RESEARCH

INDIA REAL ESTATE

RESIDENTIAL AND OFFICE

JANUARY - JUNE 2016

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

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INDIA

RESIDENTIAL & OFFICE MARKET

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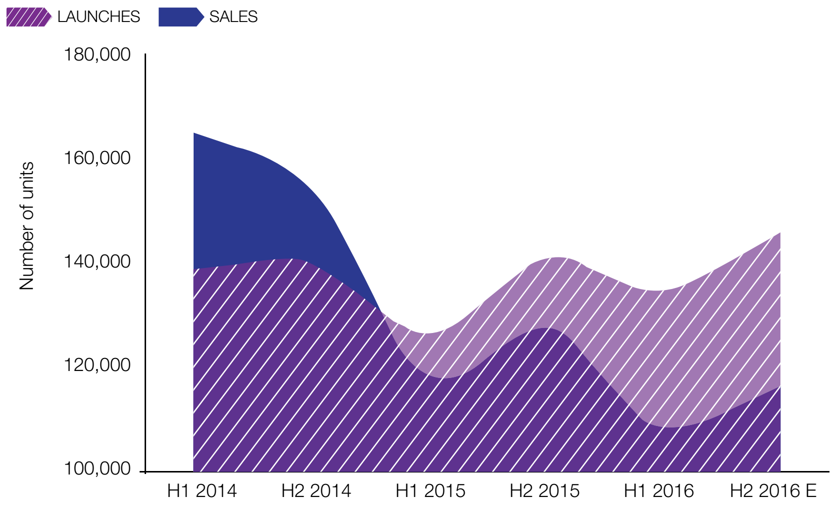
Vice President - Research

RESIDENTIAL MARKET

RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

FIGURE 1
HALF-YEARLY LAUNCHES AND SALES TRENDS (TOP EIGHT CITIES)

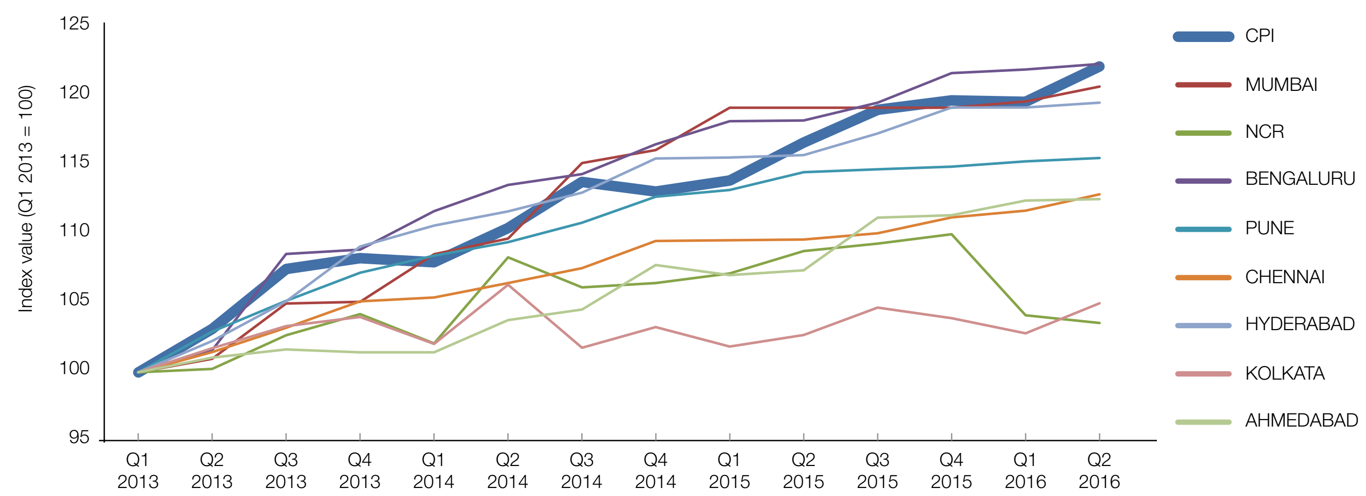


Source: Knight Frank Research

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

- H1 2016 witnessed the lowest number of new launches in the last three years across the top eight cities, as developers became cautious because of the huge unsold inventory that has been piling up since 2013. New launches reduced by 9% in the last six months, from 117,200 units in H1 2015 to less than 107,120 units in H1 2016. This is down by 54% from the 232,490 units that was observed in H1 2013.
- NCR has witnessed the sharpest drop in new launches, at 41% YOY, followed by Chennai and Pune, at 36% and 32%, respectively. Mumbai turned out to be a surprise, as the city noted growth in new launches by more than 29% YOY in H1 2016.

FIGURE 2
PRICE AND INFLATION INDICES (TOP EIGHT CITIES)

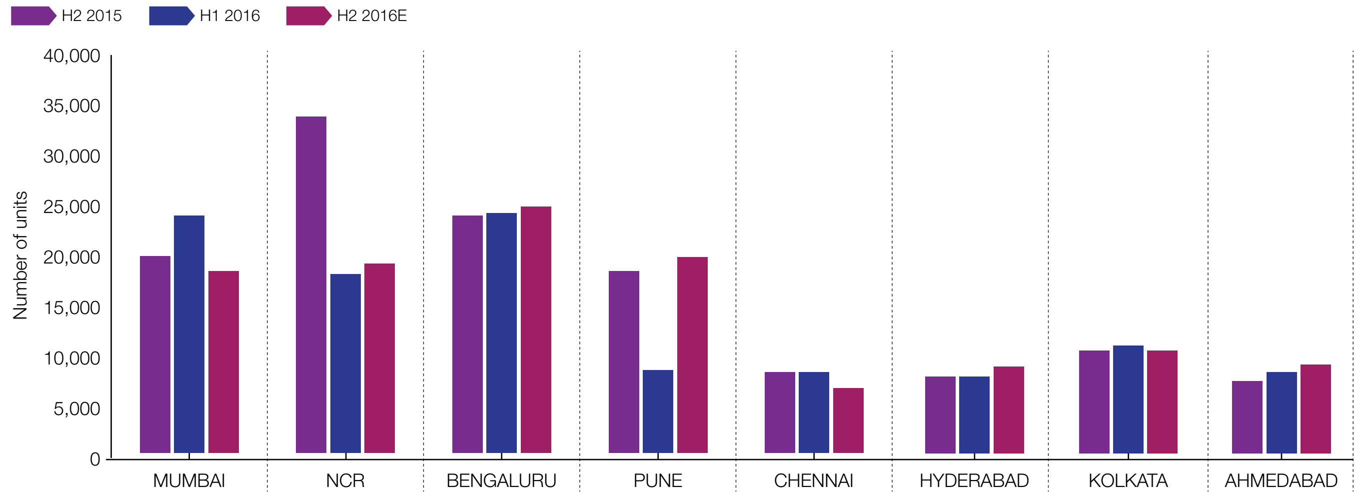


Source: Knight Frank Research

- In terms of sales, the top eight cities observed a positive growth of 7% in H1 2016, as the number of units sold jumped from 126,615 in H1 2015 to 135,015 in the latest period. However, this is considerably lower than 185,800 units that were sold across these cities in H1 2015.
- Mumbai and Bengaluru led this positive growth in sales volume, at 23% YOY and 18% YOY respectively, in H1 2016. However, cities such as NCR, Chennai and Kolkata are still reeling under pressure in terms of sales volume and have reported a negative growth in H1 2016.
- Price growth across all the cities remained muted in H1 2016. However, prices in the NCR residential market corrected for the first time, registering a 4% YOY dip in H1 2016.

CITY-WISE SPLIT OF RESIDENTIAL LAUNCHES

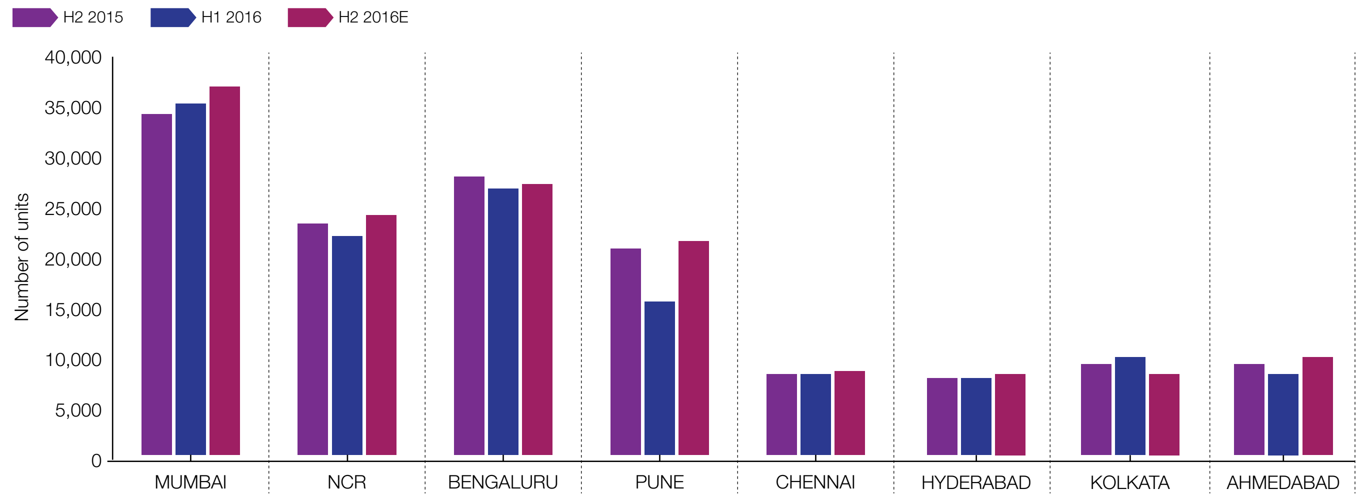
FIGURE 3
HALF-YEARLY NEW LAUNCHES (TOP EIGHT CITIES)



Source: Knight Frank Research

CITY-WISE SPLIT OF RESIDENTIAL SALES

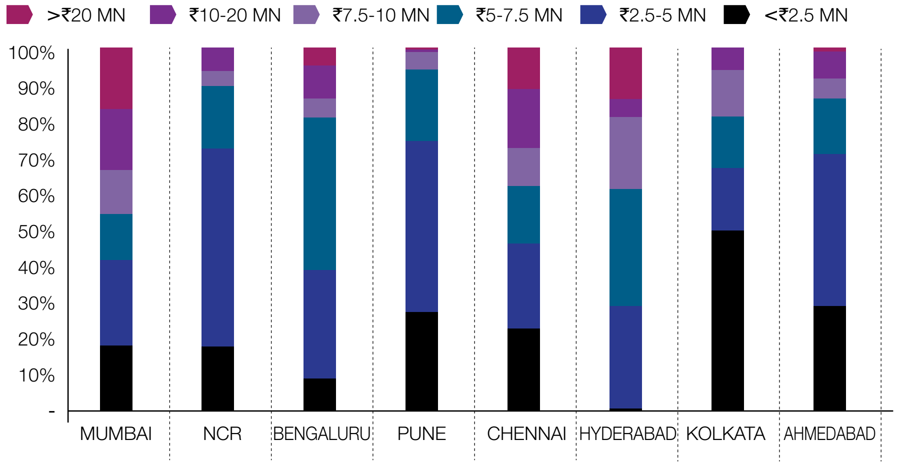
FIGURE 4
HALF-YEARLY SALES (TOP EIGHT CITIES)



Source: Knight Frank Research

FIGURE 5

TICKET SIZE SPLIT OF LAUNCHED UNITS IN H1 2016

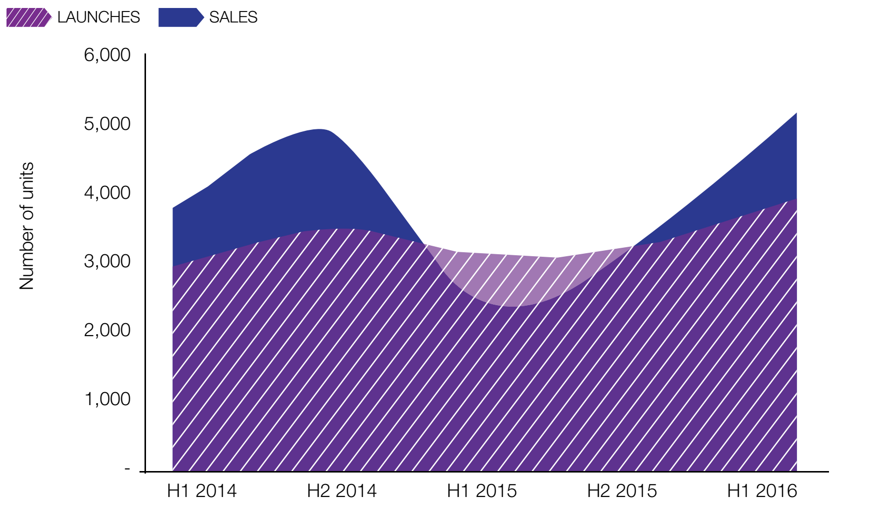


Source: Knight Frank Research

PREMIUM RESIDENTIAL MARKET LAUNCHES AND SALES TRENDS

FIGURE 6

HALF-YEARLY LAUNCHES AND SALES TRENDS IN PREMIUM MARKETS (TOP EIGHT CITIES)



Source: Knight Frank Research

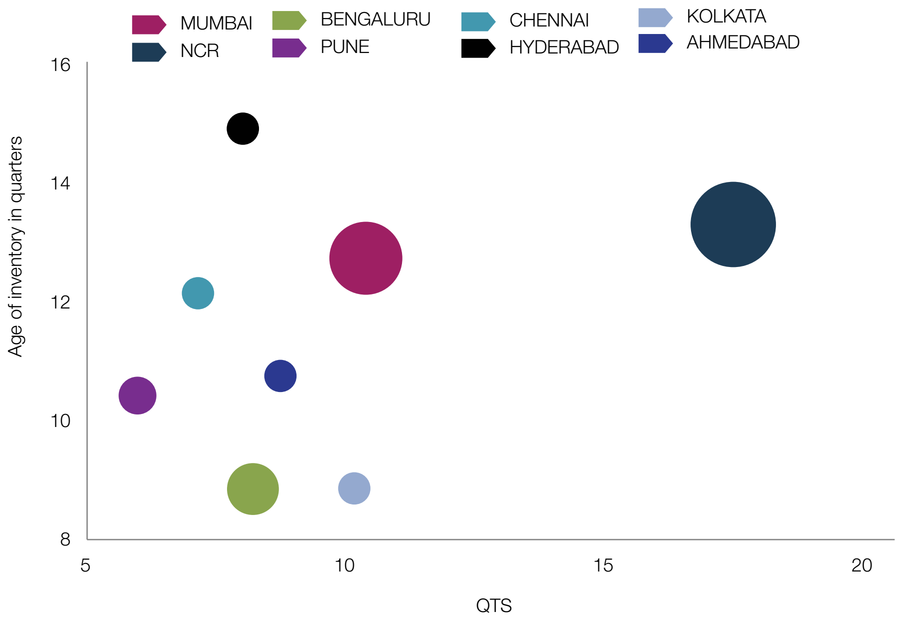
Note: The top eight cities are Mumbai, NCR, Bengaluru, Pune, Chennai, Hyderabad, Kolkata and Ahmedabad

UNSOLD INVENTORY LEVELS (TOP EIGHT CITIES)

- The drop in new launches and pick-up in the sales volume have brought some cheer to the developer community, as the inventory pressure has eased off significantly in the last six-month period. The unsold units available in the market have reduced from 710,340 units in H1 2015 to less than 660,240 units in H1 2016- a 7% YOY fall. Pune, Mumbai, Hyderabad and Chennai are leading in this unwinding of inventory
- Bengaluru and Pune continue to remain the best performing residential markets in India, with minimal quarter to sell (QTS) unsold inventory. The worst performing market is NCR once again, as it has the highest unsold inventory and QTS.

FIGURE 7

RELATIVE HEALTH OF THE RESIDENTIAL MARKETS (TOP EIGHT CITIES)



Source: Knight Frank Research

Note: The size of the bubble indicates the quantum of unsold inventory. QTS is the quarter to sell unsold inventory.

OUTLOOK FOR THE NEXT SIX MONTHS

	H2 2015	H2 2016E	GROWTH
Launches (units)	126,865	115,332	-9%
Sales (units)	141,341	146,336	4%

Source: Knight Frank Research

- Going forward, new launches are expected to drop by 9% YOY in H2 2016, with NCR leading this drop. Launches in NCR are expected to fall by 42% in H2 2016 compared to H2 2015.
- In terms of sales, H2 2016 is expected to maintain a 4% YOY growth with cities such as Mumbai and Ahmedabad leading in with double digit growth rate.

MOVE TO STREAMLINE THE SECTOR

Come May 2017, and the real estate market will not be the same again. The Real Estate (Regulation and Development) Act, 2016, will be a game changer for all the stakeholders in the sector. Currently, only a few sections of the Act, especially those that will enable the full enactment of the Act, have been notified. As per the provisions of the Act, it will come into full force by May 2017. So, what does the Act mean, especially for developers and homebuyers? The point of interest for most stakeholders is the impact the Act will have on the sector as a whole once all its provisions come into force.

The new watchdog

Presently, disputes between homebuyers and developers typically end up in consumer courts. Among other things, the regulator appointed through this Act will deal with all such disputes. The regulator will also ensure that the relevant provisions of the Act are maintained by the stakeholders, especially from the supply side. This, to a great extent, will reduce the instances of discord between homebuyers and developers. Ideally, there will be a regulator for each state, but there could also be two regulators for a state or one regulator for two states. But how will such a watchdog help the overall sector?

Increased transparency

Transparency in the sector has not been satisfactory, though it has improved over the years and the road ahead looks promising. For example, if a homebuyer plans to buy a house in the present day, they would not have access to all the information required to take well-informed decisions. The Act will change the rules of the game completely, thus improving the transparency in the sector. All commercial and residential plots with an area of more than 500 sq m or eight apartments will have to be registered with the Real Estate Regulatory Authority (RERA). The states will have the power to lower this ceiling. However, projects that are meant only for self-consumption will be outside the purview of this Act.

Developers will need to disclose all the information pertaining to a project when registering it with RERA. This includes details such as the project implementation schedule, layout plan, land status, government approvals, real estate agents, sub-contractors, etc. This information will be made available to the consumers, which will empower them to take informed decisions. With all details of the project being documented, the consumer can approach RERA if the developer deviates from the details mentioned when registering the project. Similarly, developers facing problems with consumers can also approach RERA for solutions. While the Act lays down guidelines for the developers, one must also consider the enablers that will empower the developer to implement the project in a systematic manner.

The enablers

Without the enabling factors that will help developers run the project, the Act will lose its purpose. The Act does not deal with this aspect, but the states will need to implement their own sets of laws that will enable the development of the sector. Delhi's recently revised unified bylaws are a step in this direction, providing measures such as single window clearance, simpler documentation and faster approvals to help developers execute projects on time. The Act also carries an important piece of legislation that needs further clarification. It speaks of the title insurance of land, which ensures that chances of the said land being under any encumbrance are minimal. However, developers will have unlimited liability in case any charges of encumbrances are filed against them through the life of the project. Products that provide insurance on the land title are presently not available in India. However, one can expect such products by the time the Act comes into full force by May 2017.

The way forward

Going forward, one can expect certain clauses to be added to the Act, making it more robust. A clause to stop discrimination on the basis of religion, caste, sexual orientation, marital status and dietary preferences is expected to be added soon. Further clarifications will be provided on certain provisions of the Act, such as the clause that states that 70 per cent of the collections from the homebuyers need to be maintained in a dedicated account, to be used only for the said project. The developers can withdraw money from the said account to the extent of the work completed on a project. Does this mean that developers will need to implement the project from their own resources and be compensated as they complete the different stages of the project? Clarity on such issues will help the sector grow further and benefit all the stakeholders. By giving consumers a dedicated grievance redressal system, the load on consumer courts is expected to reduce. Disputes between consumers and developers as a whole is expected to decrease, as the Act will streamline the sector to a great extent.

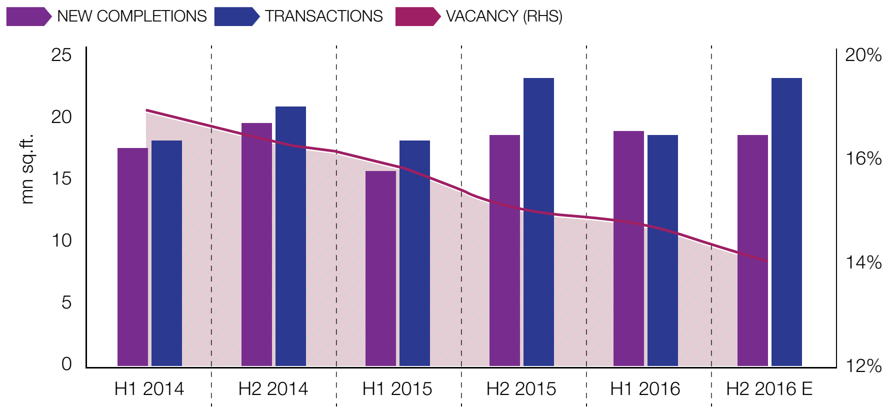
Conclusion

The Real Estate (Regulation and Development) Act, 2016, is good for the sector, but developers will need some time to get used to its intricacies. They will need to realign their businesses in accordance with the Act, which could affect launches in the short term. The move by developers to comply to certain provisions in the Act could push up prices in the short to medium term, however, in the long run due to efficiencies brought in the sector, by RERA, prices would rationalize.

OFFICE MARKET

FIGURE 1

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

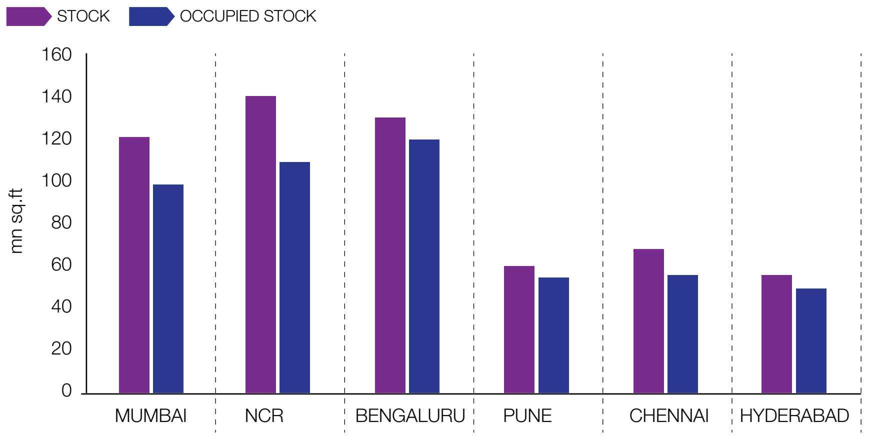


Source: Knight Frank Research

Note: The top six cities are Mumbai, NCR, Bengaluru, Pune, Chennai and Hyderabad

FIGURE 2

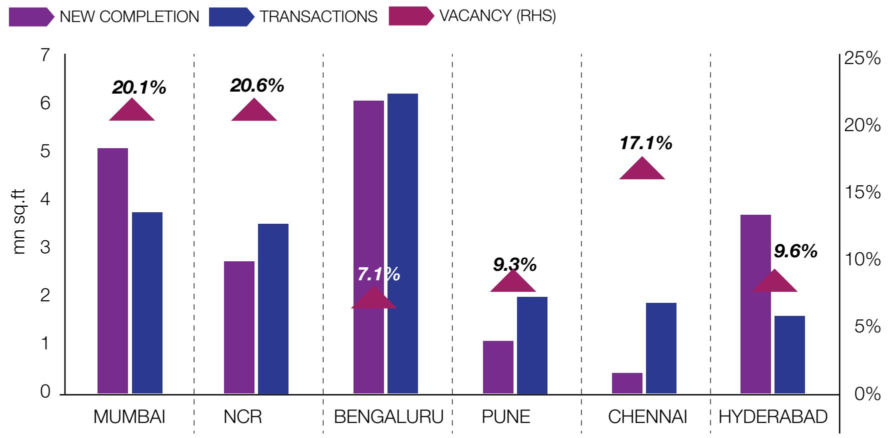
OFFICE STOCK AND OCCUPIED STOCK (AS OF JUNE 2016)



Source: Knight Frank Research

FIGURE 4

CITY-WISE NEW COMPLETIONS, TRANSACTIONS AND VACANCY LEVELS IN H1 2016

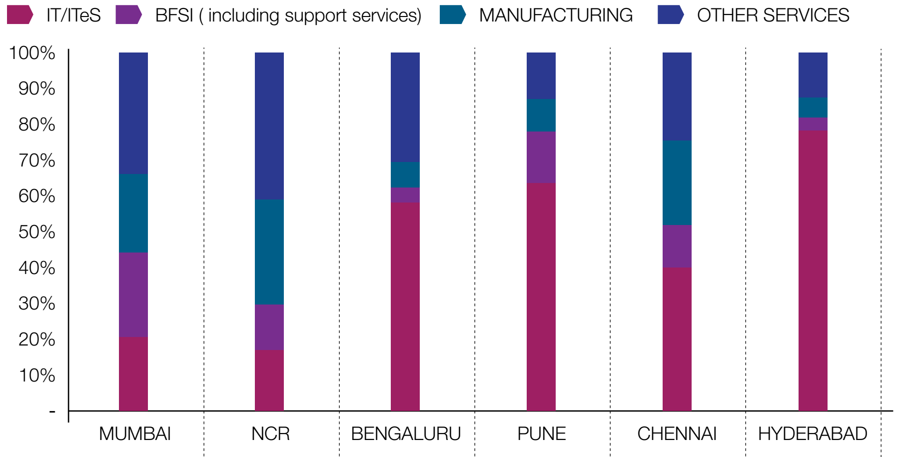


Source: Knight Frank Research

- H1 2016 witnessed a 12% growth in the transaction volume across the top six cities of India. Transactions increased from 17.9 mn sq ft in H1 2015 to 20 mn sq ft in the latest six-monthly period.
- Hyderabad reported the sharpest jump in transactions, from 1.5 mn sq ft in H1 2015 to 2.8 mn sq ft in H1 2016, resulting in a 91% YOY increase. This was followed by Mumbai, which reported a 50% YOY rise in transactions. The remaining four cities observed a marginal dip in transactions, in the range of 1-9%.
- In terms of new completions, H1 2016 has been an encouraging period, as more than 19 mn sq ft of space was delivered, compared to just 15.8 mn sq ft in the same period the previous year. While cities such as Mumbai, Bengaluru and Hyderabad witnessed a sharp spike in new completions, NCR, Pune and Chennai reported a fall.

FIGURE 3

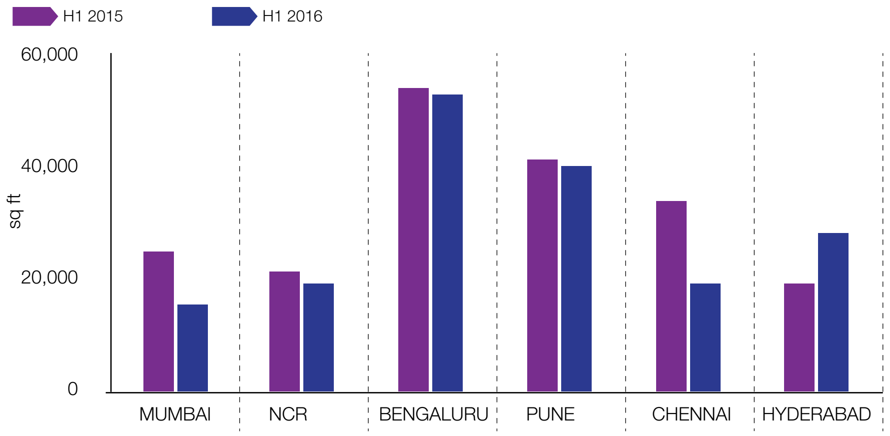
SECTOR-WISE TRANSACTIONS SPLIT IN H1 2016



Source: Knight Frank Research

FIGURE 5

DEAL SIZE ANALYSIS



Source: Knight Frank Research

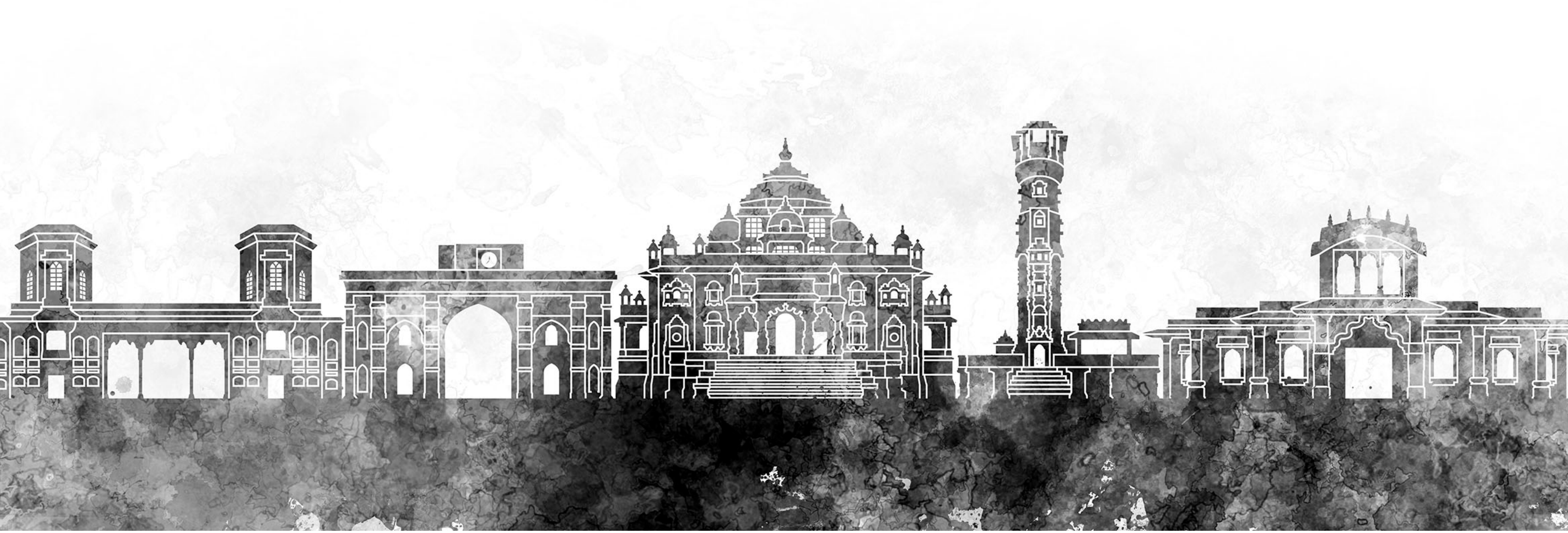
- Vacancy levels in the top six cities fell marginally, from 17% in H1 2015 to less than 15% in H1 2016. While cities such as Pune and Chennai witnessed a sharp drop in vacancy in the last year, it has increased marginally in Hyderabad.
- Rental values have continued to maintain their upward movement in most of the cities, as the average rents shot up by 8% YOY in H1 2016. This jump was led by cities such as NCR, Pune and Bengaluru, where rents have moved up in the range of 10-14% YOY in H1 2016.

OUTLOOK FOR THE NEXT SIX MONTHS

	H2 2015	H2 2016E	GROWTH
New completions (mn sq ft)	18.7	19.2	3%
Transactions (mn sq ft)	23.2	22.7	-2%
Vacancy	15%	14%	

Source: Knight Frank Research

- New completions are set to get a marginal boost in the coming six months, as cities such as Mumbai, Pune and Chennai will witness the delivery of multiple projects.
- However, demand for office space will be muted and is projected to fall by 2% in H2 2016 from 23.2 mn sq ft to 22.7 mn sq ft. This will ease the pressure on the vacancy levels, which are expected to drop to 14% by the end of H2 2016.
- Rents in most of the cities have increased steadily since the last two years. Going forward, this trend is expected to continue in the coming six-month period, with Mumbai, NCR and Bengaluru projected to grow at the fastest pace.



AHMEDABAD

RESIDENTIAL MARKET

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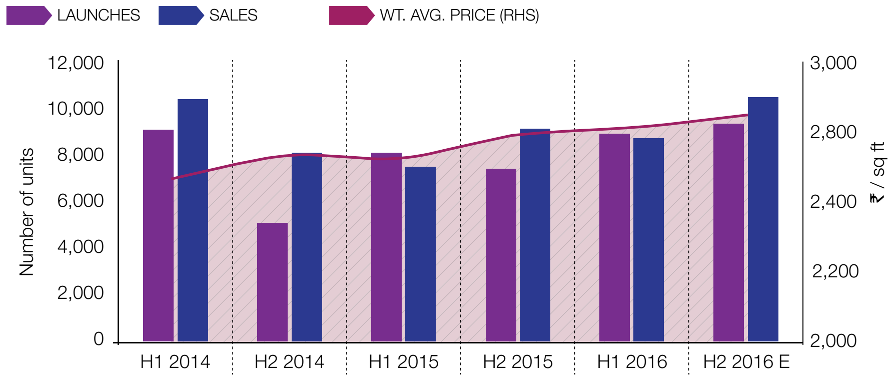
RESIDENTIAL MARKET

AHMEDABAD RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

FIGURE 1

AHMEDABAD MARKET TRENDS



Source: Knight Frank Research

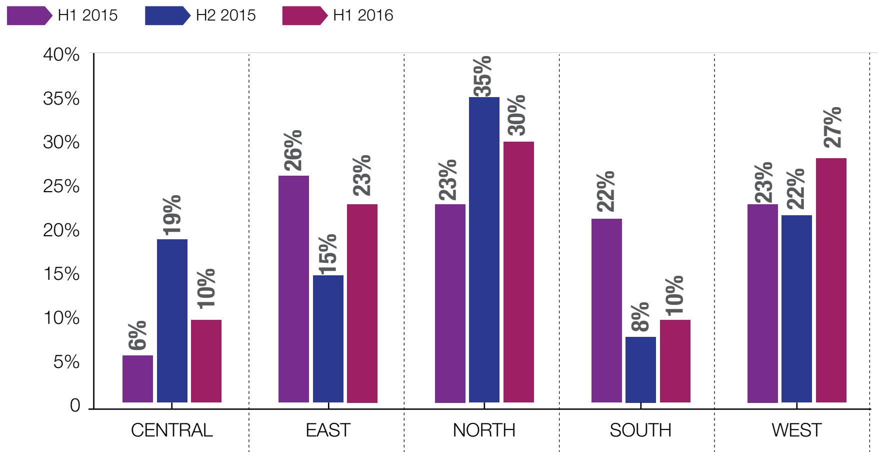
- The latest sales volume, which had been falling since the last four years, has been arrested in H1 2016. Sales have increased by 10% YOY, from 7,750 units in H1 2015 to more than 8,550 in H1 2016.
- Stagnant prices, improvement in business sentiment and the revival in the manufacturing sector seem to have aided this recovery in sales
- However, the sales volume is still 47% lower than what was achieved in H1 2012, when more than 16,000 units were sold in a six-month period. We believe it will take a significant amount of time for the Ahmedabad market to reach these levels in terms of volume.
- New launches also witnessed a surge in H1 2016 on the back of improved sentiment. Developers seem to have taken a cue from the recovery in homebuyer sentiment and have pushed new launches to the extent of 8,800 units in H1 2016 from 8,060 units in H1 2015, resulting in a 9% YOY growth
- However, these numbers are still drastically low from the heydays of 2011, when more than 27,000 units were launched in a six-monthly period

The sales volume, at 8,550 units in H1 2016, is still 47% lower than what was achieved in H1 2012, when more than 16,000 units were sold in a six-month period.

MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

FIGURE 2

MICRO-MARKET SPLIT OF LAUNCHED UNITS



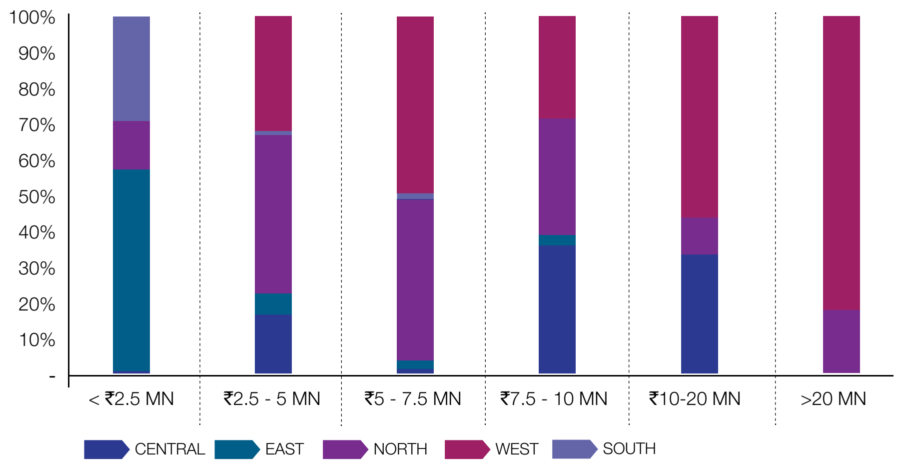
Source: Knight Frank Research

H1 2015:	H2 2015:	H1 2016:
8,060 units	7,490 units	8,810 units

- The new launches in South Ahmedabad have fallen by 47% YOY in H1 2016, as developers are still trying to offload apartments in their existing projects. While more than 85% of the total unsold inventory available here is below the ticket size of ₹2.5 mn, homebuyers seem to be staying away from this market. Poor connectivity to the city centre, the presence of multiple manufacturing units and the lack of social infrastructure have limited this market's attractiveness.
- North Ahmedabad, with locations such as Gota, New Ranip, Tragad, Chandkheda and Motera, has witnessed the maximum number of new launches in H1 2015. With prices in West and Central Ahmedabad breaching the homebuyers' affordability level, North Ahmedabad has emerged as the most preferred destination for mid-segment housing. During H1 2016, 70% of the new launches in this market were below the ticket size of ₹5 mn.

FIGURE 3

TICKET SIZE SPLIT OF LAUNCHES DURING H1 2016



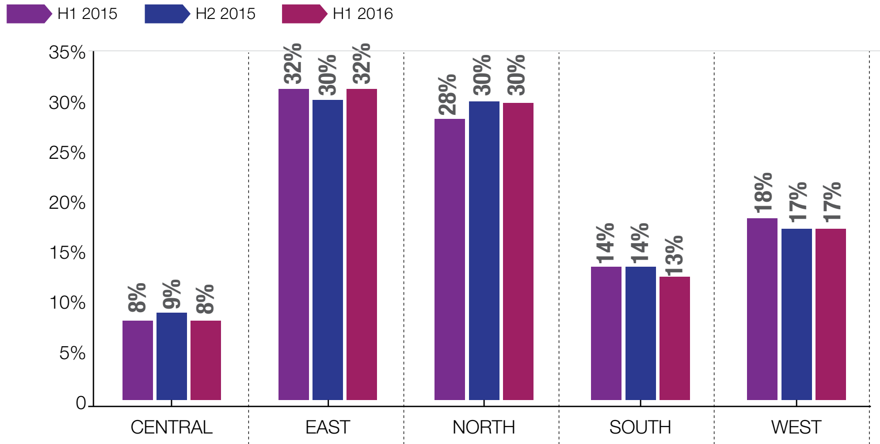
Source: Knight Frank Research

While more than 85% of the total unsold inventory available in South Ahmedabad is below the ticket size of ₹2.5 mn, homebuyers seem to be staying away from this market. Poor connectivity to the city center, the presence of multiple manufacturing units and the lack of social infrastructure have limited this market's attractiveness.

MICRO-MARKET-WISE RESIDENTIAL SALES

MICRO-MARKET	LOCATIONS
CENTRAL	Paldi, Vasna, Navrangpura, Maninagar, Dudheshwar, Ambawadi
EAST	Naroda, Vastral, Nikol, Kathwada Road, Odhav
NORTH	Gota, New Ranip, Tragad, Chandkheda, Motera
SOUTH	Narol, Vatva, Vinzol, Hathijan
WEST	S. G. Highway, Prahlad Nagar, Bopal, Thaltej, Science City Road

FIGURE 4
MICRO-MARKET-WISE RESIDENTIAL SALES



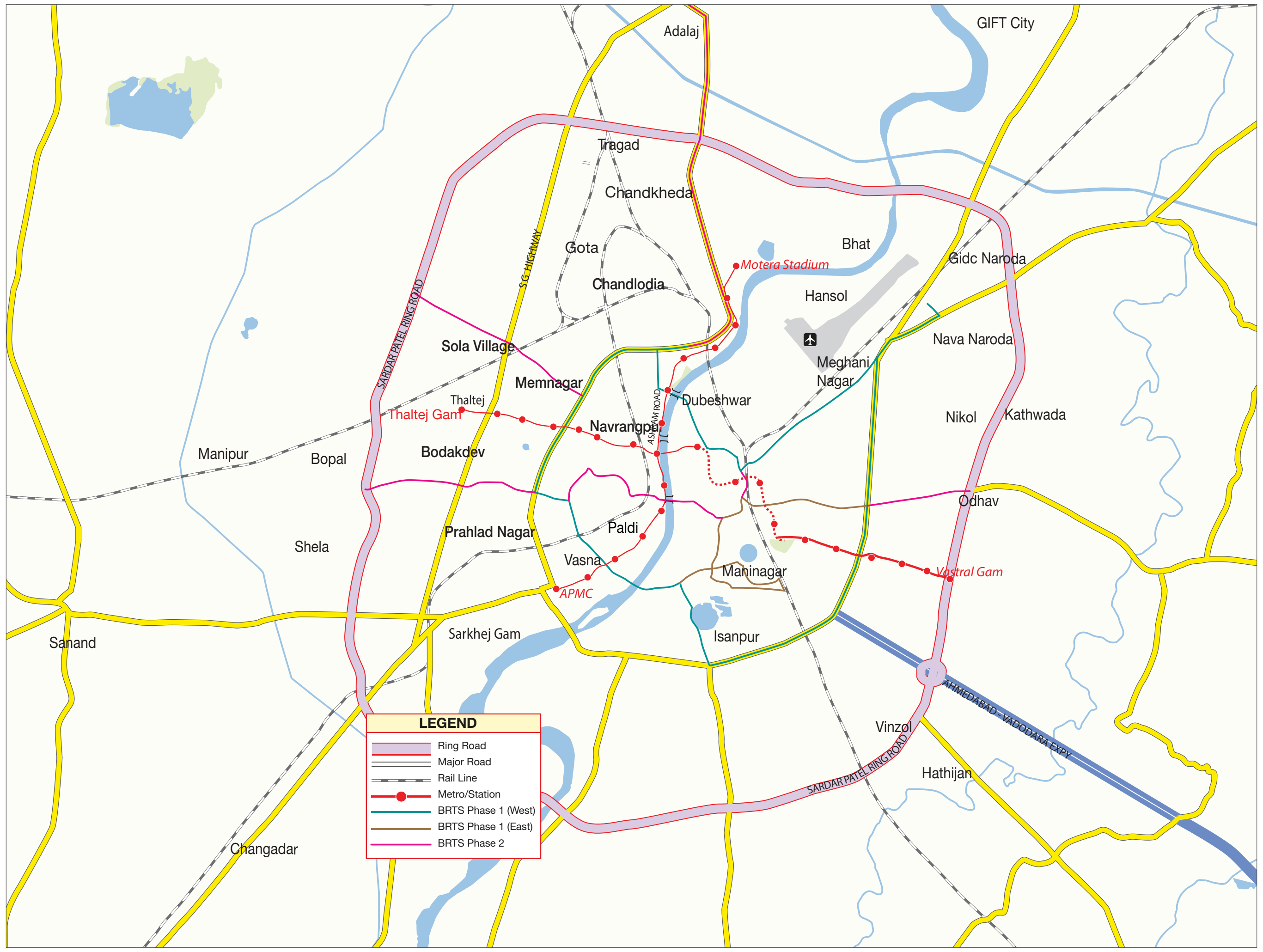
Source: Knight Frank Research

H1 2015: 7,750 units	H2 2015: 9,075 units	H1 2016: 8,550 units

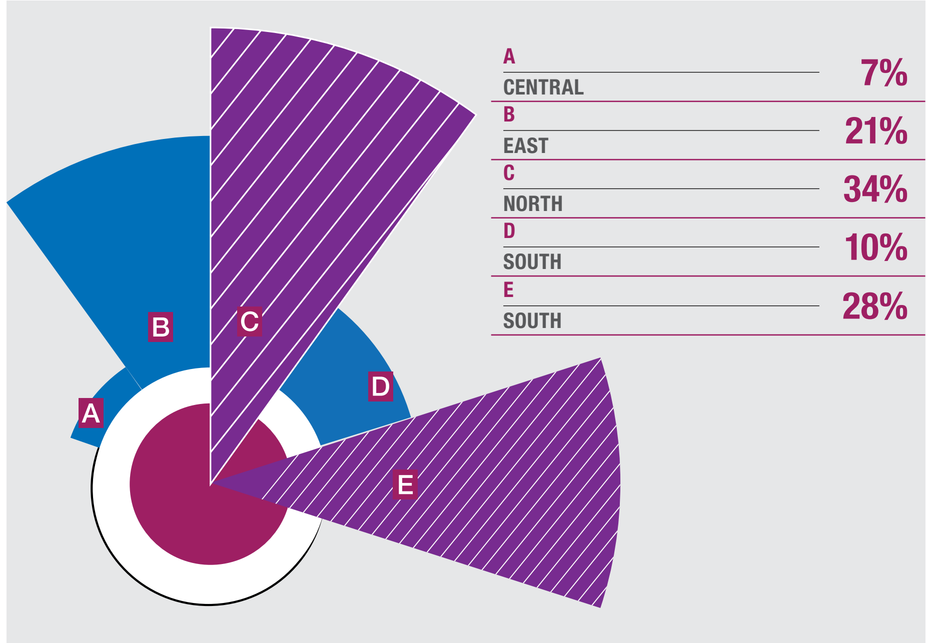
Central Ahmedabad's share has been holding steady over the last 12 months. Better connectivity with the city centre, proximity to the central business district (CBD) and the presence of a well-developed retail market continue to attract homebuyers to this micro-market despite its higher pricing.

- The micro-market split of sales has not witnessed any significant change in the last six months. While the shares of East and North Ahmedabad have increased marginally, the shares of the rest of the micro-markets have reduced slightly.
- Central Ahmedabad's share has been holding steady over the last 12 months. Better connectivity with the city centre, proximity to the central business district (CBD) and the presence of a well-developed retail market continue to attract homebuyers to this micro-market despite its higher pricing.

AHMEDABAD CITY MAP



MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF JUNE 2016



Source: Knight Frank Research

- Central Ahmedabad's share in the total number of under-construction units has increased significantly to 7% in H1 2016 from just 4% a year ago. The last 12 months witnessed a slew of new project launches in this micro-market as the remaining markets were going through a slowdown. This has pushed its share higher, as the construction in these projects is progressing in full swing.
- East Ahmedabad's share in the total number of under-construction units has fallen drastically in the past year, primarily due to a large number of projects getting delivered in the last six-months.

WILL GIFT CITY'S RECOGNITION AS AN INTERNATIONAL FINANCE SERVICES CENTRE BOOST AHMEDABAD'S REALTY MARKET?

The Gujarat International Finance Tec-City (GIFT) project has finally received the much-needed recognition as an International Finance Services Centre (IFSC) from the union finance minister in the latest budget. GIFT City was conceptualised by the Gujarat Government in order to cater to India's large financial services potential by offering global firms world-class infrastructure and facilities. Apart from hosting an international finance centre, it also has a multi-speciality special economic zone (SEZ). It is located at a distance of 12 km from the Ahmedabad International Airport and 8 km from the state's capital, Gandhinagar.

The latest union budget has approved the various tax exemptions that the finance centre was requesting since the past few years in order to make it globally competitive. Exemption from dividend distribution tax, securities transaction tax, long-term capital gains tax and commodity transaction tax, among others, were some of the incentives required to create a feasible financial centre at par with other global financial centres, such as Dubai and Singapore. With the regulatory and infrastructure framework already in place, tax exemptions were the only missing link and these have finally been achieved.

GIFT City has received an exceptional response from all the major banks and stock exchanges in the last few months. ICICI Bank, Yes Bank and Federal Bank have already commenced their operations, and other banks are in the process of setting up shop in the coming months. The enthusiasm shown by all the major financial players of the country is a positive step for the project as well as the city. If one has to go by the experience of other international finance centres such as Dubai, Singapore and London, it can be easily concluded that Ahmedabad's real estate market is set to witness unprecedented development in the coming years on the back of this project.

In the current scenario, Ahmedabad lags behind other Indian cities, such as Mumbai, Bengaluru, Delhi, Pune, Chennai and Hyderabad, in terms of service sector jobs. Although it has a very strong standing in the manufacturing sector, the absence of major IT/ITeS companies has deprived the city from high-income, white-collar service sector jobs. The real estate market of the other cities has benefited immensely from the growth in service sector over the last 10-15 years. Apart from fuelling a boom in commercial real estate, the high spending power of such white-collar employees also gives an impetus to the residential market.

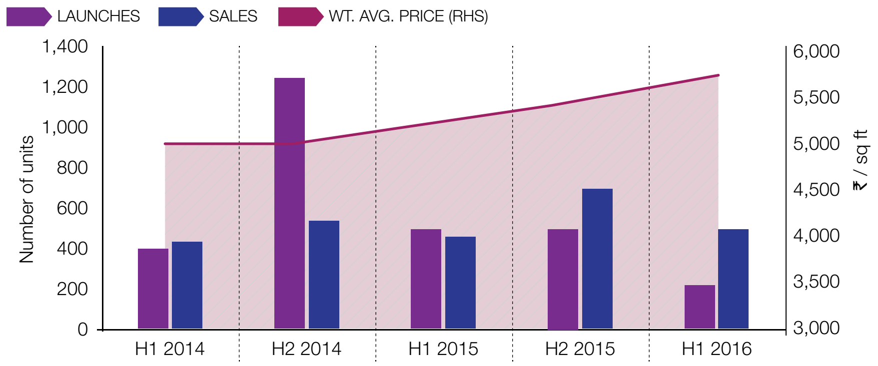
Ahmedabad is on the cusp of witnessing a boom in service sector jobs, primarily aided by the IFSC in GIFT City. Apart from attracting numerous bankers, brokers, financial analysts and other intermediaries, the city will also attract several international forex traders. This, in turn, will drive the demand for residential properties in the city, especially in the premium and middle segments. Since residential locations closer to GIFT City still lag in terms of social infrastructure, we believe that areas such as Thaltej, Sola, Science City Road, Tragad and Godrej Garden City will gain the maximum from this. Apart from being easily accessible from the major arterial roads, such as Sarkhej-Gandhinagar Highway and Sardar Patel Ring Road, these locations are also well developed in terms of social and physical infrastructure. The recognition of GIFT City as an International Finance Services Centre could not have come at a better time, as the city's real estate is undergoing a severe slowdown since last two years.

PREMIUM RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

MICRO-MARKET	PREMIUM LOCATIONS
CENTRAL	Ambawadi, Navrangpura, Shahibaug, Nehru Nagar
WEST	Ambli, Bodakdev, Jodhpur, Prahlad Nagar, Satellite, Thaltej, Vastrapur

FIGURE 5

PREMIUM MARKET TRENDS



Source: Knight Frank Research

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

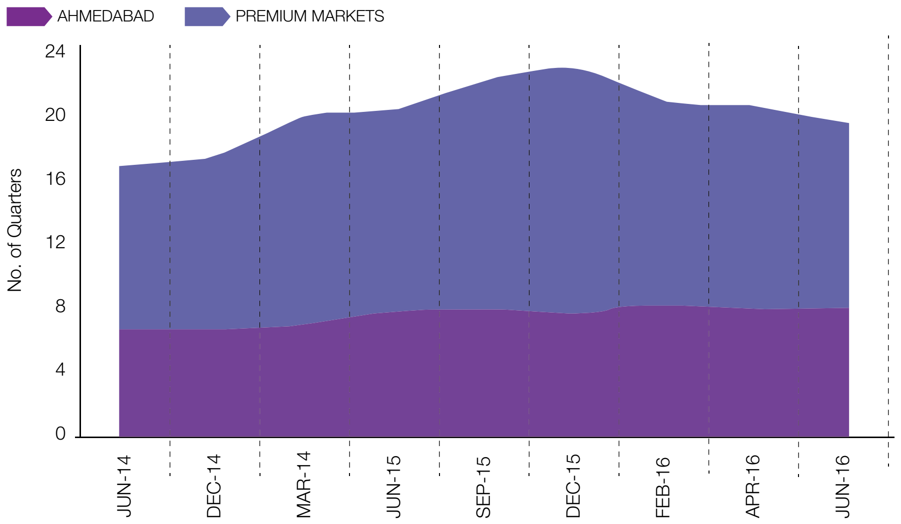
- The premium segment continues to witness a steady traction in the sales volume, but new launches have taken a hit. While the sales volume grew by 17% YOY, new launches dropped by more than 50% YOY
- The premium market includes locations such as Ambawadi, Bodakdev, Navrangpura, Prahlad Nagar, Satellite and Vastrapur, among others
- New launches in the premium segment have plummeted from a high of 1,240 units in H2 2014 to less than 220 units in H1 2016. However, the sales volume has remained stable in the range of 500-550 units since 2014
- Locations closer to the city centre have remained as the preferred destination for high net worth individuals (HNIs), as a well-developed physical and social infrastructure, proximity to the CBD areas and easy access to the major retail centres makes these areas attractive

Locations closer to the city centre have remained as the preferred destination for high net worth individuals (HNIs), as a well-developed physical and social infrastructure, proximity to the CBD areas and easy access to the major retail centres makes these areas attractive

AHMEDABAD MARKET HEALTH

FIGURE 6

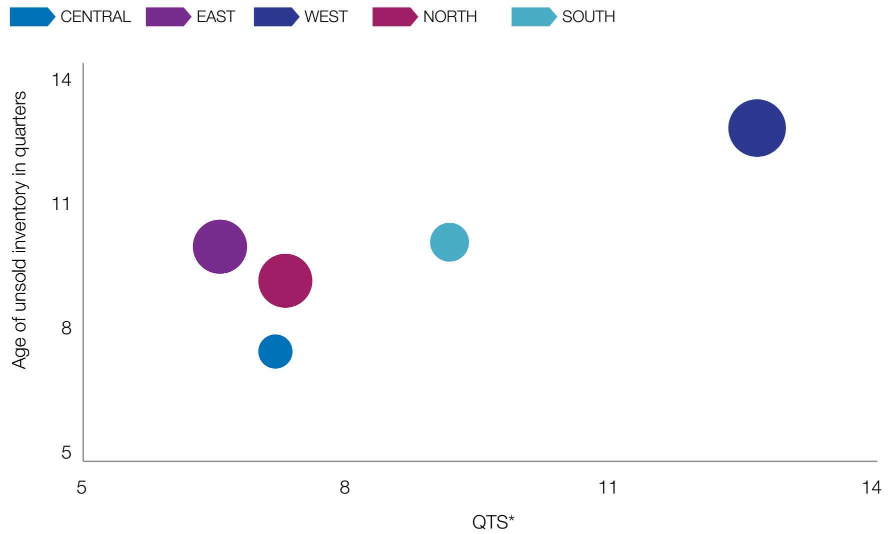
QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS



Source: Knight Frank Research

FIGURE 7

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

The number of quarters to sell the existing unsold inventory has moved up considerably in the last three years and currently stands at 8.5. At present, the city has more than 40,000 units in various stages of construction that are still unsold.

- The high level of unsold inventory is still a big concern for Ahmedabad's developer community. Despite an improving sales volume in the last six months, the unsold inventory level has not reduced significantly, as developers continued to launch new projects
- The number of quarters to sell the existing unsold inventory has moved up considerably in the last three years and currently stands at 8.5. At present, the city has more than 40,000 units in various stages of construction that still remain unsold.
- Such a scenario will continue to keep prices in check, as developers will be unable to demand a higher price from homebuyers when there is already such a huge unsold stock present in the market

PRICE MOVEMENT IN H1 2016

WEIGHTED AVERAGE PRICE MOVEMENT IN AHMEDABAD

LOCATION	PRICE RANGE IN H1 2016 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Ahmedabad	2,780	5%	0%
Premium markets	5,585	9%	5%

PRICE MOVEMENT IN SELECT LOCATIONS

LOCATION	MICRO-MARKET	PRICE RANGE IN H1 2016 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Ambawadi	Central	5,500 - 7,500	1%	1%
Navrangpura	Central	5,500 - 7,500	2%	1%
Mani Nagar	Central	3,500 - 6,000	6%	2%
Paldi	Central	4,500 - 6,200	6%	2%
Naroda	East	2,000 - 3,000	4%	0%
Vastral	East	1,800 - 2,500	2%	1%
Nikol	East	1,800 - 2,500	0%	0%
Prahlad Nagar	West	5,000 - 6,500	3%	2%
Satellite	West	5,500 - 7,200	1%	0%
Thaltej	West	5,000 - 6,000	0%	0%
Vastrapur	West	5,000 - 6,200	0%	0%
Bopal	West	3,500 - 4,800	0%	0%
Chandkheda	North	2,500 - 3,200	2%	1%
Motera	North	2,800 - 3,600	0%	0%
Gota	North	2,800 - 3,600	1%	0%

Source: Knight Frank Research

Since 2010, premium segment prices have gone up by more than 50%, whereas the city's average price has moved up by only 27%. Steady demand and a limited supply have helped prices in the premium segment to move in this manner

- The price growth in the premium segment outperformed the city's average price growth. While the weighted average price in the city grew by 5% YOY in H1 2016, it grew by 9% in the premium segment
- Since 2010, premium segment prices have gone up by more than 50%, whereas the city's average price has moved up by only 27%. Steady demand and a limited supply have helped prices in the premium segment to move in this manner.

OUTLOOK FOR THE NEXT SIX MONTHS

PROJECTIONS	H2 2015	H2 2016E	GROWTH
Launches (units)	7,490	9,540	27%
Sales (units)	9,075	10,460	15%
Weighted average price (₹/sq ft)	2,730	2,810	3%

Source: Knight Frank Research

- The positive sentiment in the residential market due to the revival in manufacturing activity, the improving business sentiment and the renewed interest in the Gujarat International Finance Tec-City (GIFT) city from investors are expected to usher in a double-digit growth in new launches and sales in H2 2016. We forecast that new launches and sales will increase by 27% and 15% YOY respectively.
- We believe that South Ahmedabad will continue to witness a subdued sales volume, as its great distance from the city centre, the presence of a large number of manufacturing units and poor infrastructure facilities are expected to restrict homebuyer interest in this zone.
- The price growth in the coming six months will remain subdued, as the huge number of unsold units currently available in the market will restrict the upward movement in prices. However, prices in the premium segment are expected to continue their upward trend, as demand from homebuyers in this market remains strong.

BENGALURU

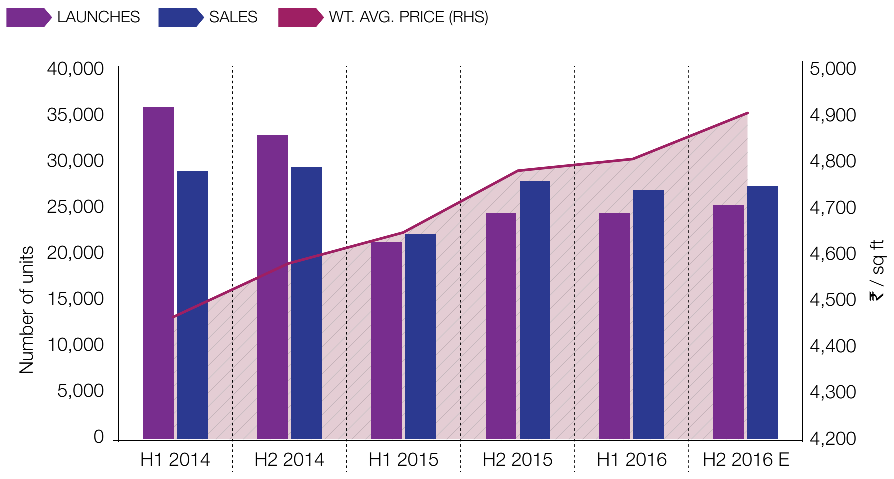
RESIDENTIAL & OFFICE MARKET

Sangeeta Sharma Dutta
Assistant Vice President - Research

RESIDENTIAL MARKET

BENGALURU RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

FIGURE 1
BENGALURU MARKET TRENDS



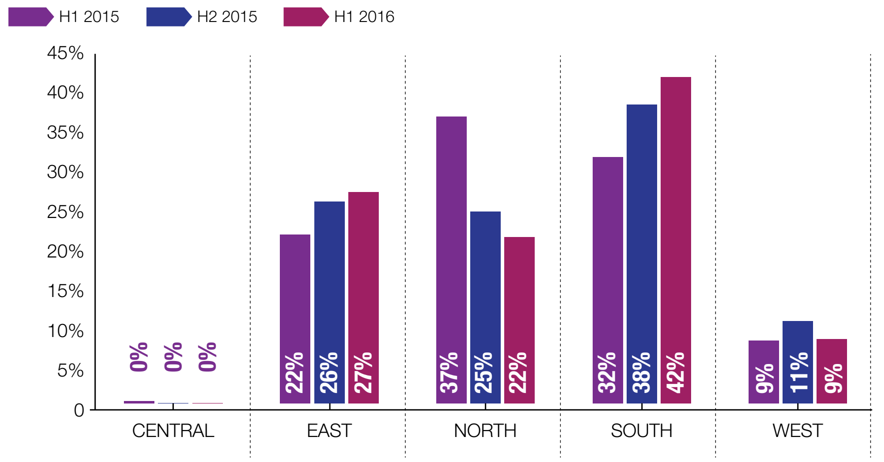
Source: Knight Frank Research

The Bengaluru residential market saw a vast improvement in H1 2016, given the setback that it had suffered in H1 2015. While the number of new launches increased by 13% on a YOY basis, the city's sales volume saw a stronger recovery, at 18%.

- The first half of the year (H1 2016) saw the Bengaluru residential market recover sufficiently from the setback that it had suffered in H1 2015. While the number of new launches continued to remain somewhat restrained, given the cautious market environment, it surpassed the number of launches in H1 2015 by a satisfactory 13%.
- The city's sales volume, on the other hand, remained steady and in a much stronger position than the new launches. Notwithstanding the slightly wary market sentiment, end-user demand boosted sales, and an increase of 18% was observed in H1 2016 as compared to its dismal performance in H1 2015.
- Meanwhile, weighted average prices continued to scale upwards at a gradual pace and saw an increase of 3% in H1 2016 compared to H1 2015. The increase in construction costs and statutory dues, among other factors, have led to this price appreciation.
- We expect the market to remain steady in the next six months, owing mainly to the large quantum of office space transacted in the city during H1 2016, as well as the projected completion of the much-awaited Phase 1 of the metro rail, which is expected to improve the connectivity with several micro-markets of the city. We estimate new launches to firm up by 4% in H2 2016, compared to H2 2015.
- The sales volume is also expected to be quite steadfast on a year-over-year (YOY) basis, though it is anticipated to witness a slight dip of 5% in H2 2016 over H2 2015.
- On the price front, we expect a measured growth in H2 2016 compared to H2 2015. The period is estimated to witness a 3% increase in the annual weighted average price.

MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

FIGURE 2
MICRO-MARKET SPLIT OF LAUNCHED UNITS



Source: Knight Frank Research

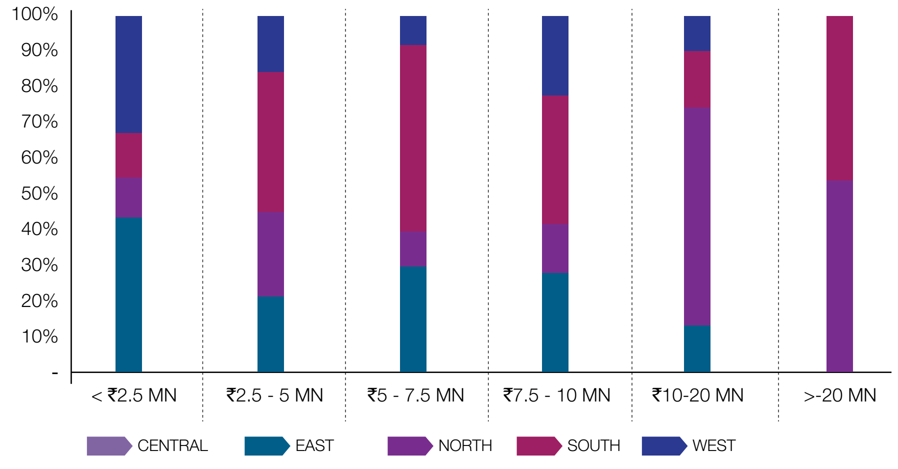
H1 2015:	H2 2015:	H1 2016:
21,400 units	24,190 units	24,281units

- The southern zone of the city, which had witnessed a somewhat waning developer interest in H1 2015, accounted for a whopping 42% share in the total number of new launches in H1 2016. This could be attributed to the number of residential projects that were launched in the peripheral locations, such as Electronics City and off-Sarjapur Road. Besides, positive sentiments in the IT/ITeS sector seem to have led to the resurgence of residential development in this region.
- North Bengaluru, which had witnessed the highest number of new launches in H1 2015, saw its share shrink considerably in H1 2016. It declined from a sizable 37% in H1 2015 to 22% in H1 2016. While the region was touted to have an immense potential to grow as a residential destination on account of its good infrastructure, factors such as high land cost and relatively expensive property prices were responsible for bringing down its share in H1 2016. However, with several office projects ready to become operational in the forthcoming months, creating new employment hubs, the region is expected to bounce back on the prospective buyers' radar.
- East Bengaluru's share in the total number of new launches, which has been observed to rise steadily in the past year, reinstated its growth potential with a 27% share in H1 2016 from 22% in H1 2015.
- On the other hand, West Bengaluru maintained its consistency and continued to account for a 9% share H1 2016 – the same quantum of new launches as in H1 2015. With the East–West metro rail corridor becoming operational, connecting several key locations, we foresee the number of new launches picking up in the forthcoming months.
- The eastern zone of the city had the majority of the projects below the ₹2.5 mn ticket size in H2 2016, accounting for 43% of the total number of new launches in that segment, while, in contrast, North Bengaluru witnessed the launch of the most number of residential units priced above the ticket size of ₹10 mn – to the tune of around 59%. Notably, locations such as Hennur Road, Kogilu and Hebbal saw a number of new launches in the premium housing segment.

North Bengaluru, touted to have an immense potential to grow as a residential destination on account of its good infrastructure, saw its share of new launches shrink considerably in H1 2016, which could be attributed to factors such as high land cost and relatively expensive property prices. In H1 2016, the region accounted for the highest number of residential units priced above the ticket size of ₹10 mn. However, with several office projects ready to be operational, the region is expected to bounce back on the prospective buyers' radar.

FIGURE 3

TICKET SIZE SPLIT OF LAUNCHES DURING H1 2016

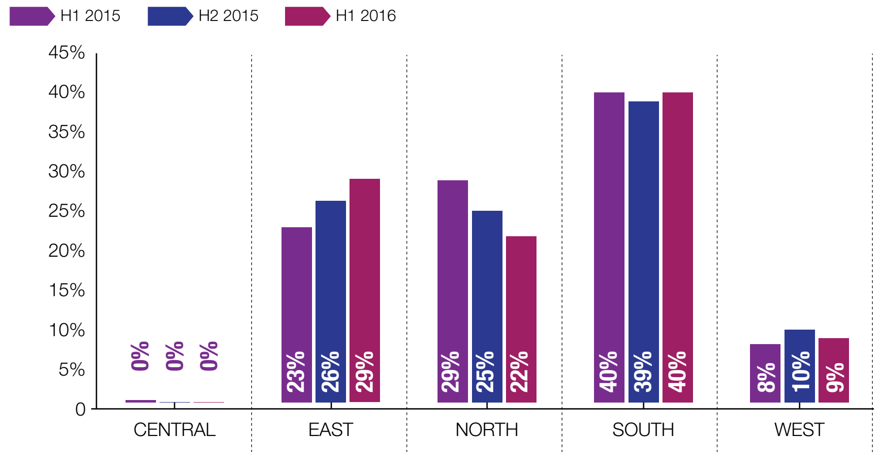


Source: Knight Frank Research

MICRO-MARKET-WISE RESIDENTIAL SALES

FIGURE 4

MICRO-MARKET SPLIT OF SALES



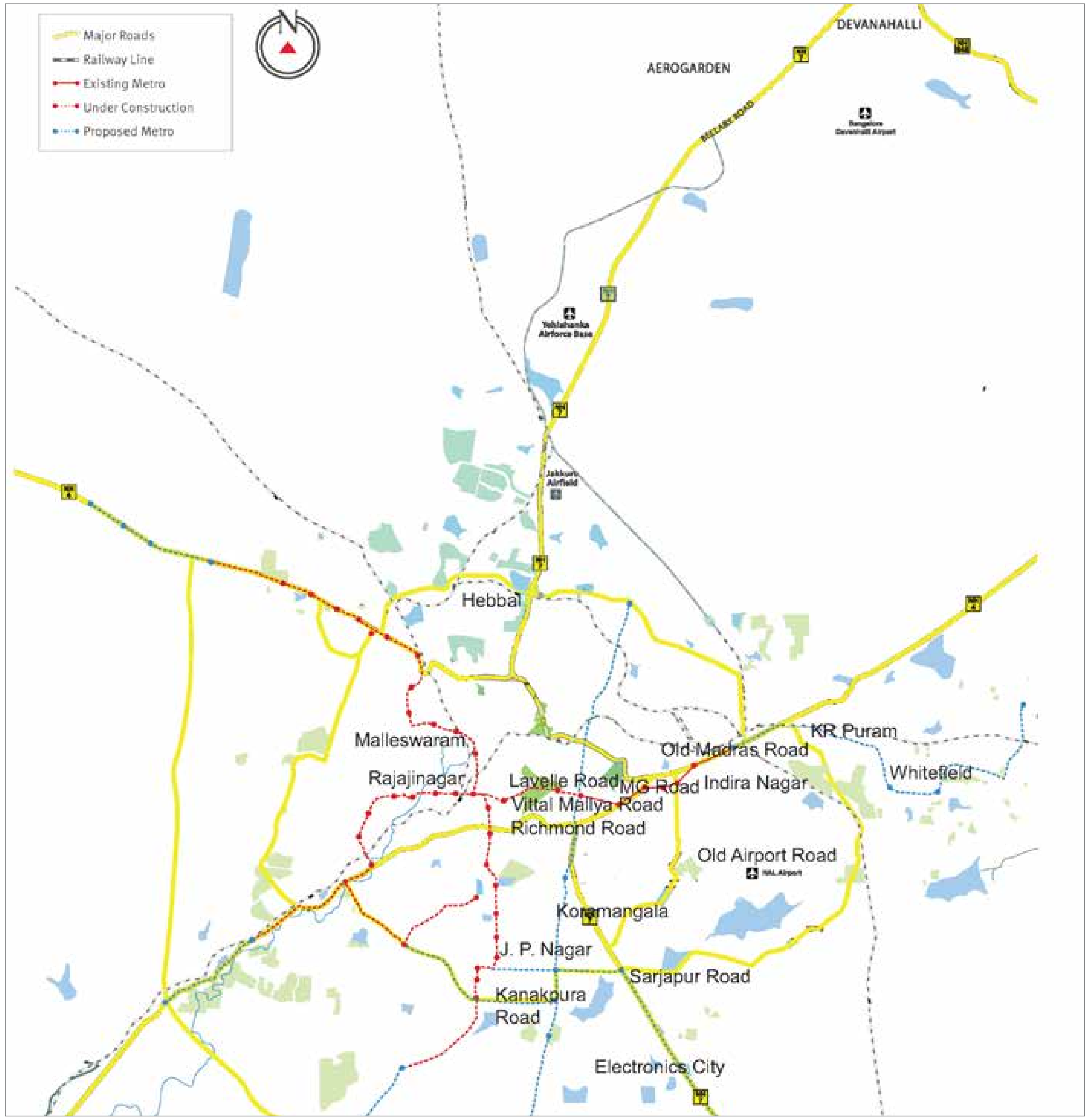
Source: Knight Frank Research

H1 2015: 22,234 units	H2 2015: 27,849 units	H1 2016: 26,220 units

East Bengaluru's share in the total number of new launches, which has been observed to rise steadily in the past year, reinstated its growth potential with a 27% share in H1 2016 from 22% in H1 2015

MICRO-MARKET	LOCATIONS
CENTRAL	M.G. Road, Lavelle Road, Langford Town, Vittal Mallya Road, Richmond Road
EAST	Whitefield, Old Airport Road, Old Madras Road, K.R. Puram, Marathahalli
WEST	Malleswaram, Rajajinagar, Yeshwanthpur, Tumkur Road, Vijayanagar
NORTH	Hebbal, Bellary Road, Hennur, Jakkur, Yelahanka, Banaswadi
SOUTH	Koramangala, Sarjapur Road, Jayanagar, J.P. Nagar, HSR Layout, Kanakapura Road, Bannerghatta Road, Electronics City

BENGALURU METROPOLITAN REGION MAP



METRO PUSH TO WEST BENGALURU

The eastern and western parts of Bengaluru showcase two distinct characteristics of the city. While East Bengaluru is known as one of the city's key IT/ITeS hubs, housing the iconic International Tech Park Bangalore (ITPB) in Whitefield, West Bengaluru is recognised primarily as an industrial hub, accounting for the Peenya Industrial Area – one of the largest of its kind in Asia. For a long time, these two regions have been separated by socioeconomic variances and severe traffic bottlenecks.

The incongruence between the two key regions of the city is set to change with the advent of the metro rail connectivity. In April 2016, the long-awaited and much-delayed East–West metro rail corridor became operational. Called the Purple Line by the Bangalore Metro Rail Corporation Limited (BMRCL), it is the first complete corridor cutting across the city and the first complete line to begin operations for the Bangalore Metro.

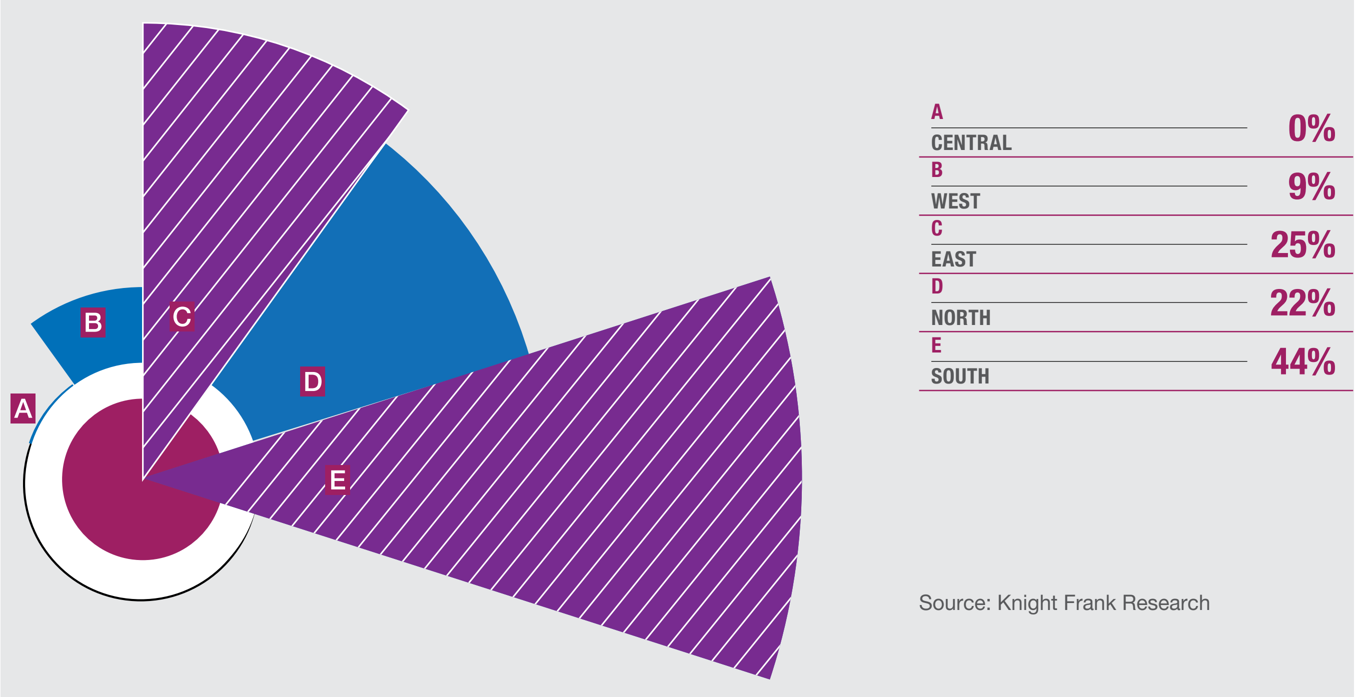
The 18-km stretch now connects Nayandahalli on Mysore Road in West Bengaluru with Baiyappanahalli in the east. This new line is expected to cater to the Whitefield-bound workforce from the central and western locations, while concurrently creating more employment opportunities in the east. Talks with BMRCL are in process to provide a feeder bus service from Baiyappanahalli to Whitefield. The company is expecting half a million commuters daily from the present 45,000 as the metro connects with Majestic, the nerve centre of the city's public transport.

The advent of the East–West metro corridor has been observed to have a considerable impact on residential real estate, particularly towards the west. Till recently, the residential market in the western region had struggled to keep pace with the other regions of the city, while East Bengaluru remained a preferred market for homebuyers employed in the IT sector. Although it cannot be inferred that the inauguration of the Purple Line brought a sudden appreciation in real estate prices or demand, the impending launch of this line has gradually been creating a momentum in the real estate demand along the western fringes of the city, where property prices are currently in the range of ₹3,500–6,000 per sq ft, an appreciation of around 7–10% per annum in the last three years.

The areas along the East–West corridor had been witnessing an upsurge in buyer interest ever since the metro connectivity proposal was announced in the region. However, with the metro project deadlines failing repeatedly, prospective buyers of residential properties along the metro nodes had grown increasingly uncertain about its completion, deliberating over their buying decisions. With the metro now fully functional, homebuyers who prefer to reside in locations with metro connectivity are assured of the ease of travel from their residences to their workplaces. With connectivity to Central and East Bengaluru, where the key employment hubs are located, residents from as far as Mysore Road now have an increased scope of working in these areas. Further, prices in localities connected by the metro, such as Nayandahalli, as well as neighbouring areas, such as Rajarajeshwarinagar and Magadi Road in the west, are expected to witness a fair appreciation on the back of a relatively increased sales volume in the near future. Thus, in addition to easing traffic woes and enabling speedy commuting in the East–West corridor, the metro line is also envisaged to provide an impetus to the real estate market.

- On the sales front, a few changes have been observed in the micro-market split in the last year. While the shares of the western and southern regions of the city remained almost constant, in H1 2016 compared to H1 2015, East and North Bengaluru saw their shares undergo a substantial variation in H1 2016.
- East Bengaluru saw increased sales, from a 23% share of the total sales in H1 2015 to 29% in H1 2016, owing largely to the employment hubs and social infrastructure in place in the region. The IT/ITeS office projects along the Outer Ring Road and in the Whitefield area have contributed majorly to the growth in this region. Besides, H1 2016 also saw a number of residential units in the budget housing segment, thereby increasing its attractiveness to the price-conscious buyer.

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF JUNE 2016



Source: Knight Frank Research

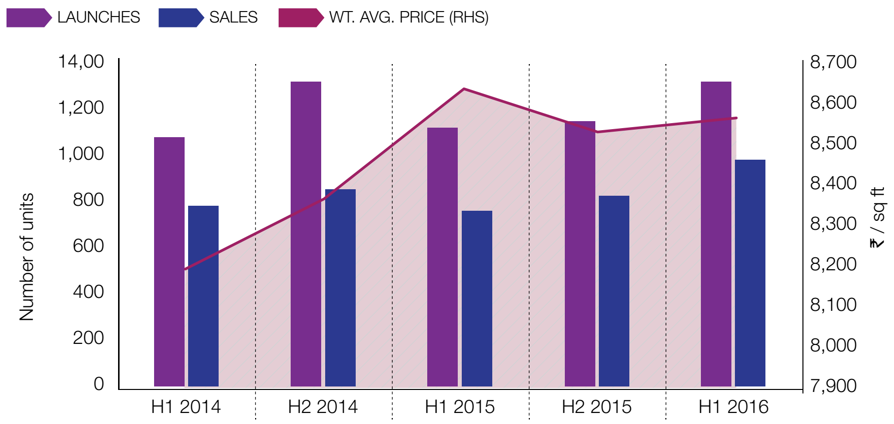
- South Bengaluru accounts for the major share of the total number of units under construction, to the tune of 44%, given that it has been witnessing large-scale residential development in the past years. The region is preferred by potential buyers due to its good social infrastructure and the presence of employment hubs, leading developers to launch their projects there. Additionally, property prices are relatively cheaper in the peripheral locations in the south, compared to the other micro-markets.
- The northern and eastern markets have fairly uniform shares of units under construction, with West Bengaluru gradually emerging on the residential market scene.

PREMIUM RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

MICRO-MARKET	PREMIUM LOCATIONS
CENTRAL	M.G. Road, Lavelle Road, Langford Town, Vittal Mallya Road, Richmond Road
EAST	Whitefield, Indiranagar
WEST	Malleswaram, Rajajinagar, Yeshwanthpur
NORTH	Hebbal, Bellary Road
SOUTH	Koramangala, Jayanagar, J.P. Nagar

FIGURE 5

PREMIUM MARKET TRENDS



Source: Knight Frank Research

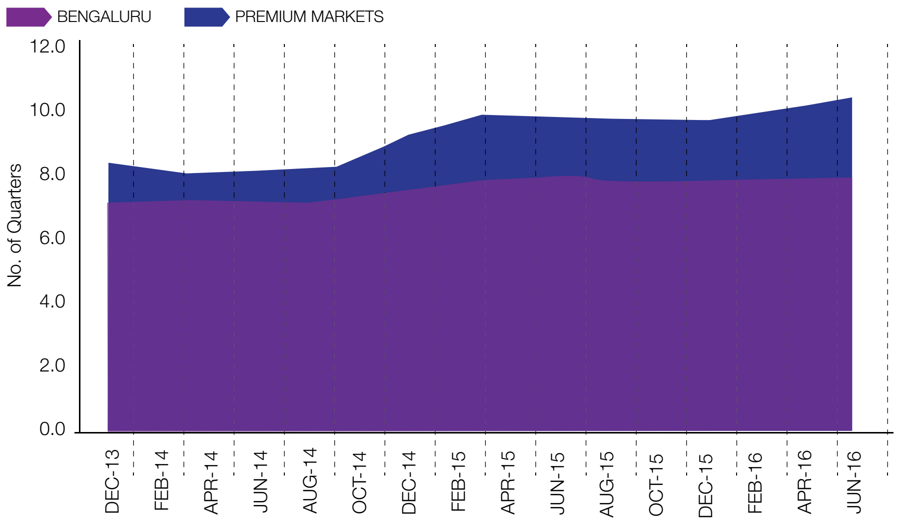
Note: Premium markets include locations where the average ticket size of a residential unit is above ₹ 20 mn, are in close proximity to the central business district of the city and have witnessed new project launches in the preceding three years

- The premium market of Bengaluru, which constitutes locations such as Lavelle Road, Richmond Road, Indiranagar and Malleswaram, among others, observed a substantial increase of 23% in new launches during H1 2016 as compared to H1 2015, when developers had refrained from launching premium projects in the face of a subdued market.
- While H1 2015 was characterised by poor sales in the premium housing segment owing to cautious market sentiments, H1 2016 witnessed a considerable improvement in demand for such properties, clocking an increase of 35% as against the same period last year.
- However, due to the slackening of the premium housing market in the past year, the weighted average price growth YOY in the premium segment saw a marginal decline of 1% in H1 2016, as compared to H1 2015.

PREMIUM RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

FIGURE 6

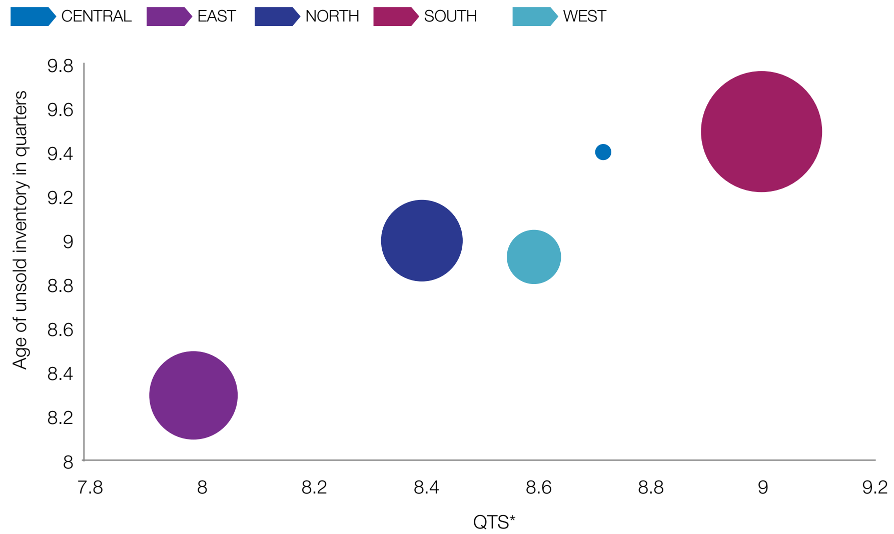
QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS



Source: Knight Frank Research

FIGURE 7

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

- The quarters to sell unsold inventory (QTS) is the number of quarters required to exhaust the existing unsold inventory in the market. The existing unsold inventory is divided by the average sales velocity of the preceding eight quarters in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market.
- The QTS for Bengaluru has been increasing gradually since September 2013, and currently stands at eight quarters. However, the QTS for the premium markets in the city is much higher – at 11 quarters currently. This is mainly due to the relatively slow rate of sales observed in the premium housing segment in the past.
- East Bengaluru is currently the best performing market of the city, with the lowest QTS, signifying that the market has been witnessing a substantial traction in recent times. The presence of several large employment hubs, good social infrastructure, substantial availability of housing in various budget sizes and the recently operational metro connectivity with the central and western parts of the city are some of the prime factors that facilitated this development.
- On the other hand, South Bengaluru is one of the worst performing markets, with the largest quantum of unsold inventory in the city and the highest QTS, indicating that the pace of sales in this region is slower than the other regions of the city, as many projects are located in distant markets with a lack of infrastructure, and have been left idle.
- North Bengaluru has a lower QTS and age of inventory than the South, thereby having the potential to perform better in the forthcoming months. We expect this market to gain momentum once the office sector gains prominence in the near future.
- Meanwhile, despite having a higher QTS than its eastern and northern counterparts, West Bengaluru holds much potential to perform better in the forthcoming months. The metro rail, operational since last year, and the recently opened East–West corridor are expected to be prime factors for this potential. However, West Bengaluru still does not have a sufficient inventory and sales volume compared to the other zones of the city.

East Bengaluru is currently the best performing market of the city, with the lowest QTS, signifying that the market has been witnessing a substantial traction in recent times. The presence of several large employment hubs, good social infrastructure, substantial availability of housing in various budget sizes and the recently operational metro connectivity with the central and western parts of the city are some of the prime factors that facilitated this development.

PRICE MOVEMENT IN H1 2016

WEIGHTED AVERAGE PRICE MOVEMENT IN BENGALURU

LOCATION	PRICE RANGE IN H1 2016 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Bengaluru	4,805	3%	1%
Premium markets	8,549	-1%	0%

- Price appreciation across most locations in Bengaluru has been rather tepid during the last 12 months, ranging between 3–7%. The growth in price slowed down further in the last six months, primarily due to the huge unsold inventory present in the market. The range of price appreciation during the period has been within 1–4%.
- The premium housing segment observed a slower rate of growth in its weighted average price in the last 12 months, compared to the growth in the city's overall price. While the city's overall price growth was pegged at 3%, the premium housing segment saw a slight decline of 1%. This could be attributed to the large unsold inventory that has been building up, owing to the increasing QTS.

PRICE MOVEMENT IN SELECT LOCATIONS

LOCATION	MICRO-MARKET	PRICE RANGE IN H1 2016 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Langford Town	Central	15,000–21,000	0%	0%
Lavelle Road	Central	22,000–30,000	0%	0%
K.R. Puram	East	4,000–6,750	4%	2%
Whitefield	East	4,500–8,500	0%	0%
Marathahalli	East	4,500–7,100	3%	1%
Indiranagar	East	9,000–12,500	0%	0%
Yeshwanthpur	West	6,500–10,800	5%	1%
Malleshwaram	West	9,000–13,300	5%	1%
Rajajinagar	West	8,500–14,000	0%	0%
Tumkur Road	West	4,000–5,100	3%	1%
Yelahanka	North	4,500–7,500	0%	0%
Hebbal	North	5,000–9,800	0%	0%
Hennur	North	4,500–7,500	7%	4%
Thanisandra	North	4,100–7,500	5%	1%
Sarjapur Road	South	4,500–7,500	6%	3%
Electronics City	South	4,000–6,500	0%	0%
Kanakapura Road	South	4,300–6,000	0%	0%
Bannerghatta Road	South	4,200–7,500	4%	2%

Source: Knight Frank Research

OUTLOOK FOR THE NEXT SIX MONTHS

PROJECTIONS	H2 2015	H2 2016E	GROWTH
Launches (units)	24,190	25,099	4%
Sales (units)	27,849	26,447	-5%
Weighted average price (₹/sq ft)	4,780	4,902	3%

Source: Knight Frank Research

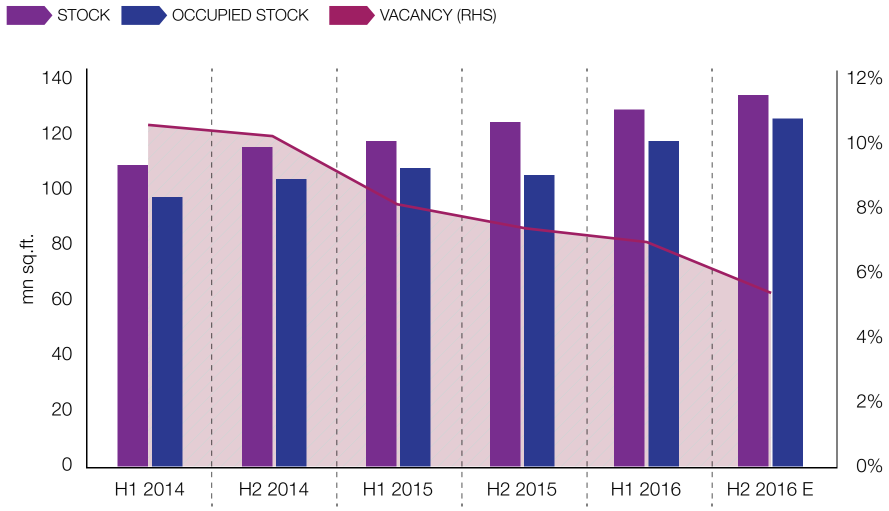
- While H1 2016 has been a period of steady recovery, with new launches and sales improving over H1 2015, we expect the second half of the year to remain constant, without drastic upswings. Although developments such as the Real Estate Regulatory Authority (RERA) bill are positive reinforcements that will boost the market, their impact would take some time, as developers tend to adopt a wait-and-watch approach whenever any new bill or law comes into play. However, market sentiments will remain largely positive, owing primarily to the large-scale transactions in the office sector.
- The projected number of new launches in H2 2016 will exceed those of H2 2015 by 4%, while sales will see a dip of 5%. To avoid uncertainty, most buyers currently prefer ready-to-occupy projects located in better markets, with improved physical and social infrastructure, and good connectivity. Thus, integrated developments in locations with good connectivity are likely to witness a good traction in H2 2016.
- West and East Bengaluru are expected to witness increased developer and buyer interest, chiefly due to infrastructure development, while locations around the Outer Ring Road will witness an increased traction due to their proximity to employment hubs.
- On the price front, we expect the overall weighted average price in Bengaluru to witness a sluggish growth of 3% in H2 2016 compared to H2 2015, owing to the large quantum of inventory that needs to be offloaded.

While H1 2016 has been a period of steady recovery, with new launches and sales improving over H1 2015, we expect the second half of the year to remain constant, without drastic upswings. West and East Bengaluru are expected to witness increased developer and buyer interest, chiefly due to infrastructure development, while locations around the Outer Ring Road will witness increased traction due to their proximity to employment hubs.

OFFICE MARKET

BENGALURU OFFICE MARKET STOCK, NEW COMPLETIONS, TRANSACTION AND VACANCY TRENDS

FIGURE 1
OFFICE SPACE STOCK AND VACANCY LEVELS

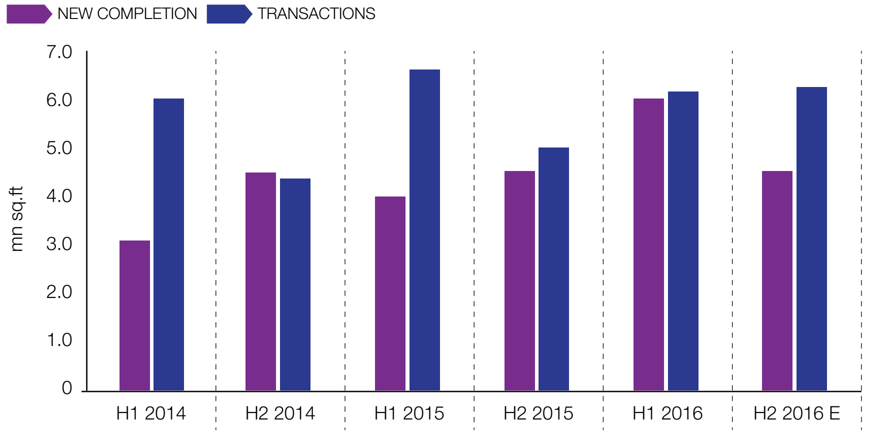


Source: Knight Frank Research

The Bengaluru office market continued to lead the way, with the highest office space transactions in the country. It also witnessed the infusion of a whopping 6 mn sq ft of new office space, the highest in six years after a lag that had hit the market.

- Bengaluru retained the top slot for the highest office space transactions in the country in the first half of 2016 (H1 2016). The city's office market clocked a total transaction space of 6.1 mn sq ft during the period January–June 2016, almost matching the 6.07 mn sq ft of space transacted during the corresponding period in 2015.
- Bengaluru attracted substantial occupier interest, the demand being driven primarily by the IT/ITeS sector, with big players such as Google, Infosys, and HP occupying large office spaces.
- Another major milestone achieved by the office sector in Bengaluru during this period is the quantum of new completions that entered the market. The city witnessed the infusion of a whopping 6 mn sq ft of new office space, the highest in six years after the lag that had hit the market, leading potential occupiers to turn to pre-leasing deals for large space requirements. The new office completions took the total office stock to 128.5 mn sq ft in H1 2016, while the occupied stock recorded 119.4 mn sq ft, making it the office market with the largest occupied stock in the country.
- Vacancy rates, which had been declining steadily over the years owing to consistent transactions and restrained new completions, continued to remain at 7% in H1 2016, despite the substantial number of new completions this year.
- In the forthcoming months, the office space demand in Bengaluru is expected to remain upbeat, driven by corporate occupiers and startups looking to expand, as well as investors, both global and domestic, who are considering ownership of their operating assets.

FIGURE 2
NEW COMPLETIONS AND TRANSACTIONS



Source: Knight Frank Research

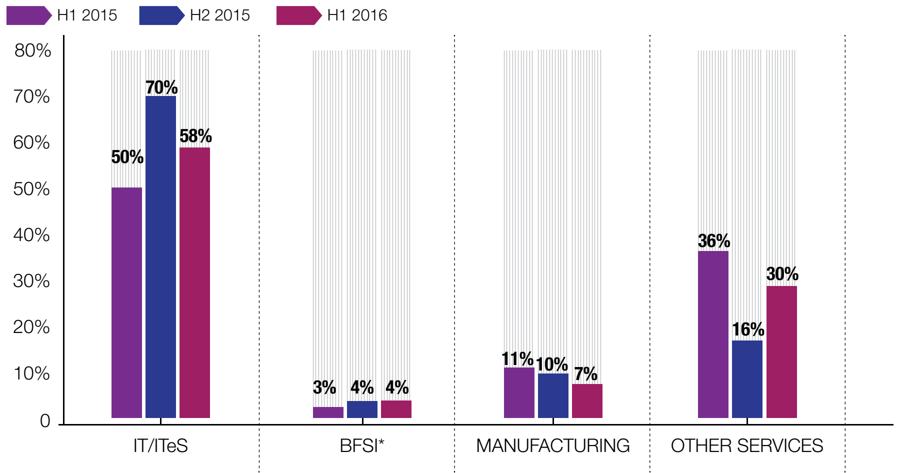
- The total office space transacted in H1 2016 was 6.1 mn sq ft, with new office space completions complementing the market at 6 mn sq ft.

SECTOR ANALYSIS

- The IT/ITeS sector—the key demand driver of the city's office market, whose share in transactions had fairly lessened in H1 2015—strove to maintain its resurgent stance in H1 2016. The sector accounted for 58% of the total transactions in H1 2016, as compared to H1 2015, which had seen a 50% share. This could be attributed to the large-size deals transacted by IT majors, such as HP India (400,000 sq ft) and Google (100,145 sq ft), among others.
- The share of the other services sector, of which the e-commerce sector is a part, has dropped from 36% in H1 2015 to 30% in H1 2016. Although the IT/ITeS sector took the lead in the share of office space transactions in H1 2016, e-commerce still holds great potential. Despite fewer e-commerce transactions in H1 2016 as compared to the large-size deals in H1 2015, developers have recognised that the additional demand from the sector has had a positive effect on the city's office market. Some of the prominent transactions in the other services sector include companies such as Ernst & Young inking an office space deal on Marathahalli Outer Ring Road and Reliance Jio Infocomm taking up 130,000 sq ft of office space in Whitefield.
- Meanwhile, a few major transactions were recorded in the manufacturing sector in H1 2016. The sector accounted for a minimal share of 7% of the total office space transactions in H1 2016, showing a slight decline over its share in H1 2015. The BFSI sector, too, accounted for a mere 4% share of the transactions in H1 2016, including a deal by JP Morgan Chase.

The IT/ITeS sector, whose share in transactions had fairly lessened in the last few quarters, strove to maintain its resurgent stance in H1 2016. The sector accounted for 58% of the total transactions in H1 2016 as compared to H1 2015, which had seen a 50% share. Despite fewer e-commerce transactions in H2 2015 as compared to the large-size deals in H1 2015, e-commerce still holds great potential in the forthcoming period.

FIGURE 3
SECTOR-WISE SPLIT OF TRANSACTIONS



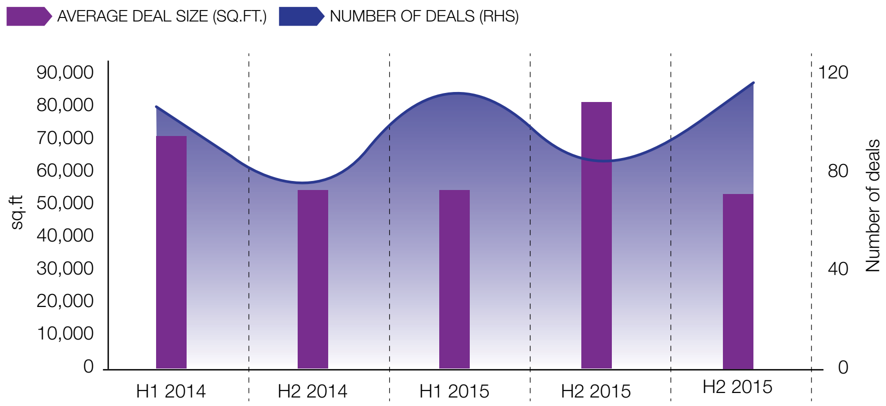
Source: Knight Frank Research

Note: BFSI includes BFSI support services

H1 2015: 6.07 mn sq ft	H2 2015: 5 mn sq ft	H1 2016: 6.1 mn sq ft

DEAL SIZE ANALYSIS

FIGURE 4
AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

The average deal size remained consistent in H1 2016, compared to H1 2015. The number of deals, too, was almost similar for both periods. Although the average deal size has reduced from the figure observed in H2 2015, the number of deals have improved significantly in H1 2016.

- The average deal size remained consistent in H1 2016, coming close to 53,500 sq ft, compared to 54,200 sq ft in H1 2015. The number of deals, too, was almost similar for both periods. Although the average deal size has reduced from the figure observed in H2 2015, the number of deals have improved significantly in H1 2016.
- This shows that, while deals with bigger ticket sizes were inked in H2 2015, a larger number of transactions took place in H1 2016, indicating the quantum of new completions that entered the market during this period.

SELECT TRANSACTIONS

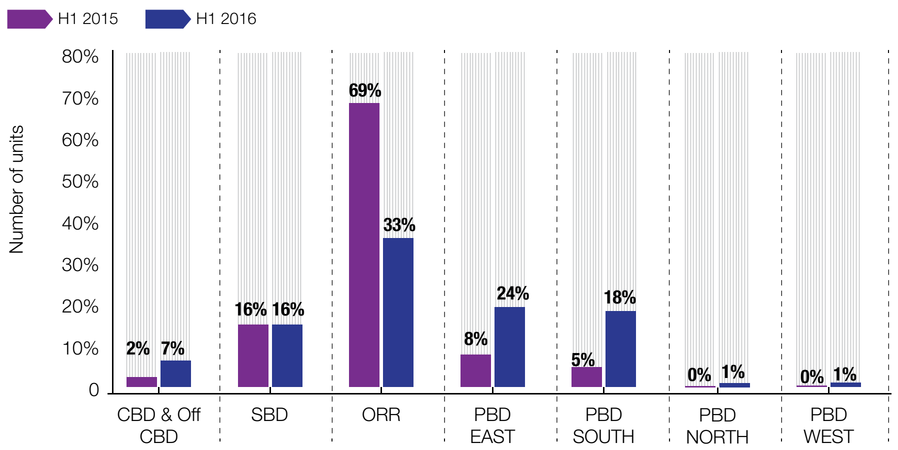
OCCUPIER	BUILDING	LOCATION	APPROX. AREA (SQ FT)
Reliance Jio Infocom	Mindcomp Tech Park	Whitefield	130,000
Google	Bagmane World Technology Center (Virgo Block)	Marathalli Outer Ring Road	100,145
HP India	Maruthi Concorde Business Park	Hosur Road	400,000
Infosys	Confident Octans	Electronics City	150,000
GE	Prestige Shantiniketan	Whitefield	185,000

BUSINESS DISTRICT ANALYSIS

BUSINESS DISTRICT CLASSIFICATION

BUSINESS DISTRICTS	MICRO-MARKETS
Central Business District (CBD) and off-CBD	M.G. Road, Residency Road, Cunningham Road, Lavelle Road, Richmond Road, Infantry Road
Suburban business district (SBD)	Indiranagar, Koramangala, Old Airport Road, Old Madras Road
Peripheral Business District (PBD) East	Whitefield
Peripheral Business District (PBD) South	Electronics City, Bannerghatta Road
Peripheral Business District (PBD) North	Thanisandra, Yelahanka, Devanahalli
Outer Ring Road (ORR)	Hebbal ORR, Marathahalli ORR, Sarjapur Road ORR

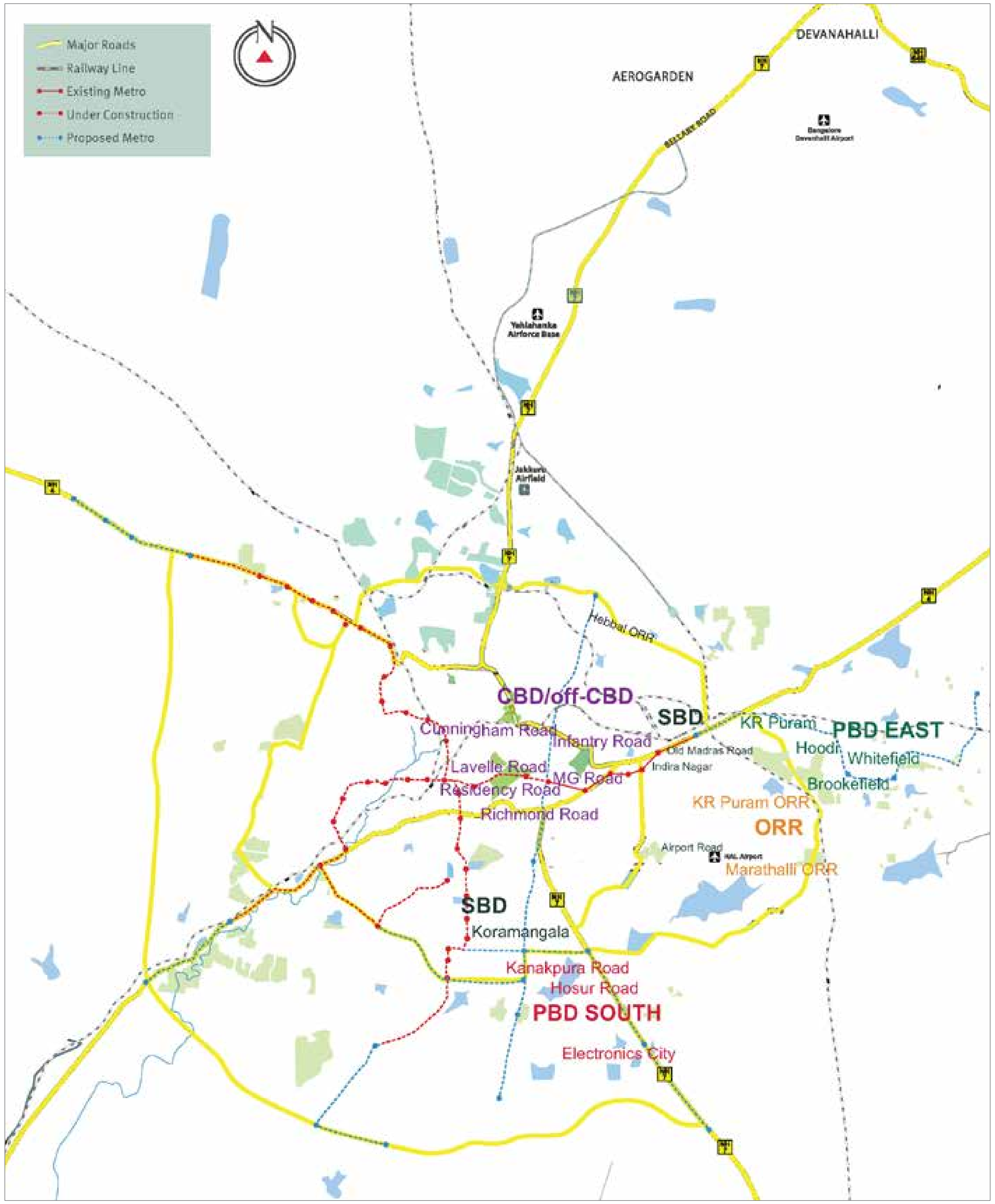
FIGURE 5
BUSINESS DISTRICT-WISE TRANSACTIONS SPLIT



Source: Knight Frank Research

H1 2015: 6.07 mn sq ft	H1 2016: 6.1 mn sq ft

BUSINESS DISTRICTS OF BENGALURU



PRE-COMMITTED LEASING ON THE RISE

Bengaluru occupies the foremost rank in the country as the office market with the highest office space transactions on an annual basis. This could be attributed to the city's repute as one of the most preferred IT/ ITeS hubs globally, attracting a large number of multinational corporations to set up their offices there. While Bengaluru has several defined business districts, including a satellite township devoted chiefly to the development of the IT industry, the commercial hotspots at present primarily include the Outer Ring Road (ORR), particularly on the Sarjapur Road node, and Whitefield. The ORR houses several major international IT players, such as IBM, Intel, Accenture and Cisco, and has been increasingly preferred by corporates due to factors such as proximity to the CBD and major residential markets, access to large talent pools, the availability of contiguous land parcels, connectivity to the airport and the presence of hotel and retail projects.

While the city continued to reel in corporate occupiers, both national and foreign, its key office markets gradually began to be depleted of its ready office space. The new office supply that came into the market was staggered and could not match up to the high transactions, thus increasing the gap between the demand and supply progressively over the last five years. Vacancy levels, which were as high as 17% in 2012, started to decline in tandem with the high transactions rate and lower supply infusion. This supply constriction was mainly as a consequence of the global financial crisis that deterred developers in launching their office projects. The negative sentiments in the market that persisted even after the crisis sailed over, led them to take a cautious stance and during the five-year period of 2011 to 2015, the demand for office space was 52 mn sq ft, while the new office space completions stood at a dismal 39 mn sq ft. As a result of such trends, the vacancy rate recorded a low of 7% by the end of first half of the year 2016 (H1 2016).

However, notwithstanding the dearth of ready office space, Bengaluru continued to display the strength of its office market and persistently attracted more occupiers. While some of these occupiers were new entrants into the market, including e-commerce players, the majority of them were companies that wanted to carry out expansion plans or consolidate their offices in anticipation of growing requirements. Due to the space crunch in the market, the only way these corporates could carry out their office space requirements was to pre-lease space in upcoming office projects in key office markets, mainly along the ORR. Other companies preferred to have their own space, rather than be located in multitenant projects, and commissioned built-to-suit (BTS) facilities. These include e-commerce majors, such as Flipkart and Amazon, which pre-committed BTS spaces of 2 mn sq ft and 1.2 mn sq ft respectively in 2015, both along the ORR.

At present, most office space developers have a waiting period of six months to two years for their clients, creating an upward pressure on rentals in key office markets. This alarming state of supply lag may result in companies looking at Grade B office space or even opting for offices in less favourable locations on a short-term basis, paying a premium rent. This shift in the market towards pre-committed office space will be instrumental in deciding the future course of action adopted by developers as well as potential occupiers, who might just choose to set up office in another city.

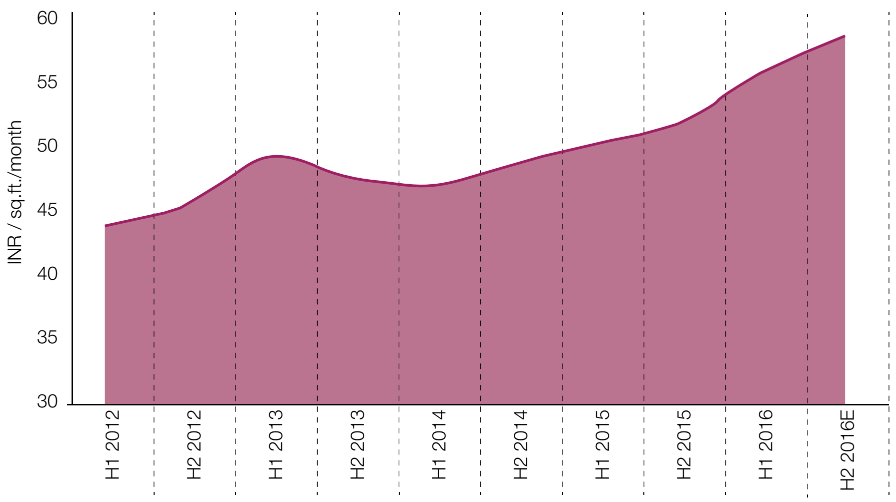
The Outer Ring Road (ORR) office market saw a considerable dip in H1 2016 compared to H1 2015. Progressive transactions YOY has caused the ready-to-occupy office space in the region to shrink significantly, leading vacancy to be in the range of 2-5%. This has resulted in the PBD East and South markets to account for the increased traction in H1 2016.

- The Outer Ring Road (ORR) office market saw a considerable dip in H1 2016 compared to H1 2015. Its share in the total transactions in H1 2016 was 33%, compared to 69% in H1 2015. The ORR has been progressively preferred by corporates due to factors such as its proximity to the CBD and the major residential markets, access to large talent pools, the availability of contiguous land parcels, connectivity to the airport and the presence of hotel and retail projects. This has led the ready-to-occupy office space in the region to shrink significantly, leading vacancy to be in the range of 2-5%, thereby resulting in a decline in its transactions share in H1 2016. However, the ORR still accounts for a large quantum of pre-committed space, which is scheduled to become operational in the forthcoming months.
- With limited supply of vacant and ready-to-occupy office space in the preferred markets, H1 2016 saw the peripheral markets emerging to cater to potential occupiers. Peripheral office markets in the east, mainly comprising Whitefield, and in the south, such as Hosur Road, Bannerghatta Road and Electronics City, as well as the peripheral markets in the north saw increased traction and occupier interest, thereby taking up their share in H1 2016. The PBD South market observed its share in the total number of transactions increase to 18% in H1 2016 from a mere 5% in H1 2015, while PBD East saw its share increase to 24%.
- Meanwhile, with the quantum of office space expected to be completed in the next few quarters, the northern peripheral office markets portend a greater share in the city's transactions in the near future.

RENTAL TREND

FIGURE 6

WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

- The SBD and ORR office markets witnessed the maximum rise in rentals in H1 2016, primarily due to the strong demand for office space in the region, coupled with declining vacancies, particularly in the ORR.
- The weighted average rental values witnessed an increase of 10%, from ₹50 per sq ft per month in H1 2015 to ₹55.2 per sq ft per month in H1 2016.
- Going forward, the weighted average rentals are expected to increase by 5% from the current values in H1 2016 to around ₹57.8 per sq ft per month in H2 2016.
- This could be accredited to the anticipated demand for large spaces as well as the lack of vacant office stock, which have pushed the weighted average rentals upwards in the Bengaluru office space market.

BUSINESS DISTRICT-WISE RENTAL MOVEMENT

BUSINESS DISTRICT	RENTAL VALUE RANGE IN H2 2015 (₹/SQ FT/MONTH)	12 MONTH CHANGE	6 MONTH CHANGE
CBD & off-CBD	75–98	4%	2%
SBD	51–95	9%	4%
PBD East	32–48	5%	3%
PBD South	32–48	4%	2%
ORR	45–75	9%	5%

Source: Knight Frank Research

OUTLOOK FOR THE NEXT SIX MONTHS

PROJECTIONS	H2 2015	H2 2016E	GROWTH
New supply (mn sq ft)	4.5	4.5	0%
transactions (mn sq ft)	5.0	6.2	24%
Vacancy (%)	8%	6%	
Weighted average rental (₹ / sq ft / month)	51.5	57.8	12%

Source: Knight Frank Research

- Going forward, the Bengaluru office market will continue to see the momentum that was witnessed in H1 2016. The transactions in H2 2016 are expected to remain upbeat, with an increase of 24% over H2 2015. While H1 2016 witnessed a large quantum of new completions, it remains to be seen if the new completions in H2 2016 would be sufficient to cater to the city's office space demand.
- As a result of the space crunch brought about by the steady transactions rate and declining vacancy levels, the rental values of select projects at locations such as the ORR and the SBD office markets are likely to increase in the short term. The weighted average rentals of the city are estimated to increase by 12% in H2 2016 on a YOY basis.
- Meanwhile, with the city being touted as the startup capital of the country, there is much potential to create a stronghold over the office market in the long run, along with the IT/ITeS sector.

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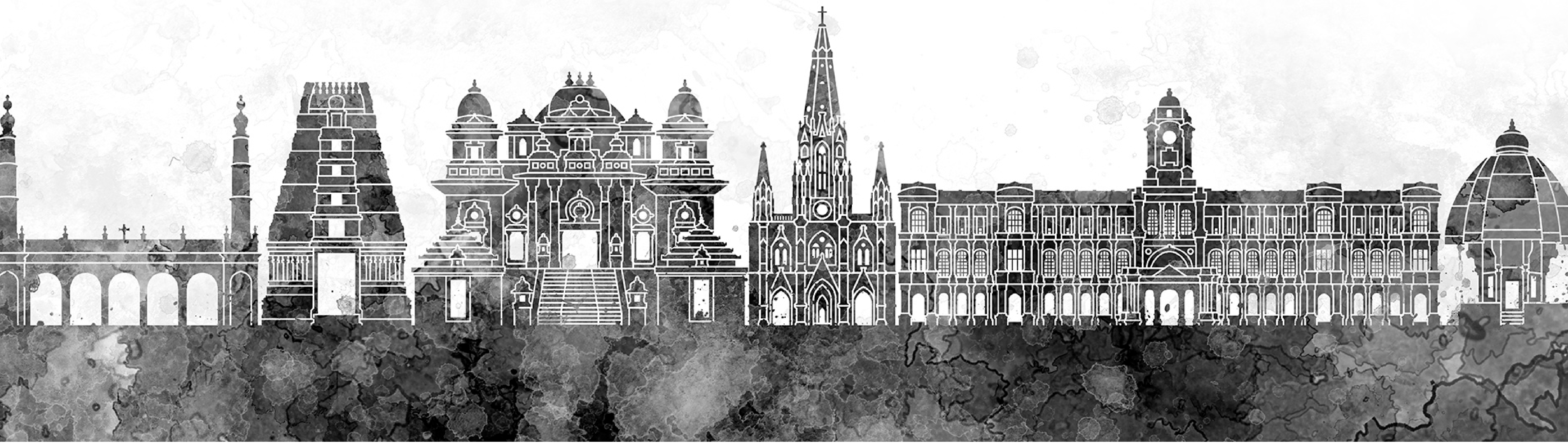


CHENNAI

RESIDENTIAL & OFFICE MARKET

Yashwin Bangera
Assistant Vice President - Research

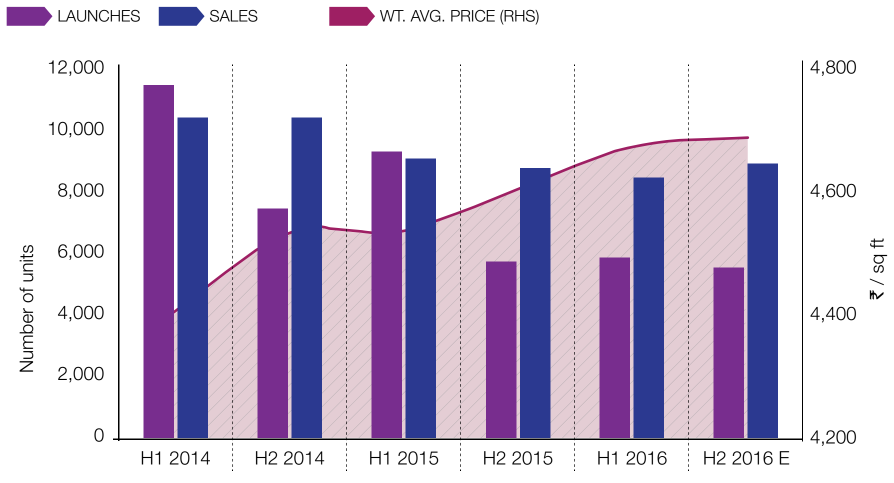
H2 2015 had seen a significant 20% decline in the number of units launched due to the torrential rains that brought the residential real estate market to a near standstill. A spillover effect in terms of an increase in supply was widely expected in H1 2016, but the supply scenario has only deteriorated, as this analysis period saw a much more pronounced 36% drop in supply, to 5,815 units.

RESIDENTIAL MARKET

CHENNAI RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

FIGURE 1

CHENNAI MARKET TRENDS



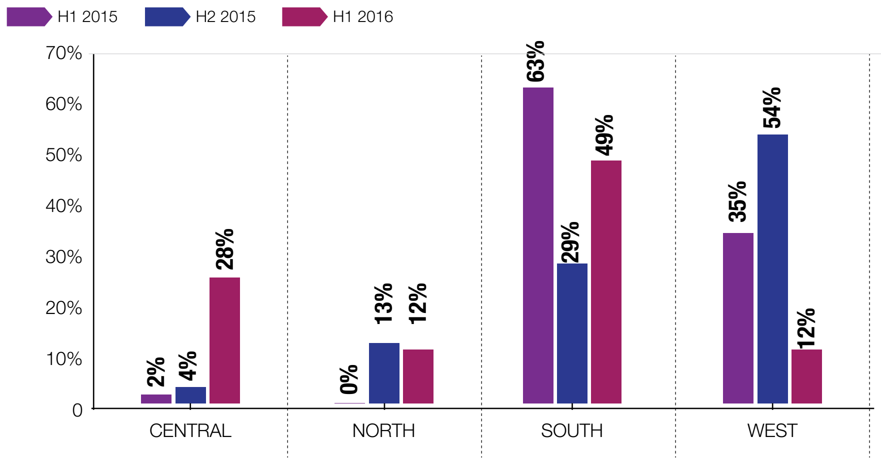
Source: Knight Frank Research

- Sales levels in the Chennai residential market have stagnated since H1 2014, as a lacklustre economic outlook, escalating prices and the infrastructure breakdown during the November 2015 floods discouraged price-conscious homebuyers from entering the market.
- Sales levels that averaged close to 13,500 units every half-yearly period before H1 2014 now average approximately 9,300 units. The drop in sales levels shows some signs of stemming, with H1 2016 seeing a 7% drop YOY compared to the more pronounced 15% drop seen in the preceding period.
- This receding homebuyer interest has forced developers, in turn, to reduce the pace of their launches in a bid to reduce inventory pressure. The ongoing clampdown on development approvals by the ruling government has also played a significant part in causing the supply numbers to deteriorate.
- H2 2015 had seen a significant 20% decline in the number of units launched due to the torrential rains that brought the residential real estate market to a near standstill. A spillover effect in terms of an increase in supply was widely expected in H1 2016, but the supply scenario has only deteriorated, as this analysis period saw a much more pronounced 36% drop in supply, to 5,815 units.
- However, this excessive reduction in supply, compared to the sales levels, has also caused the unsold inventory level to fall to a four-year low, at 33,862 units.
- The weighted average prices have been growing, but at a steadily declining rate since H2 2012, when they grew at 10.4%, and now stand at 1.4% YOY at the end of H1 2016.
- We do not expect this freefall in launches to continue in H2 2016, as the last three months of the current analysis period saw a significant momentum build up in terms of buyer enquiries and development applications alike.
- We expect H2 2016 to see 5,350 units in terms of supply – approximately 9% lower YOY.
- We believe that the sales levels will recover from the current lows and reach approximately 8,900 units in the following period – equal to the level achieved in H1 2015.
- This contraction in supply, coupled with a recovery in the sales levels, will support market health and set the stage for a more robust recovery.

MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

FIGURE 2

MICRO-MARKET SPLIT OF LAUNCHED UNITS



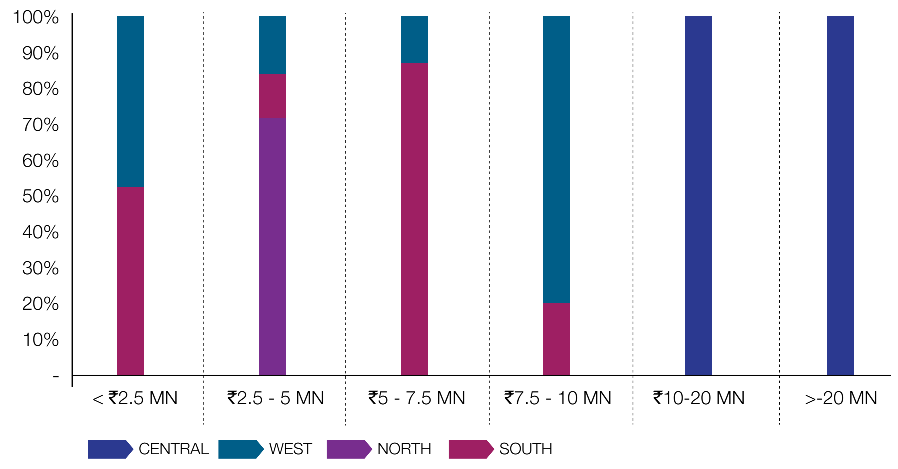
Source: Knight Frank Research

H1 2015:	H2 2015:	H1 2016:
9,102 units	5,854 units	5,815 units

- The South Chennai micro-market, which was the hardest hit during the November rains, has seen a healthy recovery in the number of units launched, while the supply situation in West Chennai has worsened due to a logjam in the approvals process.
- South Chennai accounted for over half of the units launched during the period and saw the bulk of these launches take place in locations such as Mambakkam, Vandalur, Pallavaram and Urapakkam, which saw muted activity during the preceding period.
- Premium Central Chennai locations such as Anna Nagar, Gopalapuram and MRC Nagar witnessed a large number of units launched as well, and caused the total number of units launched in this micro-market to eclipse that of West Chennai.
- Nearly all the project launches with average ticket sizes above ₹10 mn were launched in Central Chennai.

FIGURE 3

TICKET SIZE SPLIT OF LAUNCHES DURING H1 2016

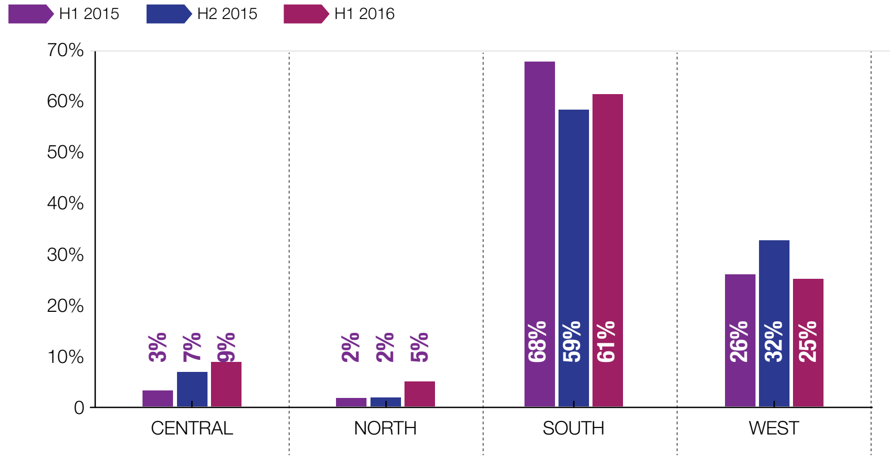


Source: Knight Frank Research

The South Chennai micro-market, which was the hardest hit during the November rains, has seen a healthy recovery in the number of units launched, while the supply situation in West Chennai has worsened due to a logjam in the approvals process.

MICRO-MARKET-WISE RESIDENTIAL SALES

FIGURE 4
MICRO-MARKET-WISE RESIDENTIAL SALES



Source: Knight Frank Research

H1 2015: 9,091 units	H2 2015: 8,792 units	H1 2016: 8,450 units

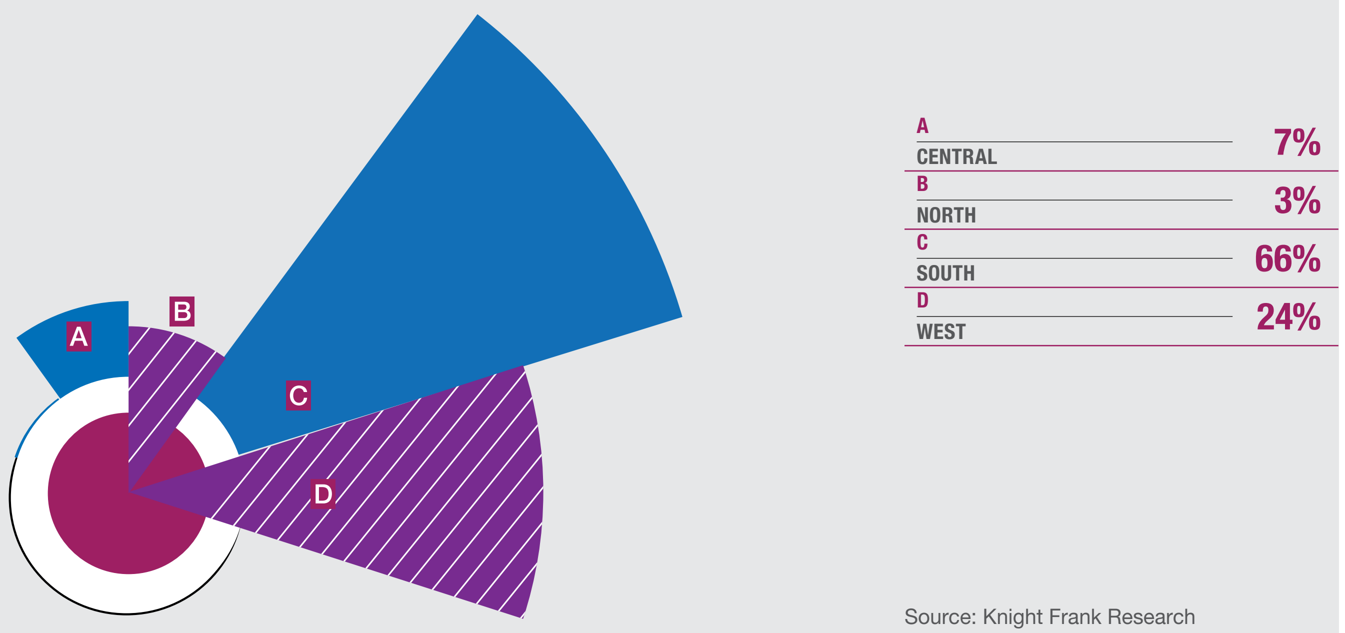
- Buyer behaviour has been largely consistent across the last three periods, with a steady increase in buyer interest in Central Chennai locations as the latent demand responded to the increasing supply over the last two periods.
- Buyers responded favourably to lower-priced residential projects in the West zone and kept sales levels steady in spite of a drop in supply. The Western micro-markets, such as Kolapakkam and Maduravoyal, saw more traction due to an increased uptake of the comparatively lower-priced inventory and good connectivity with SBD locations such as Mount–Poonamallee High Road and Valasaravakkam.
- Ozone Group, Prime Lifespaces, Casa Grande and Ceebros Construction were the most active during this period and contributed to over half of the units launched in H1 2016.

H2 2015 had seen a significant 20% decline in the number of units launched due to the torrential rains that brought the residential real estate market to a near standstill. A spillover effect in terms of an increase in supply was widely expected in H1 2016, but the supply scenario has only deteriorated, as this analysis period saw a much more pronounced 36% drop in supply, to 5,815 units.

MICRO-MARKET	LOCATIONS
CENTRAL CHENNAI	T. Nagar, Alandur, Nungambakkam, Kodambakkam, Adyar, Kilpauk
WEST CHENNAI	Porur, Ambattur, Mogappair, Iyyappanthangal, Sriperumbudur
SOUTH CHENNAI	Perumbakkam, Chrompet, Sholinganallur, Guduvancheri, Kelambakkam
NORTH CHENNAI	Tondiarpet, Kolathur, Madhavaram, Perambur

CHENNAI METROPOLITAN REGION MAP

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF JUNE 2016



Source: Knight Frank Research

The Central Government's recent decision to support the 9-km extension of the Chennai Metro from Washermanpet to Wimco Nagar is expected to boost the residential viability of this micro-market.

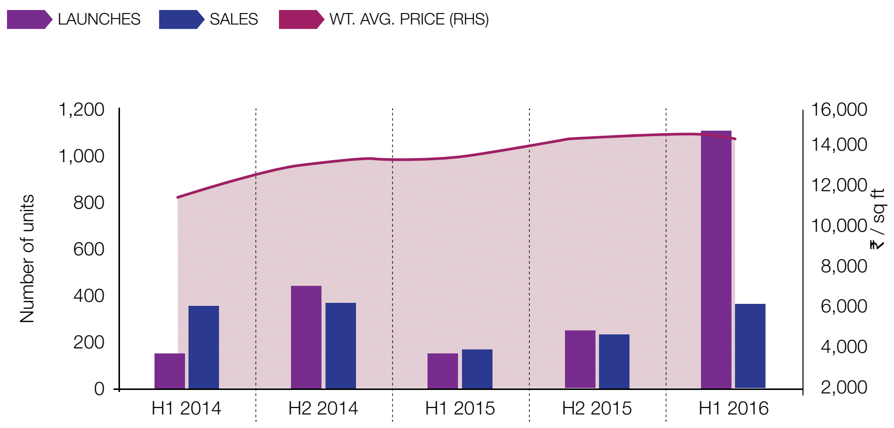
- Nearly 90% of the under-construction units in Chennai are concentrated in the South and West micro-markets of the city.
- Comparatively poor connectivity to office market locations and the lack of social infrastructure has left very little incentive for the Chennai homebuyer to look north for houses. This has caused developers to shun this part of the city and focus their energy on more viable locations in West and South Chennai. However, the Central Government's recent decision to support the 9-km extension of the Chennai Metro from Washermanpet to Wimco Nagar is expected to boost the residential viability of this micro-market.
- The shortage of developable land and high prices prevent sizeable development activity in Central Chennai, but it remains the most sought-after residential micro-market of the city.

PREMIUM RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

MICRO-MARKET	PREMIUM LOCATIONS
CENTRAL CHENNAI	Nungambakkam, R. A. Puram, Alwarpet, T. Nagar, Mylapore, Royapettah, Kilpauk, Anna Nagar, Teynampet, Adyar
WEST CHENNAI	K. K. Nagar, Thiruvanmiyur, Valasaravakkam
SOUTH CHENNAI	Injambakkam, Palavakkam, Uthandi

FIGURE 5

PREMIUM MARKET TRENDS



Source: Knight Frank Research

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

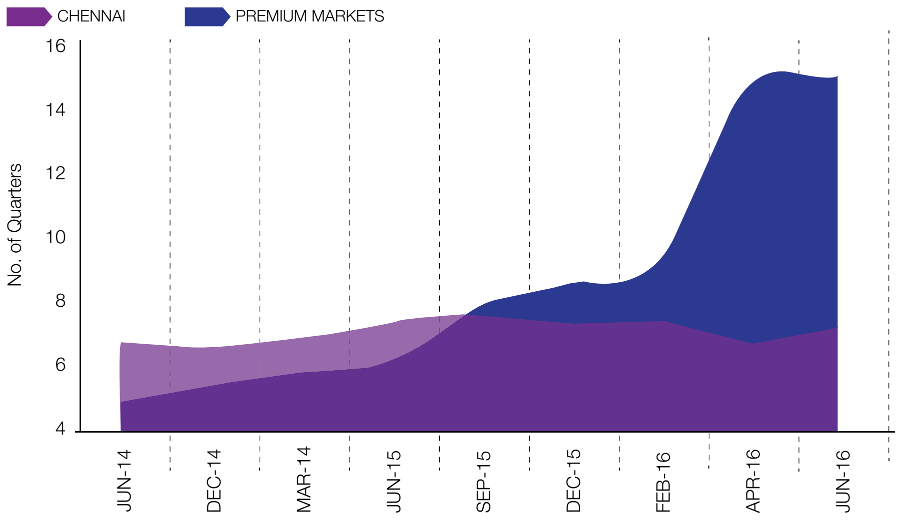
- The premium locations of the city are concentrated largely in Central Chennai areas, such as Nungambakkam, Adyar and R. A. Puram, and in some locations with a high aspirational value in South and West Chennai, such as Palavakkam, Injambakkam, Uthandi, Thiruvanmiyur and K. K. Nagar.
- The premium market in Chennai has been better insulated against market vagaries compared to the city's residential market, as there was relatively little supply in the early years of this decade compared to the situation today.
- The Chennai market had a significantly higher appetite for premium residential products compared to the supply on offer. The increasing redevelopment of bungalows in central locations, the breakdown of joint families among the affluent and the dearth of lifestyle residential products have been strong drivers of the premium segment.
- H1 2016 bucked the overall market trend and saw a spurt in the supply of premium residential products, especially in Anna Nagar, Gopalapuram and Uthandi, which hold nearly 900 of the 1,100 units launched during this period.
- Prices in this segment have increased 42% since H1 2013, compared to the overall residential market, which, at 11%, has not performed even half as well during the same period. The strong price growth and low inventory levels in this segment have encouraged developers to increase the supply in the market.
- This steep increase in supply has pushed the QTS level of the premium segment well over that of the Chennai residential market, and it now has nearly four years of inventory.

H1 2016 bucked the overall market trend and saw a spurt in the supply of premium residential products, especially in Anna Nagar, Gopalapuram and Uthandi, which hold nearly 900 of the 1,100 units launched during this period.

CHENNAI MARKET HEALTH

FIGURE 6

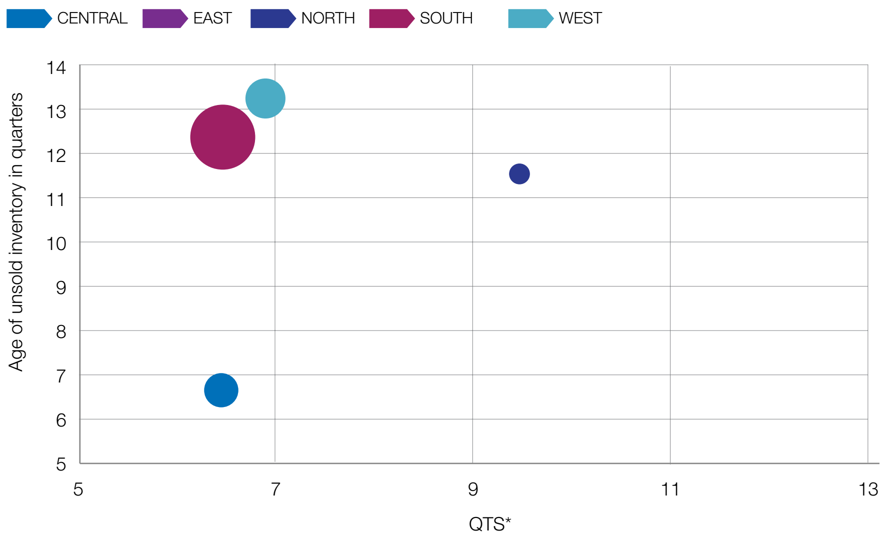
QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS



Source: Knight Frank Research

FIGURE 7

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

- The quarters to sell unsold inventory (QTS) is the number of quarters required to exhaust the existing unsold inventory in the market. The existing unsold inventory is divided by the average sales velocity of the preceding eight quarters in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market.
- The Chennai residential market currently has a QTS of 7.4, with an average age of inventory of 12.1 quarters. The reducing unsold inventory has been pulling down the QTS since the beginning of 2015 and pointing to an improvement in the overall health of the market.
- South and West Chennai contain the largest chunks of unsold inventory in the Chennai market and have a QTS of 7 and 8 quarters, respectively. Relatively affordable residential prices, proximity to employment hubs and improving social infrastructure continue to drive both these micro-markets.
- North Chennai is the worst-performing micro-market, with a QTS and age of inventory of nearly 11 quarters, though its QTS has been reducing over the last three analysis periods.

METRO PUSH TO NORTH CHENNAI

North Chennai has evolved primarily as an industrial area dotted with locomotive workshops and port-related activities. Two major ports, namely Chennai Port and Ennore Port, are located in this region. The lack of transport connectivity to the CBD and other employment hubs, along with the dearth of adequate social infrastructure, has restricted the white-collar homebuyer from exploring residential options in this part of Chennai. A few destinations, such as Ennore, Tondiarpet, Madhavaram and Perambur, are the primary residential locations in these areas, with large under-construction projects. The residential demand in North Chennai is driven by business/ trading communities and public sector employees.

The Central Government's recent decision to support the 9-km extension of the Chennai Metro from Washermanpet to Wimco Nagar will boost the residential viability of the area. The move is aimed at providing better access to public transport in the densely populated area dominated by industrial workers and helping them travel to the central business district of the city for work. Travelling from North Chennai to other parts of the city will also be a lot easier and an estimated 1.6 lakh commuters are expected to use the metro every day. The bulk of the residential inventory in this zone is currently priced at ₹2,800–4,800 per sq ft – less than half of the prices prevailing in Central Chennai which is the closest established residential zone and significantly lower than the west and south of Chennai. A greater emphasis on the creation of social infrastructure, such as educational institutions and hospitals, will go a long way in attracting the attention of the upwardly mobile IT workforce to these locations. A drastic reduction in commute time and the resulting ease of commute that the modern metro provides will also have a favourable impact on the residential attractiveness and viability of this zone. This will eventually result in increased interest from homebuyers and motivate developers to explore development opportunities in the northern locations.

The acceptability of the metro by the general population was perceived as an obstacle, as the Alandur–Koyambedu phase that was inaugurated early last year took longer than expected to gain popular acceptability. However, passenger traffic has been increasing steadily, as people travelling to Velachery take the metro till Alandur. This metro line is being extended to St. Thomas Mount, which also houses the soon to be commissioned MRTS station. This will enable residents to switch lines seamlessly from the metro to the MRTS and vastly improve rail connectivity to the OMR and Central Chennai. The metro has also proved to be especially reliable, as it continued to be operational even during the floods that battered the city during the latter part of last year and has definitely been a strong driver for the real estate market in the south. We expect that northern locations such as Ennore will also see a similar pick-up in real estate activity due to the commissioning of the metro.

PRICE MOVEMENT IN H1 2016

WEIGHTED AVERAGE PRICE MOVEMENT IN CHENNAI

LOCATION	PRICE RANGE IN H2 2016 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Chennai	4,660	2.9%	1.4%
Premium markets	14,590	8.0%	3.0%

- The sharp decline in launches and reducing unsold inventories in tandem with comparatively steady sales levels have stemmed the decline in price growth. H1 2016 saw prices grow at close to 3% YOY, approximately the same growth rate achieved in H1 2015.
- We expect the weighted average prices in Chennai to grow at a more conservative 2% YOY in H2 2016, as we believe that the sales levels will continue hold and that launches will continue to trend down for the rest of the year.
- We believe that though the price growth in the premium segment locations will be tempered, it will continue to outperform the market and match the current analysis period's 8% growth in H2 2016 as well.

PRICE MOVEMENT IN SELECT LOCATIONS

LOCATION	MICRO-MARKET	PRICE RANGE IN H2 2015 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Anna Nagar	Central	10,700–11,900	3%	1%
Adyar	Central	16,650–17,800	1%	1%
Kilpauk	Central	14,800–16,000	4%	0%
T. Nagar	Central	18,250–19,350	4%	1%
Alandur	Central	7,000–7,500	3%	2%
Porur	West	5,200–5,500	2%	2%
Ambattur	West	4,100–4,600	2%	1%
Mogappair	West	6,200–6,700	2%	2%
Iyyappanthangal	West	4,000–4,500	2%	2%
Sriperumbudur	West	2,700–3,200	2%	1%
Perumbakkam	South	4,100–4,500	1%	0%
Chrompet	South	4,200–4,700	1%	0%
Sholinganallur	South	4,500–5,500	2%	1%
Guduvancheri	South	3,200–3,700	1%	0%
Kelambakkam	South	3,500–3,900	0%	0%
Tondiarpet	North	4,500–4,800	2%	0%
Kolathur	North	4,800–5,500	2%	1%
Madhavaram	North	4,500–5,000	2%	0%
Perambur	North	6,200–6,500	2%	1%

Source: Knight Frank Research

OUTLOOK FOR THE NEXT SIX MONTHS

PROJECTIONS	H2 2015	H2 2016E	GROWTH
Launches (units)	5,854	5,350	-9%
Sales (units)	8,790	8,900	1%
Weighted average price (₹/sq ft)	4,590	4,675	2%

Source: Knight Frank Research

- Chennai is currently undergoing a prolonged phase of time correction, characterised by a persistent slump in launches and sales levels, wherein market players are wary about entering the market at this time.
- Our interactions with the developer and investor community corroborate our analysis and lead us to believe that the recent slump in the Chennai residential market was accentuated by the November floods and the ongoing logjam in new project approvals, and that this situation will ease in the months to come. While residential supply will take some more time to revive due to the still high unsold inventory levels, we believe that H2 2016 will see a 9% de-growth YOY compared to the 20% fall YOY in H2 2015.
- We believe that the sales levels, however, will prove to be much stronger and match the H2 2015 levels in the next period.
- We expect the weighted average price in Chennai to increase at a slightly subdued rate, by close to 2% in H1 2016 compared to H2 2015, on the back of the improved sales volume. The price growth will continue to be capped until the sales volumes start approaching the 14,000-unit average per six-month period that the Chennai market had clocked prior to 2013, compared to the sub-10,000 units averaged by the market since then.
- The consistent decline in the unsold under-construction inventory levels and steady QTS levels since H1 2015 lead us to believe that the Chennai market is bottoming out and is close to a point of recovery in sales numbers.
- The premium market will face increasing pressure, as is seen in its steeply rising QTS; however, the above-average price growth and the smaller number of units relative to its specific demand base lead us to believe that the price growth in this segment will continue to exceed the market average, though slightly muted compared to the earlier periods.
- The effects of a steadily-improving office market, thanks to improving fundamentals in the IT/ITeS and manufacturing sectors, are bound to rub off on the residential market as well. Hence, locations such as Pallikaranai, Medavakkam, Perumbakkam and locations on the Pallavaram–Thoraipakkam road that are well connected to IT/ITeS office hubs on Old Mahabalipuram Road with improving social infrastructure are expected to see increasing market activity in the coming months.

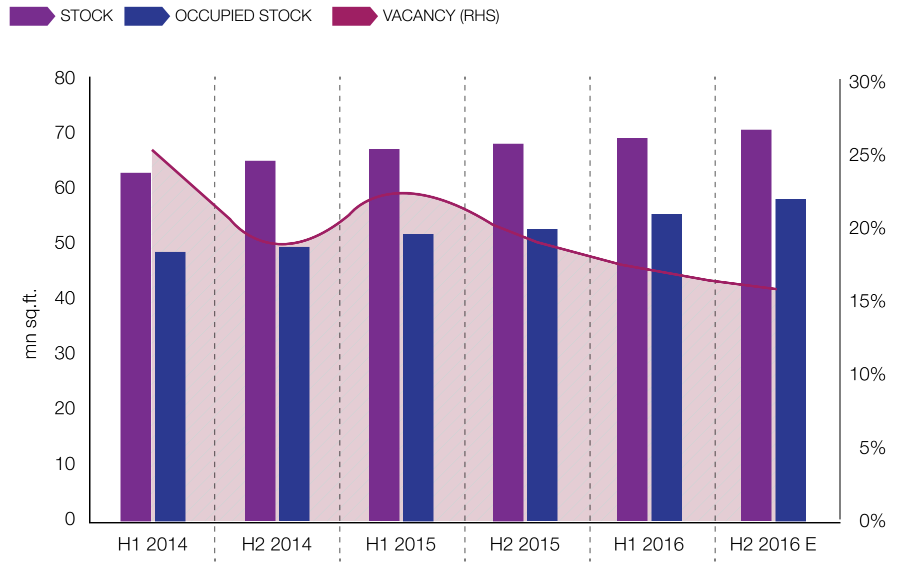
We expect the weighted average prices in Chennai to grow at a more conservative 2% YOY in H2 2016, as we believe that the sales levels will continue hold and that launches will continue to trend down for the rest of the year.

OFFICE MARKET

CHENNAI OFFICE MARKET STOCK, NEW COMPLETIONS, TRANSACTION AND VACANCY TRENDS

FIGURE 1

OFFICE SPACE STOCK AND VACANCY LEVELS

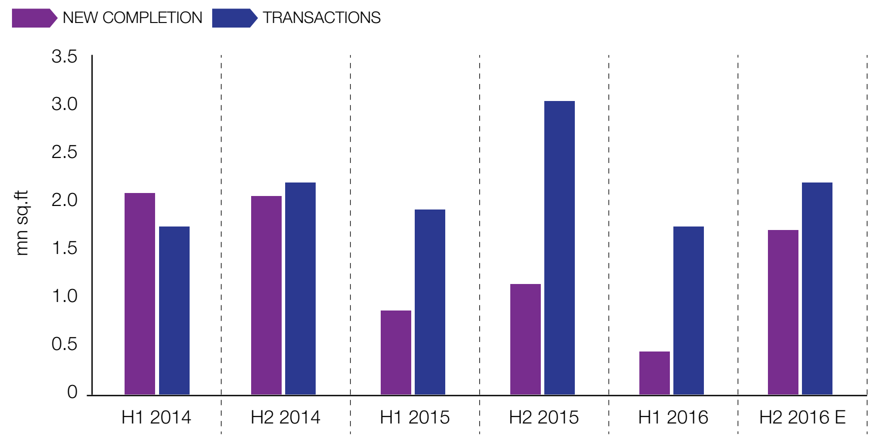


- The Chennai office space market could not maintain the momentum in transactions it had gained over the last three analysis periods when H2 2015 saw the highest quantum of transactions in history.
- The lack of good quality office spaces caused the current period to experience a drop in transaction activity. H1 2016 2015 recorded 1.8 mn sq ft of transactions, 9% lower than the 2 mn sq ft transacted in H1 2015 and the lowest level in the past two years.
- The fact that the city saw just 2.5 mn sq ft of supply since H1 2015 compared to 6.8 mn sq ft of transaction volume, has helped push down vacancy levels from 22.5% in h1 2015 to 17% h1 2016.

The fact that the city saw just 2.5 mn sq ft of supply since H1 2015 compared to 6.8 mn sq ft of transaction volume, has helped push down vacancy levels from 22.5% in h1 2015 to 17% h1 2016

FIGURE 2

NEW COMPLETIONS AND TRANSACTIONS

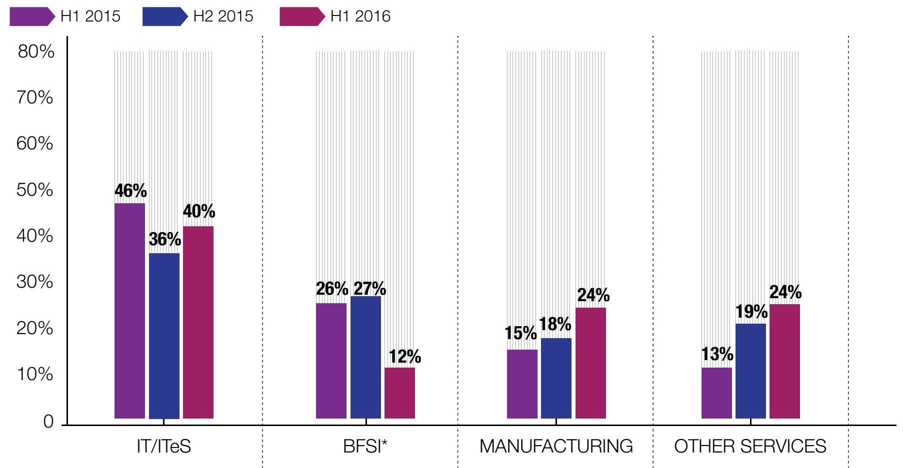


Source: Knight Frank Research

SECTOR ANALYSIS

FIGURE 3

SECTOR-WISE SPLIT OF TRANSACTION



Source: Knight Frank Research

Note: BFSI includes BFSI support services

H1 2015: 2.0 mn sq ft	H2 2015: 3.1 mn sq ft	H1 2016: 1.8 mn sq ft

- The Chennai office market has traditionally been anchored by the IT/ITeS sector, but recent periods—especially the last 18 months—have seen the manufacturing and Other services sectors also gaining in market share.
- The BFSI sector that had built up some momentum over the past four periods saw its share plummet to 12% as BFSI majors could not expand or set up new back office operations due to the lack of large format office spaces.
- The IT/ITeS sector continues to be the largest consumer in the Chennai office space market despite losing market share in recent times as the city is plagued by a dearth of good quality office space supply. The sector accounted for 0.7 mn sq ft of office space transactions during H1 2016.Infosys, Birlasoft and Episource were among the most active IT/ITeS sector companies during this period.
- The shares of the manufacturing and other services sectors have been on the rise as bulk of the quality office spaces available in recent times conformed to their requirements compared to those of IT/ITeS companies and BFSI back office operations. Companies such as Renault Nissan, Ford and the Indian Public School took up significantly large office spaces in the city.

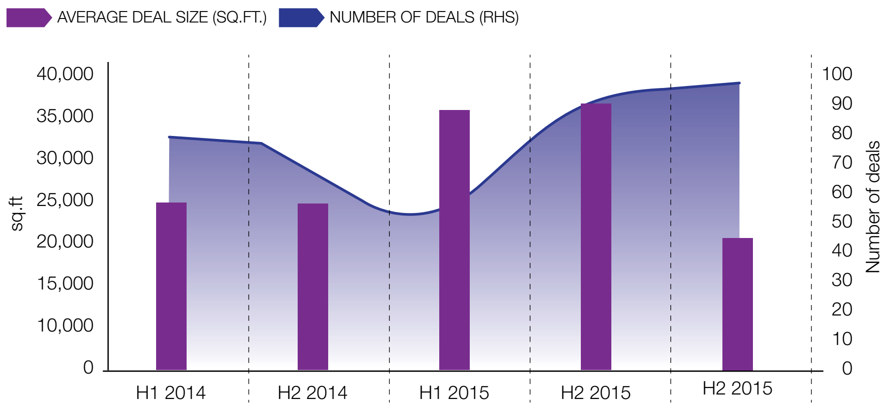
The IT/ITeS sector, whose share in transaction volumes had fairly lessened in the last few quarters, strove to maintain its resurgent stance in H1 2016. The sector accounted for 58% of the total transacted volume in H1 2016 as compared to H1 2015, which had seen a 50% share. Despite fewer e-commerce transactions in H2 2015 as compared to the large-size deals in H1 2015, e-commerce still holds great potential in the forthcoming period.

The peripheral business districts saw a drop in demand, while the CBD and SBD OMR experienced a surge in H2 2015

DEAL SIZE ANALYSIS

FIGURE 4

AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

- In spite of seeing the lowest transaction volumes in two years, H1 2016 saw the maximum number of transactions during the same period as occupier demand continues to remain strong even at lower deal sizes. This bodes well for the market and depicts its underlying strength.
- An increase in supply of suitable office spaces for large format occupiers like the IT/ITeS and BFSI (back office) sectors will definitely see average deal sizes move up as they wait on the sidelines supply to come up.

SELECT TRANSACTIONS

OCCUPIER	BUILDING	LOCATION	APPROX. AREA (SQ FT)
Renault Nissan	Cyber Vale	Mahindra World City	104,000
Fidelity	Ramanujan TRIL	Taramani	70,000
Renault Nissan	Cyber Vale	Mahindra World City	65,000
Ford	SP Infocity	Kandanchavadi	62,000
Infosys	Tidel Park	Taramani	50,000
Citi Bank	Ramanujan TRIL	Taramani	48,000
BNP Paribas	SP Infocity	Kandanchavadi	48,000
The Indian Public school	AR Holdings	Perungudi	46,000
E&Y	DLF	Manapakkam	45,000

Source: Knight Frank Research

BUSINESS DISTRICT ANALYSIS

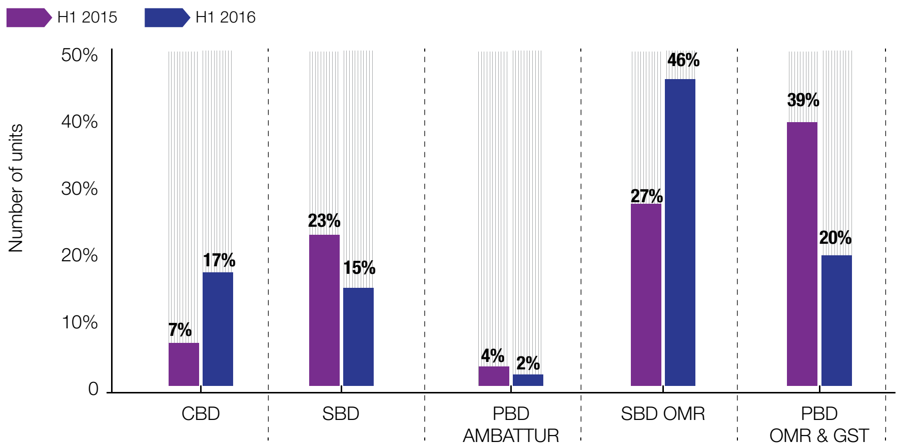
BUSINESS DISTRICT CLASSIFICATION

BUSINESS DISTRICTS	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

- The peripheral business districts saw a drop in demand, while the CBD and SBD OMR experienced a surge in H2 2015.
- Dearth of good quality large format office spaces have caused IT/ ITeS companies to postpone their leasing decisions while automobile and consulting companies such as Ford, Renault-Nissan and E&Y have taken up spaces ranging from 50,000 sft to 1,00,000 sft that are ideal for their operations. This has resulted in a consistent increase in their market share of transactions.
- Renault-Nissan was the most active corporate during H1 2016 and inked two leases in Cyber Vale at Mahindra World City totalling to 172,000 sq ft.
- Just three locations—Kandanchavadi, Taramani and Mahindra Worl City—accounted for over half of the total transacted volume in H1 2016.

FIGURE 5

BUSINESS DISTRICT-WISE TRANSACTION SPLIT



Source: Knight Frank Research

H1 2015: 2.0 mn sq ft	H1 2016: 1.8 mn sq ft

Three locations—Kandanchavadi, Taramani and Mahindra Worl City—accounted for over half of the total transacted volume in H1 2016.

BUSINESS DISTRICTS OF CHENNAI

THE OFFICE MARKET JUGGERNAUT CONTINUES TO ROLL

Chennai's rapid progress over the past decade as an industrial hub in South India due to the emergence of various manufacturing industries such as auto & auto ancillary, electronic hardware, apparel and engineering has resulted in the development of a dynamic office space market in the city. This has been further supported by the robust growth in the IT/ITeS sector, as favourable government policies, excellent infrastructure and the availability of a talent pool drew a large number of companies to set up their global delivery centres here. The growing demand from this sector led to the emergence of suburban and peripheral business districts, where the availability of large tracts of land helped in the development of office space and encouraged occupiers to look for cheaper and more viable office spaces further away from the city centre.

Chennai currently has an office stock of approximately 67.8 mn sq ft, with vacancy levels at 17%. This is vastly different from 2013, when the vacancy levels were alarmingly high at 26%. Taking cognizance of the weak market conditions, developers almost put a stop to further office supply over the next two years, causing the market conditions to normalise as transaction volumes remained steady and occupier sentiment began to improve. Currently, there is very little good quality viable office space in the market, as developers have been very cautious in adding new supply.

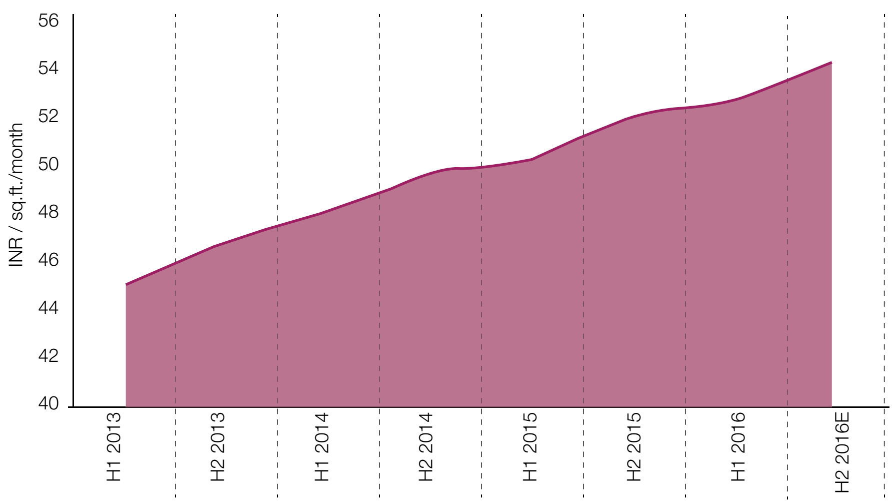
In the meanwhile, some locations, such as Guindy and Mount Poonamallee High Road in the Secondary Business District (SBD), have witnessed prolific growth in occupier interest due to the high quality of office space and the specific niches that they cater to. Guindy has less than 3 mn sq ft of office space, with vacancy levels at 13%. The office buildings here are characterised by their high quality construction and amenities, and comparatively smaller floor plates, ranging from 8,000–20,000 sq ft. Properties in these locations have attracted banking, media and consulting companies looking to move from the higher priced and more congested CBD areas to better quality office spaces in the SBD. This micro-market comfortably commands rentals of ₹65 per sq ft, as it provides a similar corporate office environment as the CBD locations, such as Nungambakkam and T. Nagar, but at 20–30% discounts compared to these locations.

Mount Poonamallee High Road is a 7-km stretch that connects Guindy to Porur, and has established itself as a practical alternative for IT/ITeS companies. It currently has approximately 10 mn sq ft of office space, largely dominated by the 7 mn sq ft DLF IT Park, which is almost fully occupied, and will be adding another 1 mn sq ft in the near future. Characterised by large floor plates, integrated leisure amenities such as eateries, and large open spaces tailor-made to suit the requirements of the young IT employee, this stretch is now a viable alternative to the much more established Old Mahabalipuram Road in spite of comparable rentals ₹60 - 65 of prevailing here. Vacancy rates in this location are currently at 15% and most of these are concentrated in lower grade properties that do not really form viable office stock for the IT/ITeS sector. Both these locations are expected to sustain and grow occupier interest as new supply gets infused. Guindy, especially could see a lot of commercial office space development as the existing industrial spaces get shifted to the city's periphery and get converted to much more lucrative office properties.

SBD locations such as Perungudi, Guindy and Taramani continue to witness an above-average rental growth, particularly due to their specific offerings for medium-scale enterprises that are looking for office spaces of up to 0.1 mn sq ft.

RENTAL TREND

FIGURE 3
WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

- Rental values have seen a sustained rise since 2012 on the back of steady demand and a lesser amount of office space inventory coming online in successive years.
- The lack of vacant office stock, coupled with steady demand, has pushed the weighted average rentals in the Chennai office space market to ₹52 per sq ft per month at the end of H1 2016 – a significant 4% growth YoY.
- Rental growth was healthy across locations, and SBD locations such as Perungudi, Guindy and Taramani continue to witness an above-average rental growth, particularly due to their specific offerings for medium-scale enterprises that are looking for office spaces of up to 0.1 mn sq ft.

BUSINESS DISTRICT-WISE RENTAL MOVEMENT

BUSINESS DISTRICT	RENTAL VALUE RANGE IN H2 2015 (₹/SQ FT/MONTH)	12 MONTH CHANGE	6 MONTH CHANGE
CBD & off-CBD	60-100	4%	2%
PBD OMR & GST Road	22-48	3%	1%
SBD OMR	45-90	4%	1%
PBD Ambattur	28-36	2%	1%
SBD	55-56	3%	2%

Source: Knight Frank Research

OUTLOOK FOR THE NEXT SIX MONTHS

PROJECTIONS	H2 2015	H2 2016E	GROWTH
New supply (mn sq ft)	1.2	1.6	35%
Transaction (mn sq ft)	3.1	2.2	-29%
Vacancy (%)	19%	16%	
Weighted average rental (₹ / sq ft / month)	52	54	4%

Source: Knight Frank Research

- We believe that transaction volumes in H2 2016 will exceed that of the current period as the 1.6 mn sq ft that is expected to come online in the following six months will boost transaction levels. However, these transaction numbers will still be a 29% YoY drop compared to H2 2015 as Chennai experienced its highest transacted volume in that period.
- Based on our analysis, the current rate of enquiries and our interactions with market players, we estimate that approximately 2.2 mn sq ft of office space will be absorbed in H2 2016. This, in tandem with a limited 1.4 mn sq ft scheduled for delivery in the Chennai office space market, will force vacancy levels to go below 16% and support sustainable rental growth, inevitably setting the stage for further office space development.
- Going forward, we expect that the current momentum in demand will sustain itself and have a direct impact on rentals. We project rentals to maintain their 4% growth rate, from ₹52 per sq ft per month in H2 2015 to approximately ₹54 per sq ft per month by H2 2016.
- Improved accessibility through infrastructure initiatives such as the metro, the quality of office office spaces and lower rentals compared to the CBD and off-CBD locations continue to enhance the the SBD's appeal as a desirable occupier destination.
- Locations such as Guindy, in the SBD, have already seen a run-up in occupier interest and rents alike, and adjoining locations, such as Mount-Poonamallee Road and Nandanam, should see development interest as viable land becomes scarce in the surrounding locations.

We expect that the current momentum in demand will sustain itself and have a direct impact on rentals. We project rentals to maintain their 4% growth rate, from ₹52 per sq ft per month in H2 2015 to approximately ₹54 per sq ft per month by H2 2016

HYDERABAD

RESIDENTIAL & OFFICE MARKET

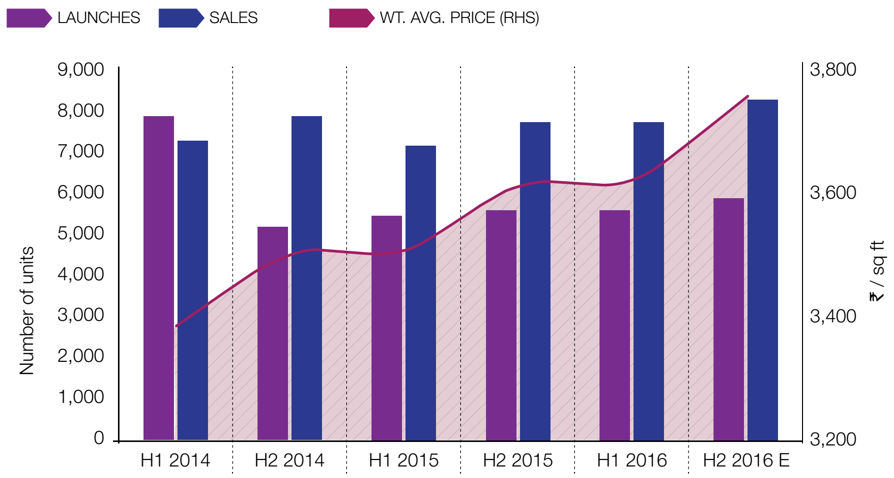
Ankita Nimbekar
Lead Consultant - Research

RESIDENTIAL MARKET

HYDERABAD RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

FIGURE 1

HYDERABAD MARKET TRENDS



Source: Knight Frank Research

Lower new launches, compared to sales has helped the unsold under-construction inventory levels significantly which has reached at a five year low.

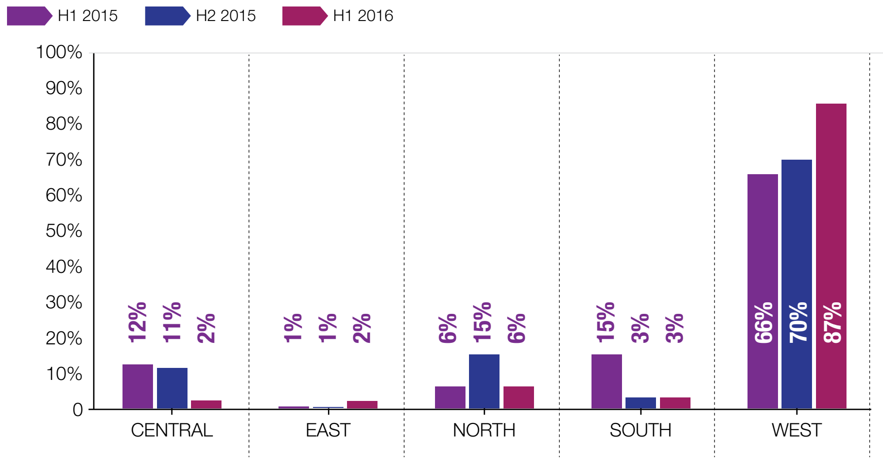
- The Hyderabad market is riding high on new-found stability: the residential market is on a growth trajectory, as both new launches and the sales volume show an upward movement in H1 2016.
- Post the resolution of the Telangana issue, the Hyderabad residential market took some time to reach equilibrium. Developers are steadily increasing the number of new launches since H1 2014 in response to the consistent demand. H1 2016 saw a 4% growth in the number of unit launches compared to same period in 2015. Nearly 5,700 residential units were launched in H1 2016.
- On the other hand, home sales have outstripped new launches for the second straight year. Since Hyderabad is an end-user driven market and most of the homebuyers prefer ready-to-move-in properties, the muted project launches have not impacted the market much. Nearly 7,700 residential units were sold during H1 2016, showing a growth of 8% compared to the same period in 2015.
- Fewer new launches compared to sales has reduced the unsold under-construction inventory significantly, bringing it to a five-year low at 29,477, which is 12% lower than H1 2015.
- The ongoing supply crunch and the reduction in unsold inventory have helped sustain price growth. The weighted average prices in the Hyderabad residential market grew by 3% YOY in H1 2016.

MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

MICRO-MARKET	LOCATIONS
HMR – CENTRAL	Begumpet, Banjara Hills, Jubilee Hills, Panjagutta, Somajiguda
HMR – WEST	Kukatpally, Madhapur, Kondapur, Gachibowli, Raidurgam
HMR – EAST	Uppal, Malkajgiri, L.B. Nagar
HMR – NORTH	Kompally, Medchal, Alwal, Quthbullapur
HMR – SOUTH	Rajendra Nagar, Shamshabad

FIGURE 2

MICRO-MARKET SPLIT OF LAUNCHED UNITS



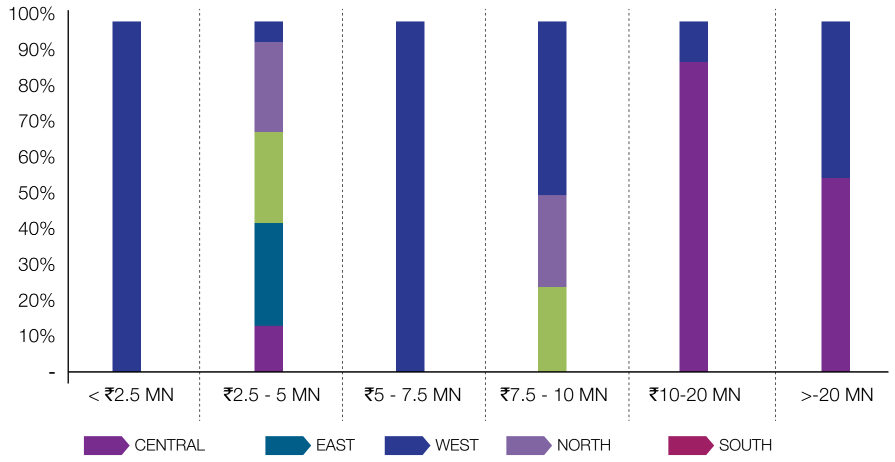
Source: Knight Frank Research

H1 2015: 5,400 units	H2 2015: 5,740 units	H1 2016: 5,700 units

- West Hyderabad has been contributing the largest share of new launches in the last five years, as its residential appeal has been increasing with time. It attracts most of the development interest in the city. Its proximity to the IT/ITeS and BFSI sector hubs, such as HITEC City and Gachibowli, continue to attract homebuyers.
- Two big project launches by My Home Constructions increased West Hyderabad's share to 87% in H1 2016. Developers have started exploring new locations, such as Puppalguda-Narsingi, as lower prices and proximity to the prime office business districts is a big advantage for this cluster.
- While the West zone continues to dominate the residential market, North Hyderabad locations such as Gajularamaram and Jeedimetla witnessed more development than the other micro-markets. Most of the project launches in these markets are in the price range of ₹2,600–2,900 per sq ft.
- East Hyderabad's share in the new launches has also shown an improvement in H1 2015. This region has much potential to grow further, as land prices are still low compared to the other developed parts of the city. Once Phase II of the ORR is operational, the connectivity issue will also be resolved.

FIGURE 3

TICKET SIZE SPLIT OF LAUNCHES DURING H1 2016



Source: Knight Frank Research

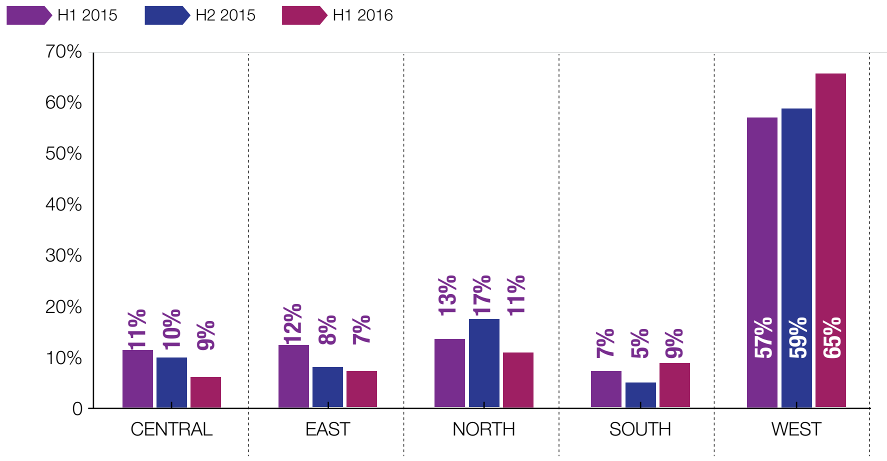
- All the residential micro-markets witnessed project launches in the ₹2.5–5 mn ticket size range, with basic amenities that are preferred by mid-segment buyers.
- The ₹5–7.5 mn ticket sizes saw the most launches, concentrated largely in the West zone. The demand for homes with good amenities is quite high in this zone, as most of the buyers work for IT/ITeS companies and have certain lifestyle expectations from the projects.
- Nearly 61% of the units launched in H1 2016 were under ₹7.5 mn.
- Projects with average ticket sizes above ₹10 mn were launched largely in the western and central locations in H1 2016.
- The fact that West Hyderabad has a healthy representation of projects launched in all ticket sizes emphasises its attraction as a residential destination.

The INR 5-7.5 mn ticket sizes saw the most launches, concentrated largely in the West Zone.

MICRO-MARKET-WISE RESIDENTIAL SALES

FIGURE 3

MICRO-MARKET-WISE RESIDENTIAL SALES

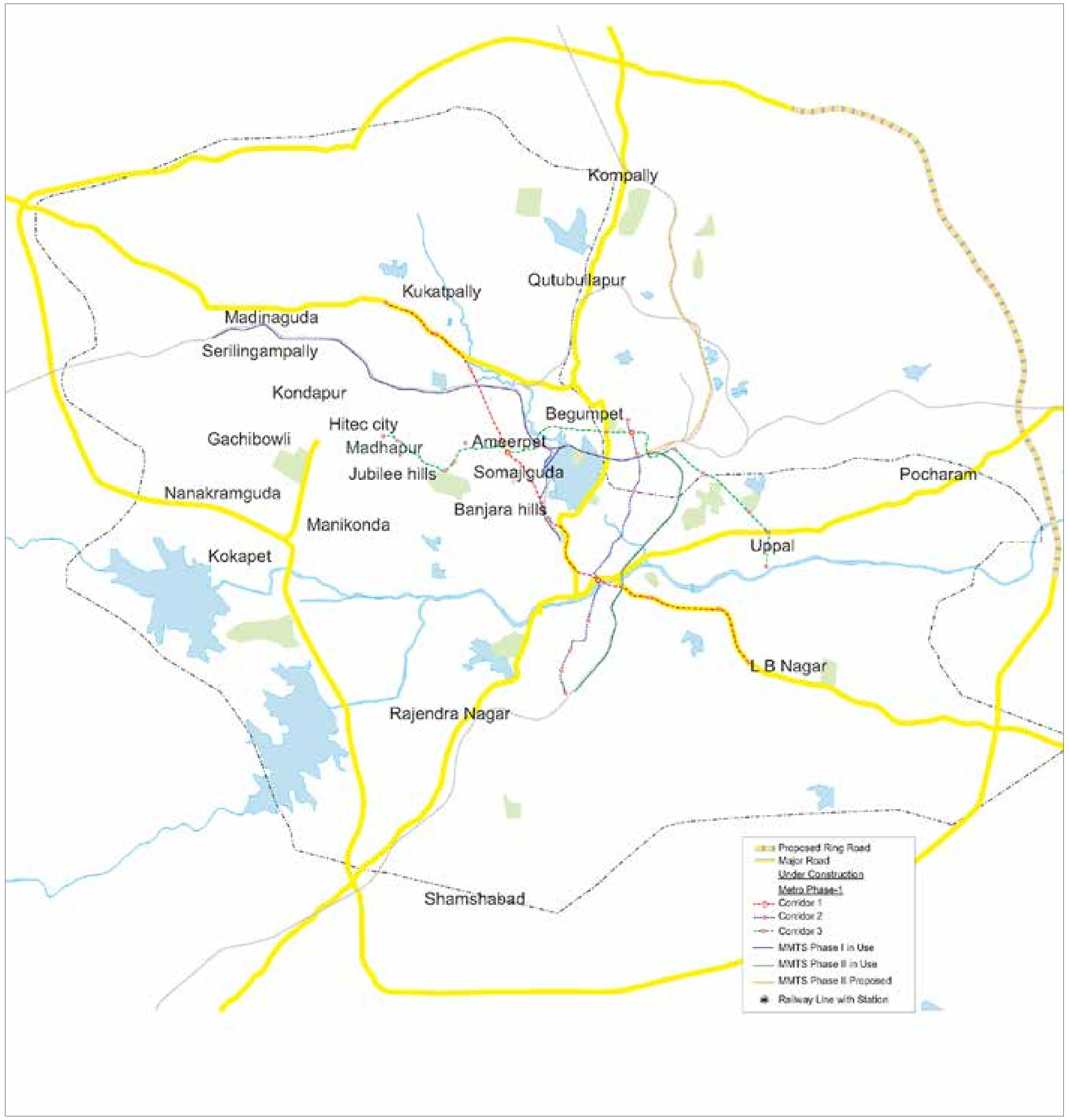


Source: Knight Frank Research

H1 2015: 7,120 units	H2 2015: 7,780 units	H1 2016: 7,700 units

- While the relative shares of the various residential zones in Hyderabad have not deviated much, the West and South zones witnessed an increase in their shares of sales in H1 2016 due to a proportional increase in the number of launches during the same period.
- It is observed that the share of the West zone has been increasing since H1 2015, while the other markets have been losing over the same period. This is largely because buyers have a preference for ready to move in properties closer to the office hubs.

HYDERABAD METROPOLITAN REGION MAP



IS HYDERABAD THE NEW BENGALURU?

Hyderabad's commercial landscape has witnessed a significant change in the last decade. Driven by the IT/ITeS boom in the country, companies such as Accenture, HP, GE, IBM, Convergys and Apple have set up offices in the city. The Hyderabad office market has a stock of 55 mn sq ft of office space, nearly 85% of which is occupied. This market is currently dominated by the IT/ITeS sector, which occupies almost 75% of the operational stock, while the manufacturing and BFSI sectors occupy 9% and 6%, respectively. Low rentals, the ample availability of quality real estate and the presence of a massive talent pool make Hyderabad one of the most attractive destinations for the IT/ITeS sector in India. However, prolonged political uncertainties were hindering the city's growth. The resolution of the Telangana issue and the concerted efforts of the state government to make Hyderabad a business-friendly destination have done wonders for the city. With the political unrest behind it, the city of Nizams could be a good alternative to the IT capital of the country.

Hyderabad boasts excellent infrastructure, both existing as well as planned. It is also the most affordable residential market among the country's top seven cities, which has been instrumental in attracting a large talent pool. The weighted average residential prices in Hyderabad stand at ₹3,540 per sq ft – 25% less than in Bengaluru. The low land prices have drawn a number of IT giants to set up large campuses in the city. Mega investment plans have been lined up by companies such as Google, Amazon and Apple as they plan to set up the largest campuses outside the US in Hyderabad. The recently-unveiled Telangana IT Policy offers a number of incentives for the expansion of the IT/ITeS sector in the state, which will impact Hyderabad positively. The state government is focusing strongly on attracting new investments to Telangana. Some of the significant incentives for IT/ITeS companies include the allocation of government land on long-term leases, especially in high land cost areas in Hyderabad; 100% reimbursement of stamp duty, transfer duty and registration fees; and reimbursement of the cost of filing patents to companies that have R&D units in the state. There are also additional incentives for specific focus areas, which will enhance the IT/ITeS attractiveness of the Hyderabad market.

Sector-specific fiscal incentives and facilitations relevant to the Hyderabad IT/ITeS market:

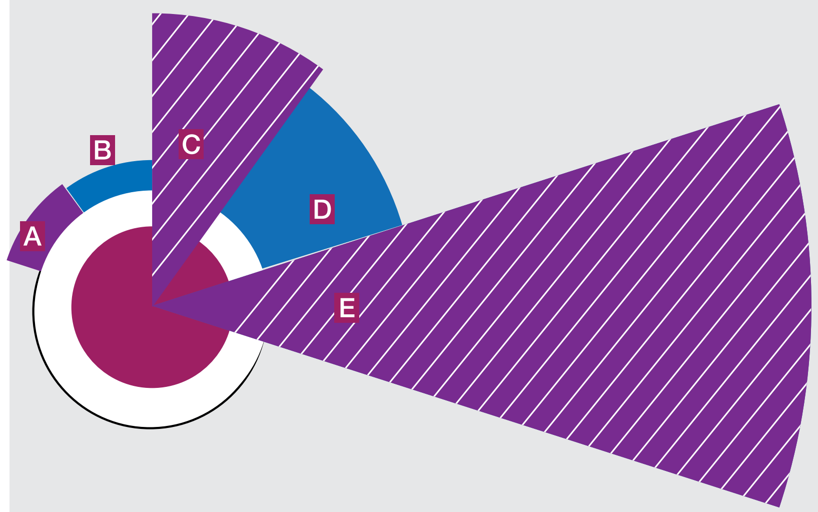
- Mega projects: Specific/tailor-made incentive packages will be offered for mega projects being set up by existing and new IT/ITeS companies, IT parks and IT SEZ developers in the state.
- Start-ups: 1 mn sq ft of workspace dedicated to start-ups will be developed in the next five years; partnering with 20 global accelerators/incubators to build facilities in the PPP mode.
- IT product / R&D companies: The government will provide R&D grants to the tune of 10% of the overall R&D expenses of a company's Telangana operations.

The state is also offering infrastructure incentives, such as exemption from zoning regulations for notified Information Technology Investment Regions (ITIRs), IT SEZs, IT parks and IT campuses in Telangana. All these will not only change the face of the Hyderabad market but also put it on the world map as an important office destination.

There are also a number of incentives for ITIRs offered by the Government of India. An ITIR is being developed over an area of 202 sq km in the Hyderabad Metropolitan Area, along the transit-oriented growth corridors (TOGCs). The objective is to create ultra-modern planned infrastructure that will draw ICT companies and electronics manufacturers to operate here in the most efficient manner. ITIRs are expected to become significant drivers of economic activity in Hyderabad. Some of the new growth areas being developed are in Cyberabad, around the airport area of Mamidipalli, Adibatla, Pocharam and Uppal, as well as along the Outer Ring Road corridor. ITIRs are expected to attract a total investment of more than ₹2 trillion and create direct IT employment for more than 15 lakh workers.

We believe that Hyderabad already has a strong footing with the right infrastructure in place. This, coupled with proactive policies and an array of incentives offered by the state government, will make the city a prime destination for IT/ITeS development in the near future. Currently, the annual office transactions in Hyderabad is in the range of 4–5 mn sq ft – substantially lower than the 10–12 mn sq ft in Bengaluru. We expect this difference to decrease in the next couple of years, as Hyderabad is likely to be another magnet for IT/ITeS companies, like Bengaluru.

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF JUNE 2016



A	CENTRAL	5%
B	EAST	4%
C	NORTH	16%
D	SOUTH	15%
E	WEST	60%

Source: Knight Frank Research

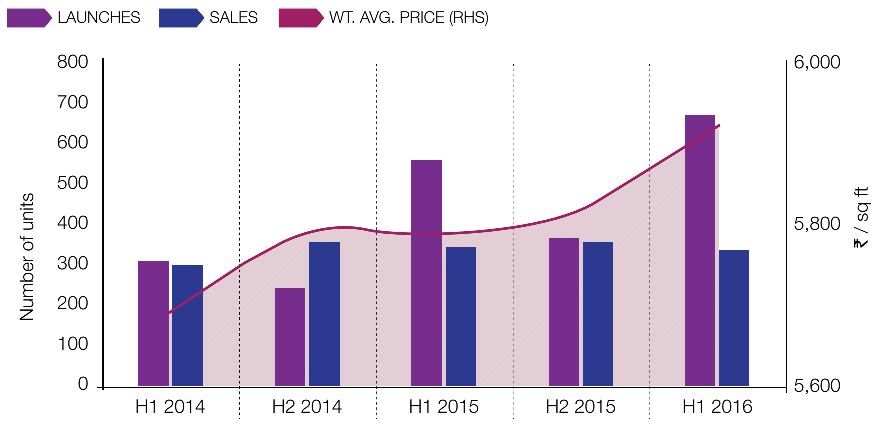
- West Hyderabad accounts for the largest share of the under-construction inventory, followed by the North, South, Central and East markets, respectively.
- The buyers' preference for locations in the West zone is also reinforced by the fact that it has the lowest proportion of unsold inventory compared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

PREMIUM RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

MICRO-MARKET	PREMIUM LOCATIONS
HMR – Central	Banjara Hills, Begumpet, Jubilee Hills, Srinagar Colony, Somajiguda
HMR – West	Madhapur

FIGURE 5

PREMIUM MARKET TRENDS



Source: Knight Frank Research

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

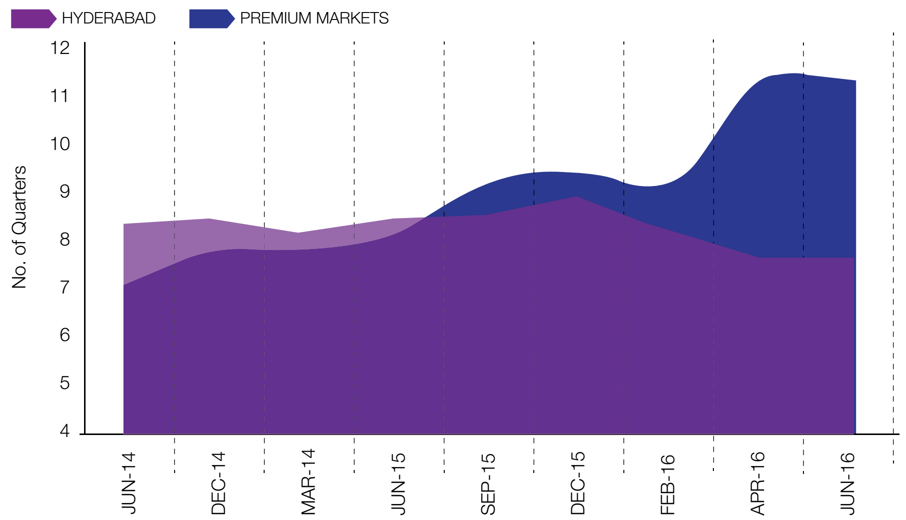
Increasing new launches and constricted sales have to led to inventory pile-up in the premium segment. This segment is carrying almost three years of inventory. up from less than one year in 2013.

- Hyderabad's premium market, which constitutes locations such as Banjara Hills, Jubilee Hills, Madhapur, Somajiguda and Srinagar Colony, among others, has experienced a substantial 23% YOY growth in launches in H1 2016.
- On the other hand, the sales volume witnessed a marginal drop of 3% in H1 2016 compared to the same period last year. Increasing new launches and constricted demand have led to an inventory pile-up in this segment, where the quarters to sell (QTS) has gone up to 11.
- Despite unsold inventory pressures, developers continue to be bullish about the premium segment. The weighted average price moved up 3% in H1 2016 YOY and stands at ₹5,938 per sq ft.

HYDERABAD MARKET HEALTH

FIGURE 6

QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS

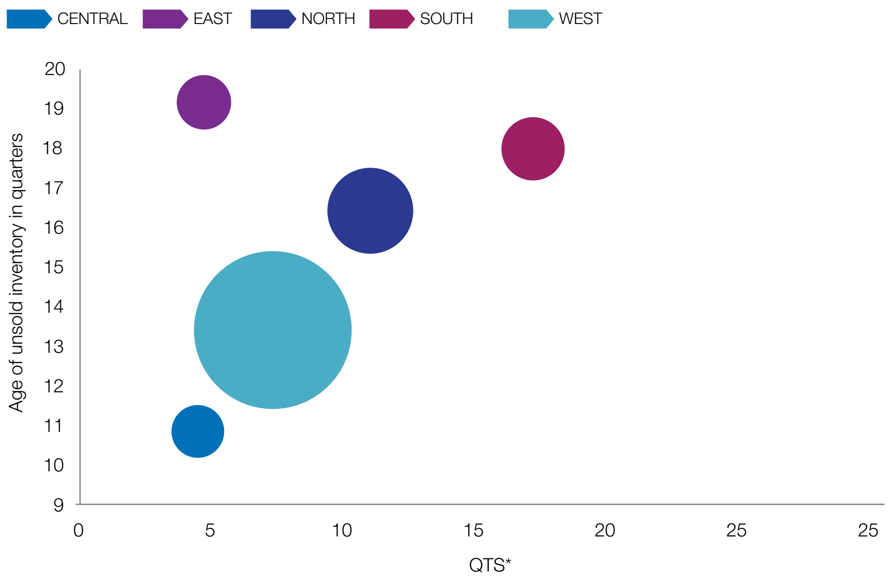


Source: Knight Frank Research

The Hyderabad market QTS has been range-bound between 8-9 quarters. Now at 7.7 quarters, the QTS is at its lowest in the last three years.

FIGURE 4

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

- The quarters to sell unsold inventory (QTS) is the number of quarters required to exhaust the existing unsold inventory in the market. The existing unsold inventory is divided by the average sales velocity of the eight preceding quarters in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market.
- The Hyderabad market QTS has been range-bound between 8–9 quarters. Now at 7.7 quarters, the QTS is at its lowest in the last three years.
- The steep fall in launches has helped the QTS level stay range-bound; steady sales has helped in unwinding the unsold inventory levels. The consistently-declining unsold inventory levels and strong demand should help the market health further, going forward.
- Moving from a QTS level of just 7.2 in H2 2014 to 11 in H1 2016, the premium segment has deteriorated much more rapidly compared to the overall Hyderabad residential market, as the supply of projects with average ticket sizes over ₹15 mn increased dramatically, especially in 2016, while demand dried up.
- We expect the QTS level for the Hyderabad residential market to improve further in H2 2016, as we believe that the festive season will buffer sales, while new launches will continue to remain stable.
- The Central zone is the healthiest market, with the lowest QTS and the youngest unsold inventory among all the residential markets of Hyderabad. This could be attributed to the limited inventory and inherent supply constraints in this zone.
- West Hyderabad follows closely on the same parameters. Its relative health can be gauged quite clearly from the fact that it has a lower QTS and that its inventory also gets liquidated much faster than the other markets despite having the largest block of unsold inventory. Incidentally, its proportion of unsold inventory to under-construction stock is also the lowest among all the zones.
- North Hyderabad holds the oldest inventory, while South Hyderabad will take the most time to liquidate its existing unsold inventory.
- East Hyderabad has a QTS of 4.6, much below the eight-quarter average for the Hyderabad market as a whole. It shows the increasing interest that this zone is attracting due to the focus on the completion of the ORR and the promised development along the Warangal highway.

PRICE MOVEMENT IN H1 2016

WEIGHTED AVERAGE PRICE MOVEMENT IN HYDERABAD

LOCATION	WEIGHTED AVERAGE PRICE IN H1 2016 (₹/SQ.FT)	12 MONTH CHANGE	6 MONTH CHANGE
Hyderabad	3,620	3.0%	0.3%
Premium markets	5,930	3.0%	2.0%

- The weighted average asking prices for the Hyderabad residential market grew marginally by 3.0% YOY to ₹3,620 per sq ft in H1 2016. The weighted average prices in the premium locations also grew at a similar pace.
- Prices continued to firm up across locations in Central and West Hyderabad due to a limited inventory and launches at higher price ranges, respectively.

PRICE MOVEMENT IN SELECT LOCATIONS

LOCATION	MICRO-MARKET	PRICE RANGE IN H1 2016 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Begumpet	Central	4,500–6,000	4%	3%
Banjara Hills	Central	7,000–9,000	8%	5%
Jubilee Hills	Central	4,500–6,200	8%	2%
Madhapur	Central	5,800–7,800	6%	1%
Uppal	East	2,600–2,800	4%	3%
L. B. Nagar	East	2,500–2,900	6%	4%
Nacharam	East	2,200–2,800	5%	3%
Kompally	North	2,200–3,100	2%	6%
Quthbullapur	North	2,100–2,600	1%	0%
Shamirpet	North	2,000–2,400	1%	0%
Shamshabad	South	2,300–3,000	2%	2%
Bandlaguda	South	2,200–3,100	2%	2%
Rajendranagar	South	2,100–3,100	2%	1%
Kondapur	West	4,000–5,200	2%	2%
Gachibowli	West	3,800–4,750	6%	4%
Manikonda	West	3,400–4,500	5%	3%
Kukatpally	West	2,800–4,000	4%	3%
Madinaguda	West	2,600–3,350	3%	1%

We believe that both new launches and the sales volume will exceed those of H1 2016, as festival season will encourage demand. In fact, they will exceed the H2 2015 levels by a nominal 3% and 5% respectively.

OUTLOOK FOR THE NEXT SIX MONTHS

PROJECTIONS	H2 2015	H2 2016E	GROWTH
Launches (units)	5,740	5,900	3%
Sales(units)	7,780	8,200	5%
Weighted average price (₹/sq ft)	3,610	3,750	4%

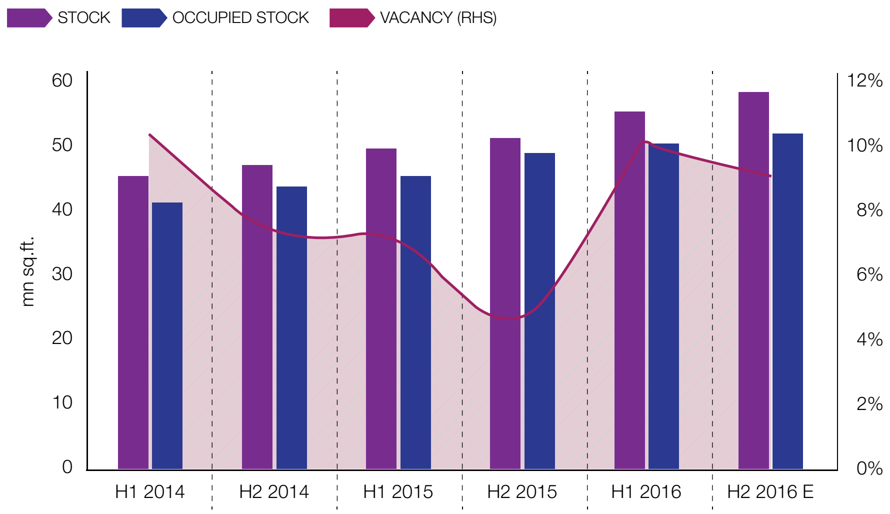
Source: Knight Frank Research

- The fact that the Hyderabad market has all the market fundamentals in place now, with political stability, a proactive government, existing/ planned infrastructure and economic drivers, is going to be a big advantage for the residential sector, going forward.
- The health of the office market is a fair indicator of economic activity / business sentiment in the city, and if the drop in its vacancy levels and steady sales are anything to go by, then the Hyderabad residential market will shine further in the coming years.
- We believe that both new launches and the sales volume will exceed those of H1 2016, as festival season will encourage demand. In fact, they will exceed the H2 2015 levels by a nominal 3% and 5%, respectively.
- The business districts of Hyderabad are very well connected via the internal and outer ring roads and the upcoming metro will enhance this further. While this is an excellent factor to promote balanced real estate growth in the city, it tends to cap real estate price growth, as people are willing to move further away from the business districts to save on real estate costs. Hence, we expect the weighted average prices to move in the 3–4% range during H2 2016
- The West Hyderabad locations will continue to be the centre of residential real estate activity in the city, be it in launches, sales or price growth.

OFFICE MARKET

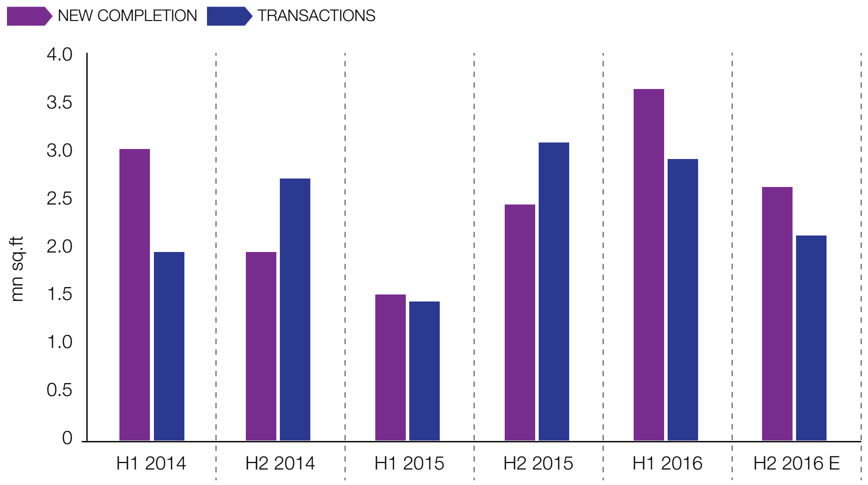
HYDERABAD OFFICE MARKET STOCK, NEW COMPLETIONS, TRANSACTION VOLUME AND VACANCY TRENDS

FIGURE 1
OFFICE SPACE STOCK AND VACANCY LEVELS



Source: Knight Frank Research

FIGURE 2
NEW COMPLETIONS AND TRANSACTIONS



Source: Knight Frank Research

The Hyderabad office market experienced approximately 3.6 mn sq ft and 2.8 mn sq ft of supply and transaction volume, respectively, during H1 2016 – a 140% and 91% growth, respectively, compared to the same period in the previous year, showing a strengthening business confidence.

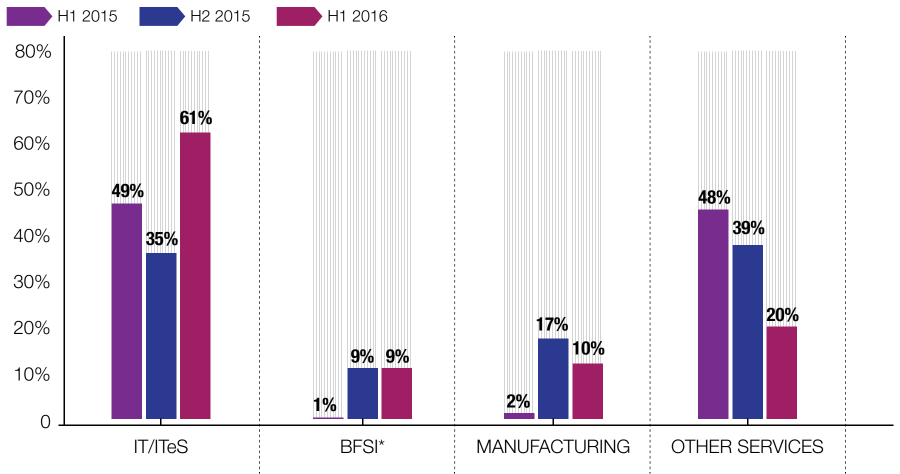
- There is ample demand for office space in the Hyderabad market – incentives offered to IT/ITeS companies by the state government and affordable rentals are attracting a number of occupiers to the city. Hyderabad's vacancy went through a consolidation phase in H1 2015, characterised by declining supply, falling vacancy, lacklustre transaction and strengthening rents.
- Transaction volumes had increased dramatically towards the end of 2014 as the Telangana issue was resolved. However, this momentum could not be sustained in H1 2015 due to the dearth of quality office space in the market. H2 2015 witnessed a whopping 3.1 mn sq ft of office space transaction activity which led to a dramatic fall in vacancy.
- H1 2016 witnessed a spurt in new office space completions, which pushed the vacancy up to 9.5%.
- The Hyderabad office market experienced approximately 3.6 mn sq ft and 2.8 mn sq ft of supply and transaction, respectively, during H1 2016 – a 140% and 91% growth, respectively, compared to the same period in the previous year.

Hyderabad continues to attract IT/ITeS occupiers due to its well-developed infrastructure, well qualified talent pool, the availability of large office campuses and lower rentals compared to other markets, such as Bengaluru and Pune. Nearly 1.6 mn sq ft of office space was transacted by IT/ITeS occupiers, which is a 168% jump compared to the same period in 2015.

SECTOR ANALYSIS

FIGURE 3

SECTOR-WISE SPLIT OF TRANSACTIONS



Source: Knight Frank Research

Note: BFSI includes BFSI support services

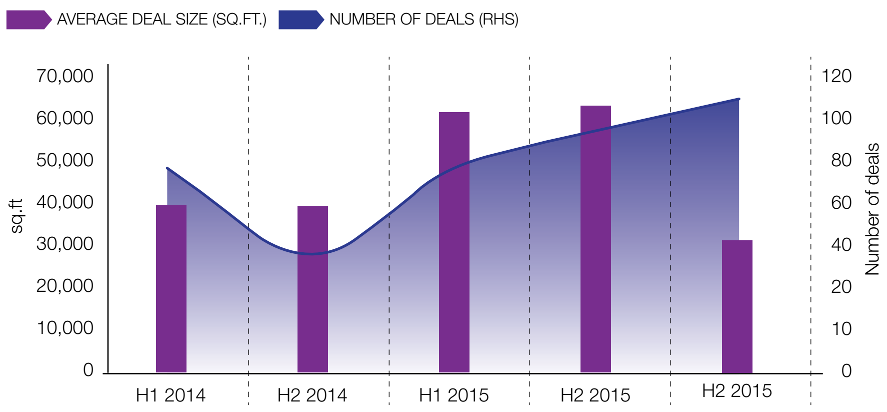
H1 2015: 1.5 mn sq ft	H2 2015: 3.1 mn sq ft	H1 2016: 2.8 mn sq ft

- The IT/ITeS sector took the major share of the transaction pie in H1 2016. Nearly 1.6 mn sq ft of office space was transacted by IT/ITeS occupiers, which is a 168% jump compared to the same period in 2015.
- Hyderabad continues to attract IT/ITeS occupiers due to its well-developed infrastructure, well qualified talent pool, the availability of large office campuses and lower rentals compared to other markets, such as Bengaluru and Pune.
- Although other services sector companies from the consulting, healthcare and e-commerce space have been increasing their presence in recent years, the shares of the manufacturing and other services sectors shrunk substantially in H1 2016.

DEAL SIZE ANALYSIS

FIGURE 4

AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

- The average deal size in H1 2016 was reported to be 25,600 sq ft, which is 43% more than the H1 2015 level. Occupiers are taking up more spaces and there seems to be a clear improvement in market sentiments.
- The IT/ITeS sector led in terms of big-ticket deals, with ValueLabs leasing more than 220,000 sq ft of space in the SBD during this period. Amazon, Apple and The Development Bank of Singapore were some of the other big-ticket transactions.

SELECT TRANSACTIONS

OCCUPIER	BUILDING	LOCATION	APPROX. AREA (SQ FT)
Amazon	Raheja 12C	Madhapur	350,000
Apple	Waverock	Nanakramguda	240,000
ValueLabs	Lanco LH99	Raidurg	220,000
DBS (The Development Bank of Singapore)	Waverock	Nanakramguda	148,900
UTC	Raheja 12C	Madhapur	110,000
NCR	Mindspace 12B	Madhapur	102,300
Maa TV	GVK Corporate	Banjara Hills	93,260
Arcesium	Raheja 12C	Madhapur	84,950
Cotiviti	Western Pearl	Gachibowli	77,740
Xilinx	DivyaSree Orion	Raidurg	60,000
Incessant Technologies	Q City	Gachibowli	55,000

Source: Knight Frank Research

BUSINESS DISTRICT ANALYSIS

BUSINESS DISTRICT CLASSIFICATION

BUSINESS DISTRICTS	MICRO-MARKETS
CBD & off-CBD	Banjara Hills, Jubilee Hills, Begumpet, Ameerpet, Somajiguda, Himayat Nagar, Raj Bhavan Road, Punjagutta
SBD	Madhapur, Manikonda, Kukatpally, Raidurg
PBD West	Gachibowli, Kokapet, Madinaguda, Nanakramguda, Serilingampally
PBD East	Uppal, Pocharam

- The only business district that witnessed an increase in market share in H1 2016 was the SBD. Although the transaction activity is high in this office market, most of these were pre-commitments. The current vacancy level in the SBD market ranges between 4–5%, which shows the dearth of good quality office spaces.
- The spillover demand from SBD markets such as Madhapur and Kondapur, which currently have very low vacancy levels, has been pushing occupiers to take up space in the PBD West business district. Nearly 0.71 mn sq ft of office space was transacted in PBD West in H1 2016.

BUSINESS DISTRICTS OF HYDERABAD

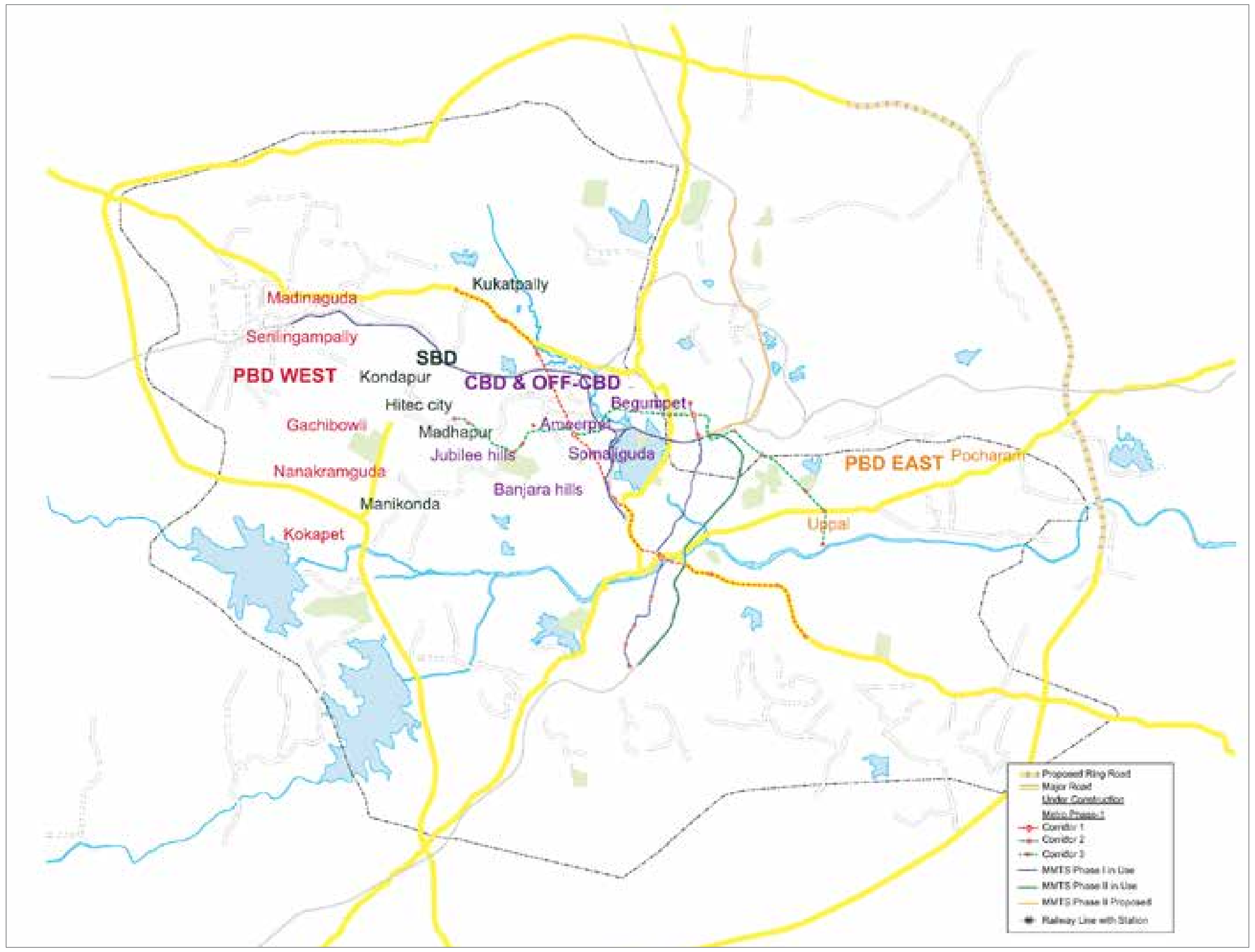
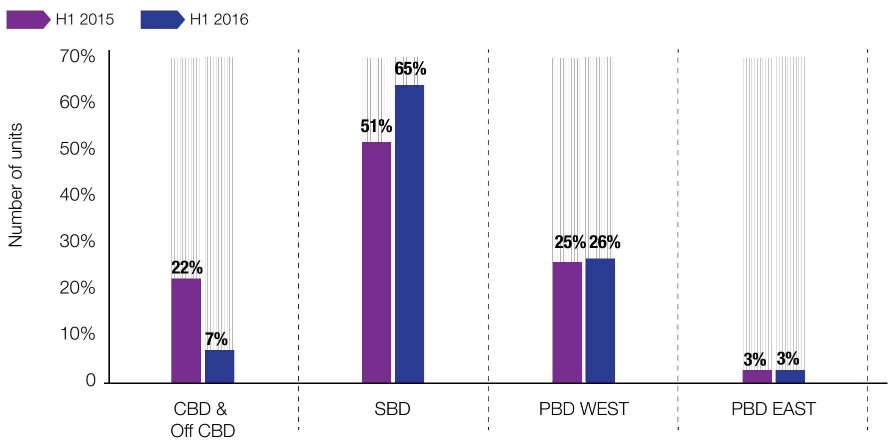


FIGURE 5

BUSINESS DISTRICT-WISE TRANSACTIONS SPLIT



Source: Knight Frank Research

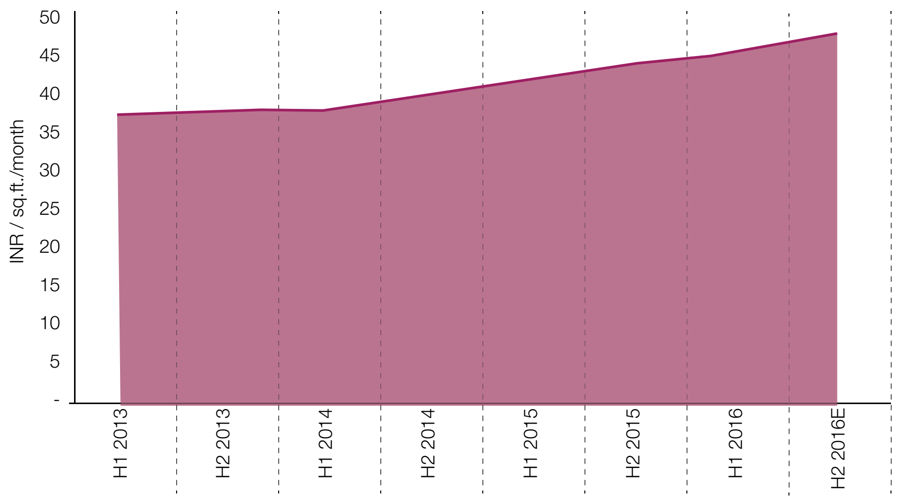
H1 2015: 1.5 mn sq ft	H1 2016: 2.8 mn sq ft

A steady demand pipeline will keep vacancy levels down to an estimated 9%, and consequently, drive rental growth by a further 7% YOY, from ₹42 per sq ft per month in H2 2015 to approximately ₹45 per sq ft per month by H2 2016.

RENTAL TREND

FIGURE 6

WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

BUSINESS DISTRICT-WISE RENTAL MOVEMENT

BUSINESS DISTRICT	RENTAL VALUE RANGE IN H1 2016 (₹/SQ FT/MONTH)	12 MONTH CHANGE	6 MONTH CHANGE
CBD & off-CBD	42–48	3.0%	2.0%
SBD	39–50	10.0%	7.0%
PBD West	33–37	6.0%	4.0%
PBD East	27–32	1.5%	1.0%

Source: Knight Frank Research

- Rentals in the Hyderabad office market, which had stagnated till 2013, have seen a sustained growth since 2014 due to improvement business sentiments, leading to strong transaction volumes.
- The lack of vacant office stock, coupled with steady demand, has pushed the weighted average rentals in the Hyderabad office space market to just over ₹43 per sq ft per month at the end of H1 2016, a 6% growth YOY.
- H1 2016 saw rental levels grow across locations, compared to the same period in the previous year. SBD locations such as HITEC City and Kondapur have witnessed the strongest rent growth in the market, particularly due to the absence of viable space in this business district.
- The PBD West business district experienced the next highest growth in rentals on the back of big-ticket deals by the IT/ITeS and other services sectors.

OUTLOOK FOR THE NEXT SIX MONTHS

PROJECTIONS	H2 2015	H2 2016E	GROWTH
New supply (mn sq ft)	2.4	2.7	11.0%
Transaction volume (mn sq ft)	3.1	2.2	-29.1%
Vacancy (%)	8%	9%	-
Weighted average rental (₹ / sq ft / month)	42.0	45.0	7%

Source: Knight Frank Research

- More than 2.7 mn sq ft of new office space is expected to become operational by the end of 2016, leading to a rise of 11% in supply compared to the previous year. However, this will be insufficient to cater to the increasing demand for office space in the city, and will result in a further drop in vacancy level.
- A steady demand pipeline will keep vacancy levels down to an estimated 9%, and consequently, drive rental growth by a further 7% YOY, from ₹42 per sq ft per month in H2 2015 to approximately ₹45 per sq ft per month by H2 2016.
- The SBD locations along the IT corridor of HITEC City and Kondapur are undisputedly the most sought-after office destinations by the IT/ITeS sector today, and will continue to witness the strongest rental growth, going forward. Gachibowli and Nanakramguda, in the PBD West business district, will also see strong rental growth.

KOLKATA

RESIDENTIAL MARKET

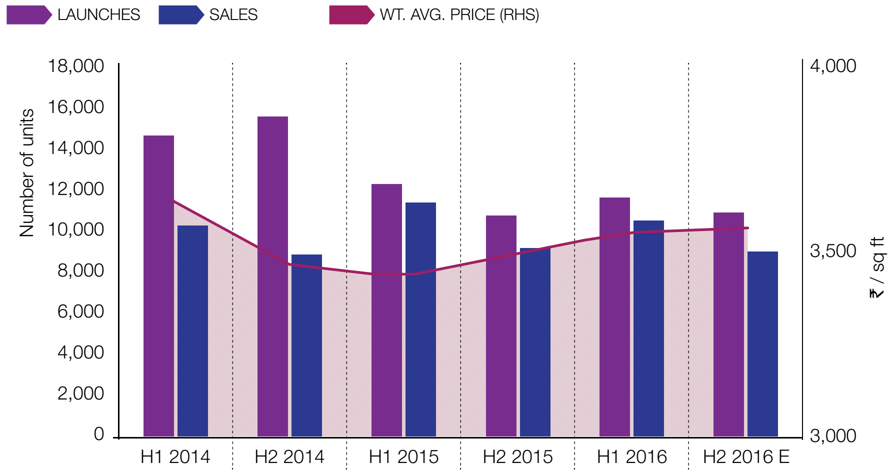
Sangeeta Sharma Dutta
Assistant Vice President - Research

RESIDENTIAL MARKET

KOLKATA RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

FIGURE 1

KOLKATA MARKET TRENDS



Source: Knight Frank Research

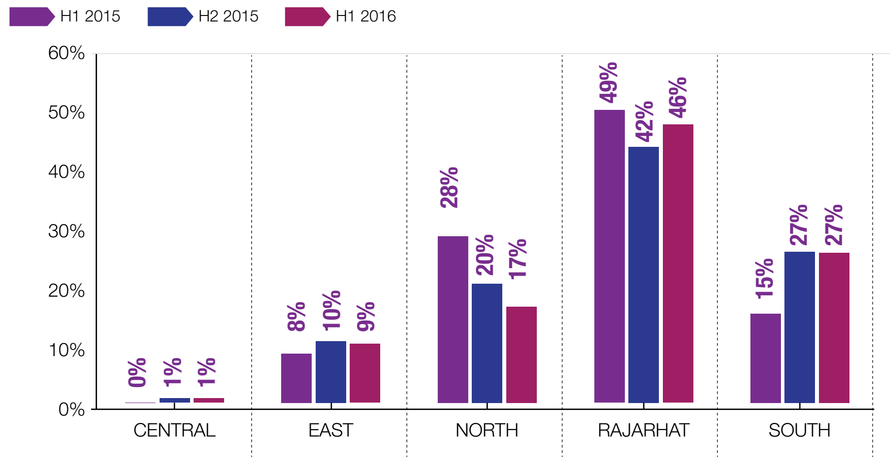
Kolkata continued to remain relatively stable in H1 2016, without drastic declines, in a long restrained market. With new residential projects being restrained, the number of new launches continued to be under pressure, albeit steady, in H1 2016. However, the city's sales volume, driven largely by end users, saw a decline of 10% in H1 2016 as compared to the sales in H1 2015.

- Kolkata continued to remain relatively stable in H1 2016, without drastic declines, in a long restrained market. With new residential projects being constricted, the number of new launches continued to be under pressure, albeit steady, in H1 2016. Consequently, new launches fell by just 2% in the first half of the year (H1 2016) vis-à-vis the corresponding period in 2015 (H1 2015).
- On the other hand, the city's sales volume, driven largely by end users, saw a decline of 10% in H1 2016 as compared to the sales in H1 2015. This decline, however, does not portend a weakening market yet and can be considered to be an aberration observed in end-user behaviour.
- The weighted average price remained almost stagnant in H1 2016, with a slight increase of 2% compared to the corresponding period in 2015, emphasising the fact that the market has remained stable despite the decrease in new launches and sales. One of the factors behind this price appreciation can be attributed to the increased number of new launches in the premium housing segment, as compared to H1 2015.
- We expect the Kolkata residential market to maintain the momentum achieved in H1 2016 in the second half of 2016 as well. We estimate new launches to remain almost constant in H2 2016 compared to H2 2015, with the sales volume expected to check its rate of decline observed in H1 2016 and remain at around 4%, on a YOY basis.
- On the price front, we expect the weighted average values in H2 2016 to remain steady as well, as compared to H2 2015. The upcoming period is expected to witness a growth of 1% in the YOY prices.

MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

FIGURE 2

MICRO-MARKET SPLIT OF LAUNCHED UNITS



Source: Knight Frank Research

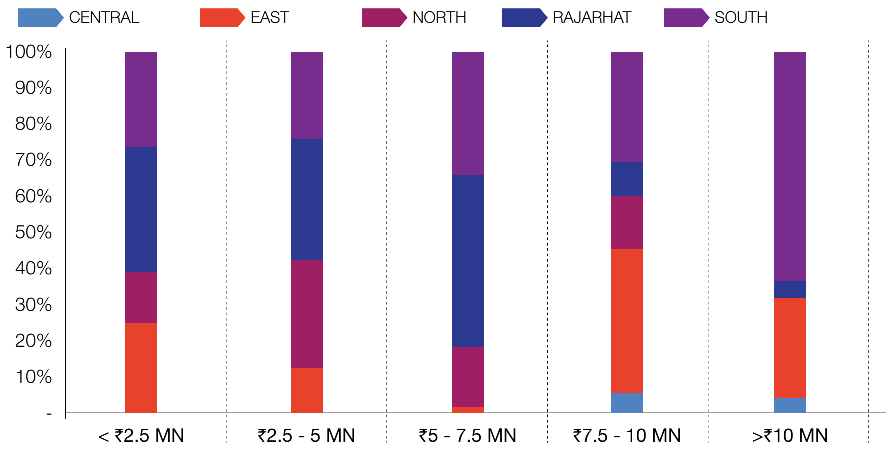
H1 2015: 12,073 units	H2 2015: 10,680 units	H1 2016: 11,891 units

Rajarhat emerged as the region with the highest number of residential units launched in H1 2016, accounting for 46% share of the total number of new launches. It was also responsible for the majority of the affordable and mid-end projects in H1 2016, while South Kolkata and East Kolkata dominated the high-end segment.

- Rajarhat has accounted for the largest share in the total number of new launches in the city in the last few years owing to persistent interest from the developer community. Not surprisingly, it emerged as the region with the highest number of residential units launched in H1 2016 as well, accounting for a 46% share of the total number of new launches, although the share reduced to some extent compared to H1 2015. Nevertheless, Rajarhat is expected to maintain positivity regarding the housing demand in the forthcoming years, considering the quantum of office-sector development and infrastructure underway in the region.
- South Kolkata maintained its share of new launches in H1 2016 since the preceding six months, while observing a significant increase over the share in H1 2015. Being a conventionally-preferred residential destination of the city, it has always been on developers' radars, thereby securing 27% share of the total new launches in H1 2016, as against just 15% in H1 2015.
- North Kolkata's share, which had seen a significant number of new launches in H1 2015, has been reducing gradually in the recent months, primarily owing to the dearth of large, contiguous land parcels in preferred residential markets close to the city centre. While its share of residential launches was at 28% in H1 2015, it reduced to 17% in H1 2016. However, North Kolkata still holds potential in the forthcoming periods, owing to the existing and upcoming phases of the metro rail, impending infrastructure in and around VIP Road and Jessore Road, and its proximity to Rajarhat as well as the international airport.
- The East zone, comprising locations such as Salt Lake and Kankurgachi, also observed a limited number of new launches due to land constraints. Its share has remained almost constant over the past months, in the range of 8-10% during H1 2015 and H1 2016.
- The Rajarhat area, excluding New Town, was responsible for the majority of the affordable and mid-end projects in H1 2016, accounting for approximately 35% of the total number of new launches below the ticket size of ₹2.5 mn and around 40% of the new launches in the range of ₹2.5-7.5 mn. By contrast, South Kolkata and East Kolkata dominated the high-end segment, with a large number number of launches priced above the ticket size of ₹1 mn.

FIGURE 3

TICKET SIZE SPLIT OF LAUNCHES DURING H1 2016



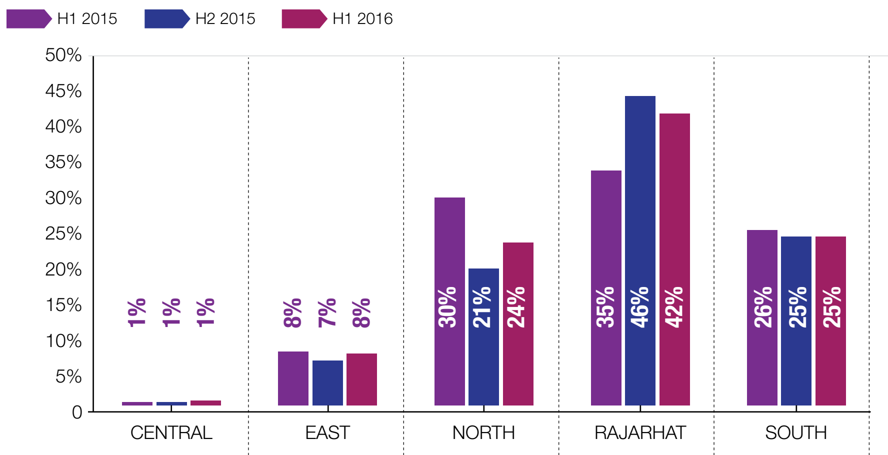
Source: Knight Frank Research

MICRO-MARKET-WISE RESIDENTIAL SALES

MICRO-MARKET	LOCATIONS
CENTRAL	Park Street, Rawdon Street, A.J.C. Bose Road, Minto Park, Elgin Road
EAST	Kankurgachi, Beliaghata, Salt Lake, Narkeldanga, Keshtopur, E.M. Bypass (eastern parts)
NORTH	Baguiati, Ultadanga, Jessore Road, Shyambazar, Lake Town, B.T. Road, VIP Road
RAJARHAT	Rajarhat New Town
SOUTH	Ballygunge, Alipore, Tollygunge, Narendrapur, Behala, Garia, Maheshtala, E.M. Bypass (southern parts)

FIGURE 4

MICRO-MARKET-WISE RESIDENTIAL SALES



Source: Knight Frank Research

H1 2015: 11,448 units	H2 2015: 9,170 units	H1 2016: 10,339 units

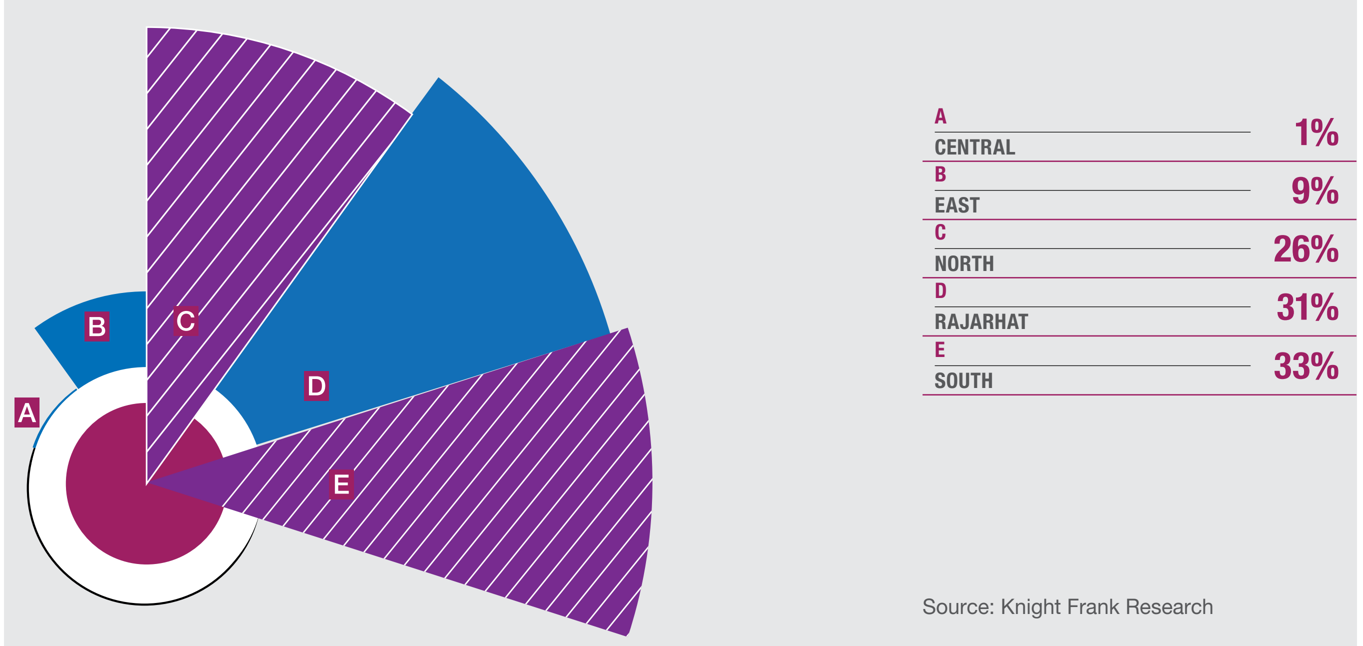
KOLKATA CITY MAP

Rajarhat witnessed the largest share of the sales, accounting for 42% of the total sales in H1 2016. This can be attributed to factors such as the well-planned existing and upcoming road network, the proposed metro connectivity within Rajarhat and with other locations of the city and its proximity to the international airport as well as Salt Lake Sector V – the IT/ITeS and commercial hub of Kolkata.

- Rajarhat witnessed the largest share of the sales in H1 2016, accounting for a whopping 42%, compared to a lower share of 35% in H1 2015. This can be attributed to factors such as the well-planned existing and upcoming road network, the proposed metro connectivity within Rajarhat and with other locations of the city and its proximity to the international airport as well as Salt Lake Sector V – the IT/ITeS and commercial hub of Kolkata.
- On the other hand, South Kolkata has been witnessing a stable trend in sales, which continued in H1 2016 as well. It accounted for a 25% share of the sales volume in H1 2016, which dipped marginally from its 26% share of the sales in H1 2015.
- Meanwhile, North Kolkata, which had seen a decline in sales in the preceding six months (H2 2015), saw its share increase to 24% in H1 2016. Although its share is still less than H1 2015, we expect this region to perform better in the forthcoming periods due to the availability of mid-end and affordable housing here.
- Despite being preferred residential locations for the affluent class, East and Central Kolkata accounted for marginal shares in the total sales volume in the primary market of the city, owing to a relatively smaller inventory size.

MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF JUNE 2016

- South Kolkata accounts for a major share of the total number of units under construction, to the tune of 33%, given the fact that the region has been witnessing large-scale residential development in the last few years. Currently, development is being observed in the peripheral locations of Narendrapur, Sonarpur Road and Diamond Harbour Road. This region is preferred by potential buyers, chiefly due to its good social infrastructure, causing developers to launch their projects here.
- South Kolkata is closely followed by Rajarhat, with a 31% share of the total number of residential units under construction. This zone, comprising several Action Areas, has witnessed frenetic residential activity in the last decade and boasts the presence of most key real estate developers.
- North Kolkata, recognised primarily as an industrial area till recently, has emerged as a preferred residential location. Areas such as Sodepur, B.T. Road, Madhyamgram and Jessore Road now have a number of projects launched by reputed developers, accounting for 26% of the total residential units underway in the city.
- The central and eastern markets have fairly marginal shares of units under construction, to the tune of less than 1% and 9% respectively.

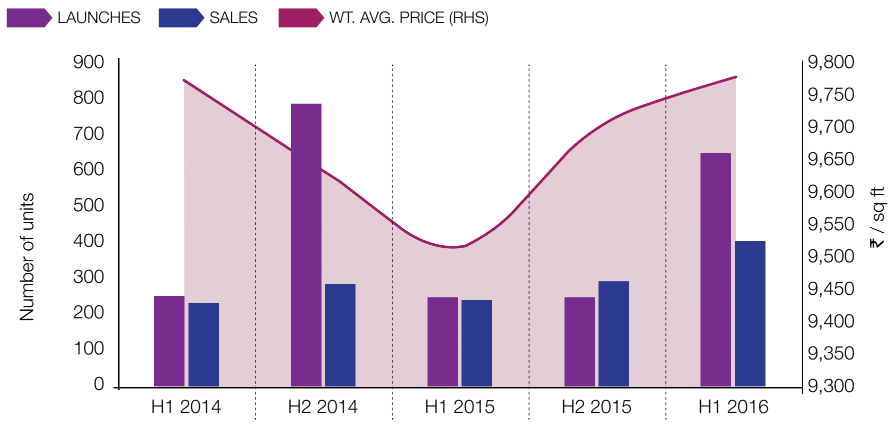


Source: Knight Frank Research

PREMIUM RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

MICRO-MARKET	PREMIUM LOCATIONS
CENTRAL	Park Street, Rawdon Street, Shakespeare Sarani, Chowringhee Road
EAST	Kankurgachi, Topsia
RAJARHAT	New Town
SOUTH	Ballygunge, Alipore, Tollygunge, Bhowanipore, Jodhpur Park

FIGURE 5
PREMIUM MARKET TRENDS



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

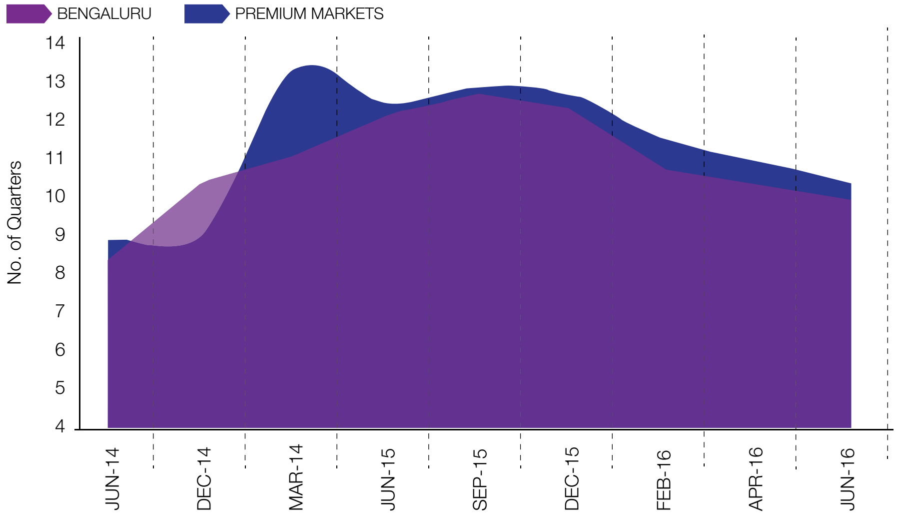
- Kolkata's premium market, comprising locations such as Chowringhee, Rawdon Street, Ballygunge and Jodhpur Park, among others, witnessed the launch of a number of high-end residential projects in H1 2016 in locations such as E.M. Bypass, and Tollygunge. While the segment observed a considerable decline in new launches since H1 2015, H1 2016 bucked the trend and witnessed a sharp increase of 165% over the number of new launches in H1 2015. This could be attributed largely to the launch of a few large scale premium projects that had been postponed on account of the economic slowdown.
- On a similar vein, H1 2016 saw an improvement of 66% in sales compared to the same period in 2015. This bodes well for the premium market of the city.
- Consequently, the weighted average price growth YOY in the premium segment improved by 3% in H1 2016 over H1 2015. This relative increase in the weighted average price could be attributed to the increase in the sales volume during the period, coupled with the launch of a number of premium housing projects.

KOLKATA MARKET HEALTH

The QTS for Kolkata has decreased somewhat since H1 2015, and currently stands at 10 quarters. Although Central Kolkata has the lowest QTS in H1 2016, it could not be considered as the best market owing to its insufficient inventory size. Hence, we infer South Kolkata as the best performing market in H1 2016 with a QTS of 9.4. This can be attributed to factors such as consistently reducing number of launches in the past months, coupled with a steady rate of sales.

FIGURE 6

QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS

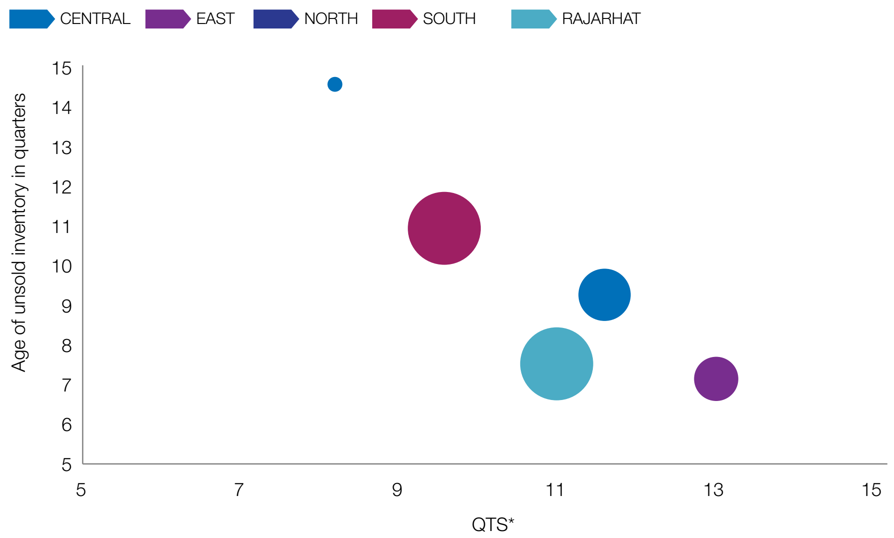


Source: Knight Frank Research

- The quarters to sell unsold inventory (QTS) is the number of quarters required to exhaust the existing unsold inventory in the market. The existing unsold inventory is divided by the average sales velocity of the preceding eight quarters in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market.
- The QTS for Kolkata has decreased somewhat since H1 2015, and currently stands at 10 quarters. Significantly, the QTS for the city's premium markets, which had witnessed a sharper rise than the city in Q4 2014 is set to converge with the overall QTS, and is currently at 10.3 quarters. This could be attributed to the gradual increase in demand for such properties.
- Among the various zones, Central Kolkata has the lowest QTS in H1 2016. However, this is offset by the fact that Central Kolkata has a very small inventory, which would not be enough to define the performance of a particular market. Besides, the region accounts for the highest age of inventory.
- Hence, we infer South Kolkata as the best performing market in H1 2016 with a QTS of 9.4. This can be attributed to factors such as consistently reducing number of launches in the past months, coupled with a steady rate of sales. However, the region still accounts for the largest unsold inventory, having evolved much earlier as a residential destination, and it remains to be seen if the region will be able to hold on to the low QTS level in the forthcoming periods.

FIGURE 7

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

- Rajarhat followed South Kolkata and is the second best performing market. Factors such as well-planned existing and upcoming road networks, the proposed metro connectivity within Rajarhat and with other locations of the city, and proximity to the international airport as well as the employment hub of Sector V have helped this micro-market perform well in recent months.
- With a QTS of 11.3, North Kolkata succeeded Rajarhat in the QTS category. We expect this market to pick up momentum once the infrastructure projects are completed.
- East Kolkata emerged with the highest QTS in H1 2016. However, the residential market here is relatively smaller than in the other parts of the city and does not have a sufficient inventory and sales volume compared to the other zones.

Rajarhat is the second best performing market. Factors such as well-planned existing and upcoming road networks, proposed metro connectivity within Rajarhat and with other locations of the city, and proximity to the international airport as well as the employment hub of Sector V have helped this micro-market perform well in recent months.

PRICE MOVEMENT IN H1 2016

WEIGHTED AVERAGE PRICE MOVEMENT IN BENGALURU

LOCATION	PRICE RANGE IN H2 2015 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Kolkata	3,570	2%	1%
Premium markets	9,775	3%	1%

- Price appreciation across most locations in Kolkata during the last 12 months remained almost constant. Prices increased across select micro-markets in H1 2016, leading the weighted average prices to increase nominally by 2%. This movement in prices can be attributed to better sales in these locations.
- Significantly, weighted average prices in the premium housing market performed better than the city's overall figure, in the last 12 months. Premium markets saw a slightly increased growth rate of 3% on an annual basis over the city's overall growth rate of 2%, while the half-yearly growth rate was same for both the markets at 1%.

PRICE MOVEMENT IN SELECT LOCATIONS

LOCATION	MICRO-MARKET	PRICE RANGE IN H2 2015 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Park Street	Central	12,000–20,000	0%	0%
Rowdon Street	Central	10,000–19,500	0%	0%
Ballygunge	South	8,500–18,000	0%	0%
Tollygunge	South	6,500–16,500	0%	0%
Behala	South	3,300–4,800	0%	0%
Narendrapur	South	2,600–4,350	1%	0%
Kankurgachi	East	6,000–9,150	1%	0%
Salt Lake	East	5,000–8,000	0%	0%
New Town Rajarhat	Rajarhat	4,300–7,000	0%	0%
Madhyamgram	North	2,550–3,300	0%	0%
BT Road	North	3,200–4,500	0%	0%
Jessore Road	North	4,320–5,600	1%	0%

Source: Knight Frank Research

OUTLOOK FOR THE NEXT SIX MONTHS

PROJECTIONS	H2 2015	H2 2016E	GROWTH
Launches (units)	10,680	10,785	1%
Sales (units)	9,170	8,812	-4%
Weighted average price (₹/sq ft)	3,535	3,575	1%

Source: Knight Frank Research

- The Kolkata residential market has managed to remain relatively stable in H1 2016 although new launches were still somewhat constrained. This sentiment is likely to continue in the forthcoming months, owing to growth stimulators such as the increasing rate of employment and favourable government policies. Government schemes such as Prime Minister's Awas Yojana are expected to provide a boost to the affordable housing sector.
- Meanwhile, sales volume is expected to remain somewhat steady in H2 2016, although a marginal decline of 4% is envisaged over the H2 2015 sales figure.
- New launches are likely to remain stable, too, in H2 2016. The projected new launches in H2 2016 are expected exceed the H2 2015 figures by a marginal 1%, indicating a continued momentum in the market.
- With its slew of premium and mid-end projects in New Town and affordable projects in the further Action Areas, Rajarhat will continue to garner buyer interest. The metro rail connectivity will increase its location attractiveness even further.
- On the price front, we expect the weighted average price in Kolkata to remain consistent and appreciate nominally, by a mere 1% in H2 2016.

The Kolkata residential market has managed to remain relatively stable in H1 2016 although new launches were still somewhat constrained. This sentiment is likely to continue in the forthcoming months, owing to growth stimulators such as the increasing rate of employment and favourable government policies.

MUMBAI

RESIDENTIAL & OFFICE MARKET

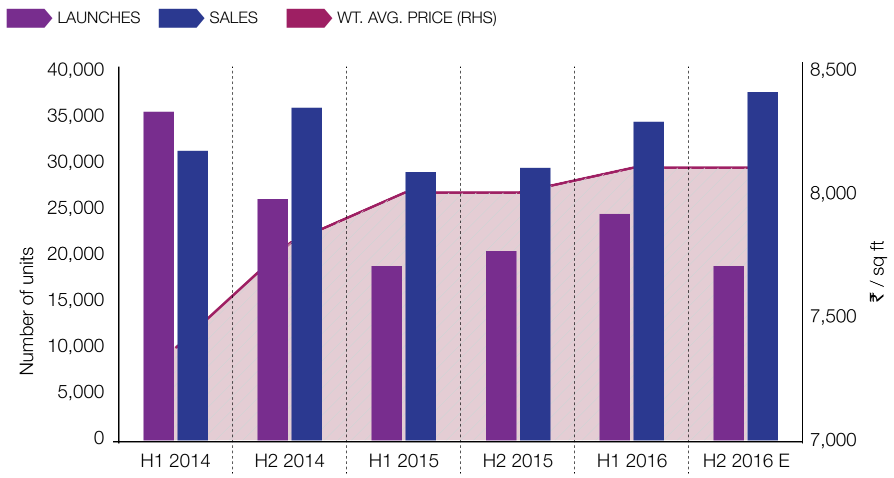
Vivek Rathi
Vice President - Research

RESIDENTIAL MARKET

MMR RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

FIGURE 1

MMR MARKET TRENDS



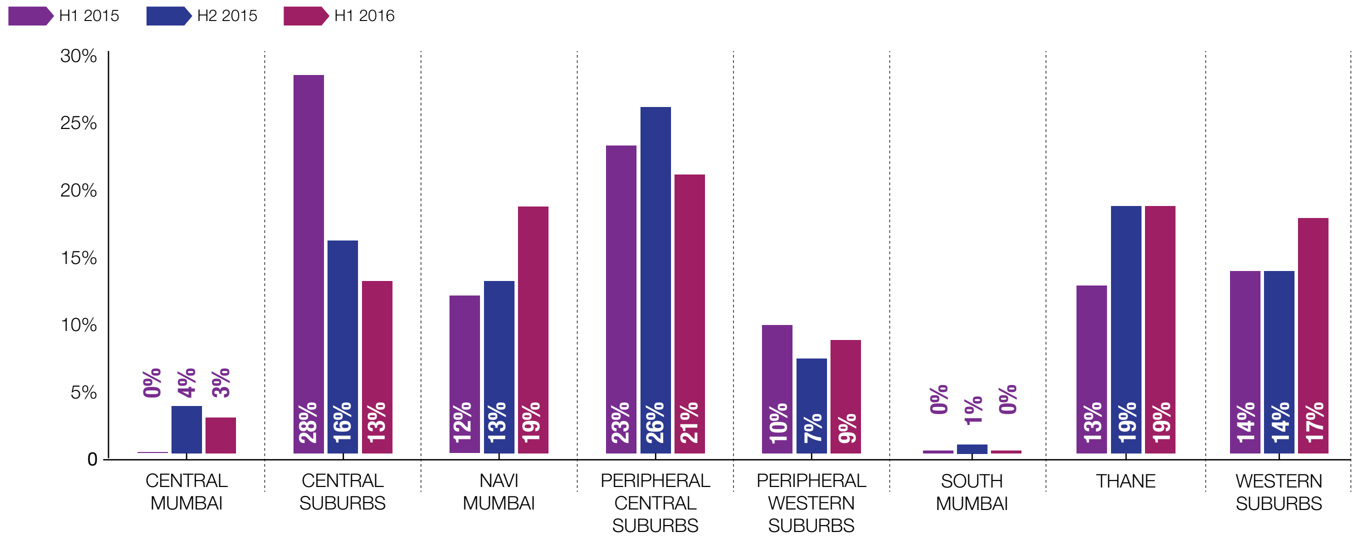
Source: Knight Frank Research

- In H1 2016, the Mumbai Metropolitan Region (MMR) residential market witnessed its best growth momentum after the 2008 global financial crisis. Residential launches and sales grew by 29% and 23%, respectively, over the same period last year.
- Housing sales of 34,971 units and launches of 24,450 units were recorded in H1 2016. A split of this January–June period indicates that a major pullback came on account of a strong Q2 2016, as compared to Q2 2015, which was the worst quarter in five years.
- A recent trend analysis indicates that the city's market had been recording average sales of 40,000 units and average launches of 49,000 units in the corresponding periods of the last five years. Thus, in contrast, the H1 2016 numbers are significantly low. However, the bounce-back and changes in the home-buying environment lead us to believe that the worst is behind us.
- The FICCI-Knight Frank Sentiment Index of Q1 2016 predicted a revival in market momentum in the following six months. Supply-side stakeholders opined that there was an improvement in market conditions.
- Office space demand has grown by a healthy margin in H1 2016, indicating better employment opportunities in the city. House prices in Mumbai are witnessing a time correction over the last two years, augmenting consumer affordability even as home loan interest rates are expected to head downward in the near future.
- With the real estate regulatory authority becoming a reality, the city's realty market will see higher transparency and governance standards, translating into higher consumer confidence.
- Developers have also attuned their project offerings in line with the changed market scenario – reducing unit configurations by as much as 19% in some markets to make houses more affordable. Further, in comparison to the same period last year, concerns over Mumbai's development plan appear to be allayed.
- With the improvement in the home-buying environment and an appropriate response from the industry to make product offerings more palatable, the residential sales momentum is projected to be healthy in the upcoming H2 2016.

MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

FIGURE 2

MICRO-MARKET SPLIT OF LAUNCHED UNITS

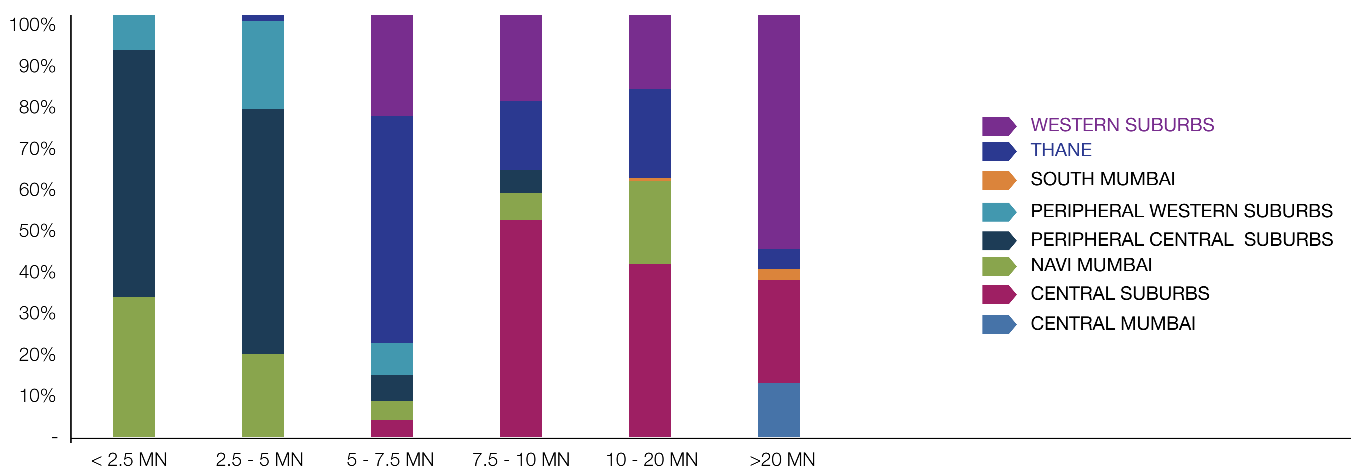


Source: Knight Frank Research

H1 2015: 18,887 units	H2 2015: 20,776 units	H1 2016: 24,450 units

FIGURE 3

TICKET SIZE SPLIT OF LAUNCHES DURING H1 2016



Source: Knight Frank Research

- With positive stakeholder sentiments, all markets, except the Central Suburbs, saw more launches in H1 2016 compared to H1 2015.
- After a slide for five consecutive years, project launches doubled in Navi Mumbai in H1 2016. Heightened traction is now seen in locations such as Taloja, New Panvel and Dronagiri.

MICRO-MARKET-WISE RESIDENTIAL SALES

MICRO-MARKET	LOCATIONS
CENTRAL MUMBAI	Dadar, Lower Parel, Mahalakshmi, Worli, Prabhadevi
CENTRAL SUBURBS	Sion, Chembur, Wadala, Kurla, Ghatkopar, Vikhroli, Bhandup, Mulund
NAVI MUMBAI	Vashi, Nerul, Belapur, Kharghar, Airoli, Panvel, Ulwe, Sanpada
PERIPHERAL CENTRAL SUBURBS	Kalyan, Kalwa, Dombivli, Ambernath, Bhiwandi, Mumbra, Karjat
PERIPHERAL WESTERN SUBURBS	Vasai, Virar, Boisar, Palghar, Bhayandar, Nalasopara
SOUTH MUMBAI	Malabar, Hill, Napean Sea Road, Walkeshwar, Altamount Road, Colaba
THANE	Naupada, Ghodbunder Road, Pokhran Road, Majiwada, Khopat, Panchpakhadi
WESTERN SUBURBS	Bandra, Andheri, Goregaon, Kandivali, Borivali, Santacruz, Vile Parle

FIGURE 4

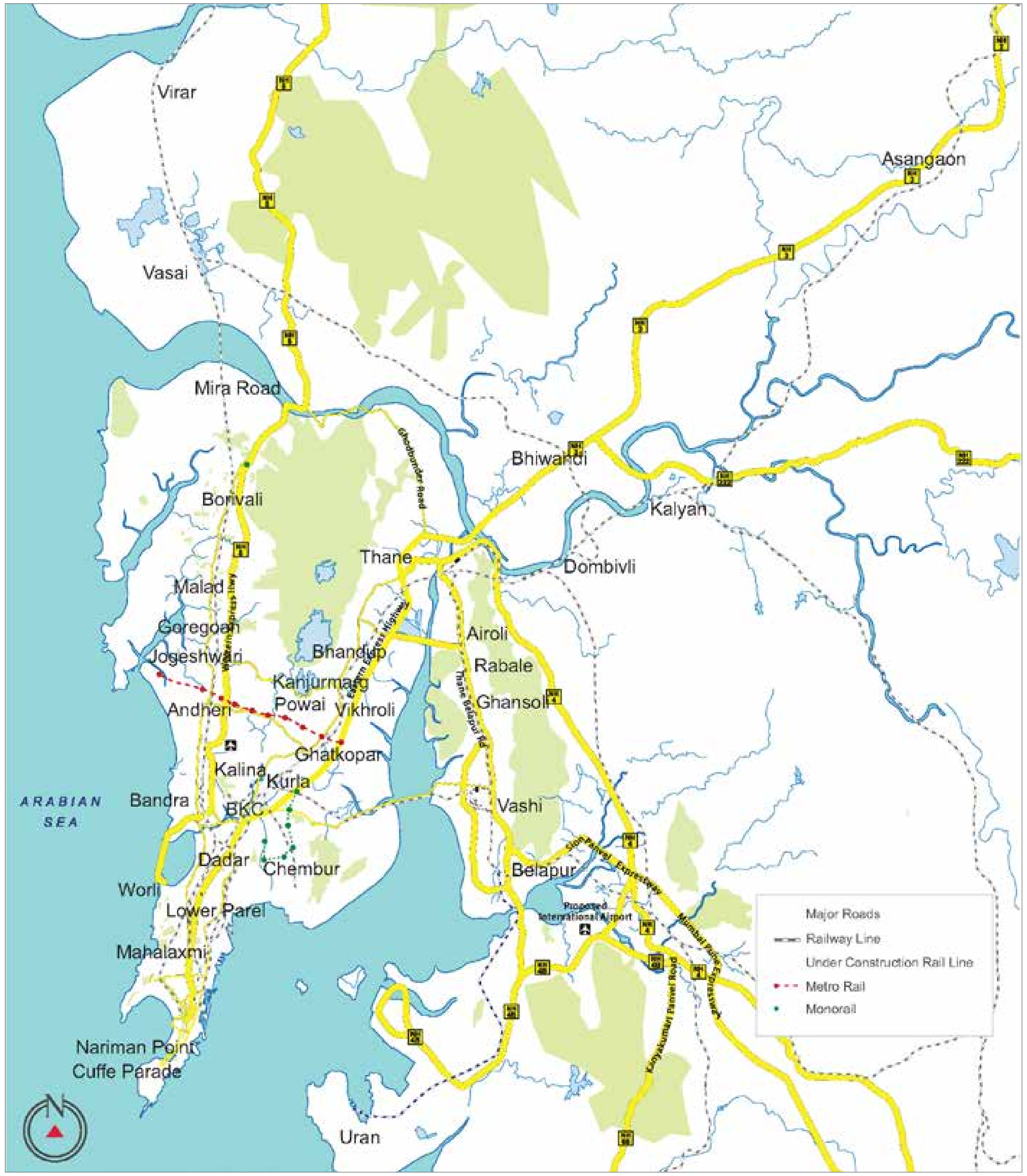
MICRO-MARKET SPLIT OF SALES

Source: Knight Frank Research

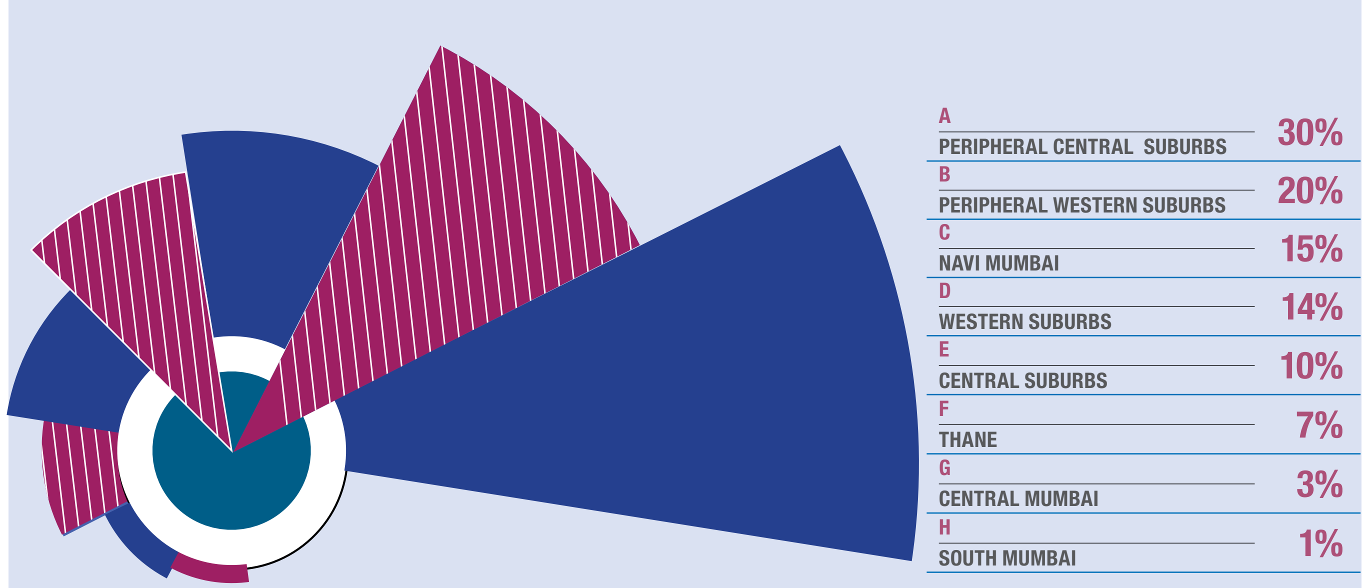
H1 2015: 28,446 units	H2 2015: 34,135 units	H1 2016: 34,971 units

- The peripheral markets fuelled the MMR's demand growth in H1 2016. Thane, Navi Mumbai, the Peripheral Central Suburbs and the Peripheral Western Suburbs saw sales grow by 47%, 28%, 21% and 9%, respectively.
- In just a year, the unit configuration has been brought down by 3–19% in these markets, in a bid to make project offerings more palatable for homebuyers. For instance, the unit configuration in the Peripheral Western Suburbs has been reduced by 19%, from 794 sq ft to 643 sq ft.
- Markets such as Thane and Navi Mumbai have also benefitted on account of the increased employment opportunities in the IT/ITeS industry, which is drawn to set up offices because of the improving connectivity, developing residential catchments and the availability of quality office buildings at relatively lower rents compared to Mumbai.

MUMBAI METROPOLITAN REGION MAP



MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF JUNE 2016



Source: Knight Frank Research

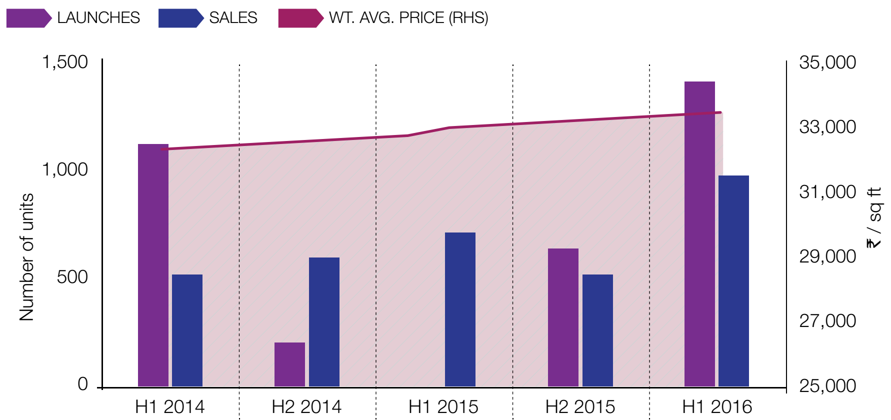
- With a 30% share, the Peripheral Central Suburbs is the largest market in the MMR in terms of the quantum of under-construction housing units.
- The Peripheral Western Suburbs ranks second in terms of under-construction housing units, with a 20% share.

PREMIUM RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

MICRO-MARKET	PREMIUM LOCATIONS
SOUTH MUMBAI	Malabar Hill, Tardeo, Mahalakshmi, Mumbai Central, Walkeshwar
CENTRAL MUMBAI	Worli, Prabhadevi, Parel, Lower Parel, Dadar
WESTERN SUBURBS	Bandra West, Santacruz, Juhu

FIGURE 5

PREMIUM MARKET TRENDS



Source: Knight Frank Research

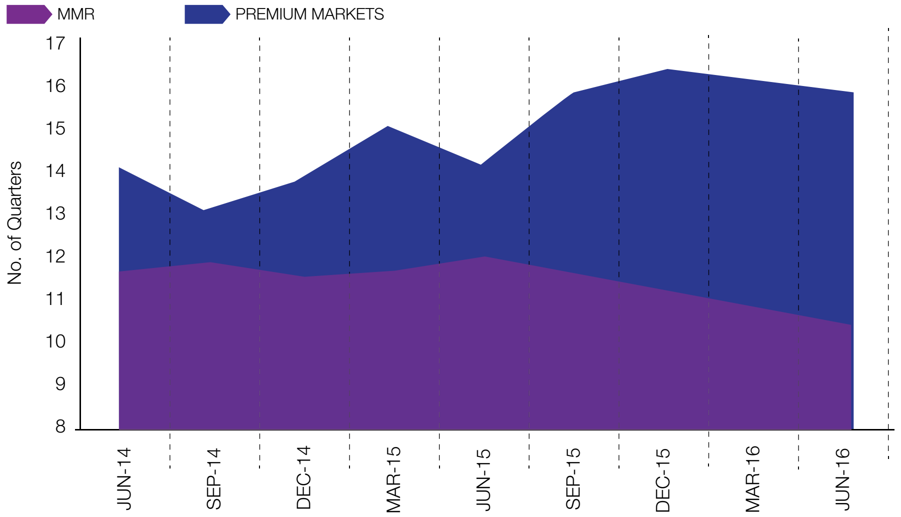
Note: Premium markets include locations where the average ticket size of a residential unit is above ₹50 mn, are in close proximity to the central business district of the city and have witnessed new project launches in the preceding three years

- With an average house price of ₹50 mn and above, the premium markets are select localities spread across the micro-markets of South Mumbai, Central Mumbai and the Western Suburbs.
- In H1 2016, new launches in this segment jumped significantly, to 1,426 units. This happened on the back of the lull in project launches in H1 2015, when no substantial projects were launched.
- Demand in the premium market improved by 13% in H1 2016, compared to same period in the previous year. The overall improvement in the market also benefitted the premium market, albeit by a lower margin.

MMR MARKET HEALTH

FIGURE 6

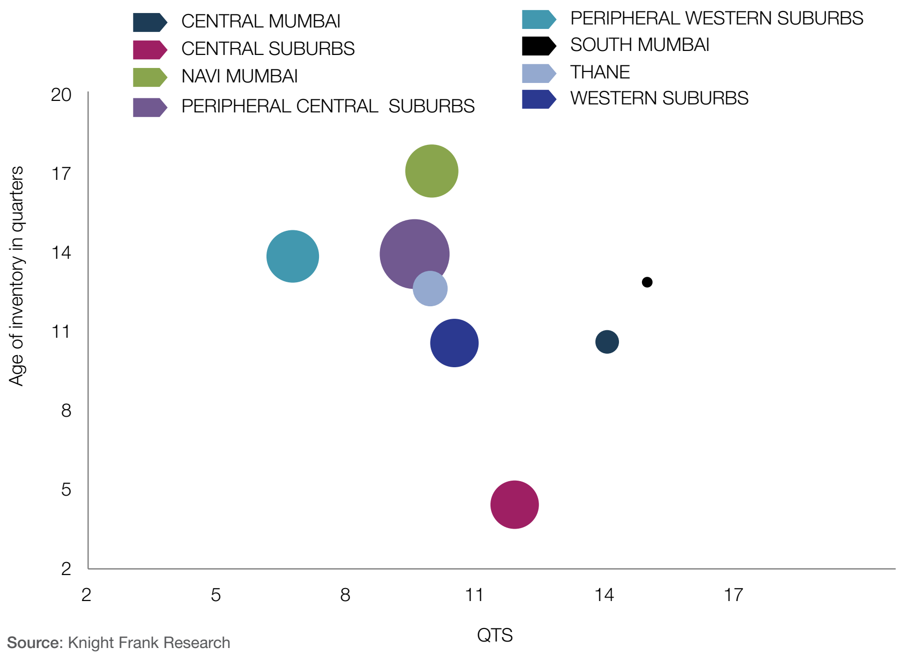
QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS



Source: Knight Frank Research

FIGURE 4

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

- The quarters to sell unsold inventory (QTS) is the number of quarters required to exhaust the existing unsold inventory in the market. The existing unsold inventory is divided by the average sales velocity of the preceding eight quarters in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market.
- Against the backdrop of a weak demand scenario, the QTS for the MMR saw an increasing trend between June 2013 and June 2015. However, since June 2015, the QTS has been coming down on account of the sharp curtailment in new project launches.
- The unsold inventory is down by 20% from its peak of 213,742 units in H1 2014. In H1 2016, it stood at 170,630 units, mainly on account of the sharp reduction in new launches. During this period, the QTS came down from 12 to 10. A comparison of the market health of all the micro-markets of the MMR indicates that the South Mumbai market has been ailing. Its QTS of 15 and age of inventory of 12 quarters are the worst across all the markets. On the other hand, the Peripheral Western Suburbs market is the best on these parameters.
- The QTS for the premium markets has remained higher than that of the overall MMR. Since these markets have larger ticket sizes, it takes longer to sell. Against the backdrop of the jump in new project launches in H1 2016, the QTS of the premium markets has increased from 14 in H1 2015 to 16 in H1 2016.

UPCOMING DEVELOPMENT PLAN 2034 TO AUGMENT THE GROWTH OF THE REAL ESTATE MARKET

The Revised Draft Development Plan 2034 for Mumbai is a redrawn plan after critical citizen feedback on the earlier draft plan was received last year. While complaints about last year's plan regarding the high FSI, few open spaces and factual land use errors become contentious issues in the earlier version and have been dealt with in the latest version, the biggest casualty has been the quintessential transit-oriented development (TOD) scheme, considering the interdependence between the city and the larger metropolitan region.

Mumbai, the country's financial capital and its most populous city, is not geographically spread out like Delhi or Bengaluru. Accordingly, the draft development plan has tried to make use of the available avenues for the future growth of the city. Although in conservative measure and treading cautiously after the criticism of the last version, the plan has laid out several measures to increase the development potential of the city.

One way is by granting FSI on the gross developable plot area and not the net developable plot area. This leads to additional development potential. The plan has also proposed to increase Mumbai's FSI from 1.33 to 2. While the FSI in the island city has been increased from 1.33 to 2, it remains the same in the suburbs. However, in our opinion, the increased FSI will not have a major impact on the real estate of the island city. We anticipate that almost 80% of the development will take place at a much higher FSI (up to 4) under schemes such as cluster redevelopment, cessed building redevelopment and slum rehabilitation, which implies that only one-fifth of the new projects are likely to undergo development with the enhanced FSI. Housing societies that are more than 30 years old and plan to undergo redevelopment will be able to avail of the increased FSI.

Another factor that has been implemented is the use of No Development Zone (NDZ) land for development. To this end, there are specific policies for developing NDZs such as eco-sensitive areas, water bodies, encroached land, forest land and private land. As per the current plan, the total area under NDZs is approximately 13,000 hectares. The NDZs are further divided into NDZs and natural areas. No development will be allowed in natural areas. Of the total land classified as NDZs, i.e. approximately 13,000 hectares, a little over 10,000 hectares are natural areas and the rest, NDZs (approximately 3,300 hectares).

However, most of the land under NDZs has been encroached upon. So, even if landowners pledge their land for development, there is the distinct possibility that the share of land that they can develop may fall under the category of land that has already been encroached upon. This will not give landowners any incentive to pledge their land for development under this scheme. Offering assistance in reclaiming the land that has been encroached upon will increase the landowners' confidence. Hence, the NDZ development policy will aid the new development to a limited extent.

Another measure to increase the city's development potential has emerged on the commercial space front. An FSI of 5 has been proposed for the proposed CBD areas, such as Govandi, Mankhurd, Mulund, Nahur and Dahisar. Up to 30% of this FSI can be used for residential development. These designated pockets in the city identified as CBD areas would benefit from this enhanced CBD development potential. The move has been aimed at utilising the land available at the octroi nakas. Exploitation of these land parcels, considered to be at strategic locations within the city, would augment the supply of office and retail property.

In another policy item, an additional FSI, based on the area of the plot, will be allowed for the development of plots for commercial purposes. Any plot in commercial, residential or industrial zones, measuring more than 3,000 sq m, can utilise the FSI of 5 if it is developed independently for commercial purposes, excluding shopping.

The IT/ITeS sector has been the biggest consumer of office space in the country. As a result, IT/ITeS development projects will have an FSI of 5, wherein IT/ITeS and IT-supported financial services can use 80% of the FSI, with the remaining 20% to be used for commercial services. The incremental FSI can be bought at a premium, which is at 25% of the ready reckoner (RR) rate in the case of IT/ITeS, and 40% and 100% of the RR rate in the case of IT-supported financial services and commercial services, respectively. The differential premiums have been drawn in a bid to encourage development in the IT/ITeS sector, where other cities, such as Bengaluru and NCR, are taking the lead. Thus, this move will augment the supply of affordable office space within the Mumbai city limits.

PRICE MOVEMENT IN H1 2016

WEIGHTED AVERAGE PRICE MOVEMENT IN MMR

LOCATION	PRICE RANGE IN H1 2016 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
MMR	8,093	1.2%	1.2%
Premium markets	33,600	1.7%	1.5%

- H1 2016 witnessed a price growth of 1.2% compared to same period last year. Barring a few projects that have seen 1–2% price cuts, most markets in the MMR are embracing stagnant house prices.
- Mumbai house prices are witnessing a time correction since the last two years. With a backlog of a large unsold inventory, residential price growth is forecasted to remain sombre in the upcoming H2 2016.

PRICE MOVEMENT IN SELECT LOCATIONS

LOCATION	MICRO-MARKET	PRICE RANGE IN H1 2016 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Lower Parel	Central Mumbai	25,000–36,000	1%	1%
Worli	Central Mumbai	31,000–55,000	0%	1%
Ghatkopar	Central Suburbs	12,000–22,000	4%	1%
Mulund	Central Suburbs	10,500–14,000	0%	0%
Powai	Central Suburbs	14,000–20,000	3%	0%
Panvel	Navi Mumbai	4,000–6,500	0%	-2%
Kharghar	Navi Mumbai	6,500–9,000	-1%	-3%
Vashi	Navi Mumbai	10,000–15,000	4%	2%
Badlapur	Peripheral Central Suburbs	2,700–3,500	-6%	-6%
Dombivali	Peripheral Central Suburbs	4,500–6,000	5%	5%
Mira Road	Peripheral Western Suburbs	5,500–7,500	3%	3%
Virar	Peripheral Western Suburbs	4,500–5,500	0%	0%
Tardeo	South Mumbai	40,000–60,000	1%	1%
Ghodbunder Road	Thane	6,000–10,000	2%	0%
Naupada	Thane	14,000–18,000	3%	1%
Andheri	Western Suburbs	15,000–22,000	3%	3%
Bandra (W)	Western Suburbs	40,000–60,000	1%	1%
Borivali	Western Suburbs	11,000–15,000	2%	2%
Dahisar	Western Suburbs	9,000–11,000	3%	1%
Goregaon	Western Suburbs	13,000–15,000	1%	0%

Source: Knight Frank Research

OUTLOOK FOR THE NEXT SIX MONTHS

PROJECTIONS	H2 2015	H2 2016E	GROWTH
Launches (units)	20,776	18,698	-10%
Sales (units)	34,135	37,549	10%
Weighted average price (₹/sq ft)	7,994	8,093	1.2%

Source: Knight Frank Research

- Going forward, we forecast the improving home-buying environment to translate into a healthy market momentum, with sales growing by 10% in H2 2016. With a large unsold inventory, even in the ready-to-move in category, new launches are forecasted to decline marginally in the coming six months.
- Mumbai's draft development plan is expected to get the final nod from the government, ensuring clarity on new project plans. Better transparency and governance standards, on account of the establishment of the real estate regulatory authority, are expected to improve consumer confidence in the new offerings.
- An unprecedented investment is now committed for Mumbai's infrastructure development, with a target to complete the projects within an ambitious time frame. Many of these planned projects are of high magnitude in terms of influence area as well as costs, and are estimated to help the real estate market of the region.
- MMR house prices have seen a time correction for the last two years and our forecast of a weighted average growth of 1.2% YOY for H2 2016 implies stagnation in the Mumbai residential prices. This would disappoint investors but bode well for the end users and help improve the market momentum.

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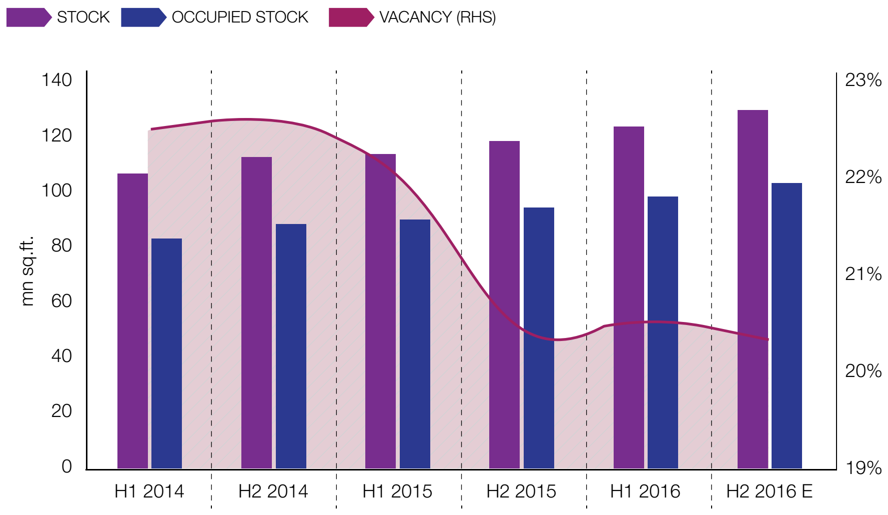
Taking cues from the improving demand scenario, project completions were hastened and the suburban and peripheral markets saw significantly higher project deliveries.

OFFICE MARKET

MMR OFFICE MARKET STOCK, NEW COMPLETIONS, TRANSACTIONS AND VACANCY TRENDS

FIGURE 1

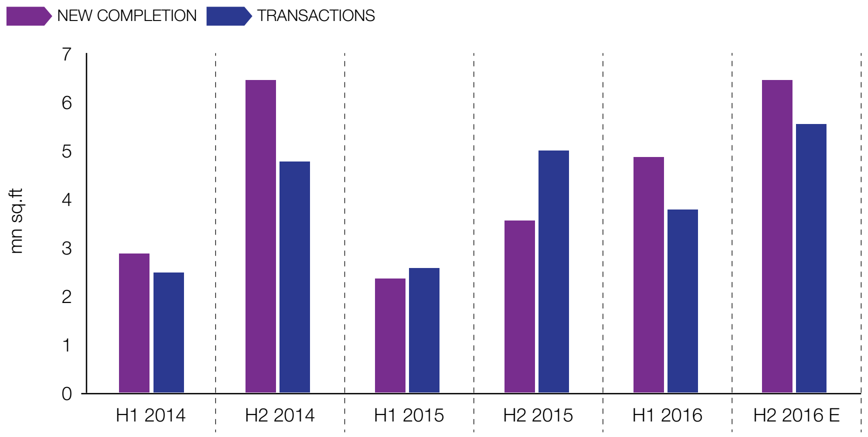
OFFICE SPACE STOCK AND VACANCY LEVELS



Source: Knight Frank Research

FIGURE 2

NEW COMPLETIONS AND TRANSACTIONS



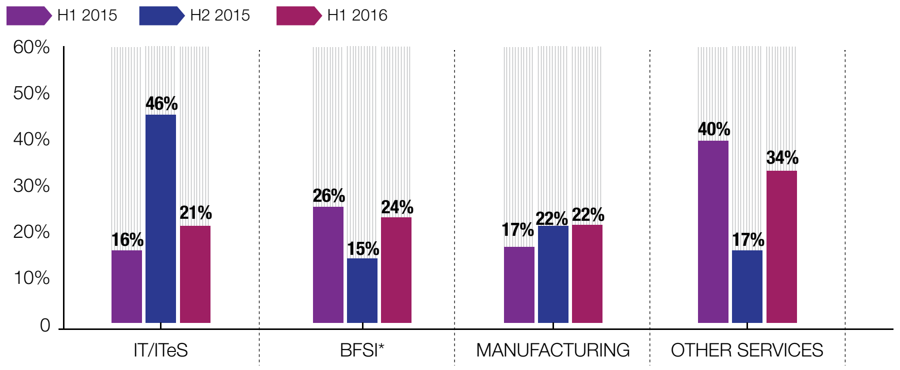
Source: Knight Frank Research

- The Mumbai office market recorded a stellar growth in transactions as well as new completions in H1 2016. Transactions grew by 51% to 3.8 mn sq ft, and new completions jumped 115% to 4.9 mn sq ft.
- The improving business sentiment is translating into more take up of office space in the city. While the BFSI and consulting media sectors—the traditional demand drivers of office space in the city—took up more space, it was the push from the IT/ITeS and manufacturing sectors that strengthened the city's demand growth.
- Taking cues from the improving demand scenario, project completions were hastened and the suburban and peripheral markets saw significantly higher project deliveries.
- Robust office demand made 2015 the only year in the post global financial crisis period to record transactions that exceeded new completions. The market-wide vacancy level has declined from 21.9% to 20.1% in H1 2015 and H1 2016.

SECTOR ANALYSIS

FIGURE 3

SECTOR-WISE SPLIT OF TRANSACTIONS



Note: BFSI includes BFSI support services

H1 2015:	H2 2015:	H1 2016:
2.5 mn sq ft	5.0 mn sq ft	3.8 mn sq ft

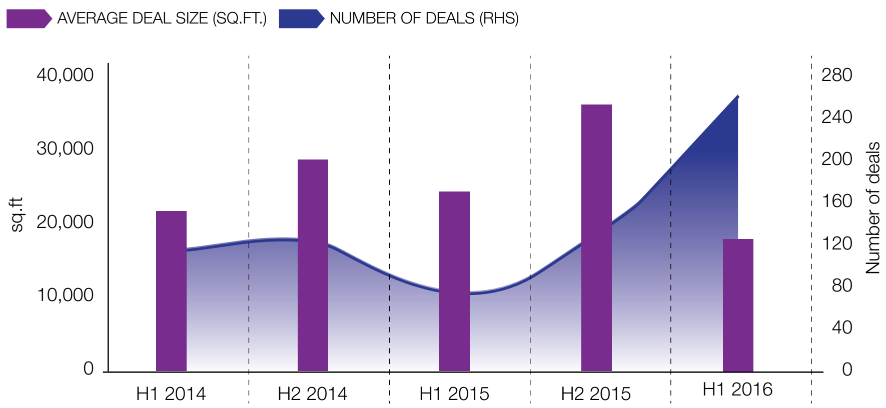
- The manufacturing and IT/ITeS sectors led the demand growth in H1 2016. Manufacturing sector transactions recorded a growth of 95%, with companies from the chemical and pharmaceutical sectors taking up office spaces in Andheri–Kurla, BKC, Vikhroli and Powai.
- IT/ITeS sector transactions jumped by 92%, with a strong preference for Trans Creek (TTC) and Ghodbunder Road in the PBD. Corporates such as Hexaware, TCS and NCR Corporation took up space during this period.

IT/ITeS sector transactions jumped by 92%, with a strong preference for Trans Thane Creek (TTC) and Ghodbunder Road in the PBD.

DEAL SIZE ANALYSIS

FIGURE 4

AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

- A significant jump was recorded in the number of transactions, even as the average space taken up saw a decline in H1 2016.
- With a large number of 2,000–5,000 sq ft office transactions, the average deal size came down to 15,000 sq ft, which was lower by 35% compared to same period last year.
- With the other services sector, comprising consulting, media and e-commerce firms, recording the largest deal share, the total number of deals recorded a 200% jump to 251 deals in the city.

SELECT TRANSACTIONS

OCCUPIER	BUILDING	LOCATION	APPROX. AREA (SQ FT)
Hexaware	Loma IT Park	Navi Mumbai	250,000
TIAA Financial Services Company	Godrej One	Vikhroli	100,000
Deloitte	Lotus Corporate Park	Jogeshwari East	100,000
Gilbarco Veeder-Root	Art Guild House	Kurla	100,000
TCS	Tiffany & Lexington	Thane	88,500
Axis Bank	The Ruby	Dadar West	80,000
CMA CGM	Kalpataru Prime	Thane	70,000
Here Maps	Gigaplex	Navi Mumbai	70,000
IDBI Bank	Marathon Futurex	Lower Parel	60,000
HDFC Bank	Zenith House	Lower Parel	60,000

Source: Knight Frank Research

BUSINESS DISTRICT ANALYSIS

BUSINESS DISTRICT CLASSIFICATION

BUSINESS DISTRICTS	MICRO-MARKETS
CBD & OFF-CBD	Nariman Point, Cuffe Parade, Ballard Estate, Fort, Mahalaxmi, Worli
BANDRA KURLA COMPLEX & OFF-BANDRA KURLA COMPLEX (BKC & OFF-BKC)	BKC, Bandra (E), Kalina and Kalanagar
CENTRAL MUMBAI	Parel, Lower Parel, Dadar, Prabhadevi
SBD WEST	Andheri, Jogeshwari, Goregaon, Malad
SBD CENTRAL	Kurla, Ghatkopar, Vikhroli, Kanjurmarg, Powai, Bhandup, Chembur
PBD	Thane, Airoli, Vashi, Ghansoli, Rabale, Belapur

- SBE West, with localities such as Andheri–Kurla, Goregaon and Malad, recorded the highest number of transactions. Media, consulting and e-commerce firms preferred this market for setting up office.
- E-commerce firms such as OlaCabs, Justdial, MakeMyTrip and Saavn signed leases in the SBD West market, drawn by the attractive rents and improving connectivity.

BUSINESS DISTRICTS OF MUMBAI METROPOLITAN REGION

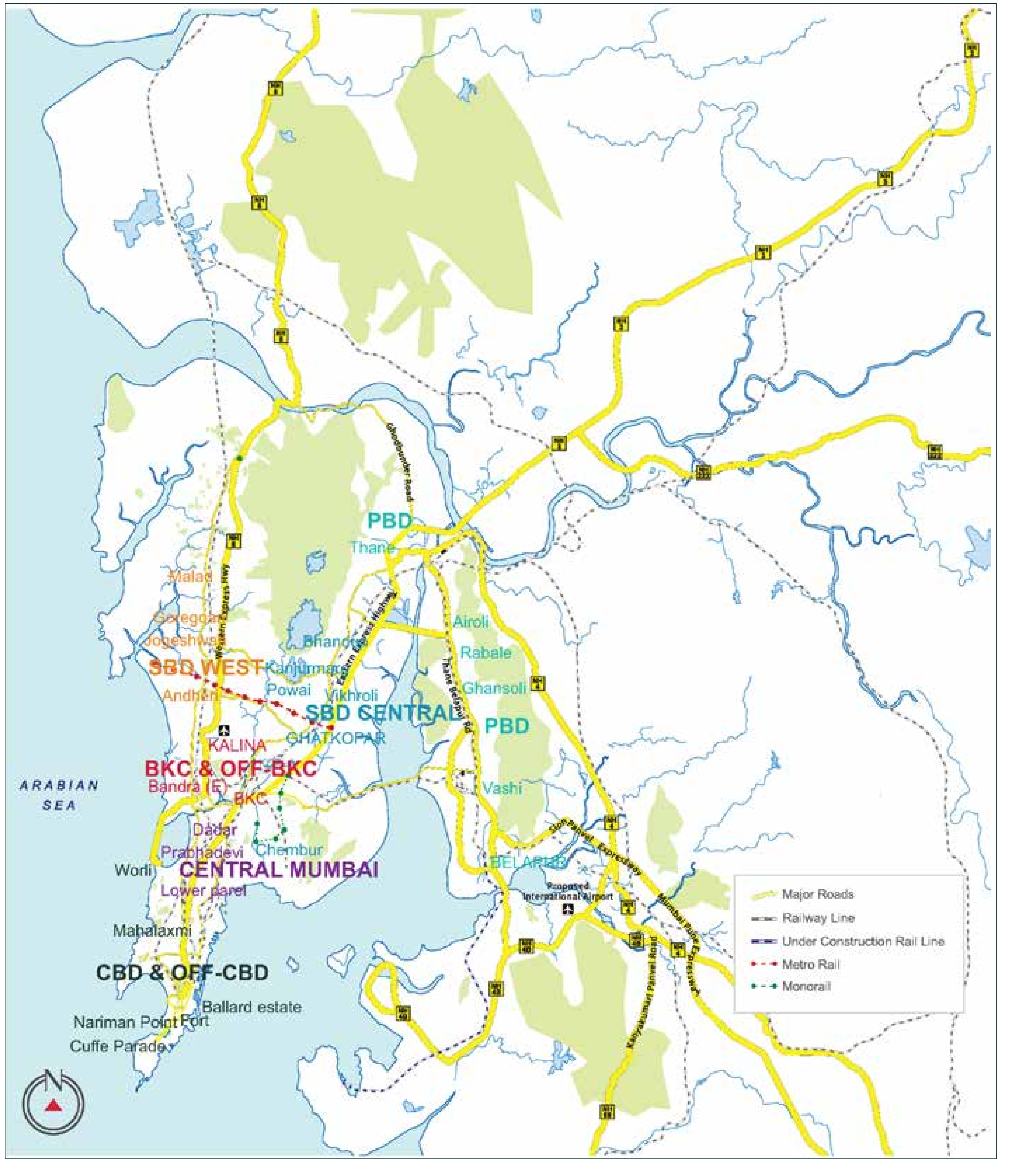
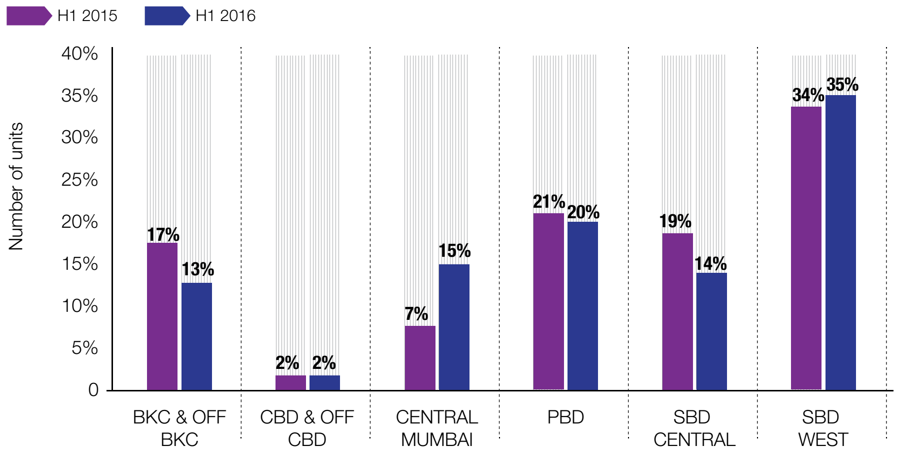


FIGURE 5
BUSINESS DISTRICT-WISE TRANSACTIONS SPLIT



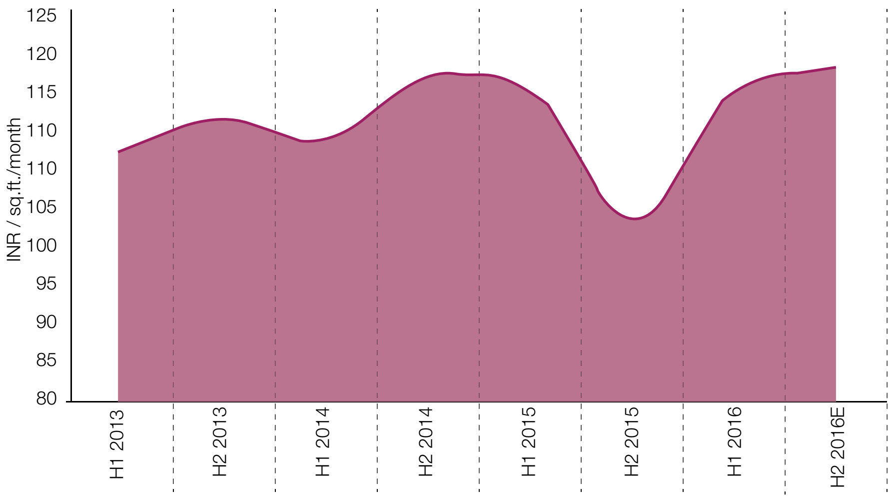
Source: Knight Frank Research

H1 2015:	H1 2016:
2.5 mn sq ft	3.8 mn sq ft

Mumbai's new development plan will soon become a reality. A salient feature of the plan relating to the development of commercial real estate is the exploitation of octroi naka land as proposed CBD areas with an FSI of 5. This should significantly enhance the office supply potential in areas such as Govandi, Mankhurd, Mulund, Nahur and Dahisar. The largest potential will emerge in Govandi and Mankhurd, which may potentially see a supply amounting to as much as the current stock of BKC and Central Mumbai taken together.

RENTAL TREND

FIGURE 6
WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

- The weighted average rent in the MMR stagnated at ₹117 per sq ft per month in H1 2016 compared to same period last year.
- Notwithstanding the dip in the weighted average rent, office market rents are trending up owing to the improved demand-supply dynamics. Markets such as Lower Parel, Powai, Vikhroli and Navi Mumbai witnessed a rent growth of 3–5% in the last six months.

BUSINESS DISTRICT-WISE RENTAL MOVEMENT

BUSINESS DISTRICT	RENTAL VALUE RANGE IN H1 2016 (₹/SQ FT/MONTH)	12 MONTH CHANGE	6 MONTH CHANGE
BKC & off-BKC	220–310	2%	1%
CBD & off-CBD	160–250	-4%	-2%
Central Mumbai	160–190	3%	3%
PBD	50–80	7%	5%
SBD Central	80–130	5%	3%
SBD West	90–140	3%	2%

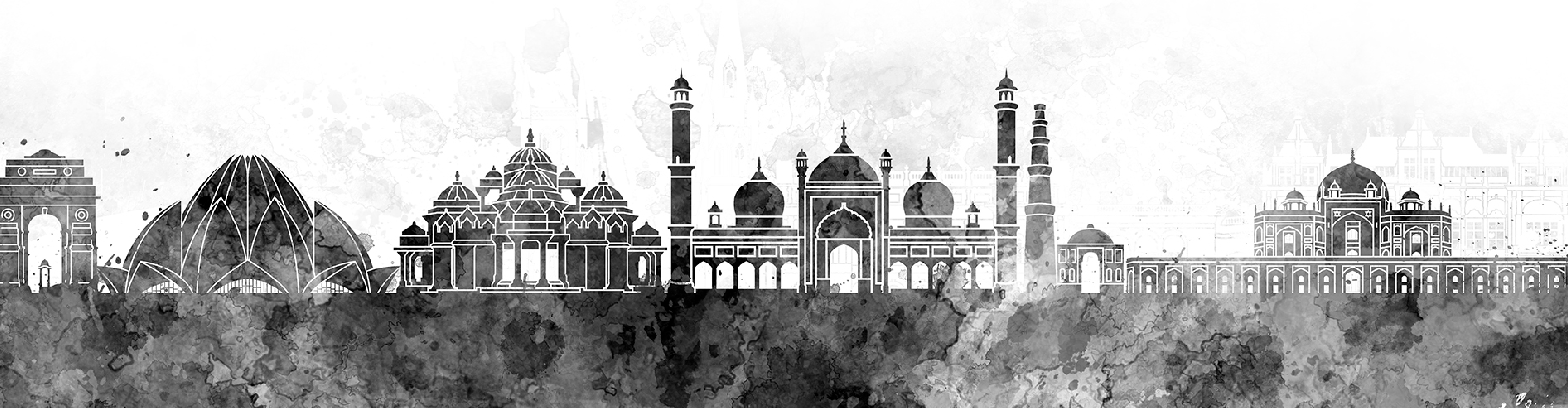
Source: Knight Frank Research

OUTLOOK FOR THE NEXT SIX MONTHS

PROJECTIONS	H2 2015	H2 2016E	GROWTH
New supply (mn sq ft)	3.5	6.4	84%
Transactions (mn sq ft)	4.9	5.4	10%
Vacancy (%)	20.0%	19.9%	
Weighted average rental (₹ / sq ft / month)	104	119	15%

Source: Knight Frank Research

- Going forward, we forecast office space transactions to increase by 10% YOY, recording 5.4 mn sq ft in H2 2016. For the year 2016, this will imply transactions of 9.3 mn sq ft – the highest since 2010.
- On the supply side, project completions of 6.4 mn sq ft is estimated for H2 2016. The market vacancy will trend down marginally to 19.9%.
- With a steady supply in the suburban and peripheral markets, the market-level vacancy stands at 20.1%. However, Bandra Kurla Complex and Central Mumbai—the preferred BFSI and consulting markets—are facing a shortage of quality office space. However, with around a million sq ft of supply in the next six months, rents may not increase significantly.
- Mumbai's new development plan will soon become a reality. A salient feature of the plan relating to the development of commercial real estate is the exploitation of octroi naka land as proposed CBD areas with an FSI of 5. This should significantly enhance the office supply potential in areas such as Govandi, Mankhurd, Mulund, Nahur and Dahisar. The largest potential will emerge in Govandi and Mankhurd, which may potentially see a supply amounting to as much as the current stock of BKC and Central Mumbai taken together.
- With regards to the business environment, initiatives by the government in terms of the ease of doing business, attracting foreign capital in crucial sectors, and enhanced transparency and governance standards are structurally sound steps. The results are showing on the economic and fiscal stability scoreboard. Hence, although corporates expressed caution over the last three years, the improvement in the macroeconomic situation has improved the business sentiments and therefore, the appetite for corporate real estate.



NCR

RESIDENTIAL & OFFICE MARKET

Ankita Sood
Consultant - Research

RESIDENTIAL MARKET

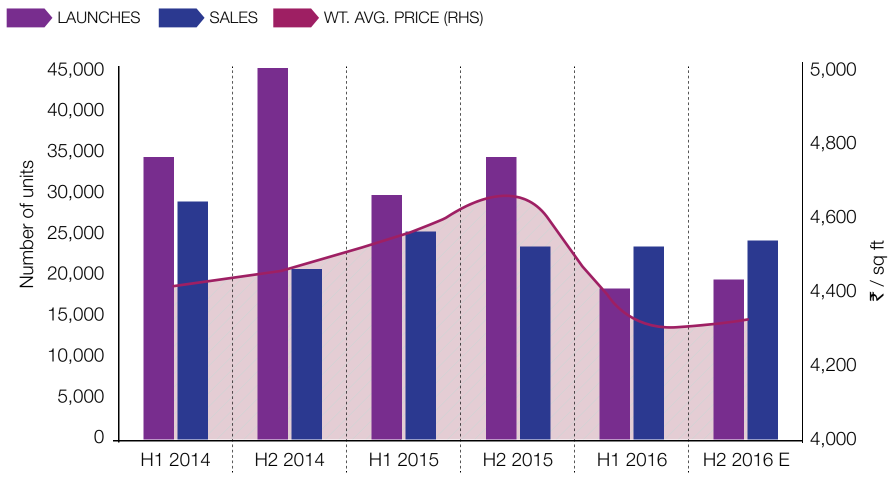
NCR RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

- Developers in NCR finally gave in to price resistance. Prices registered a 4% YOY dip in H1 2016 and have corrected to 2013 levels. Piling-up inventories and a slow sales velocity brought stagnancy in the market, wherein developers could not increase prices substantially. The market was already in a time correction phase for the last three years, and this is the first time that there is a decline in the quoted prices in NCR.
- Cash-strapped developers are concentrating on completing their existing projects to boost their cash flows, since most of the projects have a construction-linked payment plan. This has pushed developers to bring down prices and restrict new launches in H1 2016, resulting in the thinnest half-yearly supply observed in NCR. Nose-diving to 17,462 units in H1 2016, new launches registered a massive 41% dip YOY compared to H1 2015.
- New launches have also shrunk because present-day homebuyers prefer to buy a completed apartment, which is pushing developers to speed up completions rather than launch new projects.
- The fear of provision of re-registration under the of the Real Estate Regulatory Authority (RERA) have also caused developers to control the launch of new projects and concentrate more on project completions. Under this law, all real estate projects (including those under construction) for which a completion certificate has not yet been issued have to be registered with the real estate regulator.
- Demand and supply have reached the inflection point in H1 2016 in NCR, with demand outstripping supply for the first time. This much-awaited transition phase hints at a market correction in NCR's real estate sector, going forward.
- New launches in NCR are on a constant decline since 2010 and have dropped more than half over the last six years. This radical drop can be explained by the poor consumer confidence that has inhibited developers from launching new projects.
- Demand on the other hand has also shrunk, but it is too early to state the trends as the new base for sales. With speculative interest waning in the market, sales in NCR are driven primarily by end-user demand.
- Recent trends suggest that sales in NCR have remained below 30,000 units in the first halves of 2014 and 2015, compared to 50,000 units 2010 and 2011. The market registered sales of approximately 23,092 units in H1 2016, compared to 25,000 units in H1 2015.
- Along with the impact of macroeconomic factors, delays in the delivery of some major large-scale projects, defaults by developers, and litigations involving major infrastructure projects have put buyers in NCR on the back foot.

Developers in NCR finally gave in to price resistance. Piling-up inventories and a slow sales velocity brought stagnancy in the market, wherein developers could not increase prices substantially. The market was already in a time correction phase for the last three years, and this is the first time that there is a decline in the quoted prices in NCR.

FIGURE 1

NCR MARKET TRENDS

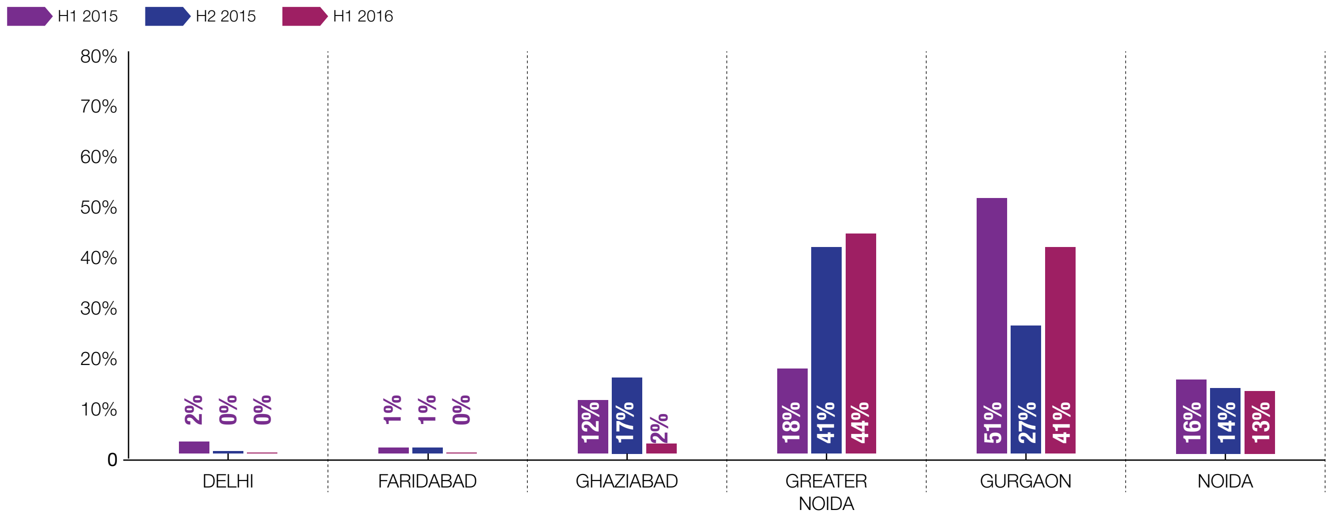


Source: Knight Frank Research

MARKET SPLIT OF RESIDENTIAL LAUNCHES

FIGURE 2

MARKET SPLIT OF LAUNCHED UNITS



Source: Knight Frank Research

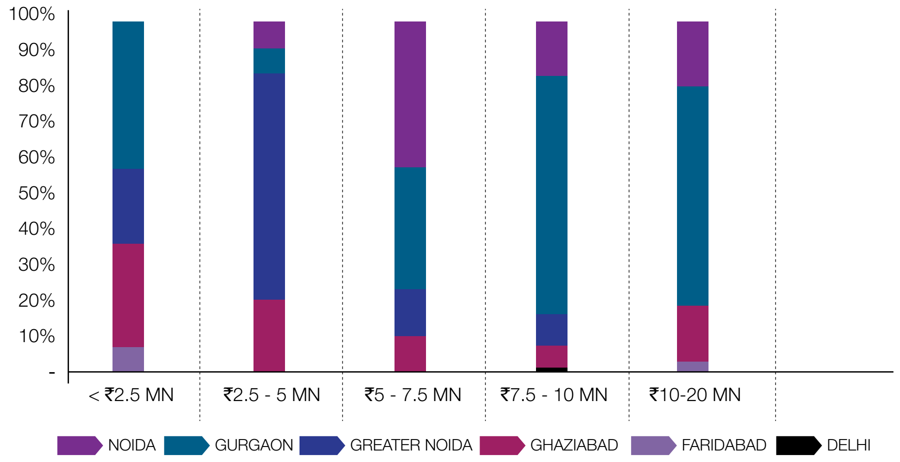
H1 2015: 29,458 units	H2 2015: 34,000 units	H1 2016: 17,462 units

- While new launches dropped by a staggering 41% YOY in H1 2016, Greater Noida and Gurgaon saved the day for NCR. Over 80% of the total launched units in NCR are in these two markets.
- Noida witnessed new launches drop by almost half, to 2,210 units in H1 2016 as compared to 4,464 units in H1 2015, thus registering a dip of 53%.
- Insights suggest that the increase in the land allotment rates by 14.19% by the New Okhla Industrial Development Authority (NOIDA) Board will curtail new launches in the region even further, since developers are already facing a liquidity crunch due to poor sales.
- The proposed exit policy for developers in Noida further corroborates the fact that developers are neither able to complete their current project phase nor are in a position to launch new projects, given the current sales and liquidity crunch.
- The policy will allow developers to surrender undeveloped land to the authority, which will return 70% of the deposit. Developers can use this money to finance and complete projects that are nearing completion. The authority will then allot the surrendered land via a fresh allotment process.
- 72% of the new launches in NCR in H1 2016 are in the sub ₹5 mn category, indicating a move towards affordable options for homebuyers.
- Catering mostly to the affordable and budget segments, the maximum number of new launches in Greater Noida fall in ₹5 mn category. In keeping with this trend, all new launches in Greater Noida in H1 2016 were in the sub ₹5 mn category.

Cash-strapped developers are concentrating on completing their existing projects to boost their cash flows, since most of the projects have a construction-linked payment plan. This has pushed developers to bring down prices and restrict new launches in H1 2016, resulting in the thinnest half-yearly supply observed in NCR.

FIGURE 3

TICKET SIZE SPLIT OF LAUNCHES DURING H1 2016

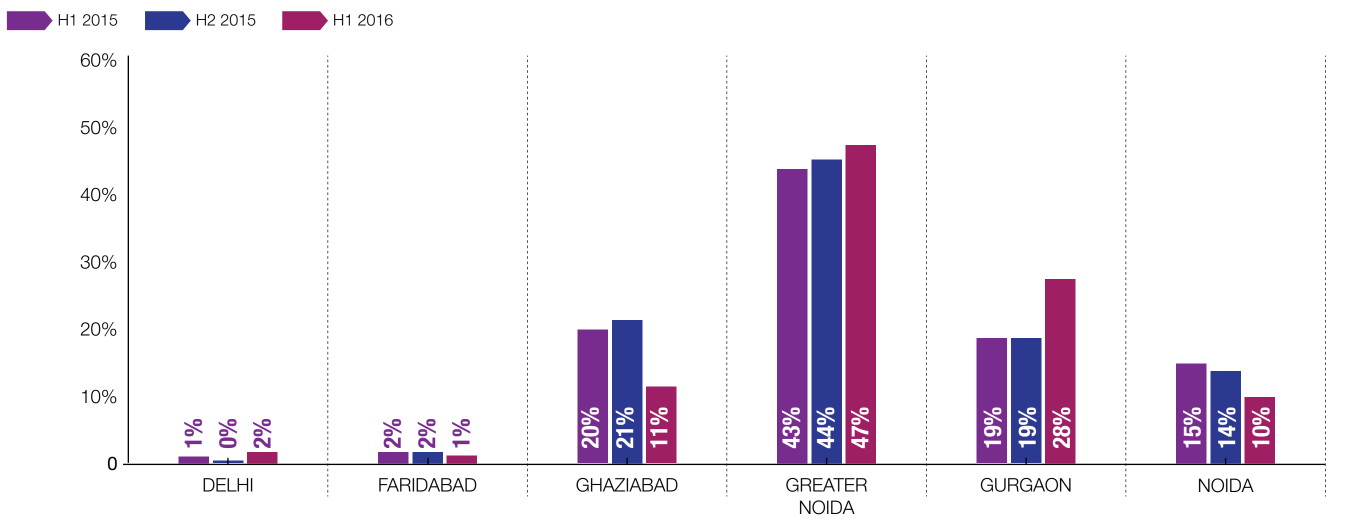


Source: Knight Frank Research

MARKET-WISE RESIDENTIAL SALES

FIGURE 4

MARKET-WISE RESIDENTIAL SALES



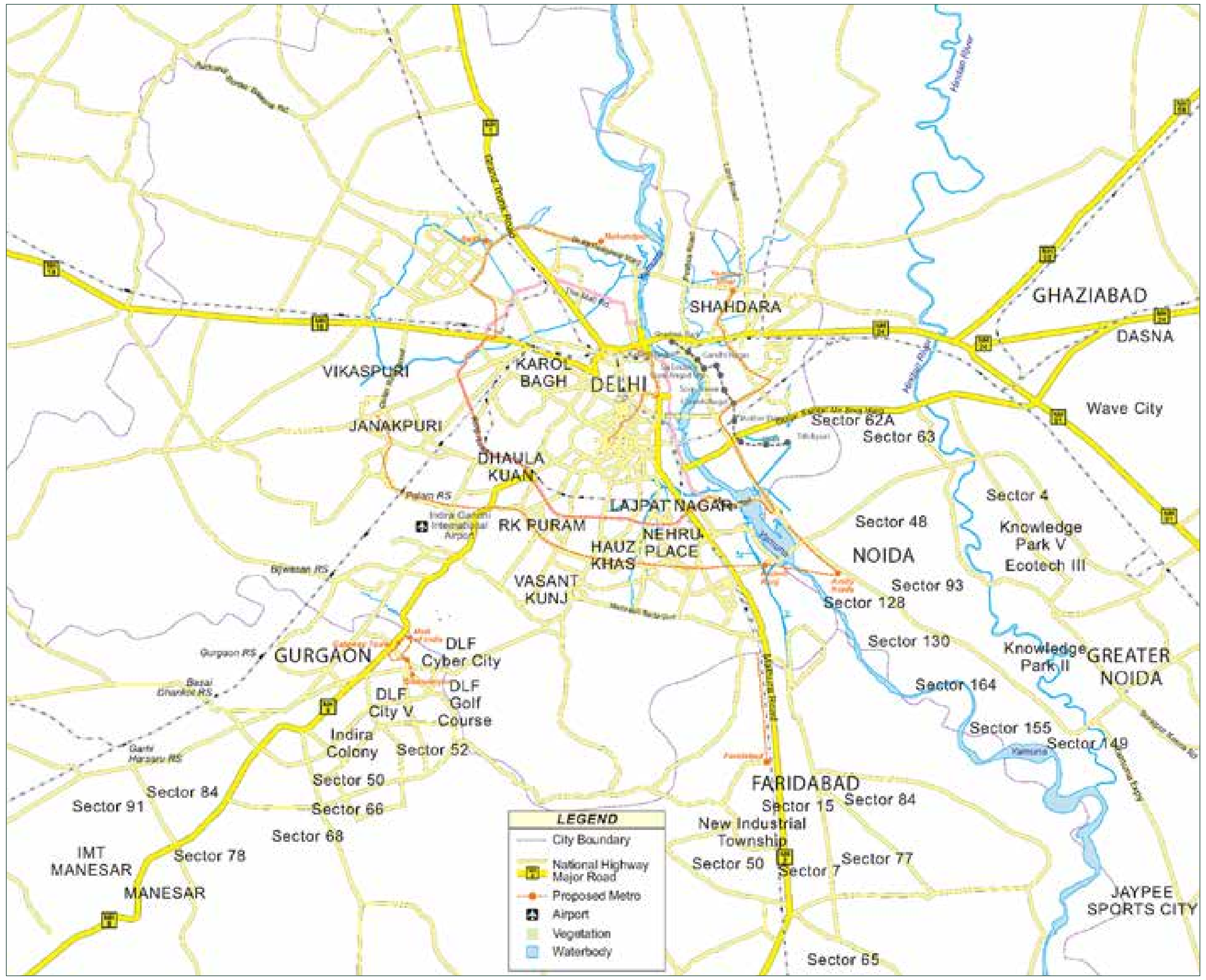
Source: Knight Frank Research

H1 2015:	H2 2015:	H1 2016:
25,000 units	23,800 units	23,092 units

- Approximately 23,092 units were sold in the first half of 2016, compared to 25,000 units in H1 2015, thus registering a YOY dip of 8%.
- Our survey findings suggest that there is a growing preference among homebuyers for ready-to-move-in projects or projects where there is a certainty of possession within a year. This growing inclination is a consequence of project delays and long gestation periods in the completion of infrastructure projects.
- Though the overall sales volume in NCR has remained muted for the past six quarters, Greater Noida and Gurgaon still managed to buck the trend in terms of sales in NCR.
- Demand in Greater Noida, including Noida Extension, comes primarily on the back of affordability. Most of the current and new projects in Greater Noida fall in the sub ₹5 mn category, which increases the attractiveness of the area for buyers looking for affordable options.
- The improving connectivity between Noida and Greater Noida through the Noida–Greater Noida Expressway and the upcoming metro has facilitated office space movement along the expressway, which has added to the positive sentiments pertaining to this area.
- Gurgaon registered a good 36% uptick in sales in H1 2016, compared to the same period in 2015. Insights suggest that even in the depressed and unaffordable residential market of Gurgaon, developers with a good track record are witnessing sales. Buyer preference for ready-to-move-in options, coupled with developer reputation, is holding up the demand in Gurgaon

Demand and supply have reached the inflection point in H1 2016 in NCR, with demand outstripping supply for the first time. This much-awaited transition phase hints at a market correction in NCR's real estate sector, going forward.

NATIONAL CAPITAL REGION MAP



HOME IN THE HEART OF THE NATIONAL CAPITAL

Located in the heart of Delhi, the Lutyens Bungalow Zone (LBZ) is one of the costliest pieces of real estate in the country and has always made it to the front pages of national dailies for two main reasons—the record-breaking value of the transactions taking place there and the person moving to this part of Delhi. This time around, the LBZ has been in the news for a different reason. In a recent move, the Delhi Urban Art Commission (DUAC), a body that decides on the development of the city, has advocated the exclusion of eight areas from the present-day LBZ, thereby shrinking its size. If this becomes a reality, real estate in the heart of city will become more affordable, but this area will continue to remain the domain of the rich.

The LBZ

Situated close to the central business district of Connaught Circus and the seat of the Central Government, this area of Delhi is dotted with low-rise buildings and sprawling bungalows. What puts it on the wish list of the rich and famous is its exclusivity. The area of the LBZ has been increased over the years. When Sir Edwin Luytens designed the new capital of British India, the LBZ was spread over an area of 19.12 sq km. In 1988, when the LBZ was first demarcated in independent India, its area covered 25.88 sq km. In 2003, new locations were included in the LBZ and its area expanded to 28.73 sq km.

The proposed LBZ

The Ministry of Urban Development had been receiving representations from various residents of the LBZ for the relaxation of certain norms. The ministry forwarded these representations to the DUAC for examination and to propose the necessary recommendations. After a study on the matter, the DUAC was of the view that the colonies of Sunder Nagar, Golf Links, Jor Bagh, Bengali Market, Panchsheel Marg, Sardar Patel Marg, Mandir Marg, Chanakyapuri, Ashoka Road and Connaught Place will not be part of the revised LBZ, as they were not part of the LBZ envisaged by Sir Edwin Lutyens. As a result of this revision, the LBZ's area will shrink from 28.73 sq km to 23.60 sq km. This means that once the revised area of LBZ is notified, approximately 5.13 sq km will be freed for real estate development.

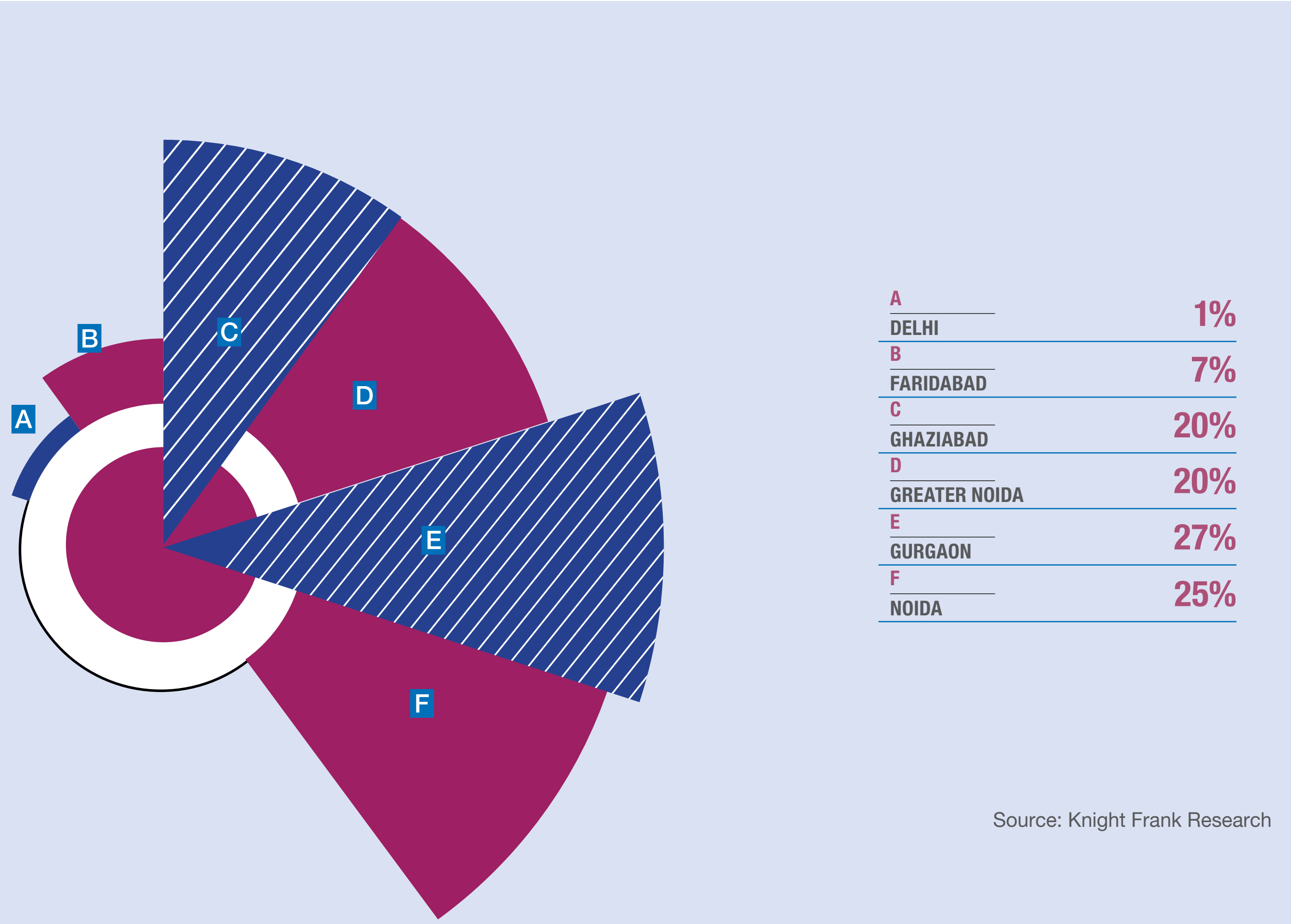
The new supply

The exclusion of around 5.13 sq km from the LBZ will mean that fresh development can come up in these areas, and the guidelines according to the Delhi Master Plan 2021 and the Delhi Building Bylaws 1983 will apply to them. Since these areas will still have the locational advantage of being close to the seat of power, they will continue to command a premium. However, capital values in these areas will now be within reach for many more individuals, depending on the number of units that will come up. Most of these areas, especially Golf Links and Jor Bagh, are presently dominated by villas and bungalows. New supply in the form of apartments is expected to come up only after the areas are officially de-notified from the LBZ. This new supply will only materialise if the owner of a bungalow or villa opts for redevelopment. Though the new supply will be more affordable than the current properties in these areas, they will certainly not be cheap. If the prevailing capital values are any indication, the new supply coming up in these areas will be in excess of ₹15 crore. These will be largely for 3 and 4 BHK apartments with a super built-up area in the range of 2,200–3,000 sq ft.

Conclusion

The area of interest for most of the stakeholders in the real estate sector will be the 5.13 sq km to be excluded from the LBZ, provided the recommendations of the DUAC are accepted and notified. The availability of new areas for development in the heart of the city will lead to fresh supply coming into the market. This supply, if and when it comes, will lead to lowering of capital values in those areas. However, even after the capital values come down from the present levels, the new supply will command a premium, largely on account of its locational advantage.

MARKET SPLIT OF UNDER-CONSTRUCTION UNITS IN H1 2016



Source: Knight Frank Research

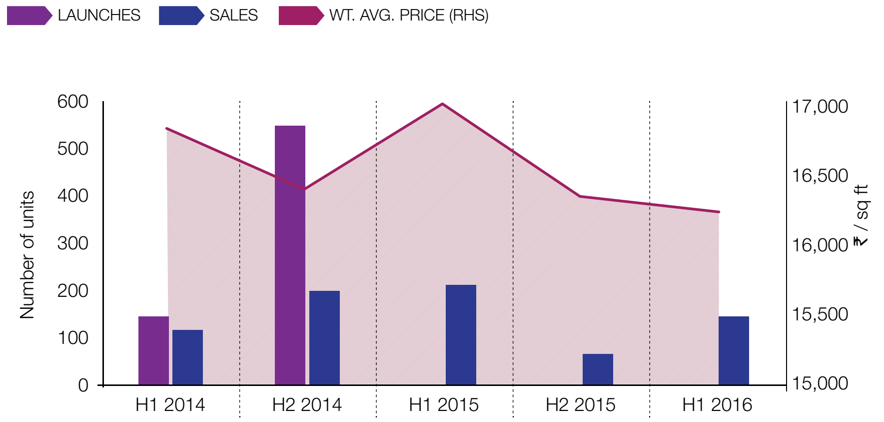
PREMIUM RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

New launches in the premium segment have dropped from 700–1,000 units in six-monthly periods during 2010–2011 to zero units in H1 2016.

- The NCR agglomeration comprises five micro-markets, namely Delhi, Gurgaon, Noida, Greater Noida, Faridabad and Ghaziabad, of which Gurgaon and Noida are seen as premium markets, with a fresh inventory above ₹30 mn.
- Though the premium market is a niche segment, the impact of the slowdown is evident from the absence of new launches in this segment since H1 2015. New launches have dropped from 700–1,000 units in six-monthly periods during 2010–2011 to zero units in H1 2016.
- On the other hand, sales in the premium market have trickled in, with approximately 132 units being sold in H1 2016.
- Reflecting the overall market sentiment, the weighted average price growth in the premium segment registered a 5% dip in H1 2016, compared to the same period in 2015.

MICRO-MARKET	PREMIUM LOCATIONS
GURGAON	Sectors 42, 53, 54, 58, 59, 65, Gurgaon–Faridabad Road
NOIDA	Sectors 16 B, 100

FIGURE 5
PREMIUM MARKET TRENDS

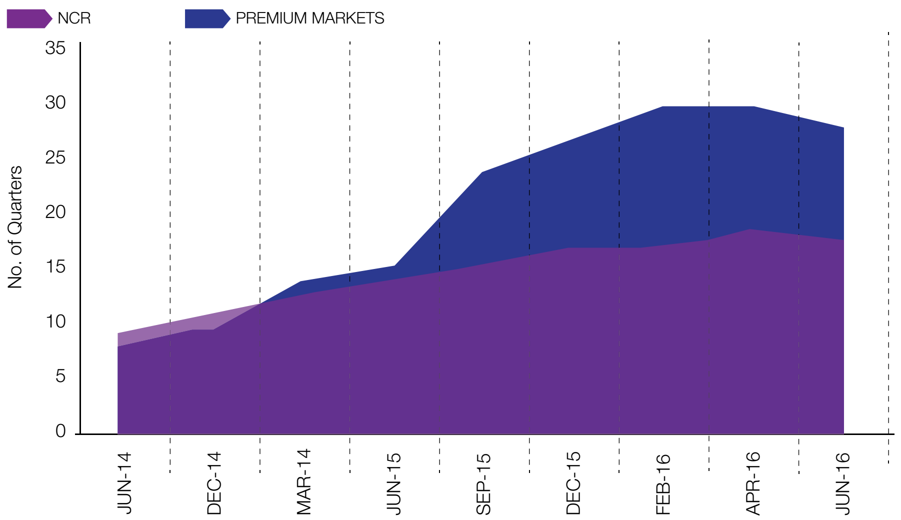


Source: Knight Frank Research

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

NCR MARKET HEALTH

FIGURE 6
QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS

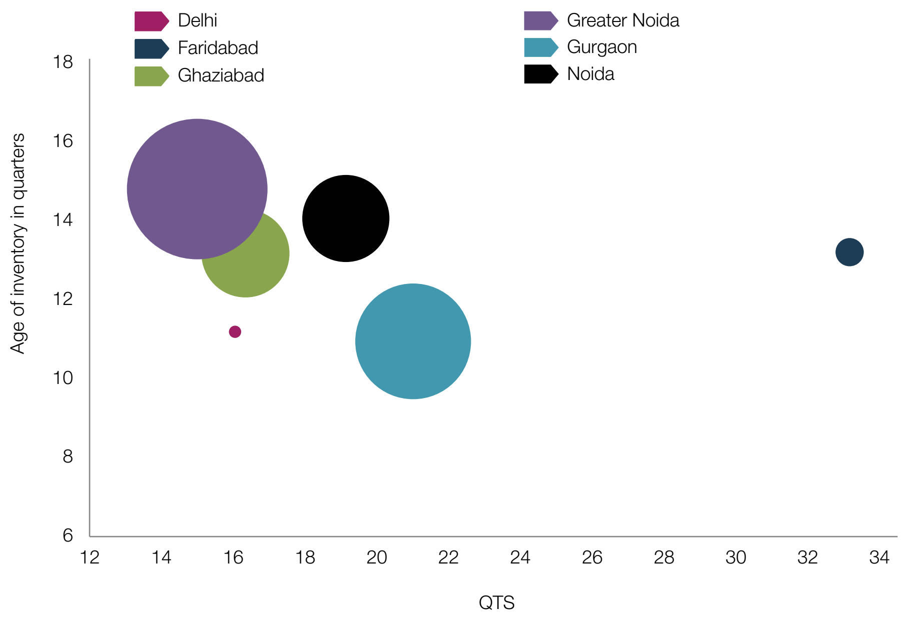


Source: Knight Frank Research

Though the market saw its thinnest-ever new launches in H1 2016, it has had little impact on the unsold inventory due to the slow sales velocity. The unsold inventory stands at approximately 200,398 units as of June 2016 and will take more than four years to sell.

FIGURE 7

MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

- The quarters to sell unsold inventory (QTS) is the number of quarters required to exhaust the existing unsold inventory in the market. The existing unsold inventory is divided by the average sales velocity of the preceding eight quarters in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market.
- The QTS of NCR stands at 17 quarters at the end of June 2016. Though the market saw its thinnest-ever new launches in H1 2016, it has had little impact on the unsold inventory due to the slow sales velocity. The unsold inventory stands at approximately 200,398 units as of June 2016.
- Ghaziabad and Greater Noida still remain NCR's best performing markets, with a QTS of 16 and 15, respectively. Affordability options add to the attractiveness of these markets, which has helped sales trickle in.

PRICE MOVEMENT IN H1 2016

WEIGHTED AVERAGE PRICE MOVEMENT IN BENGALURU

LOCATION	PRICE RANGE IN H1 2016 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
NCR	4,346	-4%	-5%
PREMIUM MARKETS	16,240	-5%	-1%

- Prices in the NCR residential market have corrected for the first time, registering a 4% YOY dip in H1 2016.
- No price increase since 2013 had already hinted at a time correction. Piling-up inventories and a slow sales velocity had restrained developers from increasing prices for the last three years, but this is the first time that the market has witnessed a crash in the weighted average prices.
- The reduction in the weighted average prices will boost sales sentiments, which, in turn, will bring in the much-needed liquidity for developers to complete their projects.

PRICE MOVEMENT IN SELECT LOCATIONS

LOCATION	MARKET	PRICE RANGE IN H1 2016 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Yamuna Expressway	Greater Noida	3,295–3,557	0%	0%
Sector Chi V	Greater Noida	3,474–3,514	3%	3%
Sector 16 B	Greater Noida	3,100–3,400	-6%	-6%
Sector 16 C	Greater Noida	2,668–3,866	-3%	-3%
Sector 78	Noida	5,500–5,627	-1%	-5%
Sector 70	Noida	4,100–4,283	2%	2%
Sector 117	Noida	4,800–4,880	-1%	0%
Sector 143 B	Noida	3,970–5,200	-5%	-3%
Sector 37	Gurgaon	4,200–5,600	-12%	-2%
Sector 49	Gurgaon	7,700–10,200	-1%	0%
Sector 67	Gurgaon	9,100–9,200	-1%	0%
Sector 79	Gurgaon	4,200–6,300	-2%	0%
Sector 82	Gurgaon	3,700–5,900	0%	0%
NH-24 Bypass	Ghaziabad	2,842–3,000	5%	2%
Raj Nagar Extension	Ghaziabad	2,884–2,900	-1%	2%
Crossings NH-24	Ghaziabad	3,200–3,300	2%	0%
Sector 37	Faridabad	4,904–7,642	-4%	0%
Sector 75	Faridabad	3,550 – 3,700	-1%	1%
Sector 76	Faridabad	2,720–2,890	-6%	0%

Source: Knight Frank Research

OUTLOOK FOR THE NEXT SIX MONTHS

PROJECTIONS	H2 2015	H2 2016E	GROWTH
Launches (units)	34000	19,626	-42%
Sales (units)	23,800	24,307	2%
Weighted average price (₹/sq ft)	4,578	4,346	-5%

Source: Knight Frank Research

- The realty market in NCR will continue to remain muted in the second half of 2016. Knight Frank estimates sales to plug around 20,000 units in the coming two quarters.
- The impact of the Real Estate Regulatory Authority (RERA) will keep new launches in check even further, as developers will aim at completing projects to avoid re-registering their existing projects under the provisions of the Act.
- We estimate new launches to stay below 25,000 units in the second half of 2016, with stagnation in the weighted average prices.
- Developers with a good project delivery track record will continue to witness sales in the current market conditions and going forward as well.
- The impact of recent developments, such as the announcement of the National Highway status for the Dwarka Expressway in Gurgaon, will be observed keenly by buyers.

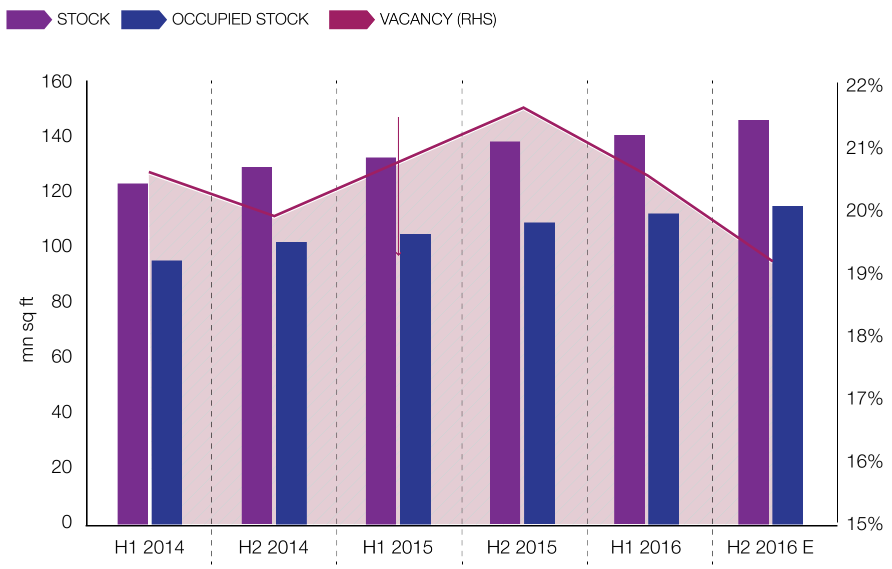
OFFICE MARKET

NCR OFFICE MARKET STOCK, NEW COMPLETIONS, TRANSACTION AND VACANCY TRENDS

As opposed to 2015, when pent-up new completions hit the market, new completions fell to an all-time low in H1 2016 in NCR, with only 2.8 mn sq ft entering the market.

FIGURE 1

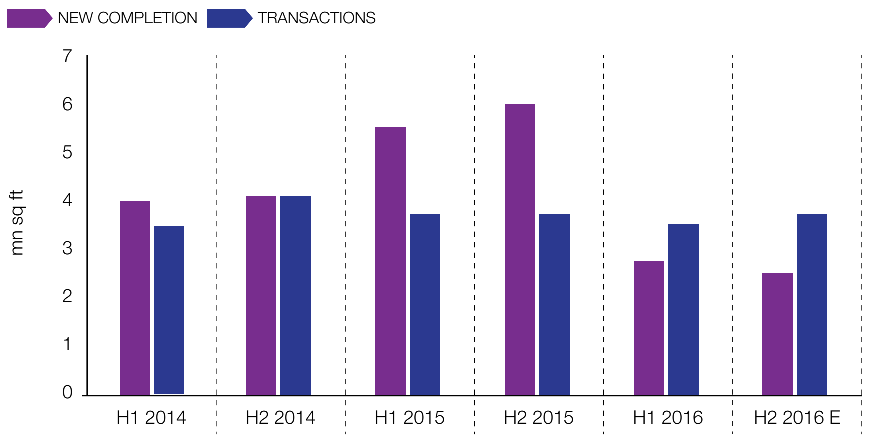
OFFICE SPACE STOCK AND VACANCY LEVELS



Source: Knight Frank Research

FIGURE 2

NEW COMPLETIONS AND TRANSACTIONS



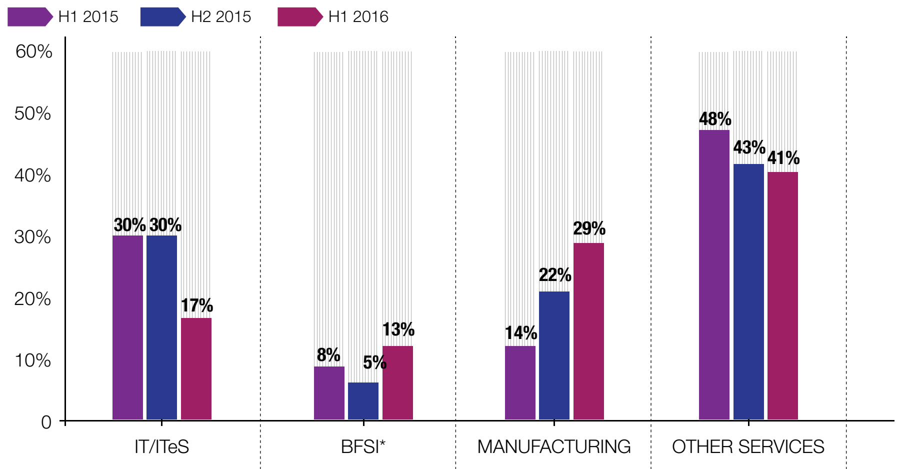
Source: Knight Frank Research

- The office stock in NCR stood at 140.5 mn sq ft at the end of June 2016, of which 112 mn sq ft is occupied stock.
- As opposed to 2015, when pent-up new completions hit the market, new completions fell to an all-time low in H1 2016 in NCR, with only 2.8 mn sq ft entering the market.
- In terms of leasing, NCR saw a total of 3.5 mn sq ft of office space transactions in H1 2016, registering a 5% drop compared to the same period in 2015.
- Vacancy levels continued to hover around 20.6% in H1 2016 due to the less-than-expected leasing activity.

SECTOR ANALYSIS

FIGURE 3

SECTOR-WISE SPLIT OF TRANSACTIONS



Source: Knight Frank Research

Note: BFSI includes BFSI support services

H1 2015:	H2 2015:	H1 2016:
3.7 mn sq ft	3.7 mn sq ft	3.5 mn sq ft

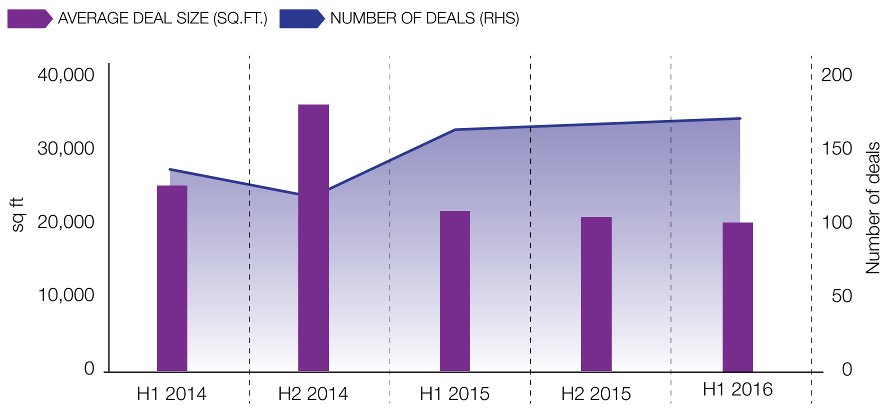
- The share of IT/ITeS has been decreasing for the eight past quarters. Consolidation and automation have restricted large office deals. Adding to this, the SEZ supply in NCR is in short supply, and we believe that this is a temporary phase for the IT/ITeS sector.
- The other services sector drove the office space demand in NCR during this half, backed by strong demand from consulting and e-commerce companies, such as UrbanClap, Cheil, Oyo Rooms, McKinsey and Bechtel.
- Make in India made its impact felt and drove the leasing activity in the manufacturing sector in H1 2016. The sector registered a twofold jump in transacted space in H1 2016, compared to the same period in 2015.
- Take-ups by companies such as Samsung and Honeywell in Gurgaon, and Oppo in Noida contributed significantly to the sector's demand in this half.

Make in India made its impact felt and drove the leasing activity of the manufacturing sector in H1 2016. The sector registered a twofold jump in transacted space in the first half of 2016, compared to the same period in 2015.

DEAL SIZE ANALYSIS

FIGURE 4

AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

- The average transacted space came down significantly, to 19,850 sq ft in H1 2016, from 21,870 sq ft in H1 2015, registering a drop of 9%. Factors such as cautious expansion plans and more of corporate sector occupancy than the large floor space seeking IT/ITeS sector have contributed to the shrinking size of the office space demand in NCR.
- Gurgaon led the tally of the number of deals once again, with 62% of the 178 deals in H1 2016, followed by 32 deal conversions in the secondary business district of Delhi, with locations such as Jasola and Mohan Cooperative seeing major transaction activity.

SELECT TRANSACTIONS

OCCUPIER	BUILDING	LOCATION	APPROX. AREA (SQ FT)
Samsung	DLF Two Horizon Center	Golf Course Road, Gurgaon	240,000
TCS	Okaya Blue Silicon	Sector 62, Noida	200,000
Oppo Mobiles	ASF Synergy	Sector 63, Noida	175,000
HDFC Bank	Ambience Tower	Rohini, SBD Delhi	140,000
Honeywell	Unitech Trade Centre	Sec-43, Gurgaon	100,000
Bechtel	Plot 229	Udyog Vihar, Gurgaon	70,000
Oyo Rooms	Spaze IT Park	Sohna Road, Gurgaon	30,604
IMF (International Monetry Fund)	Bharti Worldmark	Aero City, SBD Delhi	30,000
Accenture	Brookfield Infospace	Sec-135, Noida	29,136
British Council	Advant Navis	Sec-142, Noida	25,000
Facebook	DLF Two Horizon Centre	Golf Course Road, Gurgaon	24,000
Apple	One Horizon Centre	Golf Course Road, Gurgaon	18,750
ICICI Lombard	Red Ford Capital	Connaught Place, CBD Delhi	16,000
1E	Advant Navis	Sec-142, Noida	13,000
Hannover Re	HT House	KG Marg, CBD Delhi	10,000
Indiabulls	Red Fort Capital	Connaught Place, CBD Delhi	7,000

Source: Knight Frank Research

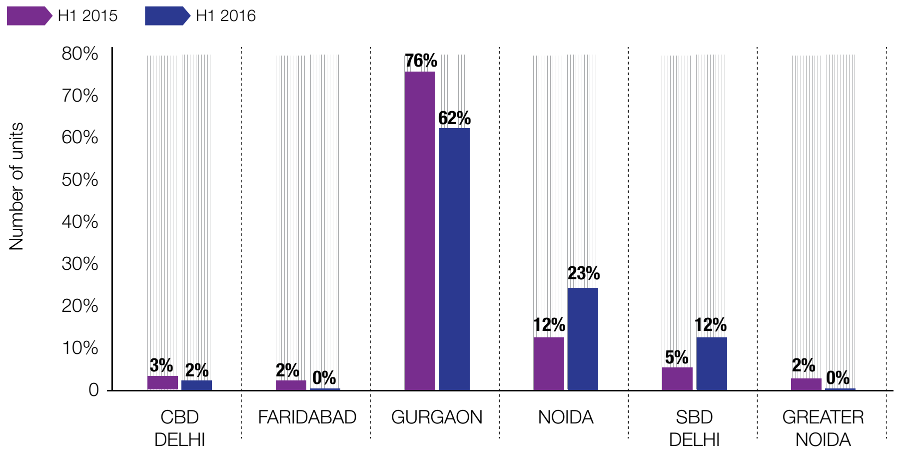
BUSINESS DISTRICT ANALYSIS

BUSINESS DISTRICT CLASSIFICATION

BUSINESS DISTRICTS	MICRO-MARKETS
CBD DELHI	Connaught Place, Barakhamba Road, Kasturba Gandhi Marg and Minto Road
SBD DELHI	Nehru Place, Saket, Jasola, Bhikaji Cama Place, Mohan Cooperative and Aerocity
GURGAON ZONE A	M.G. Road, NH-8, Golf Course Road and Golf Course Extension Road
GURGAON ZONE B	DLF CyberCity, Sohna Road, Udyog Vihar and Gwal Pahari
GURGAON ZONE C	Manesar
NOIDA	Sectors 16, 18, 62, 63 and the Noida–Greater Noida Expressway
FARIDABAD	Sector Alpha, Beta, Gamma and Tech Zone

FIGURE 5

BUSINESS DISTRICT-WISE TRANSACTION SPLIT



Source: Knight Frank Research

H1 2015: 3.7 mn sq ft	H1 2016: 3.5 mn sq ft

The Noida–Greater Noida Expressway saw increased leasing activity in H1 2016. Improving connectivity and competitive rentals are building the sentiment around this area for occupiers looking for large floor space.

Gurgaon

- Gurgaon emerged as the most preferred business district in NCR, taking up 62% of the total transaction pie of 3.5 mn sq ft in H1 2016.
- Some of the locations that witnessed a major traction in Gurgaon in H1 2016 are DLF CyberCity, Golf Course Road and M. G. Road. Approximately 49% of the total transacted space of 2.19 mn sq ft was in these micro-markets.
- Office space in Gurgaon is driven primarily by corporate occupiers, with leasing driven by consulting and e-commerce companies. Following the trend, the other services sector dominated leasing in Gurgaon. Some of the major transactions in this segment were Bechtel, Facebook and Urban Clap.

Noida

- Leasing activity in Noida registered an uptick in H1 2016. In terms of transacted space, this micro-market registered a massive 79% growth in space take-up in H1 2016 compared to the same period in 2015.
- IT/ITeS drove the leasing activity in Noida in H1 2016, taking up 54% of the total 0.82 mn sq ft leased in this business district. Companies such as TCS, Accenture and ISON BPO were among the major occupiers in this sector in H1 2016.
- The Noida–Greater Noida Expressway saw increased leasing activity in H1 2016, with companies such as S Mobile Device, IE, IndiaMART and Accenture bucking the trend. Improving connectivity and competitive rentals are building the sentiment around this area for occupiers looking for large floor space.

CBD and SBD Delhi

- Leasing activity in CBD Delhi was concentrated around Connaught Place, with most of the BFSI transactions involving companies such as ICICI Lombard, IDFC Bank, Tata Capital, and SBI Life, which took up spaces in the area.
- SBD Delhi registered a twofold jump in transacted space YOY, with areas such as Jasola, Okhla, Mohan Cooperative and Aerocity taking the lead. Some of the notable transactions in this business district involve the International Monetary Fund, HDFC Bank, Casio and JK Cement.

NOIDA–GREATER NOIDA EXPRESSWAY: NO LONGER A ROOKIE

It is an established fact that the two stalwarts of the Delhi NCR office market are Gurgaon and Noida, and they monopolise 75% of the current office stock of 140 mn sq ft. Both these micro-markets are magnets for employment and infrastructure in NCR, and their prominence is evident from the fact that they absorb 85–90% of the total annual offtake of the city. Good connectivity and robust infrastructure attracted occupiers to set up base in these markets, thus creating a plethora of white-collar employment opportunities. Gurgaon took the lead from Noida in terms of the supply and absorption of office space in NCR in the last few years, with zones such as DLF Cybercity, Golf Course Road and Sohna Road leading in transactions. Noida, on the other hand, did not attract the same interest from occupiers.

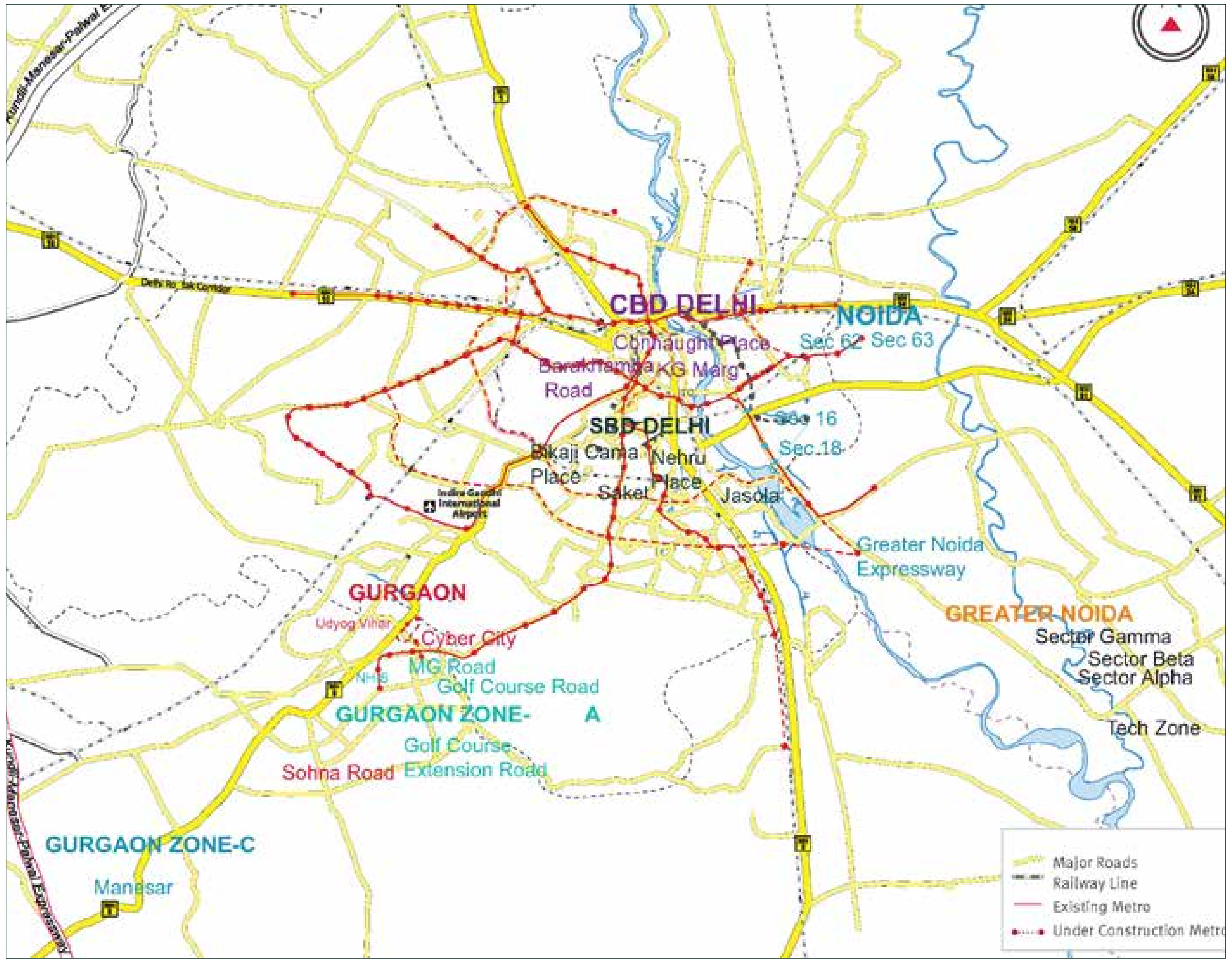
Over the last year, both Noida and the Noida–Greater Noida Expressway's fortunes have been on the upswing. The expressway, in particular, is slowly emerging as a new commercial corridor in NCR. The 24-km, six-lane highway connects Noida to Greater Noida and links it further to the 165-km Yamuna Expressway.

The singularity of this corridor is its seamless connectivity with Delhi through the Delhi–Noida–Direct (DND) Flyway, which will be augmented further by the upcoming 30-km Noida–Greater Noida Metro link. Construction work on this metro route is in progress, and it will add immense value to the connectivity between Noida and Greater Noida once the route is extended from the existing Noida City Centre station to Pari Chowk, in Greater Noida. This long-awaited metro link will draw companies looking to set up base in this corridor but were previously discouraged by the poor connectivity. The link will now provide an alternative mode of travel for the workforce.

Apart from seamless connectivity, competitive rentals in the range of ₹35–55 per sq ft gives this corridor an added advantage over other similar locations in NCR, such as DLF Cybercity, where rentals are in the range of ₹110–120 per sq ft, and Noida, where the rentals range between ₹45–70 per sq ft. These factors have drawn some large MNCs close to the expressway in the recent past. The growing occupier interest in the corridor is evident from the fact that of the total 1.3 mn sq ft of office space transacted in 2015, 38% was along the Noida–Greater Noida Expressway. Companies such as SafeNet, IGATE, Genpact, Jubilant FoodWorks Ltd, NEC, Dell and Newgen are some of the major occupiers, with transactions ranging between 60,000–90,000 sq ft.

Good connectivity, a ready residential catchment and large land parcels will act as enablers for the office market along the Noida–Greater Noida Expressway. The Uttar Pradesh Information Technology Policy for IT/ITeS companies will boost the sentiments of the market further, with incentives such as land registration waivers for IT companies to stimulate growth. The Noida authority has reserved approximately 3 lakh sq m of land for development along the expressway and has made allotments to 15 companies, including IT major Infosys, to set up campuses on one lakh sq m of land. Once operational, the Infosys IT hub is expected to employ approximately 25,000 IT professionals. Going forward, we believe that the Noida–Greater Noida Expressway will establish itself as one of the prominent office corridors, not only in Noida but in NCR as well.

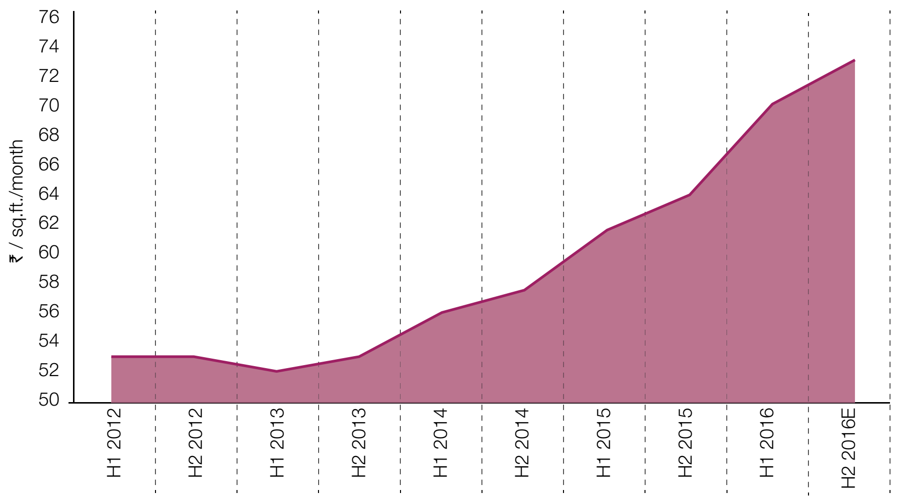
BUSINESS DISTRICTS OF NCR



RENTAL TREND

FIGURE 6

WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

BUSINESS DISTRICT-WISE RENTAL MOVEMENT

BUSINESS DISTRICT	RENTAL VALUE RANGE IN H1 2016 (₹/SQ FT/MONTH)	12 MONTH CHANGE	6 MONTH CHANGE
CBD Delhi	214–350	12%	8%
SBD Delhi	98–171	9%	3%
Gurgaon Zone A	106–165	12%	6%
Gurgaon Zone B	72–134	20%	14%
Gurgaon Zone C	25–35	0%	0%
Noida	44–70	9%	9%
Faridabad	45–55	0%	0%

Source: Knight Frank Research

- The lack of quality office space in key locations led to upward pressure on rentals in NCR in H1 2016.
- The weighted average rental values witnessed a sharp 14% increase, from ₹62 per sq ft per month in H1 2015 to ₹70 per sq ft per month in H1 2016.
- Going forward, we expect the weighted average rentals to increase by 4% from the current values in H1 2016, to around ₹73 per sq ft per month in H2 2016.
- However, quality office space in the micro-markets of Gurgaon, such DLF CyberCity and Golf Course Road, are expected to witness significant upward pressure on price.

OUTLOOK FOR THE NEXT SIX MONTHS

PROJECTIONS	H2 2015	H2 2016E	GROWTH
New supply (mn sq ft)	6.0	2.5	-58%
Transactions (mn sq ft)	3.7	3.7	0%
Vacancy (%)	21.5%	19.4%	
Weighted average rental (₹ / sq ft / month)	64	73	14%

Source: Knight Frank Research

- Going forward, we expect the NCR office market to sustain its half-yearly momentum in H2 2016, and envisage a leasing activity of approximately 3.7 mn sq ft.
- New completions will elude the market in the coming quarters and the lack of quality supply in key locations will put further pressure on rentals.
- Gurgaon will drive the upward pressure on rentals in NCR, with supply drying up in the preferred locations of DLF CyberCity, Golf Course Road and M. G. Road.

PUNE

RESIDENTIAL & OFFICE MARKET

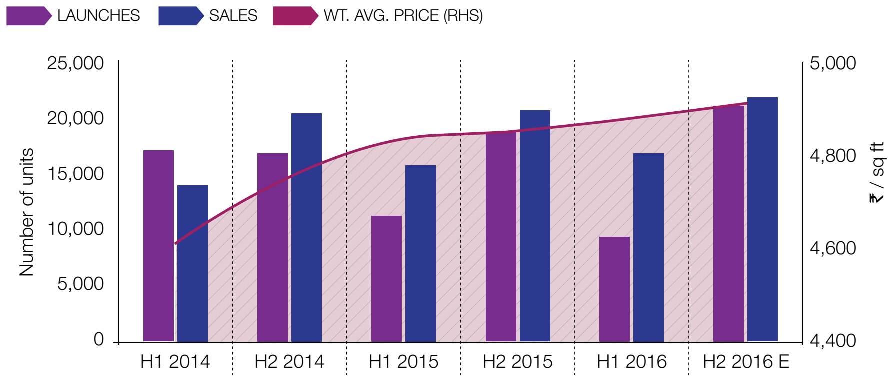
Hetal Bachkaniwala
Vice President - Research

RESIDENTIAL MARKET

PUNE RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

FIGURE 1

PUNE MARKET TRENDS



Source: Knight Frank Research

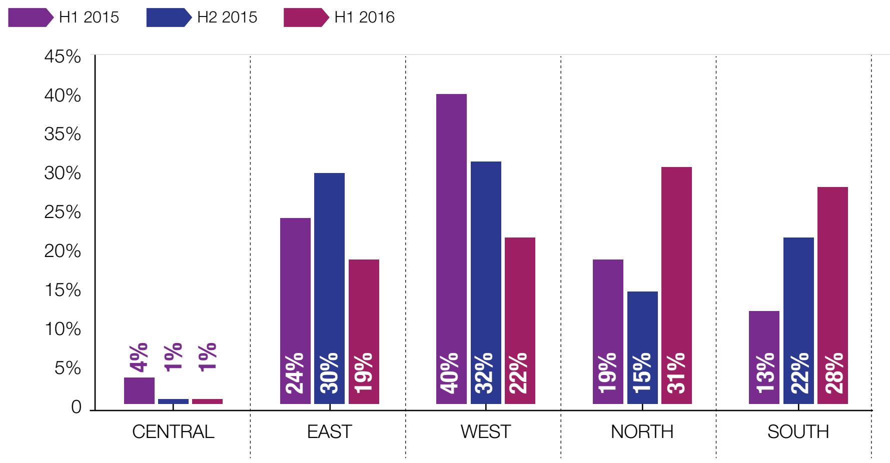
New launches dropped by 32% YOY in H1 2016, as uncertainty over the new development control rules made developers cautious

- New launches dropped by 32% YOY in H1 2016, as uncertainty over the new development control rules made developers cautious.
- The Pune Municipal Corporation (PMC) is awaiting the final approval from the state government to implement its Development Control Regulation (DCR) norms. The draft DCR was made available for public consultation in the second half of 2015.
- Major changes to this document have been suggested, such as the Floor Space Index (FSI) usage, Transfer of Development Rights (TDR) applicability and the introduction of fungible FSI. These norms will lead to a substantial change in the way the development potential of a plot is calculated, and in most cases, to the utilisation of a higher FSI
- Most of the city's developers are currently waiting for the final notification of the DCR and hence, no major launches have taken place in the last six months
- However, in terms of sales, the market is holding steady at the previous year's level of 15,000-16,000 units for a six-month period. But it is still down by 32% from the heydays of 2012, when the city achieved between 23,000-24,000 units in a six-month period

MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

FIGURE 2

MICRO-MARKET SPLIT OF LAUNCHED UNITS



Source: Knight Frank Research

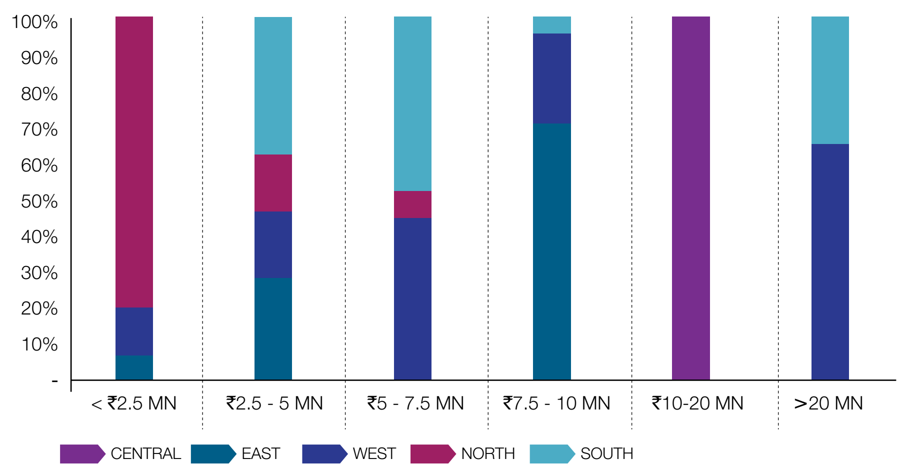
H1 2015:	H2 2015:	H1 2016:
12,760 units	18,135 units	8,710 units

The developers' shifted their focus to the budget segment, as its share in the new launches jumped from 12% to 27% in the last two years

- The developers shifted focus to the budget segment, as its share in the new launches jumped from 12% to 27% in the last two years. The budget segment includes properties with ticket sizes below ₹2.5 mn.
- Budget locations such as Pirangut, Talegaon Dabhade, Charoli, Chikhali, Pisoli and Phursungi have recently witnessed several new project launches despite their vast distance from the city centre and poor social infrastructure
- The developers' focus on these locations indicates a change in their business strategy. More developers are now entering into the fast-moving budget segment, as the sales velocity in properties above the ₹2.5 mn ticket size is relatively slow

FIGURE 3

TICKET SIZE SPLIT OF LAUNCHES DURING H1 2016

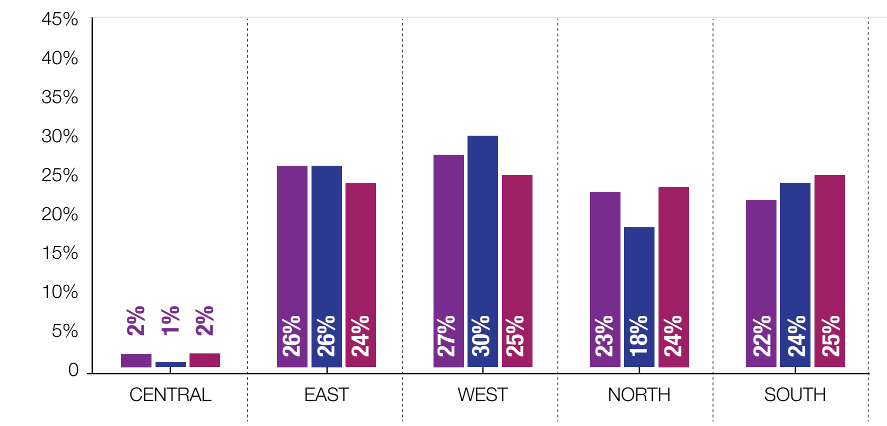


Source: Knight Frank Research

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

FIGURE 4

MICRO-MARKET-WISE RESIDENTIAL SALES

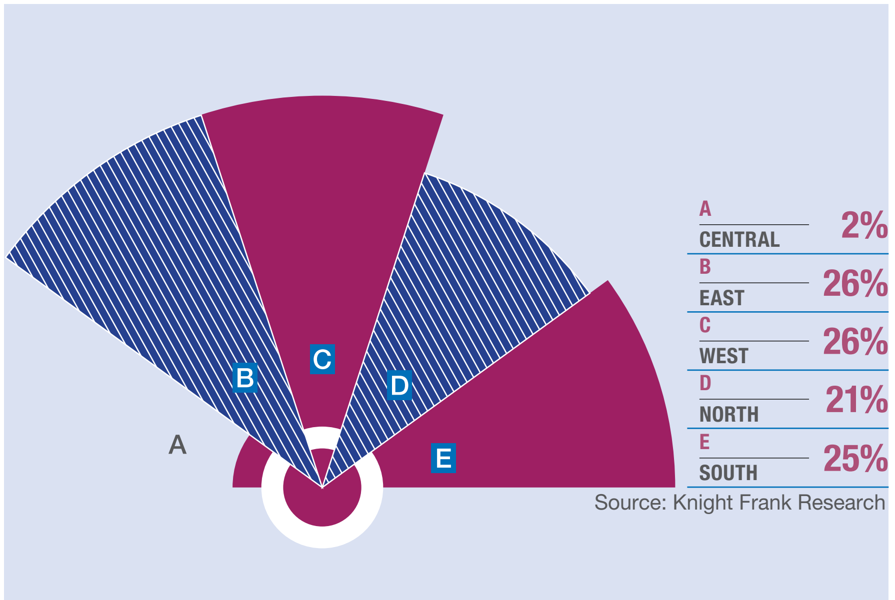


Source: Knight Frank Research

H1 2015: 15,520 units	H2 2015: 20,740 units	H1 2016: 15,690 units

- The micro-market split of sales has not witnessed any significant change in the last six months. While the shares of East and West Pune have decreased marginally since H1 2015, North and South Pune's shares have increased slightly.
- Central Pune's share in the total sales has remained constant in H1 2016 compared to H1 2015.

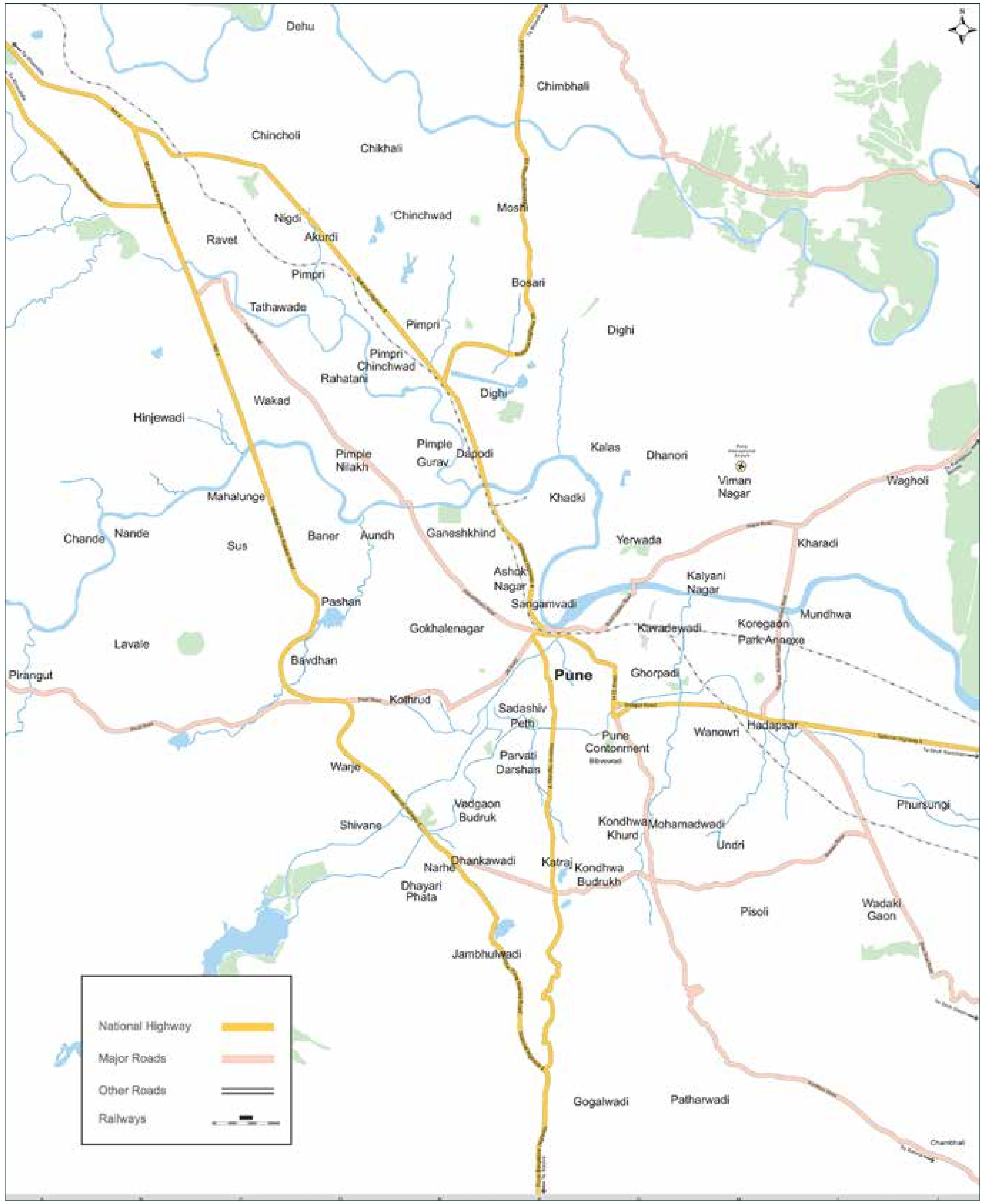
MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF JUNE 2016



Source: Knight Frank Research

- Central Pune currently accounts for only 2% of the total number of under-construction units in the city, as the majority of the new projects are being launched in the rest of the city.
- The maximum number of under-construction units is in East and West Pune, followed by South and North Pune, at 25% and 21%, respectively.

PUNE METROPOLITAN REGION MAP



WITHIN STRIKING DISTANCE OF THE MASSES

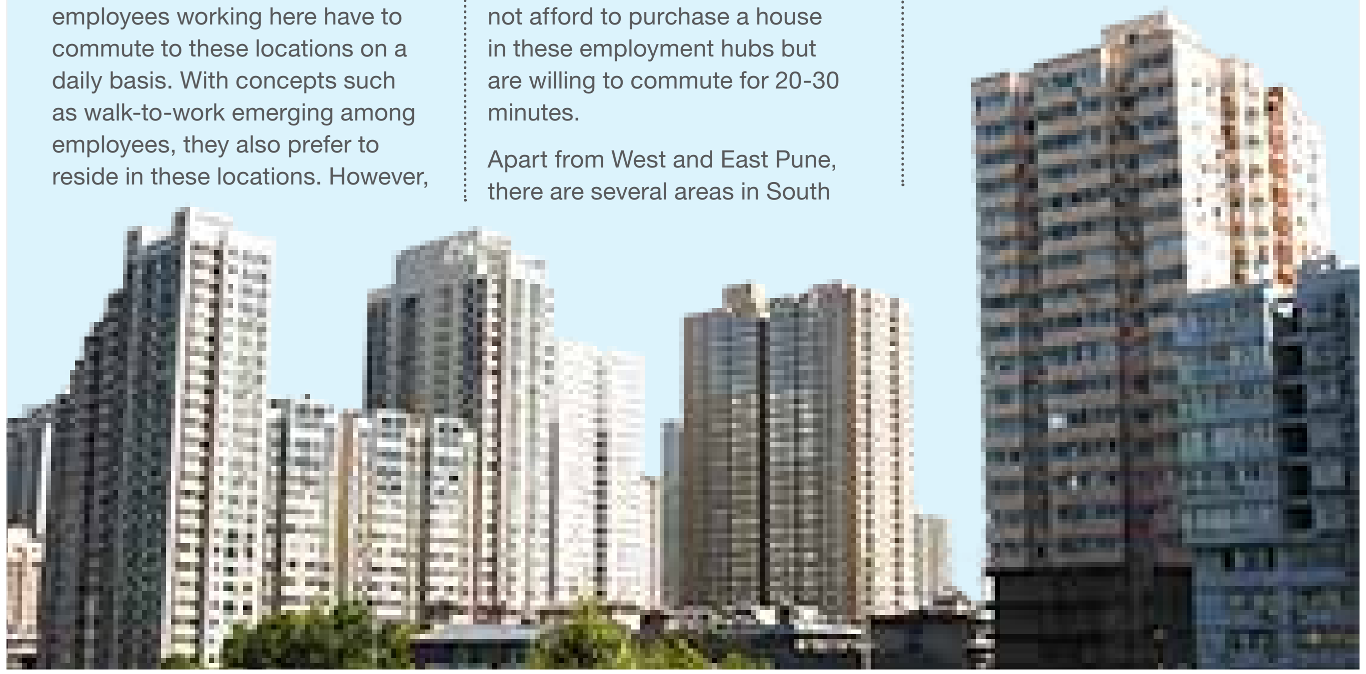
The Pune residential market has been witnessing phenomenal changes since the last two years with the demand for housing shifting from areas around the city centre to far-flung locations. As the average cost of housing has increased much beyond the affordability of the end user in most of the areas close to the city centre, consumer focus seems to have shifted towards the upcoming residential localities. Despite their great distance from the city centre and the lack of social infrastructure, these localities have attracted significant interest from homebuyers. There are several reasons for the emergence of this trend:

Over the last 10 years, the employment hubs of the city have moved away from the traditional central business district (CBD) areas, such as Bund Garden Road, Deccan and Senapati Bapat Road, towards the peripheral business districts (PBD) such as Hinjewadi, Kharadi, Hadapsar, Wakad and Phursungi, among others. Since these PBD locations currently account for the majority of the office space stock in the city, employees working here have to commute to these locations on a daily basis. With concepts such as walk-to-work emerging among employees, they also prefer to reside in these locations. However, the average cost of a two-bedroom apartment in these locations ranges between ₹8–15 mn, which is beyond the means of the majority of the employees working here. Such employees prefer to purchase residential property within a 20-30 minute commute from these hubs.

Locations such as Marunji, Pirangut and Sus Road, which are within a driving distance of 30 minutes from the employment hubs of Hinjewadi and Wakad, have been witnessing a renewed traction in the last two years. Apart from their proximity to the major employment hubs of West Pune, properties in these locations are available within a budget of ₹ 3.5–5 mn. Similarly, locations such as Dhanori, Wagholi and Phursungi in East Pune have been attracting considerable homebuyer interest due to their proximity to the major employment hubs in this region. These locations are accessible within 30 minutes by road from employment hubs such as Kharadi, Hadapsar, Yerwada and Nagar Road. Additionally, the average ticket size of an apartment in these locations is in the range of ₹4–6 mn. These factors have attracted homebuyers who could not afford to purchase a house in these employment hubs but are willing to commute for 20-30 minutes.

Apart from West and East Pune, there are several areas in South Pune that have emerged as alternative affordable locations in the last two years. Locations such as Ambegaon, Dhayari, Narhe and Handewadi have been witnessing significant traction from homebuyers who could not afford to purchase in East or West Pune. The advantage of buying property in South Pune is that it is easily accessible from the major employment hubs of Pune, be it Hinjewadi and Wakad in the west or Kharadi and Hadapsar in the east. Although the commute time increases to 40-50 minutes, the presence of well-developed social infrastructure attracts a large number of homebuyers to these locations.

These factors have generated considerable interest from homebuyers in the affordable segment over the last two years. With all the major incremental office space supply expected to come up in locations such as Hinjewadi, Wakad, Kharadi and Phursungi in the coming years, the demand for affordable homes in locations close to these employment hubs will continue to witness homebuyer interest.

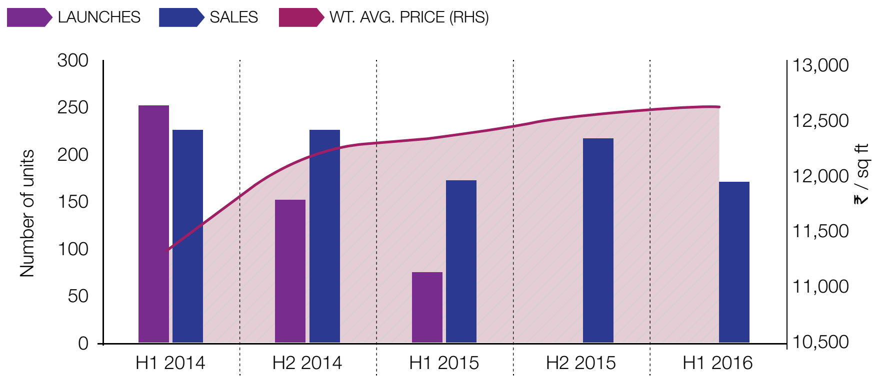


PREMIUM RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

MICRO-MARKET	PREMIUM LOCATIONS
CENTRAL	Bhosale Nagar, Boat Club Road, Erandwane, Koregaon Park, Model Colony, Prabhat Road, Uday Baug
EAST	Kalyani Nagar, Viman Nagar
SOUTH	Salisbury Park

FIGURE 5

PREMIUM MARKET TRENDS



Source: Knight Frank Research

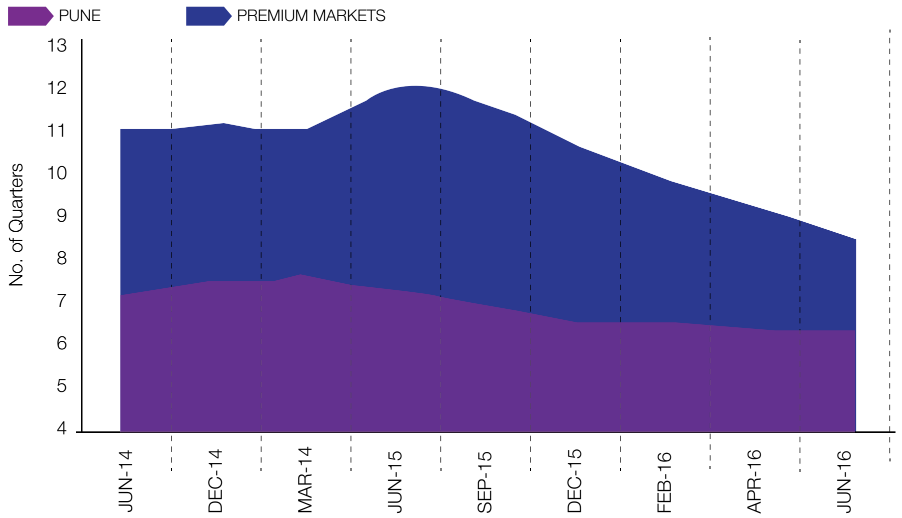
Note: Premium markets include locations where the average ticket size of a residential unit is above ₹20 mn, are in close proximity to the central business district of the city and have witnessed new project launches in the preceding three years

- Sales in the premium market are holding steady, but new launches continue to be at the zero level. New launches have plummeted from a high of 450-500 units in a six-monthly period in 2012 to zero units in H1 2016
- The premium market includes locations such as Boat Club Road, Koregaon Park, Kalyani Nagar, Bhosale Nagar, Model Colony, Salisbury Park and Prabhat road, among others
- However, the sales volume has remained stable in the range of 180-220 units since 2012. Locations closer to the city centre have remained preferred destinations for high net worth individuals (HNIs) as well-developed physical and social infrastructure, proximity to Central Business District (CBD) areas and easy access to the Pune airport make these areas attractive
- The lack of new supply and steady demand may put upward pressure on prices in these locations in the coming months

New launches in the premium segment have plummeted from a high of 450-500 units in a six-monthly period during 2012 to zero units in H1 2016

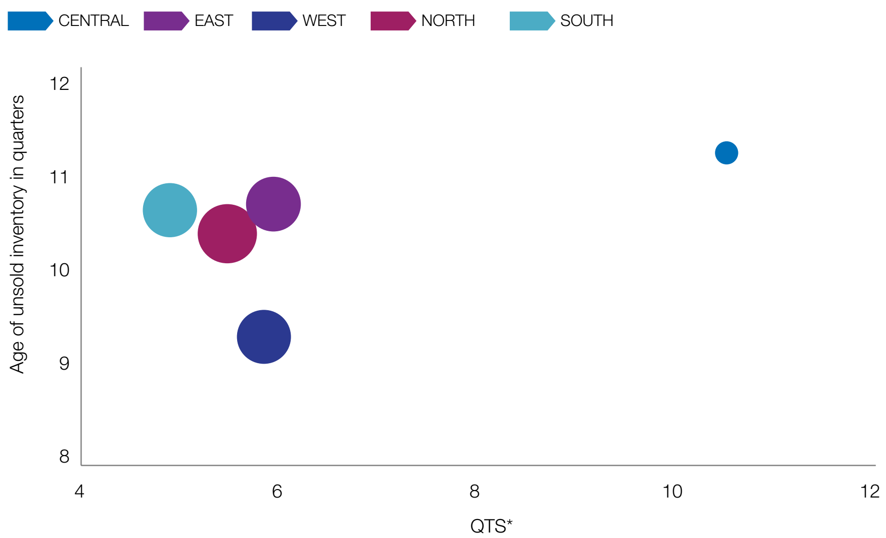
PUNE MARKET HEALTH

FIGURE 6
QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS



Source: Knight Frank Research

FIGURE 7
MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

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

- Inventory pressure has eased off in the last six months, with the unsold inventory reaching a five-year low.
- The unsold inventory levels have fallen drastically, by 22% from their high of 71,000 units in 2014 to 55,220 units at present. The steady sales volume and consistent decline in new launches have eased off the unsold inventory pressure that developers were facing since 2012.
- In addition, the halt in new launches due to the uncertainty over the DCR norms has helped the developer community focus on the existing projects in terms of achieving 100% sales and providing timely delivery to the existing customers
- Hence, even the Quarters to Sell (QTS) unsold inventory has come down from seven quarters to 6.2 quarters in the last two years

The halt in new launches due to the uncertainty over the DCR norms has helped the developer community focus on the existing projects in terms of achieving 100% sales and providing timely delivery to the existing customers

PRICE MOVEMENT IN H1 2016

WEIGHTED AVERAGE PRICE MOVEMENT IN PUNE

LOCATION	PRICE RANGE IN H1 2016 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Pune	4,860	1.0%	0.5%
Premium markets	12,640	2.0%	0.5%

- The price growth across most locations in Pune during the last 12 months has been tepid. It has slowed down further in the last six months
- The weighted average price growth has been marginally higher in the premium segment in the last 12 months compared to the growth in the city's overall price. However, this has moderated to a mere 0.5% in the previous six months.

PRICE MOVEMENT IN SELECT LOCATIONS

LOCATION	MICRO-MARKET	PRICE RANGE IN H1 2016 (₹/SQ FT)	12 MONTH CHANGE	6 MONTH CHANGE
Koregaon Park	Central	13,000 - 17,000	0%	0%
Kothrud	Central	7,500 - 13,000	1%	0%
Erandwane	Central	13,500 - 18,000	1%	0%
Boat Club Road	Central	14,500 - 19,500	0%	0%
Kharadi	East	5,300 - 6,300	1%	0%
Wagholi	East	3,500 - 4,600	0%	0%
Dhanori	East	3,900 - 4,800	2%	1%
Hadapsar	East	4,600 - 6,000	2%	1%
Aundh	West	7,800 - 9,500	2%	1%
Baner	West	5,600 - 8,000	1%	0%
Hinjewadi	West	4,800 - 5,900	2%	0%
Wakad	West	5,400 - 6,200	1%	0%
Moshi	North	3,700 - 4,300	1%	0%
Chikhali	North	3,500 - 4,100	2%	1%
Chakan	North	2,900 - 3,400	2%	0%
Ambegaon	South	4,400 - 5,500	0%	0%
Undri	South	3,900 - 4,800	0%	0%
Kondhwa	South	4,600 - 5,700	1%	0%

Source: Knight Frank Research

We expect new launches to grow strongly in the coming six-month period, as most of the developers who were waiting for the final notification of the revised DCR norms will finally launch their projects

OUTLOOK FOR THE NEXT SIX MONTHS

PROJECTIONS	H2 2015	H2 2016E	GROWTH
Launches (units)	18,135	20,330	12%
Sales (units)	20,740	21,660	4%
Weighted average price (₹/sq ft)	4,835	4,890	1%

Source: Knight Frank Research

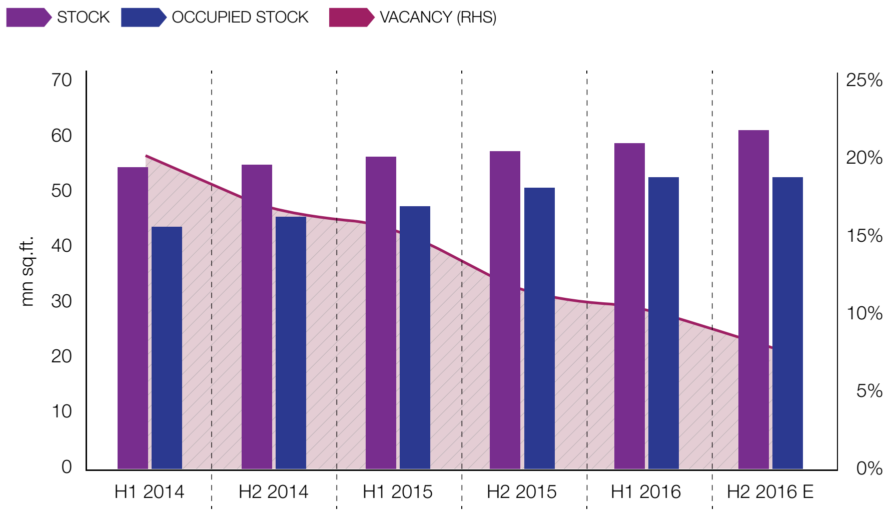
- We expect new launches to grow strongly in the coming six-month period, as most of the developers who were waiting for the final notification of the revised DCR norms will finally launch their projects
- West and South Pune will continue to dominate in terms of new launches, as their proximity to the employment hubs of Hinjewadi and relatively lower ticket size make them attractive in terms of demand from homebuyers
- However, the growth in the city's sales volume will be limited to 4% in H2 2016 compared to the same period last year, as homebuyers are still in a wait-and-watch mode, and are expecting further positive signs on the country's economic front.
- We expect the weighted average price in Pune to remain the same as the previous year, as developers continue to launch new projects at old prices.

OFFICE MARKET

PUNE OFFICE MARKET STOCK, NEW COMPLETIONS, TRANSACTION AND VACANCY TRENDS

FIGURE 1

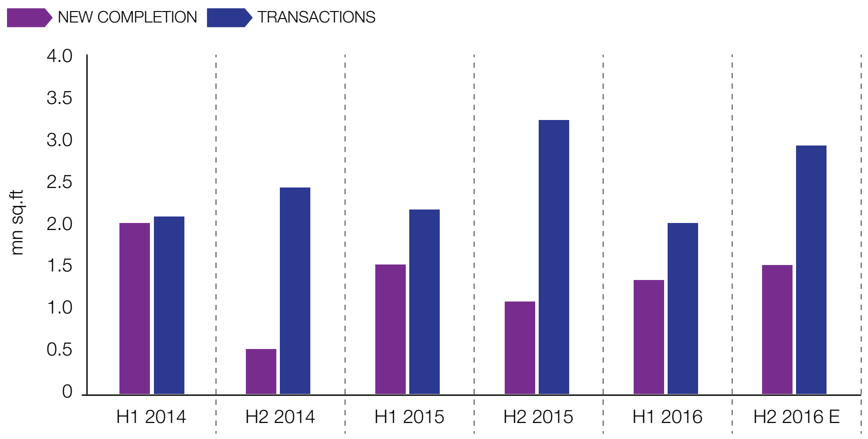
OFFICE SPACE STOCK AND VACANCY LEVELS



Source: Knight Frank Research

FIGURE 2

NEW COMPLETIONS AND TRANSACTIONS



Source: Knight Frank Research

- The lack of new supply led to a fall in office transactions by 7% in H1 2016 compared to H1 2015. While 2.2 mn sq ft of office space was transacted in H1 2015, It has come down to 2 mn sq ft in H1 2016
- This fall in transactions was primarily due to a lack of supply in locations that are most preferred by occupiers. Hence, despite a strong latent demand for office space, the number of transactions fell below the previous year's level
- The trend of demand outstripping supply continued in H1 2016 too, as only 1.3 mn sq ft of new supply entered the market.
- Vacancy levels have reached a historic low of 9% as of June 2016. This is a significant reduction from the 15% vacancy level just a year ago.

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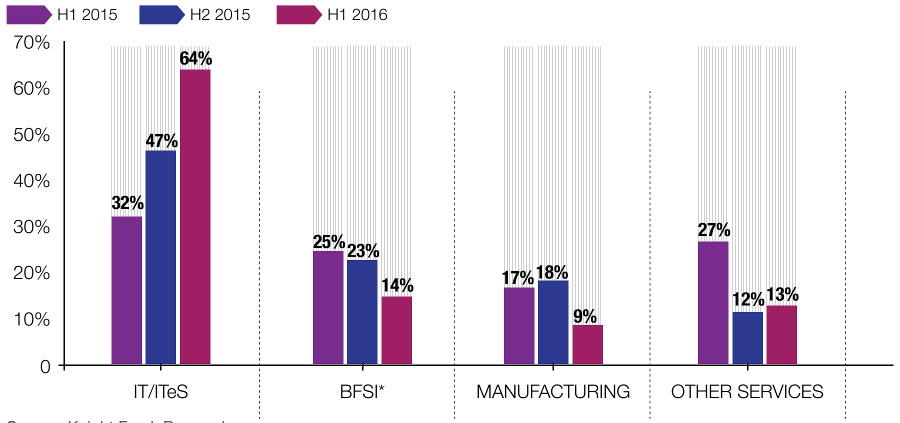
The shares of other industries, including BFSI and manufacturing, have fallen from the previous year's levels, as the shortage of space in prime areas is delaying the expansion plans of most of the occupiers from these sectors.

SECTOR ANALYSIS

FIGURE 3

SECTOR-WISE SPLIT OF TRANSACTIONS



Source: Knight Frank Research

Note: BFSI includes BFSI support services

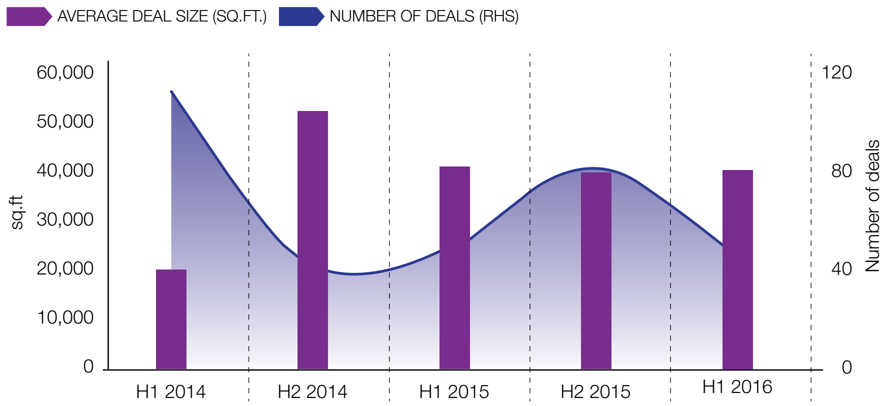
H1 2015: 2.2 mn sq ft	H2 2015: 3.3 mn sq ft	H1 2016: 2.0 mn sq ft

- The IT/ITeS sector has made a sharp turnaround in terms of transactions, as its share jumped to 64% in H1 2016 from under 32% just a year ago
- The shares of other industries, including BFSI and manufacturing, have fallen from the previous year's levels, as the shortage of space in prime areas is delaying the expansion plans of most of the occupiers from these sectors.

DEAL SIZE ANALYSIS

FIGURE 4

AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

- The average deal size in H1 2016 was reported to be 40,000 sq ft, which is similar to the H2 2015 level. This, despite the fact that the number of deals have fallen since then, indicates that most of the tenants are choosing to lease larger spaces.
- The IT/ITeS sector led in terms of big-ticket deals, with Infosys leasing more than 600,000 sq ft of space in Hinjewadi during this period.

SELECT TRANSACTIONS

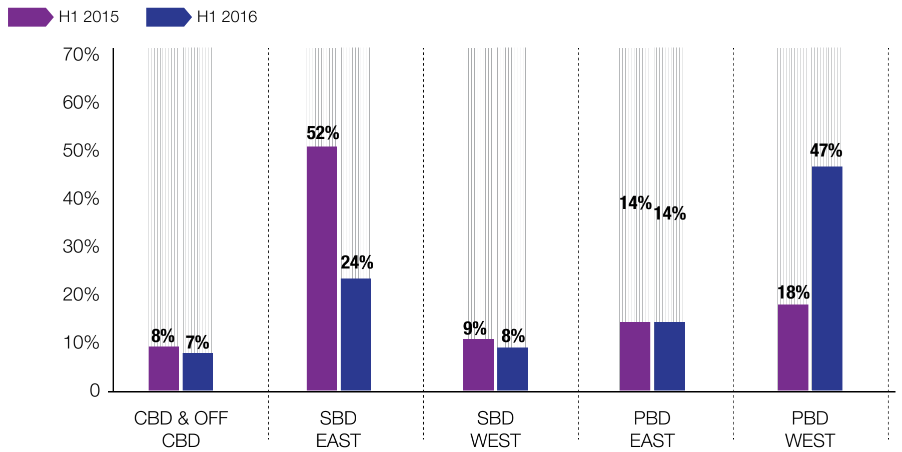
OCCUPIER	BUILDING	LOCATION	APPROX. AREA (SQ FT)
Infosys	Ascendas ITPP	Hinjewadi	620,750
UBS	Commerzone	Yerwada	70,000
Allstate	SP Infocity	Phursungi	50,000
KPMG	Westin Business Plaza	Kalyani Nagar	37,000
Citi Bank	EON IT Park	Kharadi	80,000
Schlumberger	Commerzone	Yerwada	45,000
Mercedes	Embassy Tech Zone	Hinjewadi	25,000
Tieto	EON IT Park	Kharadi	27,000

Source: Knight Frank Research

BUSINESS DISTRICT ANALYSIS

FIGURE 5

BUSINESS DISTRICT-WISE TRANSACTIONS SPLIT



Source: Knight Frank Research

H1 2015: 2.2 mn sq ft	H1 2016: 2.0 mn sq ft

- PBD West, which includes locations such as Hinjewadi, Bavdhan and Wakad, witnessed a sharp jump in its share of the total transaction volume, as the biggest deal of this period took place in this micro-market. Infosys took up space in excess of 600,000 sq ft in Hinjewadi.
- The limited supply of vacant office space has restricted the transaction volume in the rest of the markets, with their share either falling from the previous year's level or remaining constant.

BUSINESS DISTRICT CLASSIFICATION

BUSINESS DISTRICTS	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, Vishrantwadi, Hadapsar
PBD EAST	Kharadi, Phursungi, Wanowrie
SBD WEST	Wakdewadi, Aundh, Baner, Kothrud, Balewadi
PBD WEST	Hinjewadi, Bavdhan, Wakad

BUSINESS DISTRICTS OF PUNE

IMPACT OF THE NEW RULES OF THE GAME

The Pune real estate market is poised to undergo significant changes as the city awaits the introduction of the proposed draft development plan for the Pune Municipal Corporation (PMC). The focus of the draft plan is to ensure the availability of sufficient Floor Space Index (FSI) in the city, bring further transparency in the approval process and simplify various rules to make it easier for citizens to get their building plans passed.

There is a clear demarcation between congested and non-congested areas in the city for the purpose of the maximum permissible development potential in the draft plan. The maximum permissible FSI has been linked to the width of the road on which the project is planned. Therefore, in non-congested areas, the FSI potential is between 2.5 and 3.5, depending on the width of the road. However, in congested locations, the permissible FSI is slightly lower, as these areas already have a high population density. Most of the congested areas identified in the plan are located in the old city. This clearly indicates the intention of the proposed plan to limit the development potential in high density areas and promote locations where there is still a possibility of further population expansion.

The concept of fungible FSI is also proposed in the draft plan, which is very similar to what is currently in practice in Mumbai. This will reduce the arbitrary powers of the municipal commissioner and bring transparency in the approval process. Areas such as double height terraces, balconies, passages and staircases, among others, which were earlier calculated separately, have been merged under the fungible FSI category, in a move to reduce the scope for misinterpretation.

The proposal to introduce a higher FSI for areas abutting the metro will also go a long way in promoting transit-oriented development in the city. The draft plan proposes an FSI of 4 along the existing alignment of the metro, with the intention of creating high-density pockets along this route. This will not only boost the ridership of the metro but also ensure the planned development of the city.

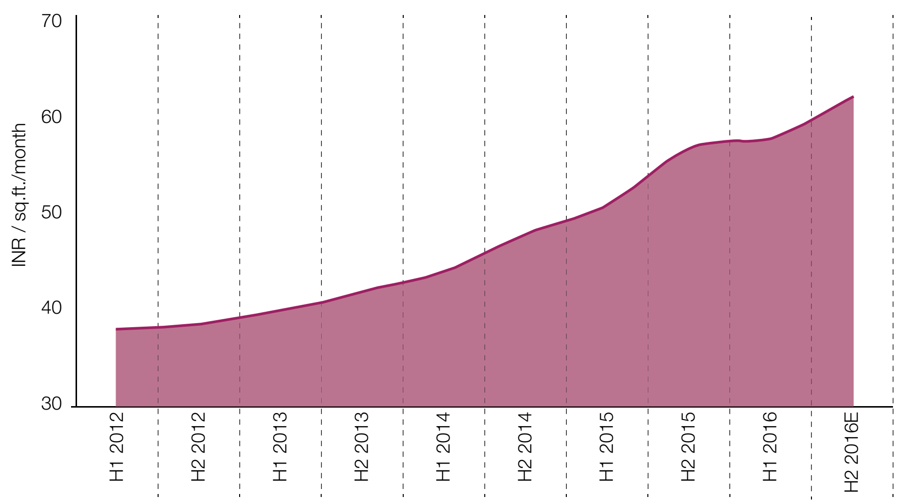
Another major change proposed in the plan is that developers will no longer have to wait endlessly for their building permissions to be approved - a 60-day time period has been stipulated, or else a deemed certificate will be issued. This will reduce the time taken to get an approval cleared from the municipal corporation, ensuring minimal delay in completing the project. Additionally, permissions from the high-rise committee will be eliminated, in an effort to simplify the approval process.

The changes proposed in the draft plan may seem to be in favour of the developer community, with consumer interests being sidelined. However, any change that brings transparency, simplicity and global best practices will eventually benefit the end users. Most of the proposed changes will ensure a drastic reduction in the approval time needed for a project. Since this will give more time for developers to focus on executing their projects, the speed of delivery will increase, thereby ensuring timely project completions. Additionally, the increase in FSI in most locations will ensure a constant supply of new projects at affordable costs. Hence, the proposed changes will not only benefit the developer community but will also be equally beneficial to consumers.

The severe shortage of good quality office space in prime areas has rendered the market in favour of the landlords, who are asking for higher rents from tenants with each passing quarter

RENTAL TREND

FIGURE 6
WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

BUSINESS DISTRICT-WISE RENTAL MOVEMENT

BUSINESS DISTRICT	RENTAL VALUE RANGE IN H1 2016 (₹/SQ FT/MONTH)	12 MONTH CHANGE	6 MONTH CHANGE
CBD & off-CBD	70 - 100	6%	1%
SBD East	50 - 85	16%	4%
SBD West	50 - 75	14%	3%
PBD East	45 - 75	15%	4%
PBD West	35 - 48	9%	2%

Source: Knight Frank Research

- Rental values have been rising steadily since 2013, as demand continues to surpass new supply. Currently, the weighted average rent in Pune is around ₹57 per sq ft per month - 46% higher than in H1 2013.
- The severe shortage of good quality office space in prime areas has rendered the market in favour of the landlords, who are asking for higher rents from tenants with each passing quarter

OUTLOOK FOR THE NEXT SIX MONTHS

PROJECTIONS	H2 2015	H2 2016E	GROWTH
New completions (mn sq ft)	1.15	1.5	31%
Transactions (mn sq ft)	3.34	2.94	-12%
Vacancy (%)	11%	7%	
Weighted average rental (₹ / sq ft / month)	56	61	10%

Source: Knight Frank Research

- More than 1.5 mn sq ft of new office space is expected to become operational by the end of 2016, leading to a 31% rise in supply compared to the previous year. However, this will be insufficient to cater to the rising demand for office space in the city and will result in a further drop in vacancy levels.
- The weighted average rental value is expected to rise by 10% from ₹56/sq ft/month in H2 2015 to more than ₹61/sq ft/month.

IMPORTANT TERMS USED IN THE REPORT

RESIDENTIAL MARKET

NEW LAUNCH:

The number of units that are launched in the market for sale during a particular period. These units could be in a project that is either at a ground-breaking level, partially constructed or fully constructed.

SALES:

The number of units that are sold in a particular period. These units could be in a project that is either at a ground-breaking level, partially constructed or fully constructed.

PREMIUM MARKET:

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

UNSOLD INVENTORY:

Unsold inventory in a market represents the units that are launched but still remain unsold by the end of the analysis period. These units could be in a project that is either at a ground-breaking level, partially constructed or fully constructed.

QUARTERS TO SELL (QTS) UNSOLD INVENTORY:

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 in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market.

AGE OF UNSOLD INVENTORY:

This is the average age of all the projects in which the unsold inventory remains. The average age is calculated from the launch date of each project to the current date.

OFFICE MARKET

RENTAL VALUE:

Rental value is the value used to represent the majority of the lease transactions in a particular business district. Since rental value varies even within a business district, depending on various factors, such as the age of the building, amenities, floor plate and end-use restrictions, among others, we have presented it as a weighted average rent

STOCK:

Stock is the total ambit of ready buildings, including new supply that is available for occupation or already occupied by tenants. Under-construction and newly-constructed space not yet available for occupation are excluded.

OCCUPIED STOCK:

Occupied stock is the total amount of space that is occupied.

VACANCY:

The difference between stock and occupied stock is vacant stock. Vacant stock as a percentage of stock is vacancy.

NEW COMPLETIONS:

Newly-constructed buildings that are available for occupation during a particular period are considered as new supply. Under-construction and newly-constructed spaces not yet available for occupation are excluded.

TRANSACTIONS:

Transactions are the quantum of space transacted by occupiers in a particular period. This also includes legally signed-off space either in an under-construction or ready-for-fit-out project.

BUSINESS DISTRICT:

A business district is a commercial hub with several office buildings spread across various locations that share similar characteristics in terms of rent, tenant profile, infrastructure and connectivity.

CBD:

A central business district (CBD) is usually the most sought-after office location within a city due to its central location and the presence of established physical and social infrastructure.

SBD:

A suburban business district (SBD) is an office hub located in the suburban parts of a city. A city can have several SBDs, depending on the location and characteristics of these business districts.

PBD:

A peripheral business district (PBD) is an office hub located in the peripheral areas of a city. A city can have several PBDs, depending on the location and characteristics of these business districts.

IT/ITES SECTOR:

The IT/ITeS sector constitutes the information technology and information technology enabled services industry.

MANUFACTURING SECTOR:

Any company involved in the process of manufacturing is covered under this category, e.g. automobiles, pharmaceuticals, petroleum, cement and steel, among others.

BFSI SECTOR:

The BFSI sector is the banking, financial services and insurance sector. Financial services include stock broking, commodity broking, mutual funds, private equity and investment banking, among others.

OTHER SERVICE SECTORS:

Other services include all types of services that are not a part of the IT/ITeS and BFSI sectors. Some of the major sub-sectors of the other services sector are consulting, telecom, transport, media, e-commerce and infrastructure.

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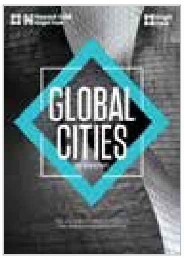

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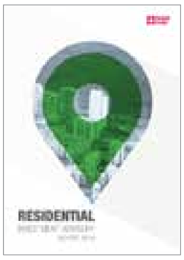

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