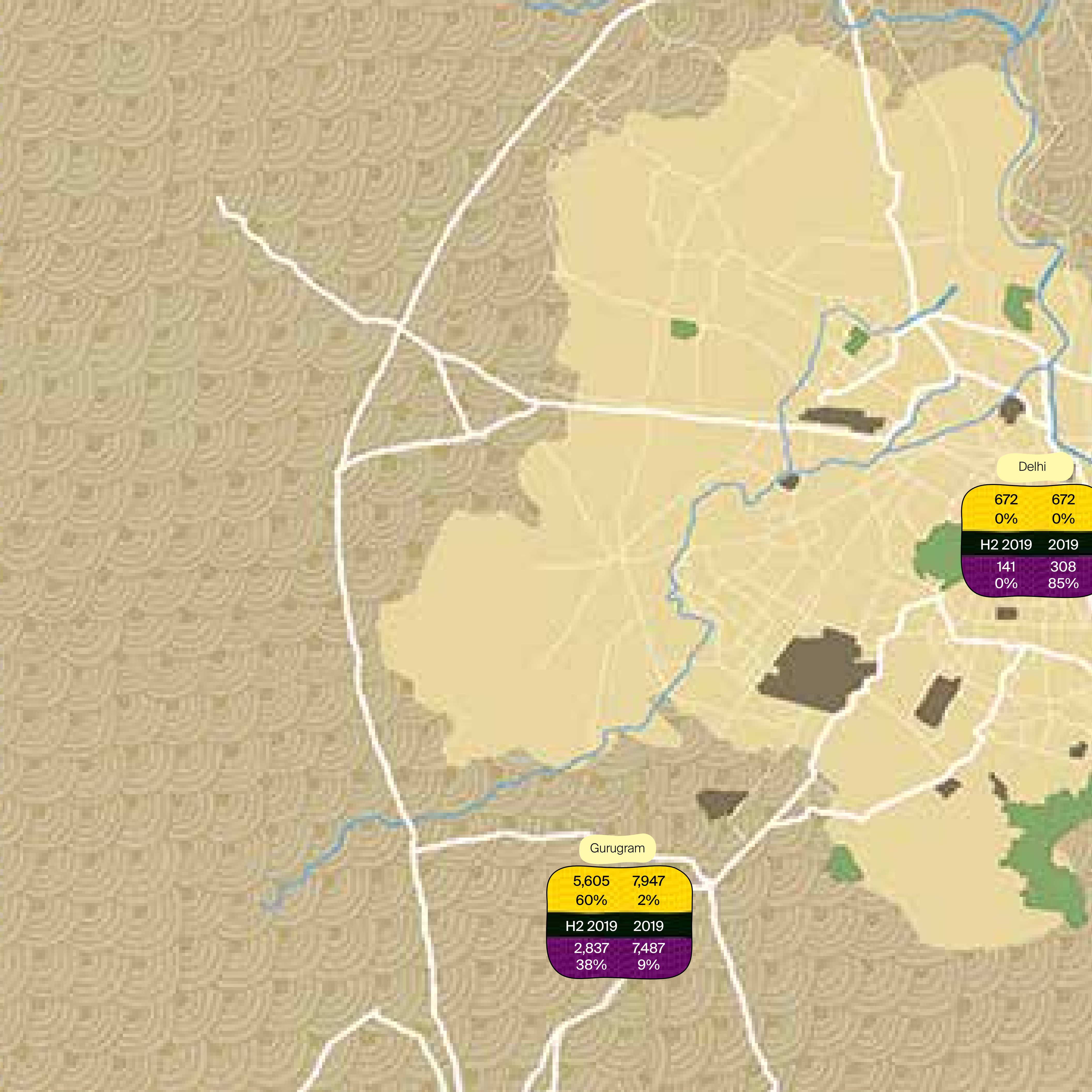
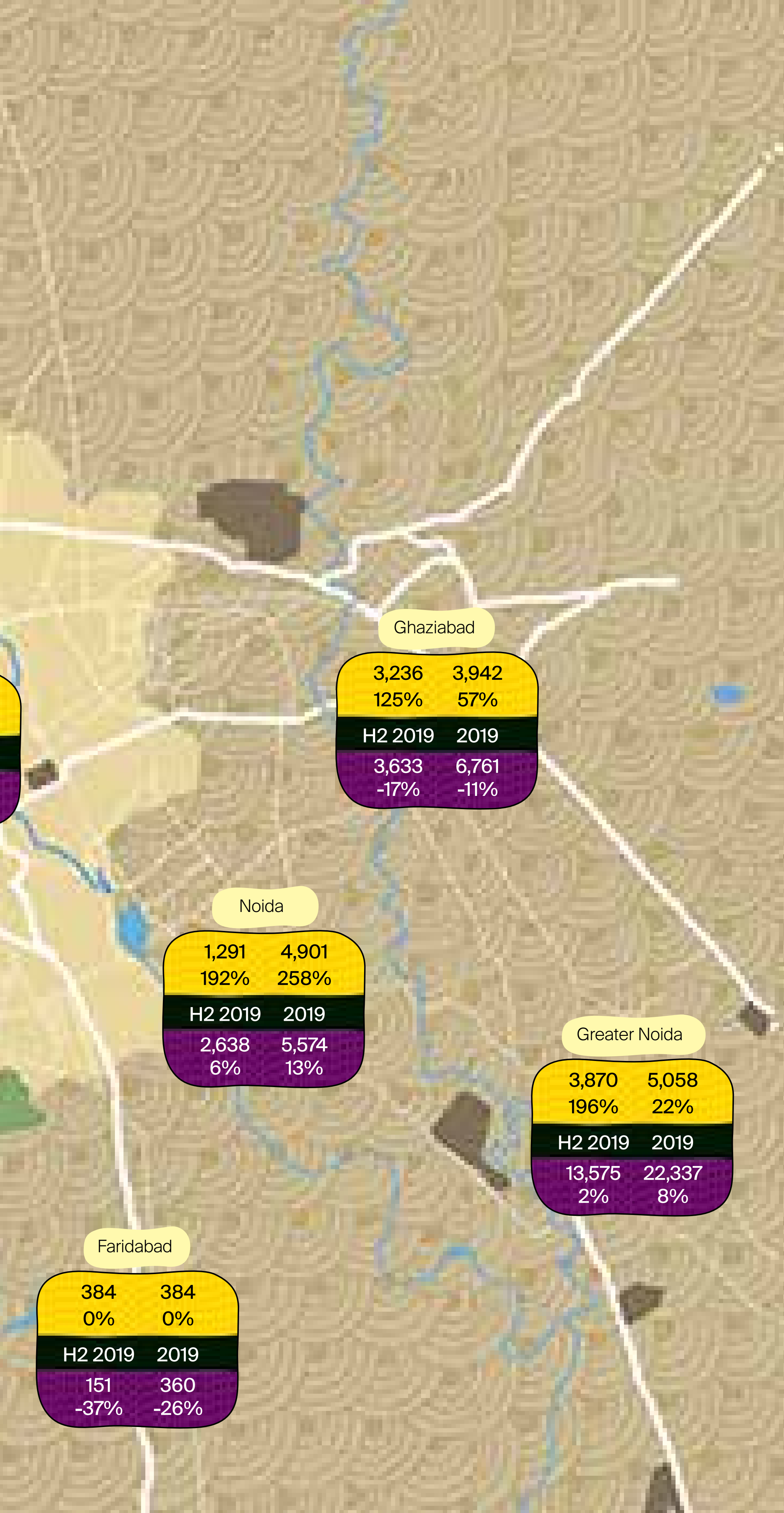
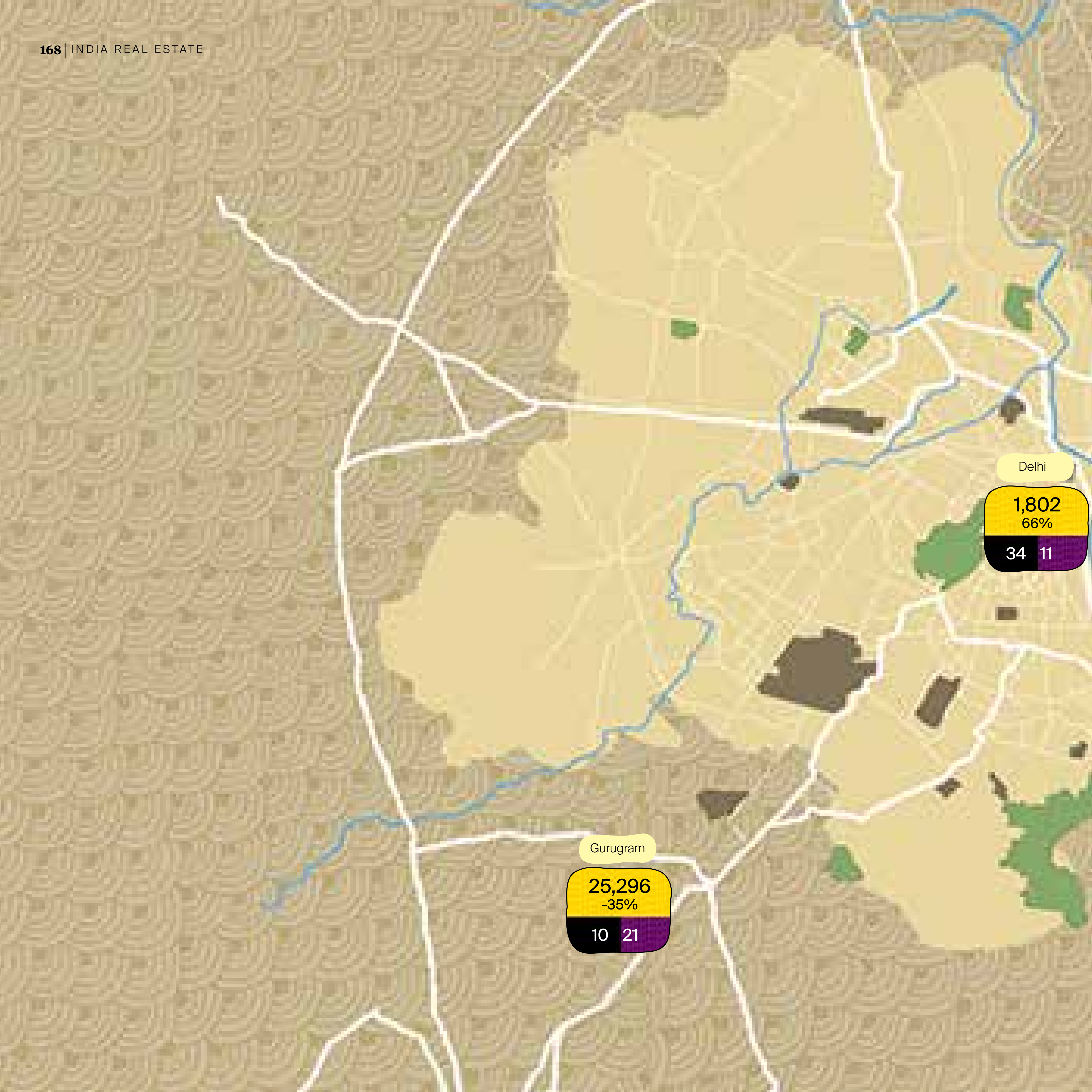

Delhi
672 672
0% 0%
H2 2019 2019
141 308
0% 85%
Gurugram
5,605 7,947
60% 2%
H2 2019 2019
2,837 7,487
38% 9%

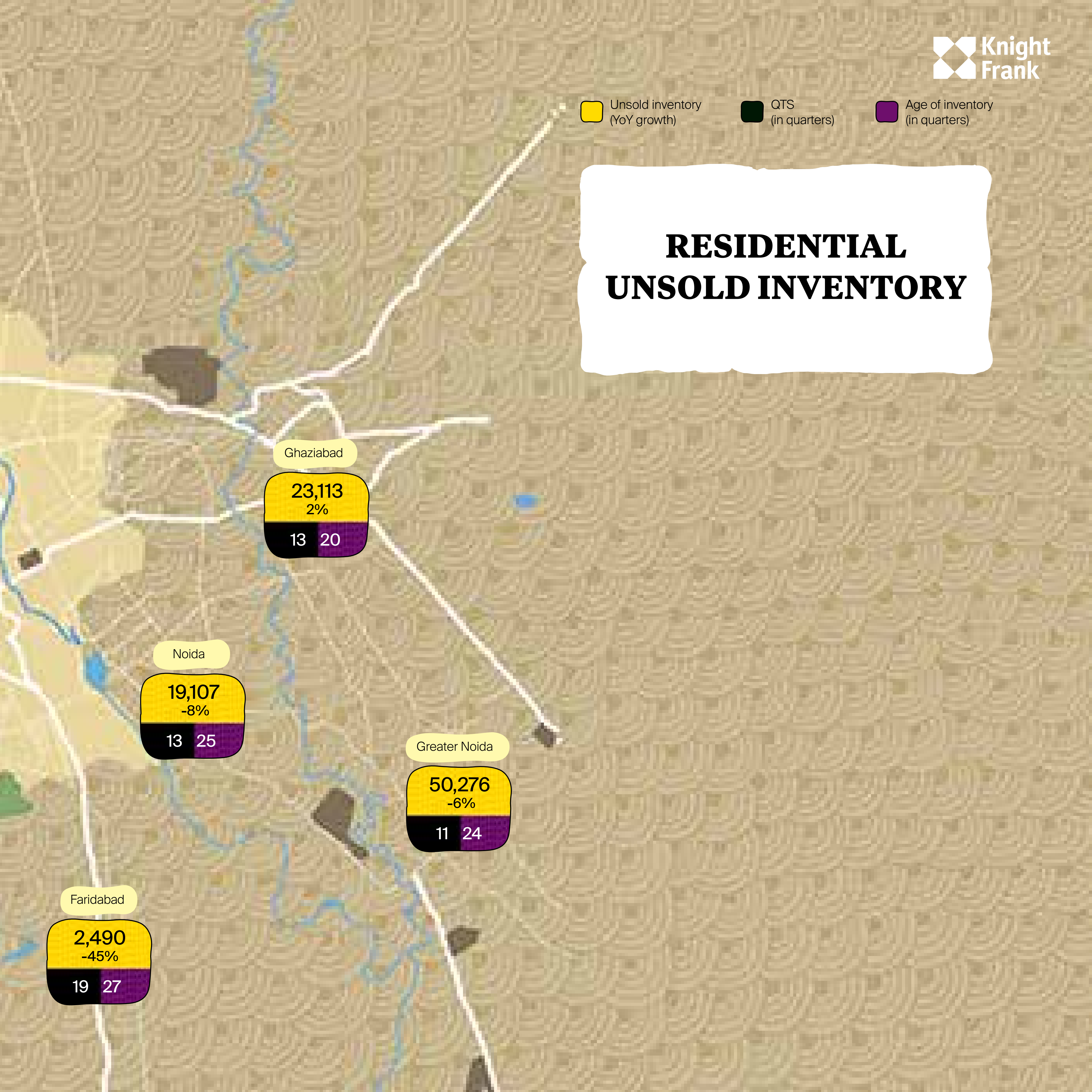
RESIDENTIAL LAUNCHES AND SALES

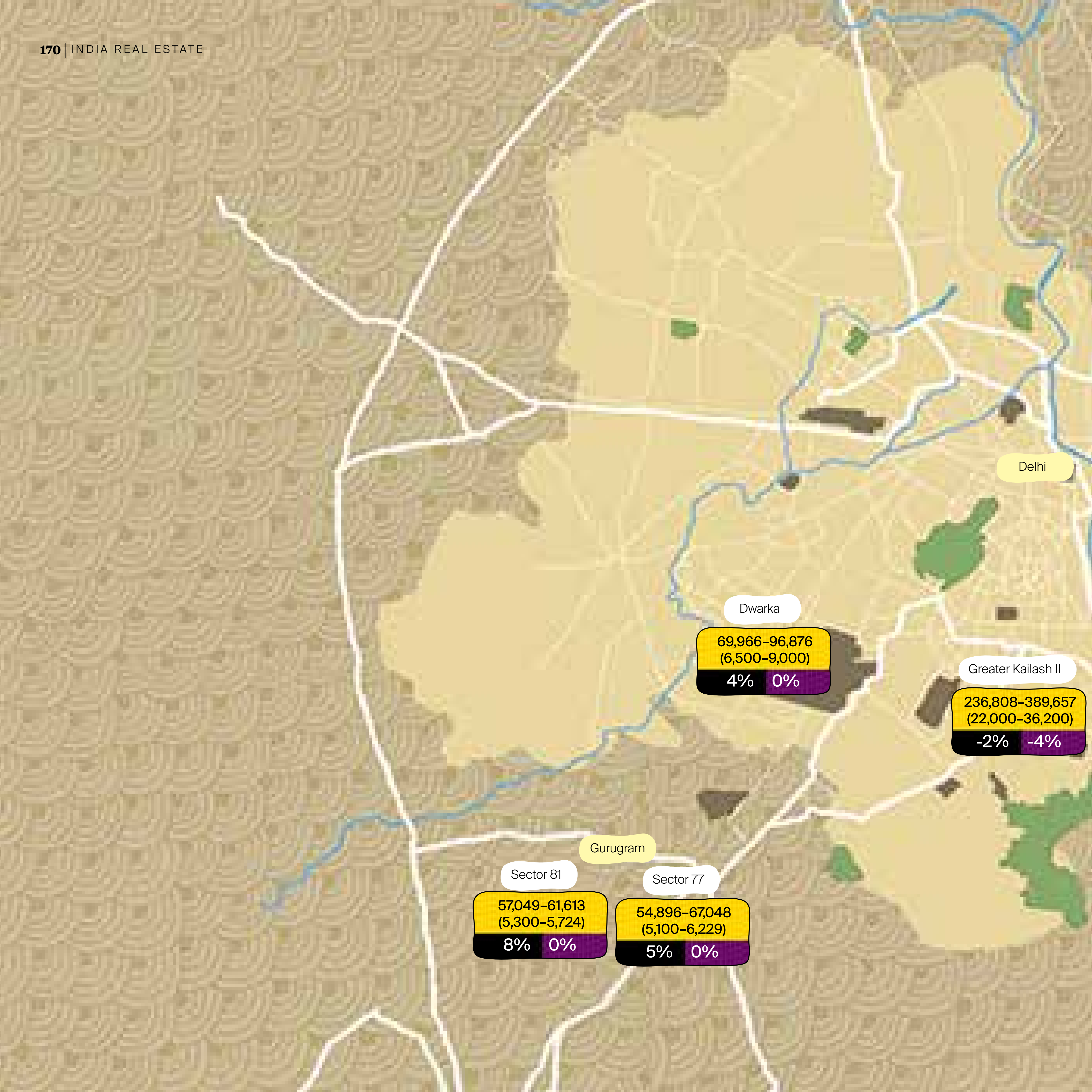
Launches (housing units)
Sales (housing units)
% Change (YoY)



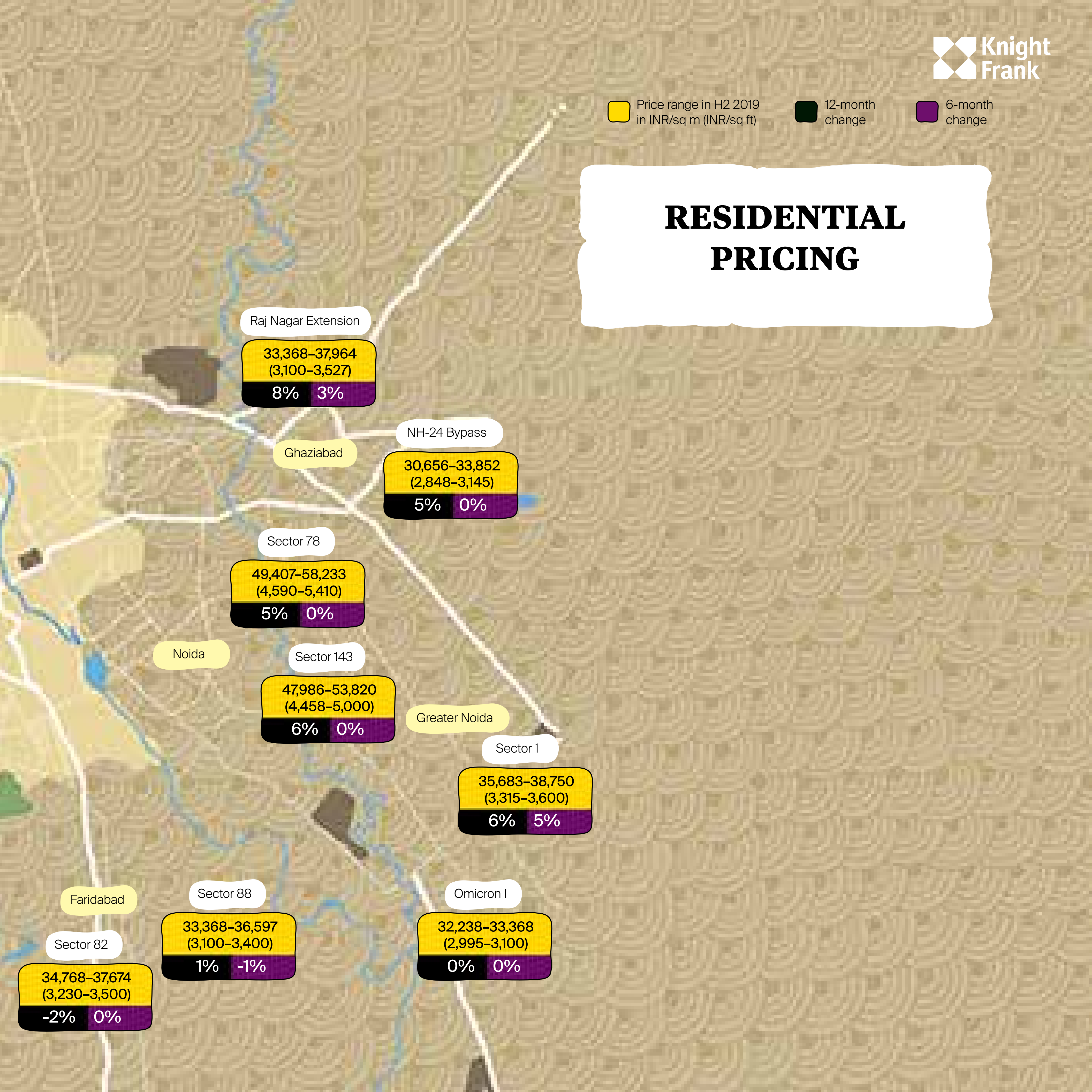

Delhi
1,802
66%
34
11
Gurugram
25,296
-35%
10
21

RESIDENTIAL UNSOLD INVENTORY

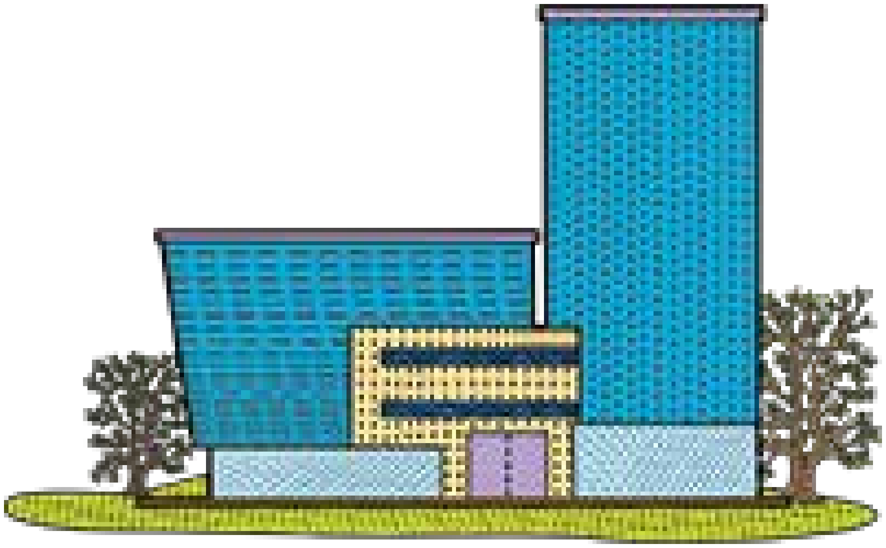



Delhi
Dwarka
69,966–96,876
(6,500–9,000)
4%
0%
Greater Kailash II
236,808–389,657
(22,000–36,200)
-2%
-4%
Gurugram
Sector 81
57,049–61,613
(5,300–5,724)
8%
0%
Sector 77
54,896–67,048
(5,100–6,229)
5%
0%

RESIDENTIAL PRICING



Office Market



0.80

mn sq m
8.6 mn sq ft of transactions in 2019

NCR Market Snapshot

Parameter	H2 2019	Change YoY	2018	2019	Change YoY
New completions mn sq m (mn sq ft)	0.59 (6.4)	60%	0.71 (7.6)	1.14 (12.3)	62%
Transactions mn sq m (mn sq ft)	0.45 (4.8)	22%	0.68 (7.4)	0.80 (8.6)	17%
Weighted average rental in ₹/sq m/month (₹/sq ft/month)	926 (86)	4%	893 (83)	926 (86)	4%
Stock mn sq m (mn sq ft)	-	-	14.3 (154)	15.4 (166.2)	8%
Vacancy (%)			16%	17.1%	

Source: Knight Frank Research

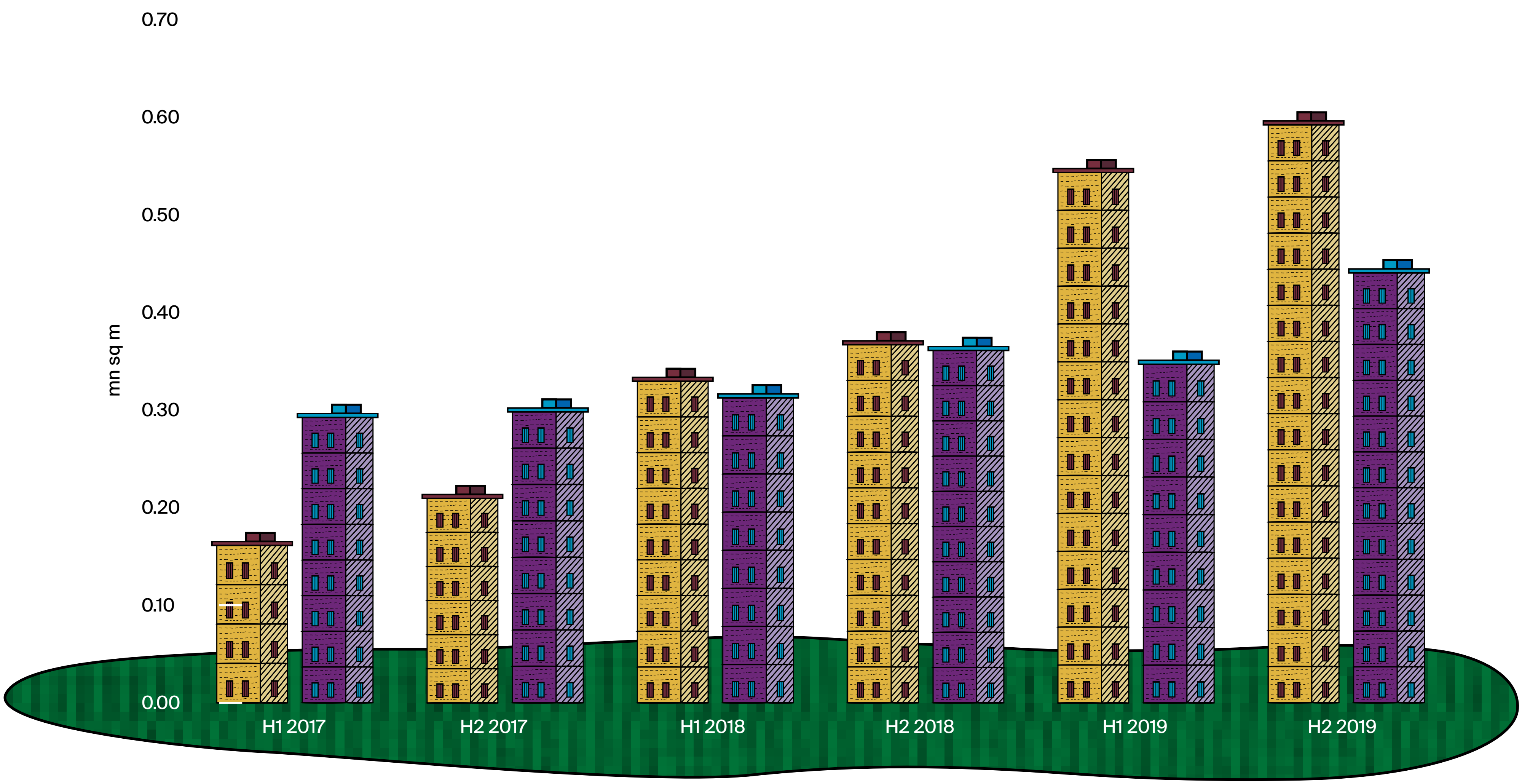
◆◆

Backed by large size transactions, the NCR market touched an all time high transaction volume in 2019.

◆◆

- In 2019, the NCR office market recorded the highest ever 0.80 mn sq m (8.6 mn sq ft) transaction level, registering a growth of 17% compared to 2018. Allied with the stupendous transaction activity, new completions in the market reached near its peak of 2011 with 1.14 mn sq m (12.3 mn sq ft) of supply entering the market, translating into a YoY growth of 62% in 2019.
- In terms of half-yearly trends, the NCR market transacted a total of 0.45 mn sq m (4.8 mn sq ft) of office space in H2 2019 registering a 22% growth compared to the same period last year. Pent up supply entered the market in Gurugram and Noida pegging the new completions to 0.59 mn sq m (6.4 mn sq ft) in the second half of 2019.
- Though the year 2019 saw robust office leasing across micro markets, a significant growth in the pent-up supply has translated to a higher vacancy level of 17.1% in H2 2019

NCR Office Market Activity



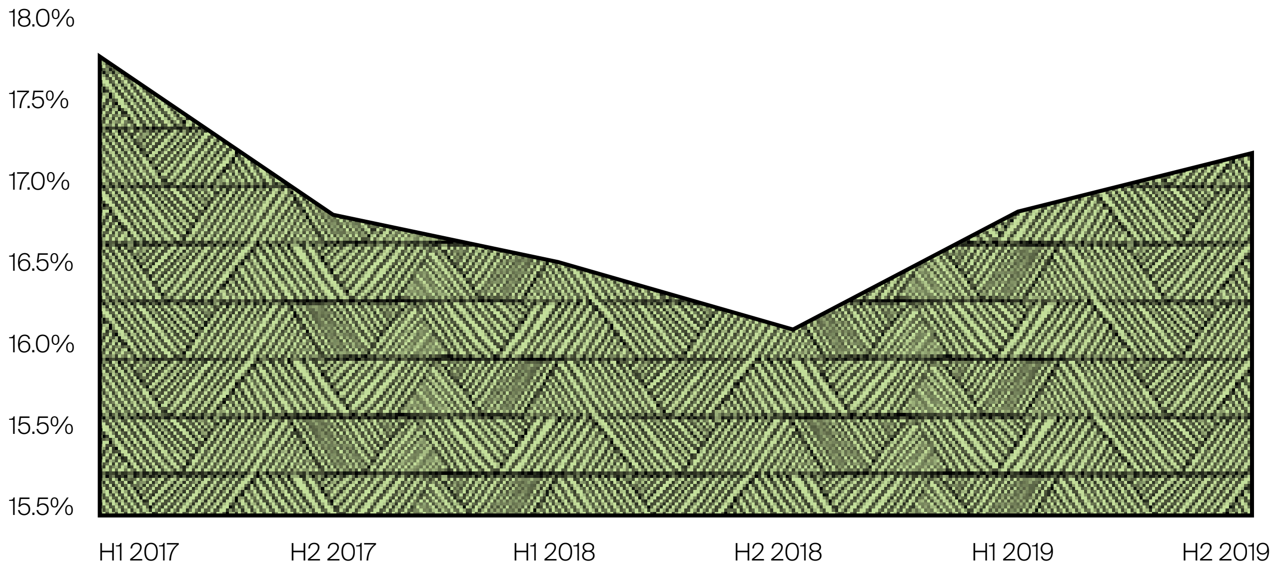
17%

YoY growth in transactions in 2019

compared to 16.1% in H2 2018. However, office vacancy in the locations of Gurugram, such as DLF CyberCity, Golf Course Road and Aerocity in the Secondary Business District of Delhi has reduced to single digit with occupiers such as Accenture, Goodyear Tyres, GoWork, CampUs, KPMG and OneCulture taking up substantial space.

- Gurugram led the transaction activity yet again in 2019 taking up 65% share from the overall NCR leasing activity. Registering a YoY growth of 15% over 2018, the leasing activity in Gurugram was driven by companies such as Concentrix, Google, Oyo, Huawei, Simpliworks and Genpact who on an average leased over 0.0046 sq m (50,000 sq ft)

NCR Office Market Vacancy



Source: Knight Frank Research

Noida saw robust office transaction activity in 2019, with annual leasing touching 0.21 mn sq m (2.2 mn sq ft) - an all time high. Our research suggests that occupiers are now willing to pay higher rentals for quality office buildings in Noida. Limited and expensive supply in Gurugram and Aerocity are directing cost conscious occupiers to the newly constructed office buildings in Noida.

of floor space.

- On half yearly trends, in the second half of 2019, Gurugram saw transaction activity to the tune of 0.24 mn sq m (2.6 mn sq ft). Some of the locations that witnessed major traction in H2 2019 include the Southern Peripheral Road (SPR), Golf Course Extension Road and DLF Cybercity. Gurugram has remained the location of choice for corporate occupiers, and because of the dearth of quality office spaces, even the under-construction office stock is seeing enquires for pre-lease.
- The year 2019 brought the much-needed movement in the lackluster Noida market. Clocking the highest annual leasing volume, Noida's transactions closed at 0.21 mn sq m (2.2 mn sq ft) in 2019. Commercial activity in Noida has been growing since 2013 on the back of IT/ITeS and Other Services, however it is only in 2018 - 2019 that we see an increase in its percentage share in the overall NCR transaction pie.
- Robust leasing in the second half of 2019 by companies such as GoWork, 91Springboard, Metlife, Qualcomm, Vivo and Thales have significantly contributed to Noida's commercial market. On a half yearly analysis, Noida leased 0.15 mn sq m (1.6 mn sq ft) in H2 2019 registering a 49% jump from the same period in 2018. Sectors along the Noida Expressway such as Sector 127, 135, 142, 147 and Sector 62 were the most preferred by occupiers to set up offices in H2 2019. Our research suggests that occupiers are now willing to pay higher rentals for quality office buildings in Noida. Limited and expensive supply in Gurugram and Aerocity are directing occupiers to the newly constructed office buildings in Noida which are available at a lower price when compared to Gurugram.
- Perceived primarily as an IT/ITeS driven market, the trend in NCR is changing since 2015 with the share of this sector witnessing a continued decline in the overall transaction pie. The share of IT/ITeS has come down further to 16% in 2019 from an already recorded low in 2018.
- On a half yearly comparison, IT/ITeS witnessed 0.08 mn sq m (0.88 mn sq ft) of transaction activity with occupiers preferring Noida Expressway in Noida to set up base. Some of the companies in this sector that have taken space in H2 2019 include Genpact, HCL Technologies, Nagarro in

Business District Classification

Business district	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
Gurugram Zone A	M.G. Road, NH-8, Golf Course Road and Golf Course Extension Road
Gurugram Zone B	DLF CyberCity, Sohna Road, Udyog Vihar and Gwal Pahari
Gurugram Zone C	Manesar
Noida	Sectors 16, 18, 62, 63 and the Noida-Greater Noida Expressway
Faridabad	Sector Alpha, Beta, Gamma and Tech Zone

Noida and Optum Global Solutions, Google and Xoriant in Gurugram.

- The share of Other Services sector, which comprises occupiers like co-working spaces, media and consulting companies, ecommerce and legal firms, has constricted post its boom in 2017-2018 in NCR. In the past two years, the sector had seen an increase in its share of space take up from co-working and ecommerce companies, and this rapid expansion has now entered a cooling phase. The sector took 52% of the leasing pie in 2019 registering a marginal degrowth of 2 percentage points from leasing volumes in 2018. On a half yearly comparison, the second half of 2019 registers a YoY 19% degrowth from the same period in 2018. Driven by co-working occupiers in H2 2019, the sector saw leasing by major occupiers such as Concentrix, OneCulture, Simpliwork and Bravura Solutions in Gurugram and 91Springboard and GoWork in Noida.
- In the Other Services sector, NCR market transacted 0.14 mn sq m (1.53 mn sq ft) of co-working space in 2019, thus registering a 17% increase over 2018. Gurugram was the preferred location for co-working occupiers with 66% of the total transacted co-working space taken up in locations such as Golf Course Extension Road and in Gurugram.
- The market saw 115 deals in H2 2019 with a YoY 19% increase in the average transacted space of 3,871 sq m (41,677 ft) compared to the same period in 2018.
- Rentals in major locations in NCR have firmed up on account of limited quality supply. The weighted average rents in H2 2019 have inched up from INR 893 per sq m per month (INR 83 per sq ft per month) to INR 926 per sq m per month (INR 86 per sq ft per month). Some of the office locations that have made headline rents in H2 2019 are CBD Delhi, DLF Cyber City and NH – 8 in Gurugram, Aerocity in SBD Delhi and Sector 16 in Noida.

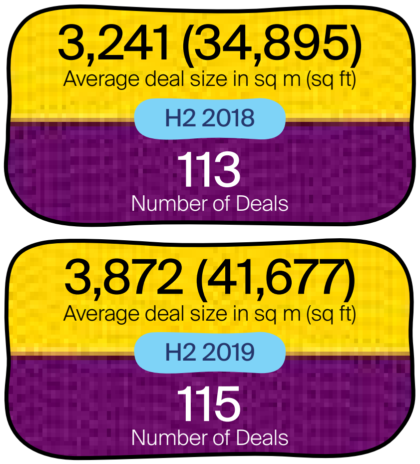
Sector-wise Split of Transactions

Industry	H2 2018	H2 2019
BFSI	8%	8%
IT/ITeS	12%	18%
Manufacturing	10%	27%
Other Services	70%	47%

Note: BFSI includes BFSI support services; Other Services includes co-working, media, telecom etc.

Source: Knight Frank Research

Average deal size and number of deals



Note - 1 square metre (sq m) = 10.764 square feet (sq ft)

Source: Knight Frank Research

62%

YoY growth in new completions

◆◆

The growth in new completions in NCR has nudged the vacancy levels upwards to 17.1% in 2019. However, quality office business districts in Gurugram and SBD of Delhi have shown single digit vacancy levels.

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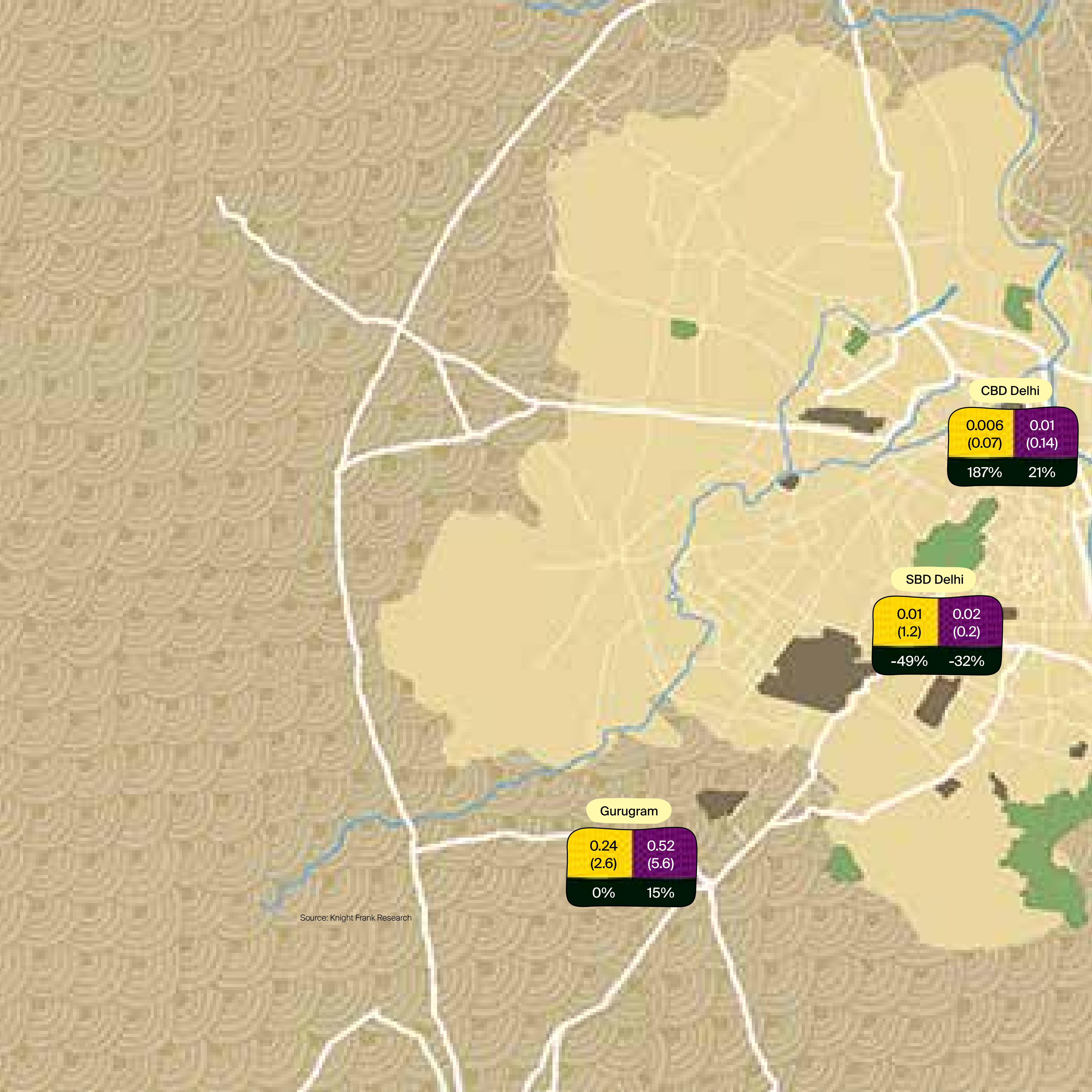
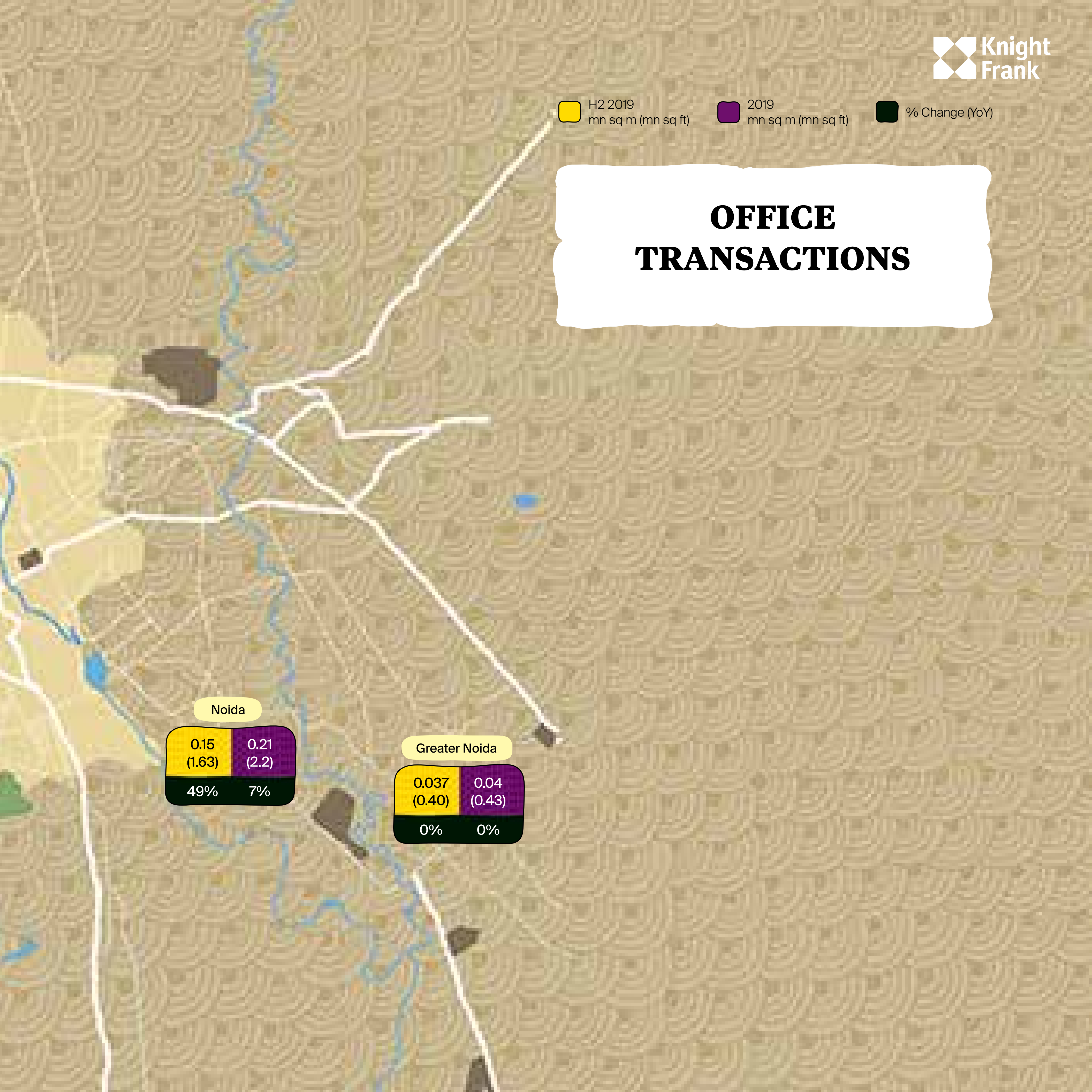
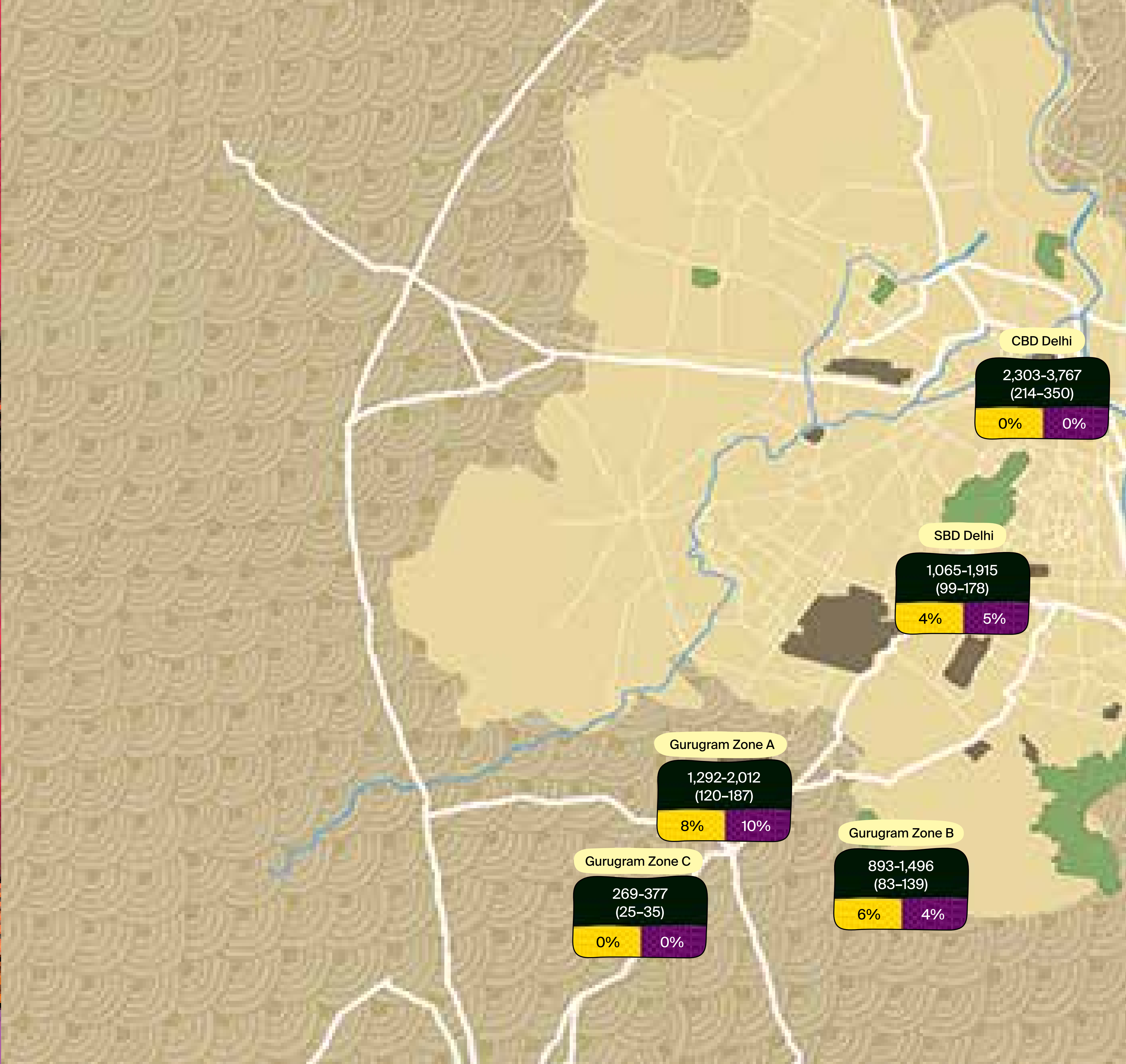


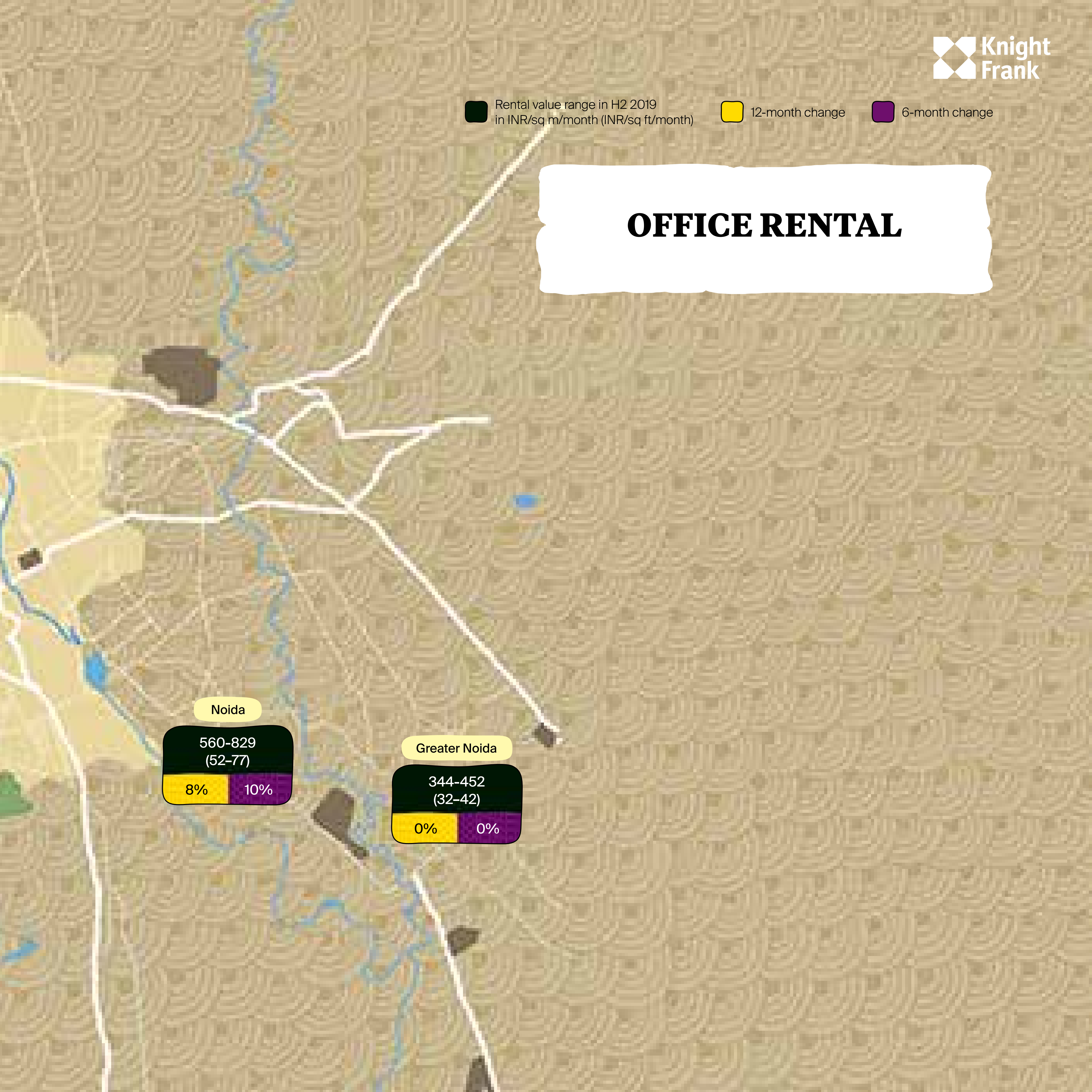
Source: Knight Frank Research

OFFICE TRANSACTIONS




CBD Delhi
2,303-3,767
(214–350)
0%
0%
SBD Delhi
1,065-1,915
(99–178)
4%
5%
Gurugram Zone A
1,292-2,012
(120–187)
8%
10%
Gurugram Zone B
893-1,496
(83–139)
6%
4%
Gurugram Zone C
269-377
(25–35)
0%
0%

OFFICE RENTAL



Once bitten, twice shy – Ready to move in properties are the rule of the day

- by Ankita Sood

Once bitten, twice shy. The saying can be used to well define the real estate buyer in the country at present. The real estate sector, being one of the major employment generators in the country, has gone through an unending grind that has changed the rules of the game. Due to various irregularities in the sector, the dream of owning a house has turned sour for many buyers and this has now redefined the buyer's perception towards property purchase. A ready to move in property is now a more attractive option in this end user driven market as compared to a newly launched or under construction property.

The real estate market which was amongst the safest modes of investment backfired due to project delays and was unable to yield returns and sustain demand. With property prices increasing tardily, investor demand started to wane. According to our research, property prices across the eight metros saw little or no price appreciation since 2013 making real estate investment an unimpressive option for the investor to diversify. What is driving the current property demand in the country today is the end user; and the end user of the present day is a more cautious and informed buyer who will not be swayed by any speculative promises as before.

This catharsis in the sector has panned out over the past three years with structural and policy changes such as demonetisation, introduction of the Goods and Services Tax (GST) and the formation and implementation of the Real Estate (Regulation and Development) Act 2016 (RERA). Where demonetisation somewhat took the cash component out of the system, the RERA guidelines desirably filtered out the unscrupulous supply side. Yet all these policy changes have failed to bring back buyer confidence for an under construction or a newly launched property that requires a buyer to make a commitment for the entire life cycle of the project.

The buyer today wants to enter a project when it is either nearing completion or has already obtained the necessary permissions. Since most of the demand is end user driven, the habitability of the property in terms of the necessary social and physical infrastructure has become of paramount importance. Let us delve into the various aspects of owning a ready-to-move-in property as against an under construction one.

'Not in the middle of no-where' - Habitability a key concern

Taking cues from the past, habitability has assumed importance not only for the buyer but also for the investor who is investing for a 5-10 year horizon in NCR. Greater Noida West in NCR (formerly Noida Extension) for instance, was conceptualised as a self-sustaining micro-market in the master plan, but was plagued by incidents such as the land acquisition row of 2010–2011 that stalled construction and delayed projects. Sporadic completion of projects, haphazard connectivity and lack of social infrastructure left the place looking like a ghost town for a good many years.

Today, a gated community with good connectivity, ample social infrastructure, convenience and security is on the priority list of buyers. Insights from the increased queries for ready-to-move-in apartments and projects within proximity to the city centre in NCR suggest that the buyer, who is mostly an end user, wants to move into projects that are well connected and habitable from the word go.

'A definitive move in date' - Clarity on delivery and completion of the project

This is the most important point that has shaped buyer behaviour for the sector in the past few years. It is not hidden that many buyers across the country have been left in the lurch due to the late or no delivery of their dream home. The most infamous instances have been seen in the National Capital Region that houses the largest unsold inventory in the country after Mumbai. Delays by developers such as Unitech Limited, Jaypee Infratech and the recent Amrapali Developers have put the buyers on the backfoot. Buyers today do not want to invest their hard-earned money in an under-construction project. Even though the Real Estate (Regulation and Development) Act (RERA), 2016 has been implemented with full force, and developers are expected to adhere to the committed timelines to the authorities, the buyer is wary of buying a project that he cannot see.

For instance, New Gurugram in NCR has a variety of projects which are in different stages of construction. Insights suggest that a ready-to-move-in project or a project with a visible six month period of delivery time is garnering more queries from interested buyers as opposed to a newly launched project in the same vicinity. To give a recent example, a prominent developer in Gurugram was able to sell approximately 74% of its inventory on the first day of launch of their ready-to-move-in project in Sector 81 in Gurugram (New Gurugram). This corroborates the fact that even with the current slowdown, a ready-to-move-in property infuses more confidence in the fence sitting buyer than a newly launched project with a low launch price. A definitive move in date is an added pull for a buyer who cannot pay the rent for his current house and afford the EMI of an under-construction property. For an investor, a completed property in a habitable area can help fetch healthy rentals right from the start.

No GST on ready to move in property

Under the Goods and Services Tax (GST) rules, sale of a ready-to-move-in residential or commercial property is not considered supply of goods or service and hence no GST is applicable on any ready-to-move-in properties. At the same time, GST on under-construction properties has been revised downwards from 8% to 1% without the Input Tax Credit (ITC) for affordable homes (total carpet area of 60 sq m for metros and 90 sq m for non-metros, with the total value not exceeding INR 4.5 million), and from 12% to 5% for the non-affordable housing segment. With the new tax reductions, even though the price gap between under-construction and ready-to-move-in property has reduced, the latter remains a more lucrative option for the homebuyer.

'You buy what you see' - Deliverance of quality

Another problem with projects in the past has been the poor quality of construction and non-deliverance of promised amenities and facilities within the apartment and the project. In a ready to move in project, a buyer can carefully inspect the quality of finishing and specifications. According to insights, developers are also tweaking specifications in a bid to attract buyers. There are several marketing strategies that are coming in many guises, and all substantiate the eagerness of developers to offload their projects to generate cash flow amid the current credit tightening.

In a nutshell, it is very clear that a ready to move in property is what is most sought after in the current market scenario. In the long run, however, when the current ready-to-move-in inventory is exhausted, the returning of buyer confidence in the market will be important.

We believe, serious developers, having realigned themselves to policy changes, will consider models such as build-and-sell, where they start selling a project only after completion. Though this form of ready-to-move-in model has several benefits for the buyer, it translates into heavy investment for the developers. Joint venture models will be more pronounced and only developers of repute will be able to have access to funding. One of the positives for the developer is that a ready-to-move-in quality property in a good location can command a premium over the newly launched or under-construction property. However, given the current market trends we see cautious pricing for both the segments in the near term.

PUNE

RESIDENTIAL MARKET
OFFICE MARKET

Residential Market

Pune Residential Market

Parameter	H2 2019	Change (YoY)	2018	2019	Change (YoY)
Launches (housing units)	23,264	25%	32,684	44,660	37%
Sales (housing units)	15,445	-10%	33,521	32,809	-2%
Price (wt avg)*	₹ 45,656/sq m (₹ 4,242/sq ft)	-3%	₹ 47,068/sq m (₹ 4,373 /sq ft)	₹ 45,656/sq m (₹ 4,242/sq ft)	-3%
Unsold inventory (housing units)	39,468	43%	27,618	39,468	43%
Quarters to sell (QTS)	4.8	-	3.3	4.8	-
Age of unsold inventory (in quarters)	13	-	10.8	13	-

Source: Knight Frank Research

*End of period

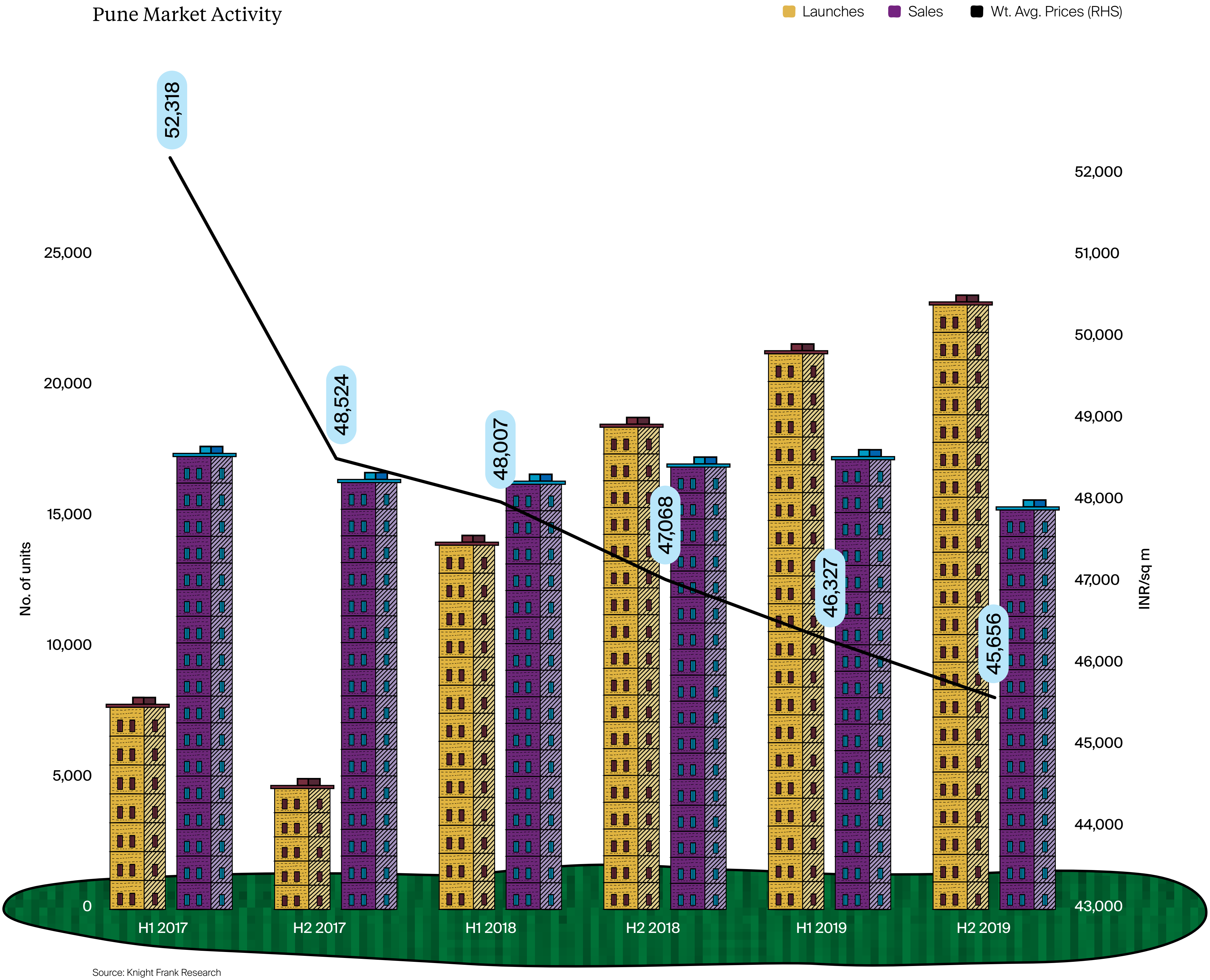
◆◆

While sales have declined across markets in H2 2019, the extent of decline was more in the micro-markets of North which is predominantly an auto manufacturing belt.

◆◆

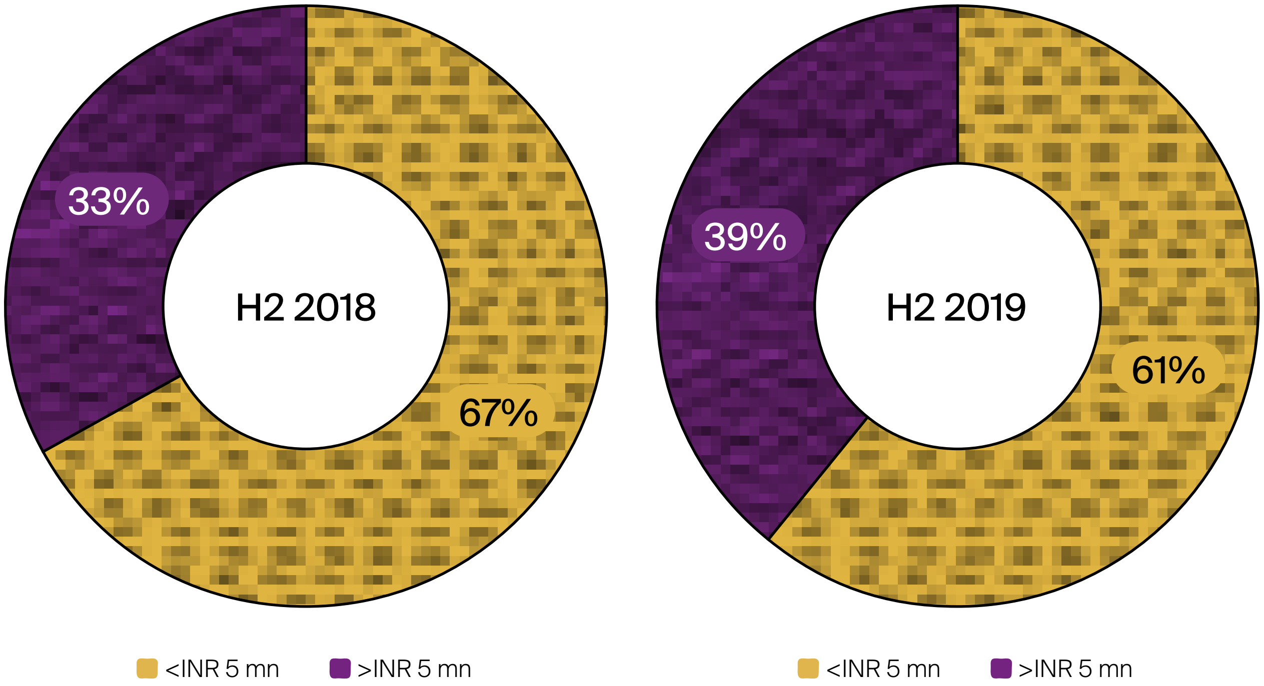
- The trend of strong growth in new launches in Pune of 2018 tapered down in H1 2019. It lessened further with the launches in H2 2019 growing by just 25% YoY compared to 52% YoY during H1 2019.
- The growth was driven primarily by the launches in the affordable and mid segments. 86% of new launches in Pune during H2 2019 were in the less than INR 5 million ticket size segment compared to 61% during H2 2018, and 91% of launches during H2 2019 were in the less than INR 7.5 million category compared to 90% in H2 2018.

Pune Market Activity



Source: Knight Frank Research

Ticket Size Split of Sales



Source: Knight Frank Research

- Developers continued to launch compact homes to get the ticket size right. Over a 5-year period between 2014 and 2019, the average size of apartments in Pune has shrunk by 26%.
- The micro-markets in the West witnessed the highest growth in new launches in 2019 at 44% YoY followed by micro-markets in North at 32% YoY. These markets witnessed mega launches in the affordable housing segments.
- The Indian economy is going through an economic slowdown with GDP growth falling to a six year low. The manufacturing sector, particularly the automobile industry, has been on a decline. As a result, vehicle manufacturers have cut down on production and laid-off workers. This in turn has affected the business of auto-ancillaries and led to job losses at their end as well. Pune being an important auto hub of India, the impact of slowdown on this city is magnified. Further, unseasonal rainfall in the areas in and around Pune, have damaged crop and affected demand from the agricultural segments of Pune.
- Residential real estate in Pune faced a challenging year with sales declining by 10% YoY in H2 2019 and 2% YoY in 2019. With homebuyers sceptical about the prospects of their future income due to job losses and slowdown in the economy, the confidence to make a long-term big-ticket commitment like purchasing a house remains low.
- The impact of an election in India is generally visible in the buyer sentiments, with people at large slowing down their decision making. In 2019, there were 2 major elections - the national election took place during H1 2019 and the state elections took place during H2 2019. Both impacted consumer sentiments and delayed decision making for real estate.
- While sales have declined across markets in H2 2019, the extent of decline was more in the micro-markets of North which is predominantly an auto manufacturing belt.

◆◆

Residential sales in Pune are now concentrated either on the project launch period or post receipt of Occupancy Certificate (OC). The sales in the sustenance phases i.e. during the interim stages remain a low-key affair.

◆◆

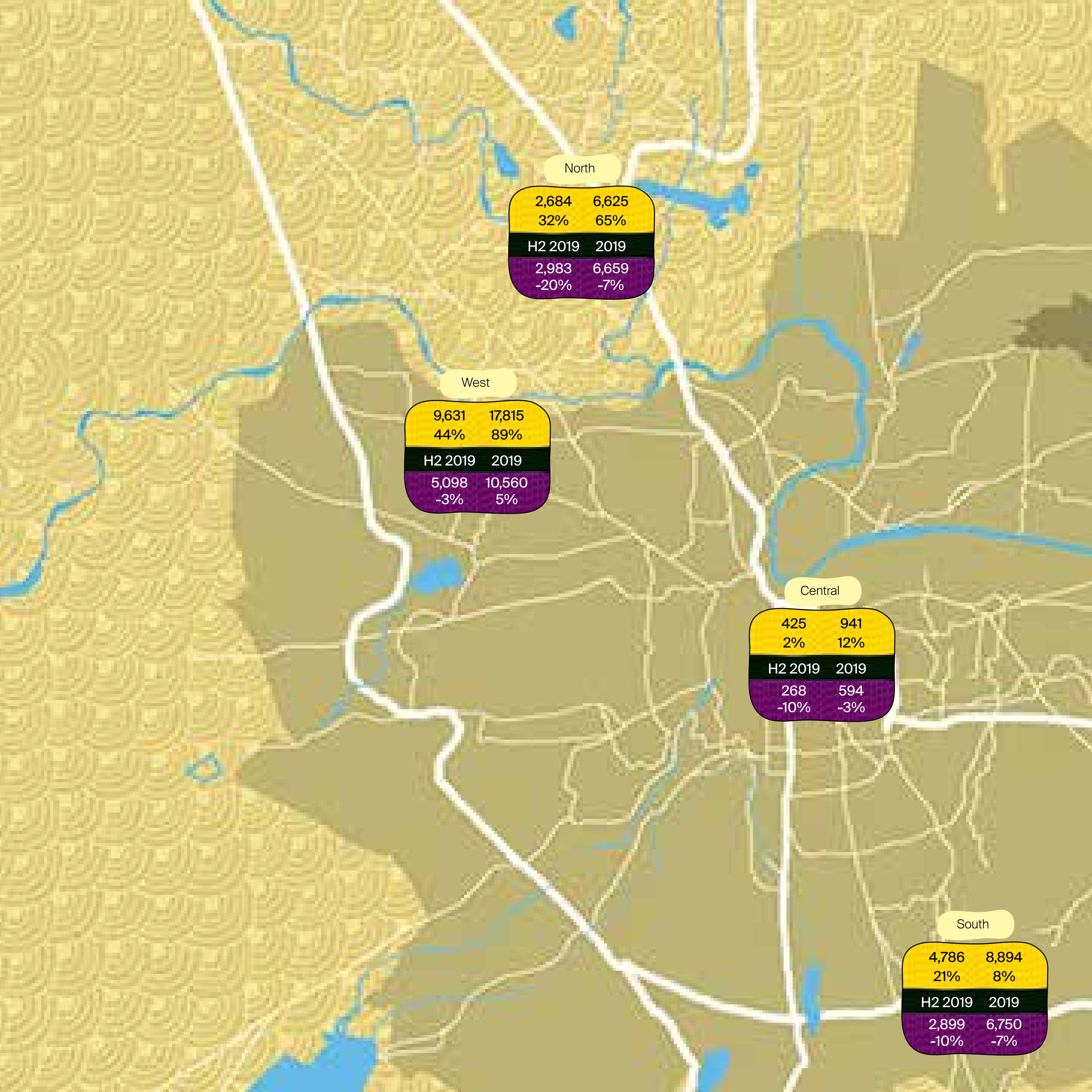
The Indian economy is going through an economic slowdown with GDP growth falling to a six year low. The manufacturing sector, particularly the automobile industry, has been on a decline. As a result, vehicle manufacturers have cut down on production and laid-off workers. This in turn has affected the business of auto-ancillaries and led to job losses at their end as well. Pune being an important auto hub of India, the impact of slowdown on this city is magnified. Further, unseasonal rainfall in the areas in and around Pune, have damaged crop and affected demand from the agricultural segments of Pune.

- There were several affordable housing projects launched in the West. Some projects which were priced below INR 5 million witnessed demand from buyers. As a result, sales in West declined by a lower margin of 3% YoY in H2 2019 but grew on a yearly basis by 5% YoY in 2019. In Pune, West was the only region to register a growth in sales in 2019.
- Residential sales in Pune are now concentrated either on the project launch period or post receipt of Occupancy Certificate (OC). The sales in the sustenance phases i.e. during the interim stages remain a low-key affair.
- The interest rate cuts have failed to have any positive impact on housing sales in Pune as banks are yet to pass on the benefit of 135 bps repo rate cut by RBI. Till date around 30-40 bps has been passed on by banks to new customers. Several banks have recently introduced repo-linked home loans but the margin/spread over the repo rate has been very high and the repo-linked home loans are priced closer to the earlier MCLR linked loans. Hence, customers are yet to benefit from RBI's interest rate reduction.
- In the Pune residential market, the banks still command a lion's share of home loans and hence, the on-going Non-Banking Financial Companies (NBFCs) crisis has not had a major impact on sales.
- The prices of apartments in Pune continued to correct albeit marginally. The weighted average prices were down 3% YoY in H2 2019. The prices have corrected by 13% from the peak of H2 2016. Apart from reduction in base prices, several freebies such as no-floor rise, two-year free maintenance, free clubhouse membership, various subvention plans, GST and stamp duty waivers, assured two-year rental schemes and a host of other indirect discounts continue to remain in the market.
- Apart from the price cuts mentioned above, the actual discount offered during the transaction would be higher as developers are more than happy to negotiate on the pricing to ensure deal closure. It is completely a buyer's market.
- The Quarters-To-Sell (QTS) has gone up from 3.3 quarters in H2 2018 to 4.8 quarters in H2 2019 due to slower sales velocity in this period. The sales have lagged behind launches in this period. The age of inventory for Pune was 13 quarters. This implies that the existing unsold inventory has been languishing in the market for almost three years and will take another two and half years to sell, assuming there are no new launches.
- Unsold inventory levels in the Pune market increased to 39,468 units as launches have been higher than sales.

13%

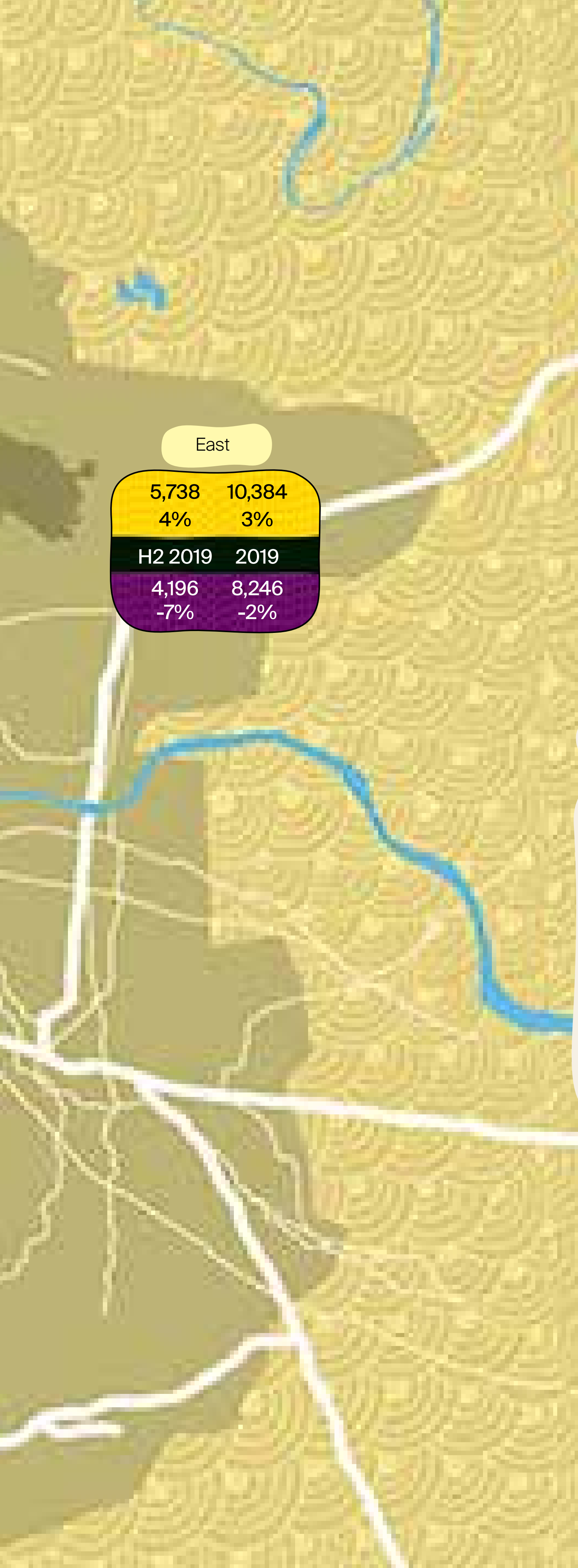
reduction in weighted average prices since the peak of H2 2016

The interest rate cuts have failed to have any positive impact on housing sales in Pune as banks are yet to pass on the benefit of 135 bps repo rate cut by RBI. Till date around 30-40 bps has been passed on by banks to new customers. Several banks have recently introduced repo-linked home loans but the margin/spread over the repo rate has been very high and the repo-linked home loans are priced closer to the earlier MCLR linked loans. Hence, customers are yet to benefit from RBI's interest rate reduction.



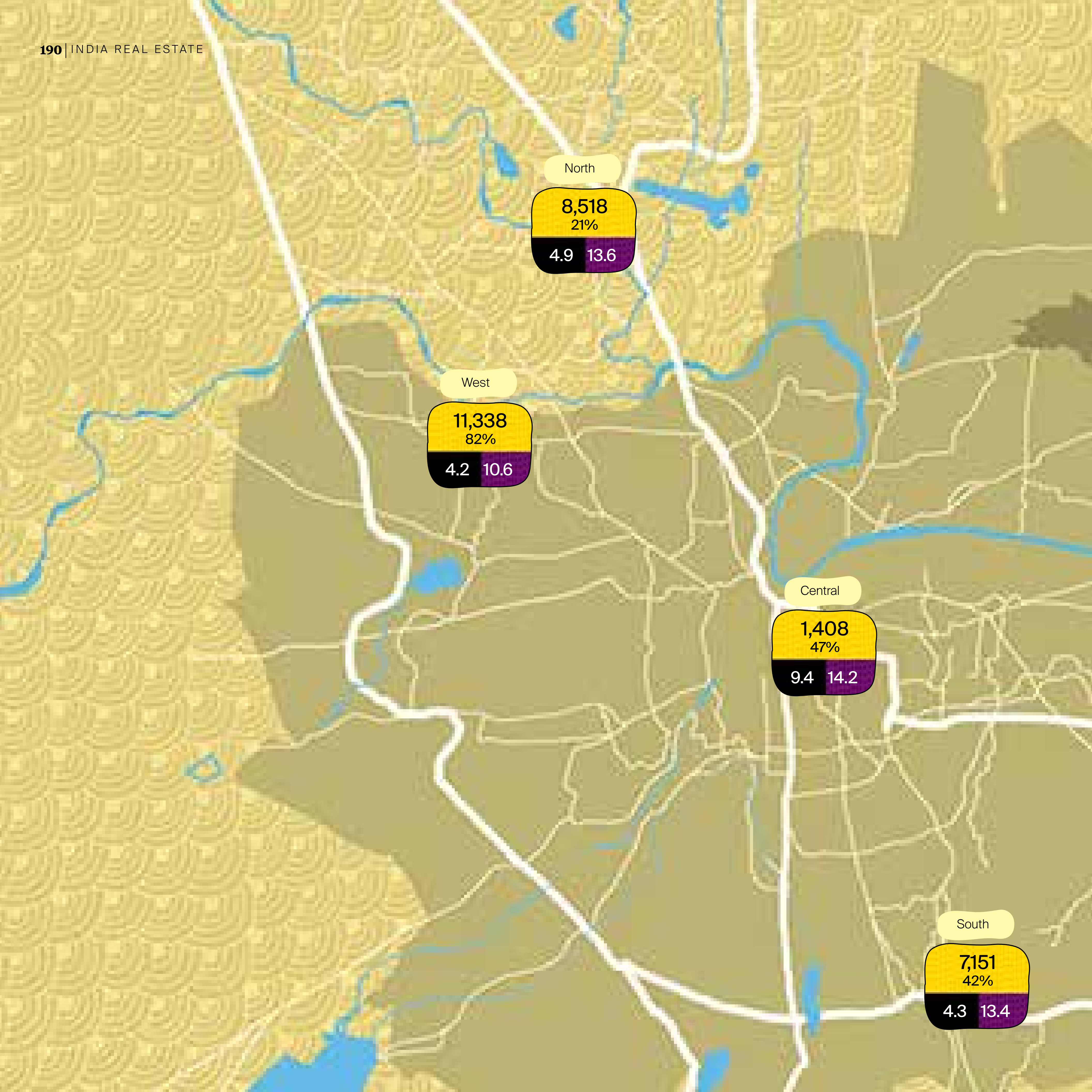
North
2,684
32%
6,625
65%
H2 2019
2019
2,983
-20%
6,659
-7%
West
9,631
44%
17,815
89%
H2 2019
2019
5,098
-3%
10,560
5%
Central
425
2%
941
12%
H2 2019
2019
268
-10%
594
-3%
South
4,786
21%
8,894
8%
H2 2019
2019
2,899
-10%
6,750
-7%

RESIDENTIAL LAUNCHES AND SALES

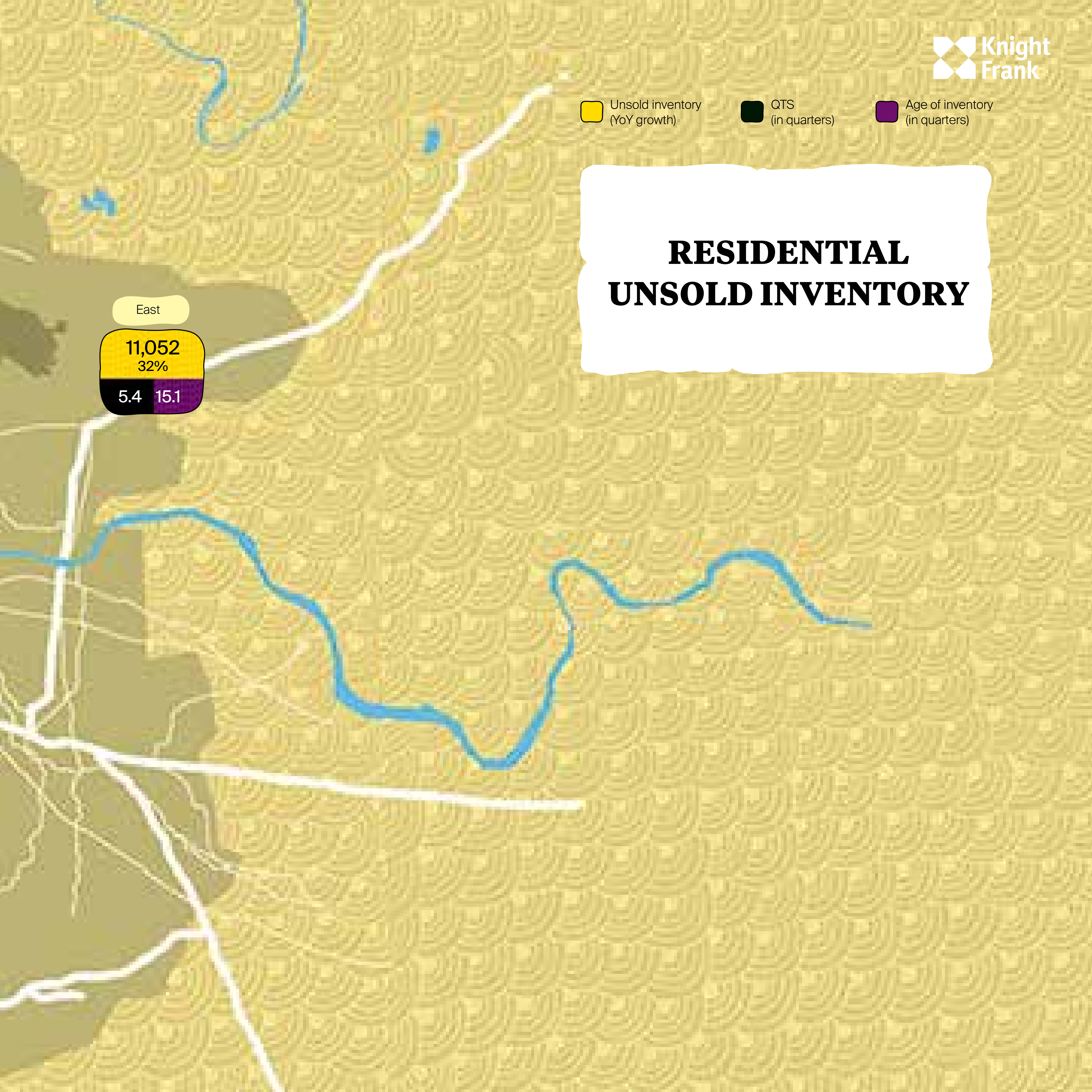


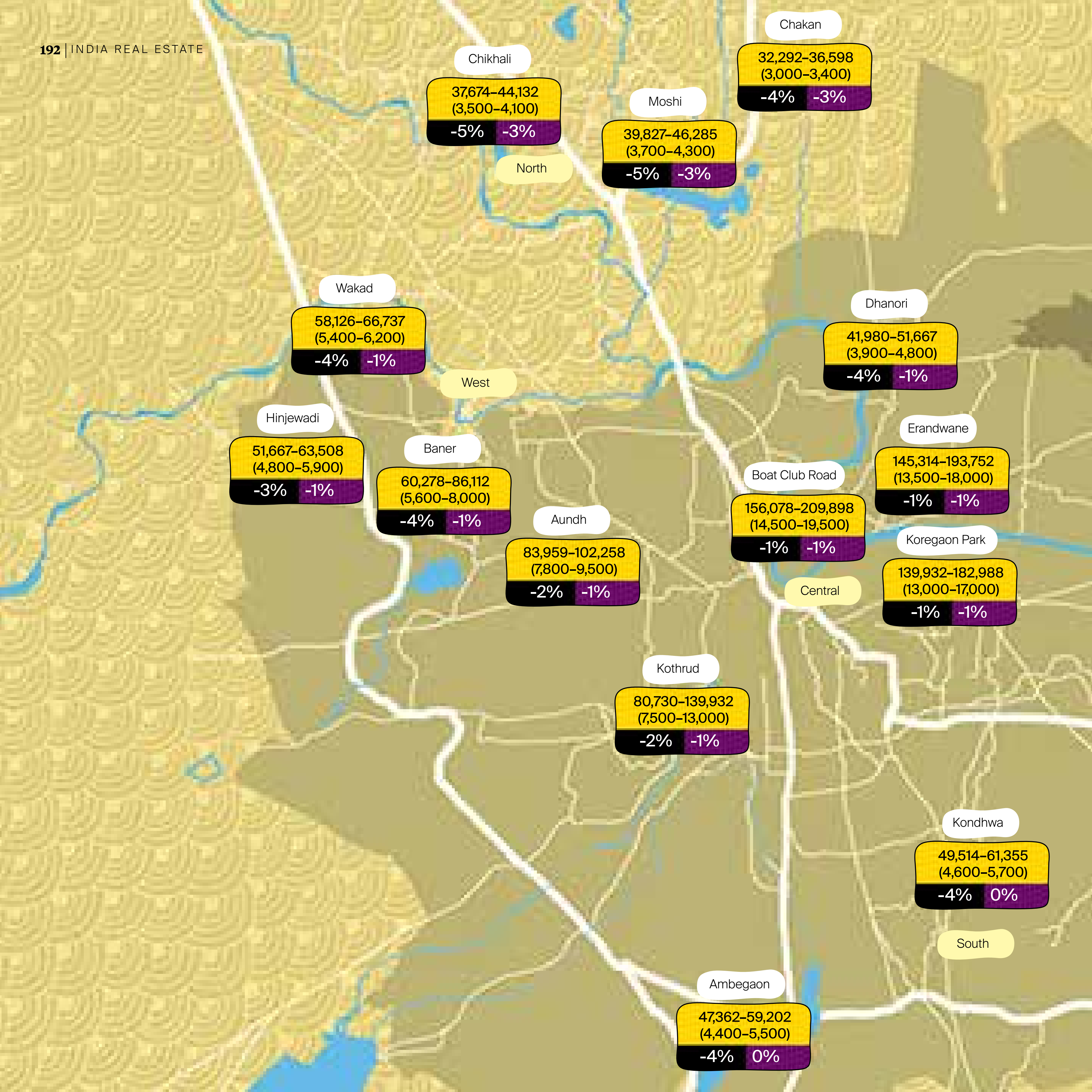
Micro-market Classification

Micro-market	Locations
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

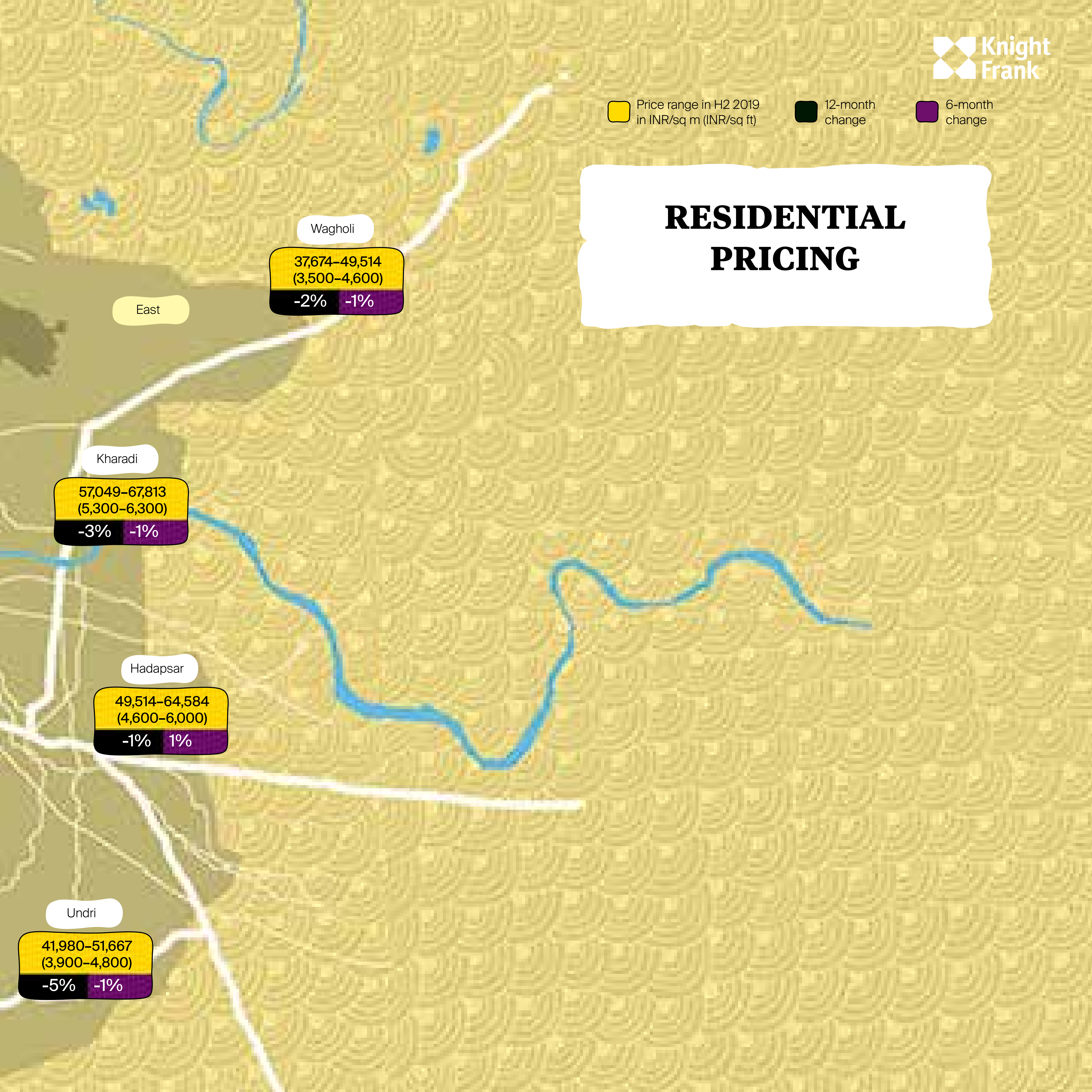

North
8,518
21%
4.9
13.6
West
11,338
82%
4.2
10.6
Central
1,408
47%
9.4
14.2
South
7,151
42%
4.3
13.4

RESIDENTIAL UNSOLD INVENTORY

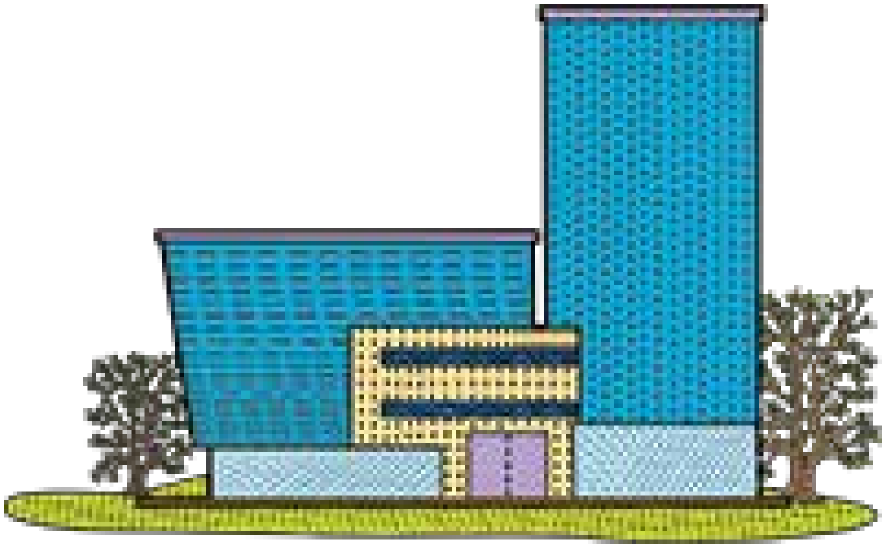



Chakan
32,292–36,598
(3,000–3,400)
-4% -3%
Chikhali
37,674–44,132
(3,500–4,100)
-5% -3%
Moshi
39,827–46,285
(3,700–4,300)
-5% -3%
North
Wakad
58,126–66,737
(5,400–6,200)
-4% -1%
West
Dhanori
41,980–51,667
(3,900–4,800)
-4% -1%
Hinjewadi
51,667–63,508
(4,800–5,900)
-3% -1%
Baner
60,278–86,112
(5,600–8,000)
-4% -1%
Erandwane
145,314–193,752
(13,500–18,000)
-1% -1%
Boat Club Road
156,078–209,898
(14,500–19,500)
-1% -1%
Aundh
83,959–102,258
(7,800–9,500)
-2% -1%
Koregaon Park
139,932–182,988
(13,000–17,000)
-1% -1%
Central
Kothrud
80,730–139,932
(7,500–13,000)
-2% -1%
Kondhwa
49,514–61,355
(4,600–5,700)
-4% 0%
South
Ambegaon
47,362–59,202
(4,400–5,500)
-4% 0%

RESIDENTIAL PRICING



Office Market



YoY Growth in weighted average rentals in Pune 2019

The Information Technology / Information Technology enabled Services (IT/ITeS) sector has been the largest driver of office space in Pune and continues to do so. H2 2019 saw the IT/ITeS sector take up 54% share of the total space transacted.

Pune Market Snapshot

Parameter	H2 2019	Change YoY	2018	2019	Change YoY
New completions mn sq m (mn sq ft)	0.24 (2.6)	-38%	0.64 (6.9)	0.38 (4.1)	-41%
Transactions mn sq m (mn sq ft)	0.22 (2.4)	-11%	0.61 (6.6)	0.58 (6.2)	-5%
Weighted average rental in ₹/sq m/month (₹/sq ft/month)*	801.4 (74)	5%	777.4 (72)	801.4 (74)	5%
Stock mn sq m (mn sq ft)	6.8 (73)	6%	6.4 (69)	6.8 (73)	6%
Vacancy (%)	4.2%	-	7.5%	4.2%	-

Source: Knight Frank Research

*End of period

Pune Office Market Activity

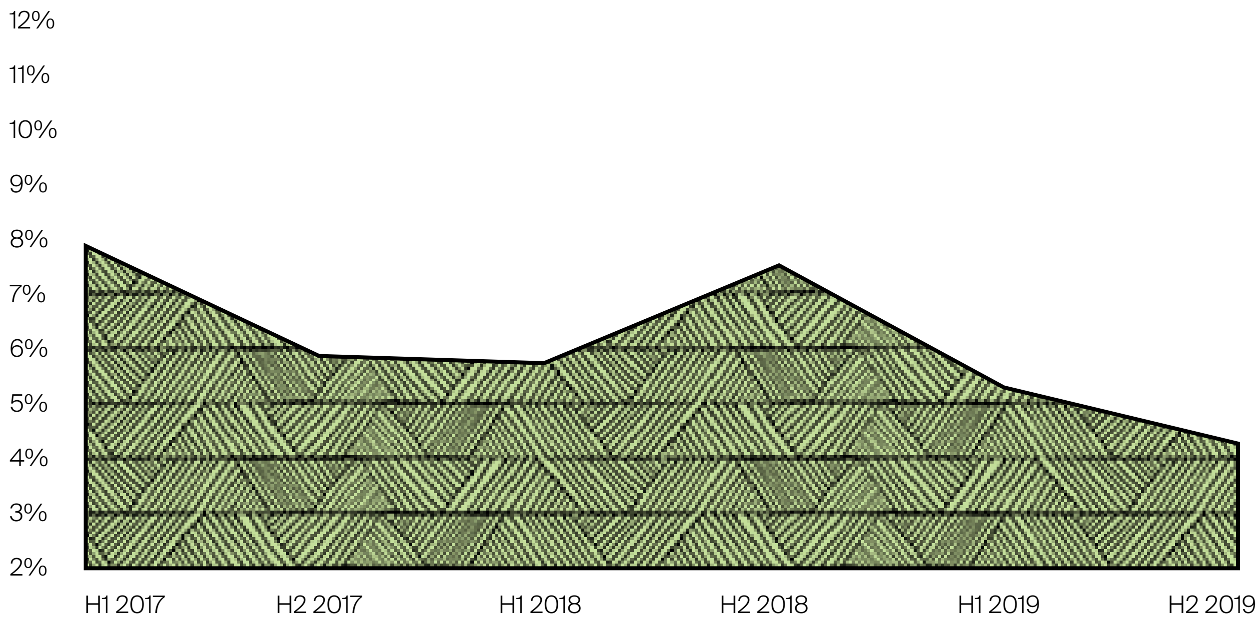
Source: Knight Frank Research

-5%

YoY growth in transactions in 2019

- New supply of office space is generally unpredictable and does not represent any particular trend. During H2 2019, Pune witnessed an addition of 0.24 mn sq m or 2.6 mn sq ft of new supply that was spread across most business districts. However, the new completions were lower by 38% YoY during H2 2019 and lower by 41% YoY for the entire 2019.
- In H2 2019, the transactions were lower by 11% YoY. The decline was on account of lesser space availability in the Pune market and lower demand from the manufacturing sector due to economic slowdown.
- There were several pre-commitments which were going around in the market in search of a desired space but could not be closed in 2019 as they are still in the exploration and negotiation stage. These are likely to be closed in 2020.
- The transaction activity in Pune continues to remain strong despite recording a decline of 5% YoY in 2019. The decline in 2019 comes on the back of a high base of the previous year. In 2018, the city had recorded several large pre-commitment transactions adding up to 0.18 mn sq m or 2 mn sq ft compared to 0.08 mn sq m or 0.8 mn sq ft of

Pune Office Market Vacancy



Source: Knight Frank Research

◆◆

The manufacturing sector in India has been facing economic slowdown and the same was reflected in the office space demand from manufacturing companies. The share of manufacturing sector in office transactions declined from 15% in H2 2018 to 4% in H2 2019.

◆◆

pre-commitments in 2019.

- The Pune office market has been reeling under an acute supply crunch. For the past 8 years, the supply has not kept pace with the demand, except for 2018, when the supply of office space marginally exceeded the transactions activity. In 2019, transactions again outpaced new supply of office space. This has put a huge pressure on vacancy levels which has declined from 7.5% in 2018 to 4.2% in 2019.

- After registering double digit growth for two consecutive half yearly periods, the weighted average rental growth for Pune has tapered down to 5% YoY in H2 2019. The city has come close to the peak of its current rental cycle and there is resistance amongst occupiers to pay higher rentals except for a few sought-after buildings.

- The business districts of PBD East and PBD West witnessed lower growth in rentals of 5% YoY and 3% YoY respectively, which is closer to the standard contractual rental escalations. For the other business districts of Pune such as CBD & off-CBD, SBD East and SBD West, the rental growth was higher at 8% YoY, 9% YoY and 7% YoY respectively. While some of these business districts were witnessing double-digit growth in the previous periods, this has tapered down in H2 2019. The prevailing high rentals are also slowly acting as a hindrance to the growth of transaction activity in the city.

- The Information Technology / Information Technology enabled Services (IT/ITeS) sector has been the largest driver of office space in Pune and continues to do so. H2 2019 saw the IT/ITeS sector take up 54% share of the total space transacted. The Other Services sector which includes e-commerce, consulting, co-working, media, etc. had the second highest share of the space transacted during H2 2019, garnering 40% share of transactions which was much higher than 14% during H2 2018. This growth in share of Other Services sector was driven primarily by co-working operators.

- Over the past few years, co-working operators have been taking up space aggressively and they have now established their presence in almost all major business

Business District Classification

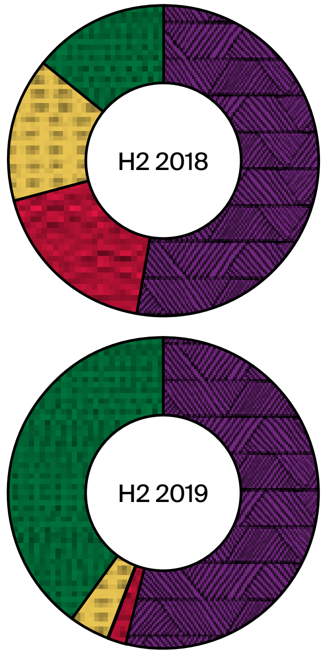
Business district	Micro markets
CBD and off CBD	Bund Garden Road, S B Road, Camp, Deccan, University Road, Shankar Sheth Road
SBD East	Kalyani Nagar, Yerwada, Nagar Road, Hadapsar
PBD East	Kharadi, Phursungi, Wanowrie
SBD West	Wakdewadi, Aundh, Baner, Kothrud, Balewadi
PBD West	Hinjewadi, Bavdhan, Wakad

Source: Knight Frank Research

districts of the city. In H2 2019, co-working operators transacted around 0.05 mn sq m or 0.5 mn sq ft of office space, which translates into 50% of the space transacted by the Other Services sector. As a proportion of the city's total transaction volume, co-working operators constitute 20% in H2 2019. The supply shortage in Pune is also aiding the cause of co-working operators in Pune. Many co-working centres in Pune are witnessing robust transaction activity and are running at or reaching full capacity. The transaction volumes indicated above do not capture the space subleased by co-working operators.

- The manufacturing sector in India has been facing economic slowdown and the same was reflected in the office space demand from manufacturing companies. The share of manufacturing sector in office transactions declined from 15% in H2 2018 to 4% in H2 2019.
- Office space supply is not steady and generally hits the market in lots. However, over the next 2-3 years, Pune is expected to add a significant amount of new office space supply, particularly in the eastern and western business districts. While this will help the cause of transactions, it will also act as a limiting factor for the further rent growth.
- The trend of space consolidation continues across the Pune office market. Despite the number of transactions decreasing from 58 in H2 2018 to 50 in H2 2019, the average size of deals increased from 4,327 sq m (46,580 sq ft) to 4,484 sq m (48,262 sq ft) in the same period.

Sector-wise Split of Transactions



Industry	H2 2018	H2 2019
BFSI	18%	2%
IT/ITeS	53%	54%
Manufacturing	15%	4%
Other Services	14%	40%

Note: BFSI includes BFSI support services; Other Services includes co-working, media, telecom etc.

Source: Knight Frank Research

Average deal size and number of deals

4,327 (46,580)
Average deal size in sq m (sq ft)
H2 2018
58
Number of Deals

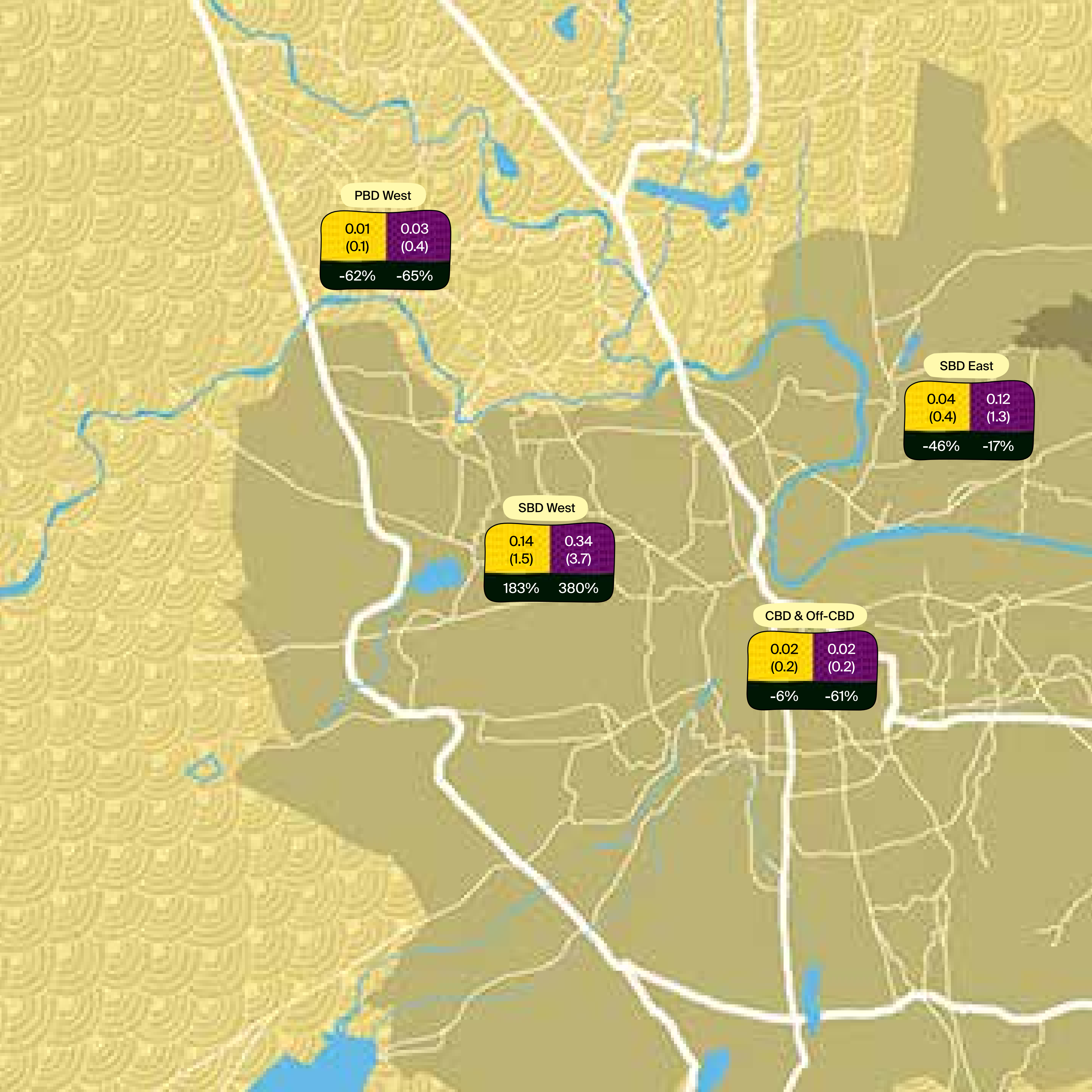
4,484 (48,262)
Average deal size in sq m (sq ft)
H2 2019
50
Number of Deals

Note - 1 square metre (sq m) = 10.764 square feet (sq ft)
Source: Knight Frank Research

4.2%

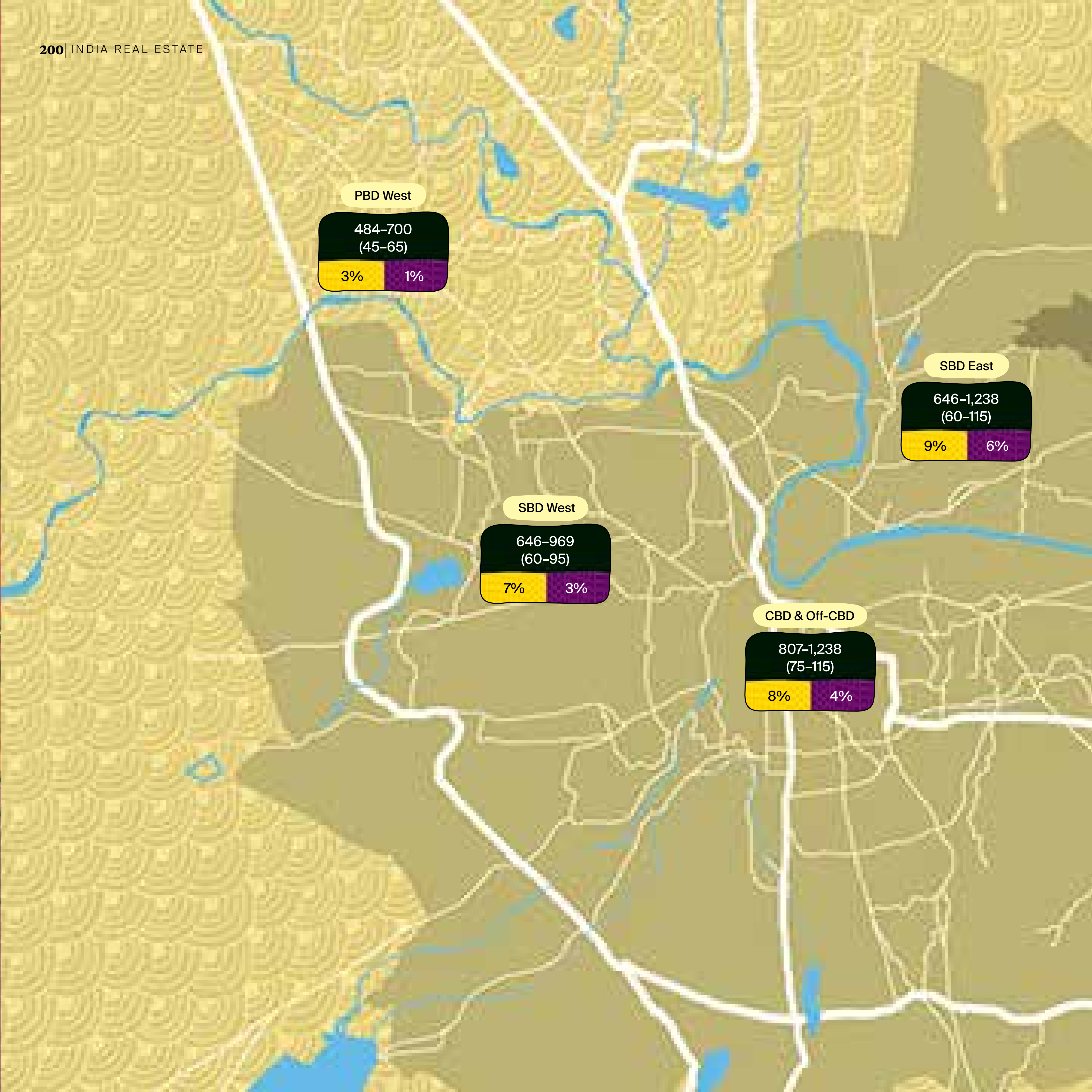
vacancy in Pune office market

The Pune office market has been reeling under an acute supply crunch. For the past 8 years, the supply has not kept pace with the demand, except for 2018, when the supply of office space marginally exceeded the transactions activity. In 2019, transactions again outpaced new supply of office space. This has put a huge pressure on vacancy levels which has declined from 7.5% in 2018 to 4.2% in 2019.

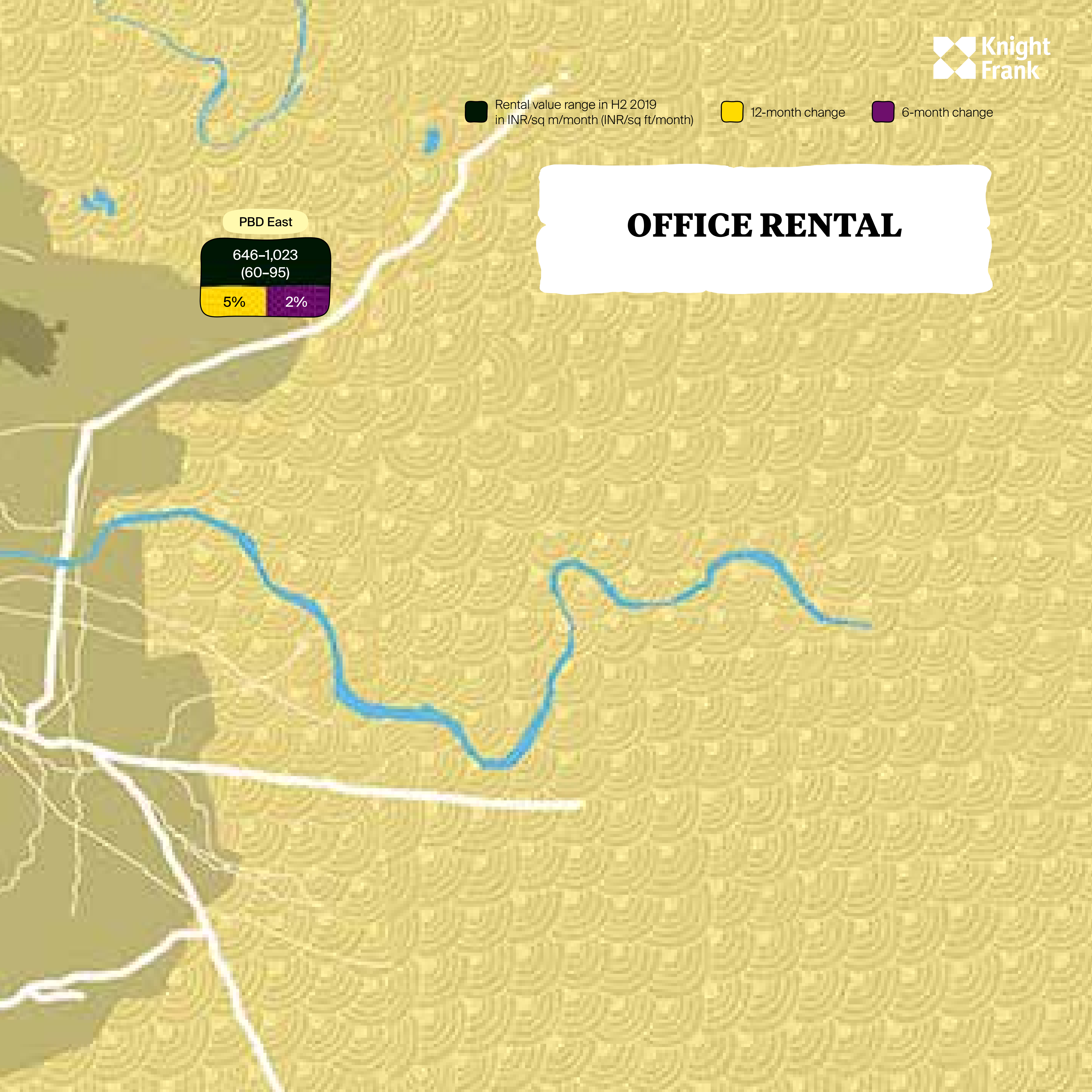


PBD West
0.01
(0.1)
0.03
(0.4)
-62%
-65%
SBD East
0.04
(0.4)
0.12
(1.3)
-46%
-17%
SBD West
0.14
(1.5)
0.34
(3.7)
183%
380%
CBD & Off-CBD
0.02
(0.2)
0.02
(0.2)
-6%
-61%

OFFICE TRANSACTIONS


PBD West
484–700
(45–65)
3%
1%
SBD West
646–969
(60–95)
7%
3%
SBD East
646–1,238
(60–115)
9%
6%
CBD & Off-CBD
807–1,238
(75–115)
8%
4%

OFFICE RENTAL



Government incentives drive developers towards affordable housing

- by Nibodh Shetty

India's urban housing shortage is being driven primarily by the low to mid income segments. However, majority of real estate private players have traditionally, and prior to 2016, focused on premium housing owing to its higher returns. This has led to a build-up of huge, unsold inventory that has brought the residential real estate market to a near standstill.

The government has tried to correct this and to revive the residential market, provided a number of incentives for gearing the residential market towards the affordable housing. Most incentives mentioned in Table 1 have come in after December 2016.

The incentives given to the demand side (as indicated in Table 1) are meaningful and form a significant percentage of the apartment value. In certain segments, it can go as high as 57% of the apartment value. These incentives have transformed the market and led to greater traction in the affordable housing segment.

Table 1: Incentives to affordable housing

Ticket size of apartments	Incentive scheme	Indicative incentive amount	Indicative incentive as a percentage of the apartment value*
<2.5 mn	• Affordable housing in partnership (PMAY) for houses up to INR 1 mn = INR 150,000 by Centre and INR 100,000 by State • Credit Linked Subsidy Scheme (CLSS) = INR 267,000 • Income tax deduction for interest paid: INR 350,000 • GST rate concession of 4%	Upto INR 517,000	21% to 56% of apartment value
2.5 mn to 4.5 mn	• CLSS = INR 235,000 • GST rate concession of 4% • Income tax deduction for interest paid: INR 350,000	Upto INR 765,000	17% to 25% of apartment value
>4.5 mn	• CLSS = INR 230,000 • Income tax deduction for interest paid: INR 350,000	Upto INR 580,000	At max 13% of apartment value

Note
1. The applicability of incentives mentioned in the above table may be subject to several other criteria being fulfilled.
2. *The incentive amount as a percentage of apartment value will also vary depending on the income level of the homebuyer and the apartment value

Source: Knight Frank Research

Taking cognizance of these focused incentives around the affordable segment, developers too aligned their project launches to make the most of this opportunity. Since these incentives were initiated in 2016, almost 70% and more of new launches across the top 8 cities have been coming up in the less than INR 7.5 million ticket size.

Table 2: All India launches according to ticket size since H1 2016

Ticket size	H1 2016	H2 2016	H1 2017	H2 2017	H1 2018	H2 2018	H1 2019	H2 2019
<2.5 mn	19%	19%	36%	31%	20%	27%	15%	21%
2.5-5 mn	32%	39%	34%	33%	31%	33%	36%	39%
5-7.5 mn	23%	20%	15%	20%	23%	16%	19%	11%

Consolidated

<7.5 mn	**74%**	**78%**	**85%**	**83%**	**74%**	**76%**	**69%**	**70%**
>7.5 mn	**26%**	**21%**	**15%**	**17%**	**27%**	**24%**	**31%**	**30%**

Source: Knight Frank Research

KEY CONTACTS

ADVISORY, RETAIL & HOSPITALITY

Gulam Zia
Executive Director - Valuation & Advisory, Retail & Hospitality
gulam.zia@in.knightfrank.com

Rajeev Vijay
Executive Director - Government & Infrastructure Advisory
rajeev.vijay@in.knightfrank.com

Saurabh Mehrotra
National Director - Valuation & Advisory
saurabh.mehrotra@in.knightfrank.com

CAPITAL MARKETS

Tushar Rane
Executive Director - Capital Markets (Core Assets)
tushar.rane@in.knightfrank.com

Sharad Agrawal
Executive Director - Capital Markets
sharad.agrawal@in.knightfrank.com

FACILITIES & ASSET MANAGEMENT

Ramadutta Devagiri
Executive Director & Head of Facilities Management Services
ram.devagiri@in.knightfrank.com

INDUSTRIAL & ASSET SERVICES

Balbirsingh Khalsa
National Director IAS & Branch Director - Ahmedabad
balbirsingh.khalsa@in.knightfrank.com

Pinkesh Teckwani
National Director - Industrial & Asset Services
pinkesh.teckwanii@in.knightfrank.com

OFFICE AGENCY & LRG

Viral Desai
National Director
viral.desai@in.knightfrank.com

PROJECT MANAGEMENT

Deben Moza
Executive Director - Head of Project Management Services
deben.moza@in.knightfrank.com

RESEARCH

Rajani Sinha
Chief Economist & National Director - Research
rajani.sinha@in.knightfrank.com

RESIDENTIAL

Girish Shah
Executive Director
girish.shah@in.knightfrank.com

AHMEDABAD

Balbirsingh Khalsa
Branch Director
balbirsingh.khalsa@in.knightfrank.com

BENGALURU

Shantanu Mazumder
Senior Branch Director
shantanu.mazumder@in.knightfrank.com

CHENNAI

Srinivas Anikipatti
Senior Director
srinivas.anikipatti@in.knightfrank.com

HYDERABAD

Samson Arthur
Branch Director
samson.arthur@in.knightfrank.com

KOLKATA

Swapan Dutta
Branch Director
swapan.dutta@in.knightfrank.com

NCR

Mudassir Zaidi
Executive Director - North
mudassir.zaidi@in.knightfrank.com

PUNE

Paramvir Singh Paul
Branch Director
paramvirsingh.paul@in.knightfrank.com

REPORT AUTHORS

Rajani Sinha
Chief Economist & National Director – Research

Vivek Rathi
Director – Research

Yashwin Bangera
Vice President – Research

Divya Grover
Assistant Vice President – Research

Ankita Sood
Lead Consultant – Research

Nibodh Shetty
Consultant – Research

Pradnya Nerkar
Associate Consultant – Research

Aishwarya Lalchandani
Associate – Research

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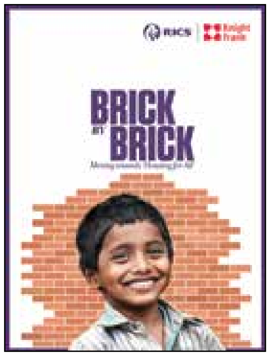
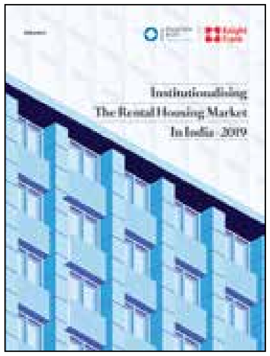


Brick By Brick- Moving Towards Housing For All



Institutionalising The Rental Housing Market In India 2019

Real Estate Sentiment Index

Knight Frank India Research provides development and strategic advisory to a wide range of clients worldwide. We regularly produce detailed and informative research reports which provide valuable insights on the real estate market. Our strength lies in analysing existing trends and predicting future trends in the real estate sector from the data collected through market surveys and interactions with real estate agents, developers, funds and other stakeholders.

RESEARCH

Rajani Sinha
Chief Economist &
National Director - Research
rajani.sinha@in.knightfrank.com

PRESS OFFICE

Girish Shah
Executive Director - Marketing &
Corporate Communication
girish.shah@in.knightfrank.com

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