RESEARCH

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INDIA REAL ESTATE

RESIDENTIAL AND OFFICE -

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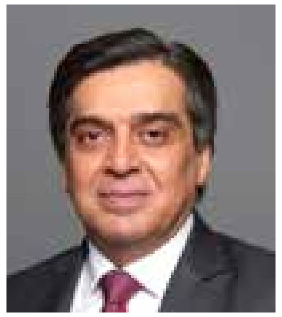


SHISHIR BAIJAL
CHAIRMAN AND MANAGING DIRECTOR

An overhaul entrenched deep beneath the usual look and feel of imagination is taking shape in the Indian real estate sector.

Metro cities are bustling with massive beehive-like infrastructure work, affordable homes shaping a new skyline, investments worth millions of dollars pouring in from sovereign funds and a significant section of fringe players are on the edge engulfed by a new order of reforms driving consolidation in the industry.

Meanwhile the initial concerns from geopolitical uncertainties such as the US polls, BREXIT and other crucial elections in Europe have also faded away.

With all economic indicators in the pink of health the need of the hour is to embrace a monetary policy that propels growth.

CHURNING POINT

There is ample heartburn across the industry in the wake of the new regulatory environment. Widespread anxiety whipped up by the implementation of the Real Estate (Regulations and Development) Act, 2016 and the recently rolled out Goods and Services Act (GST) reflects in the transaction books.

New launches have dried up, home sales have slipped and piles of unsold stock are evident. But at the same time there have been some positive takeaways which will augur well for the sector in the long-term. There is an indisputable switch towards building affordable homes. Co-working space providers are emerging as the new big ticket players in the occupier market. And, the logistic sector is attracting million-dollar investments.

In a nutshell, the Indian real estate sector is probably grappling with the fear of the unknown. We experienced a similar dilemma in the recent past when demonetisation crippled growth. But six months on, the sector is looking up towards a bright future.

TRUMP CARDS

First, the much awaited roll out of the Goods and Services Tax (GST) would be the single largest tax reform post-independence. Much like the initial heartburns caused by demonetisation it would trigger some momentary disturbances but augur well for the industry in the long term. Among the various economic policies of the Narendra Modi-led government, this will be one of the most important milestones.

GST would be extremely beneficial for the logistics sector. With a wave of new infrastructure taking shape in the forms of ports, roads and rail networks, the new tax regime would draw massive investments which would potentially transform the look and feel of the warehousing industry.

The impact of GST on real estate would be primarily tax neutral but loaded with gains for the affordable housing sector. The finance ministry has made it very clear that there should be no additional tax burden on consumers. It would also add another strategic push to affordable housing which in turn will drive the recovery of the residential sector.

The intention of GST is to bring in efficiency in the entire tax system, the implementation of which will see lot of teething issues. But eventually it will pave the way for an extremely efficient tax system for the country.

Secondly, the RERA Act has drummed up buyers' confidence back in the sector. We have already seen the spontaneous action by the Maharashtra regulator or the MahaRERA. Even as other states struggle to bring out their respective versions of the central act the new order in the housing sector is an undeniable reality.

The regulation is set to bring a sea change in the realty landscape of the country by attracting new investors and customers.

It will give long pending protection to the interests of the end-consumers and give a substantial fillip to the confidence of various stakeholders including fund providers such as banks, other financial institutions and private equity funds.

The sector would also transform into a more organised and transparent place under this regime. We have seen in the past that regulators have brought in more efficiency and transparency in telecom, insurance and financial sectors. The information pertaining to the real estate sector will be available in a systematic manner leading to easy accessibility and transparency.

The government's push towards affordable housing, banks cutting down home loan interest rates and uptick in buyers' sentiments would collectively revive the much-ailing sector.

GOING FORWARD

India is perhaps the only bright spots among emerging markets in the world today. The International Monetary Fund's recent World Economic Outlook has predicted an envious growth rate of more than 7% for the country. In addition the Indian Rupee has been a top performing currency among its market peers over the past couple of years.

The strong fundamentals, robust economic growth, political stability, controlled inflation and the lower interest rate regime have improved India's chances of a sovereign ratings upgrade within the next 2 years. Albeit, the recent loan wave-offs can be a cause of concern.

Considering the benign inflation numbers we hope that the Reserve Bank of India (RBI) to adopt a growth-inducing dovish monetary policy.

A growing economy would signal healthy consumption across all genres of the Indian real estate. With tamed inflation, uptick in industry sentiments and a good monsoon forecast the need of the hour is to embrace a monetary policy that propels growth.

INDIAN REALTY: AN UNDERRATED GOLDMINE.

- *BY* **NIBODH SHETTY**

FLASHBACK

After nearly a decade-long era crippled with economic and political uncertainty the global economy has stabilised and showing healthy signs of recuperation. A reflection of the resurrected economic environment came across in the International Monetary Fund's latest World Economic Outlook (WEO).

The projections indicate that the global GDP would grow above 3.5% per annum over the next 5 years. In the wake of the changing scenario the era of low interest rates and loose monetary policies in developed economies is fading away with Central Banks increasing interest rates in anticipation of higher inflation in developed countries such as U.S and Canada.

The unemployment rate in major economies, particularly the US, has come below to its pre-recession levels and wage growth has finally started picking up. The improving job prospects accompanied with higher wage growth poses a threat of inflation rising rapidly. Since the nominal domestic returns on savings instruments in these economies are low, the inflation adjusted real returns would be lower and in many cases negligible possibly even sub-zero. This is making their pension and sovereign funds as well as domestic investors look for assets abroad which can deliver higher inflation adjusted real returns. A large number of such investors have modified their portfolio allocation strategies to allow increase in exposures to emerging markets which give potential for higher returns despite subjecting the portfolio to higher risk. The pension funds prefer to invest in regular income generating assets like bonds, commercial assets of private developers and REITs in emerging markets. The increase in interest rates in the developed markets has also caused their domestic currency to strengthen and assets in emerging markets have started becoming cheaper from the investment perspective. As these emerging markets develop and grow, over a period of 10-15 years their currency would strengthen against the currencies of developed markets and hence at the time of exit, the long term investors would not only gain from appreciation in assets but also gain from movement in exchange rate.

INDIA: RESURGENCE OF THE GEM OF EMERGING MARKETS

Post the financial crisis in 2008 developing countries like Brazil, Russia, India, China and South Africa (BRICS) among others played a crucial role in driving the global economy forward. But over the period of time unaddressed structural problems coupled with high currency volatility in these markets forced investors to move their money back to developed markets. While Brazil, Russia and South Africa were seriously affected by collapse in commodity prices and political instability, weak government, policy paralysis and worsening fiscal metrics crippled India's growth story.

But the tables have turned. With a stable government having comfortable majority in parliament, the confidence has returned. India has now become one of the fastest growing economies in the world and would retain that status for the foreseeable future. Although China was the only performing emerging market until recently, today it faces imminent threat from high debt and excess capacities. It has also been downgraded by Moody's.

India on the other hand is projected to grow at the rate of more than 7% according to the IMF's world economic outlook forecast. Its economic robustness is also substantiated by the performance of its currency. The Indian Rupee has been a top performing currency amongst its emerging market peers over the past 2 years. The volatility in the currency has reduced and the currency has appreciated against the U.S. dollar; which further substantiates the strong macros. In addition to the improving macros, a slew of policy reforms taking place in the country have wooed foreign investors back to its shores. The new government has implemented several reforms to streamline and formalise the economy across all sectors. The recent roll out of the Goods and Services Tax (GST) Act could be the corner stone in this endeavour.

The strong fundamentals, robust economic growth, political stability, controlled inflation and the lower interest rate regime have improved India's chances of a sovereign ratings upgrade within the next 2 years However, the recent loan wave-offs can be major cause of concern for deferring the upgrade.

INDIAN REAL ESTATE: A NEW PARADIGM ON ANVIL

Real estate has been a key driver for the economy. However, poor transparency in the sector and dwindling consumer confidence had put the industry under strain in the past 3 to 4 years.

The recent introduction of the Real Estate (Regulation and Development) Act, 2016 has pumped in a new lease of life into the sector. The is expected to weed out unorganised players from the industry and whip up buyers' confidence bringing buoyancy back into the sector.

The subsequent stride in re-engineering momentum back into the sector was the governments push towards 'affordable housing'. By giving it infrastructure status the government would attract private developers towards these projects. At the same time home loan sops and interest subsidies under the Pradhan Mantri Awas Yojna would fire up the demand for these homes. The expected increase in transparency due to implementation of RERA and formalisation of sector with the implementation of GST, the sector would aid the sector in getting access to variety of formal sources of finance.These reforms will go a long way in enticing the institutional investors to invest in this sector.

ARE INVESTORS RESPONDING?

The government's emphasis on housing and its efforts to mitigate the risks in the real estate sector by introduction of RERA has not gone unnoticed by foreign institutional investors and also the sovereign and pension funds. A large number of these investors and funds have made changes to the portfolio allocation strategy allowing investment exposure to Indian real estate. The pension and private equity funds are investing in commercial assets (office spaces and malls) and also in under-construction residential properties. Players such as Qatar Holdings, CPPIB, Blackstone, Ivanhoe Cambridge, APG and Xander are readying blueprints for long-term investments in the realty segment. Not just foreign investors even the domestic investors are raising funds to invest in this sector.

> **As these emerging markets develop and grow, over a period of 10-15 years their currency would strengthen against the currencies of developed markets and hence at the time of exit, the long term investors would not only gain from appreciation in assets but also gain from movement in exchange rate.**

SUMMARY OF RECENT SELECT INVESTMENTS BY GLOBAL INVESTORS INTO INDIA REAL ESTATE

DATE	INVESTOR	INVESTMENT FUND/ COMPANY (TARGET)	DEAL DETAILS
June 2017	KKR	Lodha Group	$100 million equity investment
June 2017	Qatar Holding	Affordable Housing Fund	Invested $250 million in Arthveda Fund Management Pvt. Ltd's new Affordable Housing Fund
May 2017	Xander and APG	IT SEZ in Chennai	Bought an information technology (IT) special economic zone (SEZ) in south Chennai for around $350 million
May 2017	GIC	DLF Cyber City Developers Ltd (DCCDL)	40% stake in DLF Cyber City Developers Ltd (DCCDL) the commercial arm of DLF for ₹12,000 crore
Apr 2017	Canada Pension Plan Investment Board	Phoenix Mills subsidiary	$250 million in multiple tranches into the Island Star Mall a subsidiary of Phoenix Mills
Feb 2017	Dalian Wanda	Industrial park in Haryana	Plans to invest $12 billion to develop an industrial township project in Haryana
Feb 2017	Ivanhoe Cambridge	Private equity fund jointly floated by them and Piramal Enterprises Ltd	$250 million fund to invest in metro cities- metro cities - Mumbai Metropolitan Region, Delhi-National Capital Region, Bangalore, Pune, and Chennai.
Nov 2016	APG Asset Management and Virtuous Retail (VR)	Joint venture formed	$450 million to buy retail real estate in India
Jan 2017	Abu Dhabi Investment Authority (ADIA)	Lake Shore India	Tie up with Lake Shore India to pump capital into their retail properties
May 2016	GIC	Viviana Mall	Bought 50% stake in Viviana Mall in Thane, on the outskirts of Mumbai, for over ₹1,000 crore

Source: http://www.business-standard.com/article/specials/global-pension-funds-chase-indian-infra-for-better-returns-117040600014_1.html
http://www.thehindubusinessline.com/news/real-estate/sovereign-pension-funds-look-to-build-on-indian-realty/article9567895.ece

SOME OF THE RECENT FUND RAISES/INVESTMENTS INCLUDE-

DATE	INVESTOR	INVESTMENT FUND/ COMPANY (TARGET)	DEAL DETAILS
2017	Piramal Finance Ltd.	Piramal Enterprise	Piramal Finance plans to invest $171 million into real estate developer Embassy Group's projects
2017	Kotak Realty Fund	Kotak Mahindra Bank	Raising $250 million ($100 million in latest tranche and $150 million in earlier tranche) to invest in affordable housing projects across the country
2016	Motilal Oswal Real Estate	Motilal Oswal Group	₹ 800 crore in tranche III ₹ 500 crore in tranche II Plans to invest in projects of reputed developers across major metros
2016	Indiabulls Real Estate Fund	Indiabulls Asset Management Company	Raised ₹1,400 crore in its third commercial real estate private equity fund
2016	Milestone Capital Advisors Ltd	Milestone Capital Advisors Ltd	Plans to raise INR 1,400 crore in its third commercial real estate private equity fund
2016	IDFC Alternatives	IDFC Ltd	Plans to raise $300 million to invest in Indian real estate sector

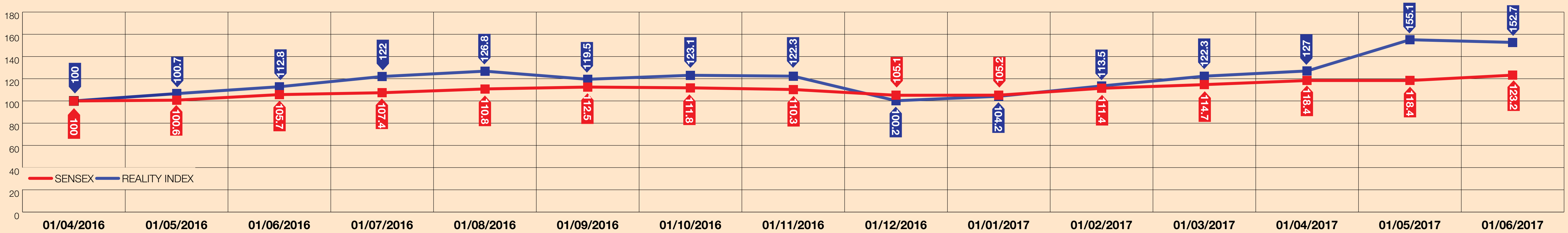
Source: http://economictimes.indiatimes.com/industry/banking/finance/idfc-alternatives-to-raise-rs-2000-crore-real-estate-fund/articleshow/52825410.cms
http://www.dnaindia.com/business/report-ivca-successfully-hosted-its-second-real-estate-and-infrastructure-2477120
http://economictimes.indiatimes.com/industry/banking/finance/idfc-alternatives-to-raise-rs-2000-crore-real-estate-fund/articleshow/52825410.cms

GREEN SHOOTS OF RECOVERY

The past 3-4 years have been an extremely stressful period for the Indian real estate with markets being subdued in terms of launches and sales across major metros. However, this year is expected to be the year of inflection with new regulations coming into place. These regulations and reforms would herald the industry into its next wave of growth. Right from buying of land, funding of projects to delivery of the final product to the buyer, the entire process is going to witness a drastic change.

Despite subdued financial performance of the realty companies over the past few years, the share price of the companies and also the BSE Realty index has outperformed the market. The share performance is generally the leading indicator of how the sector is going to perform in the near future. The reality index has outperformed the market over the past year. The government has realized the potential of this sector to create jobs and also drive the GDP growth of the country. Hence it has been trying its best to revive the sector. It would be just a matter of time before this sector realizes and starts delivering on its full potential.

TABLE: PERFORMANCE OF BSE REALITY INDEX BSE SENSEX



Source: Knight Frank Research

PUSH TO AFFORDABLE HOUSING

- *BY* **PANKAJ ANUP TOPPO**

Since the turn of this century, the country has been through a couple of cycles of bust and boom in the real estate sector. During these cycles there have been many who have been able to realise their dream of having a roof over their head but still there is a huge section of the population who is not that fortunate. According to estimates, the shortage in urban housing is around 1.9 crore (19 million) units and 95% of this shortage is in the affordable housing segment. In a bid to bridge this huge gap between demand and supply of housing, the Government of India launched the "Housing for All by 2022" initiative in June 2015. Among other objectives to fulfil this initiative was to provide affordable housing in partnership with public and private developers. Since the launch of the housing for all initiative, the government has come up with various policies that would help to create a conducive environment so that private developers can make their foray in this field.

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95%

Shortage is in the affordable housing segment.

1

CREATING A CONDUCIVE ENVIRONMENT.

The "Housing for All by 2022" initiative by the Government of India has been one of its major focus areas. The first major push by the government to the affordable housing sector came in the Union Budget 2016–17 proposals, where it laid down the guidelines that housing projects need to qualify to be categorised as an affordable housing project. As per the budget proposals, housing projects in which flats with built-up area of up to 30 square metres in the four metro cities and 60 sq metres in other cities will qualify as affordable housing projects. To make these projects attractive 100% deduction for profits was allowed. These projects needed to be approved between June 2016 and March 2019 and had to be completed within three years of approval. Minimum Alternate Tax will be applicable on such projects. In the Union Budget 2017–18 proposals, the guidelines for affordable housing projects were further sharpened and were made more practical. The dimensions of the housing units were changed. Instead of a built-up area of 30 and 60 square metres, the carpet area of 30 and 60 square metres will be considered for a housing project to qualify as an affordable housing project. Also, the 30 square meters will apply only in case of municipal limits of the four metro cities while for the rest of the country, including the peripheral areas of metros, 60 square metres will apply. Under the revised guidelines, the project needs to be completed within a period of five years from the date of getting the approval. The period of getting the approval however, stands unchanged, i.e. approvals need to be received between June 2016 and March 2019. The most important boost that the Union Budget 2017–18 proposals gave to the affordable housing segment was that it granted it an infrastructure status. This had been one of the long-standing demands of the sector. This initiative would give banks more elbow room to provide loans for houses in this segment at a much more competitive rate.

In affordable housing projects two parameters play a very important role in the success of a project—the pricing of the project and second its timely completion. At present even in affordable housing projects there have been instances of projects not being completed on time. To ensure that this anomaly (of delay in timely completion) in the real estate sector is removed, the government implemented the Real Estate (Regulation and Development) Act (RERA), 2016 in full letter and spirit from 1 May 2017. Among other things, as per the provisions of this Act, players from the supply side will have to complete their projects within the time they specify, to the relevant Authority, when applying for registration of their housing project. Since housing projects where more than eight apartments are developed, for the purposes of selling, will be covered under RERA, affordable housing projects will automatically come under the purview of the new legislation as they are typically large-scale projects. This will further ensure that the players operating in the affordable housing space complete their projects within the stipulated time. To ensure that developers can do this in an efficient manner, the government needs to further make sure that there are processes in place that will provide approvals in an efficient manner.

The Pradhan Mantri Awas Yojyna (PMAY) introduced in June 2015 is another initiative by the government that will give a boost to affordable housing. It is an interest subsidy scheme called Credit Linked Subsidy Scheme (CLSS) for purchase/construction/extension/improvement of house catering to the economically weaker sections, lower income groups and the middle income group. Under this scheme housing loans of up to Rs 9 lakh and Rs 12 lakh will now get interest subvention of 4% and 3%. This scheme should give a boost to housing projects in the peripheral areas of metros.

The Goods and Services Tax (GST), which came into effect from 1 July 2017 has also been giving nightmares to the players from the supply side as well as to homebuyers. The general perception was that under GST, the tax would go up from 5.50% (service tax plus VAT) up to 12%. To dispel such fears, the government has made it clear that the tax incidence is likely to go down rather than up under GST and that the developer should pass on the benefits to the consumer. This in turn means that prices could further decrease under GST, or in other words affordable housing could become just more affordable.

2

RESPONSE FROM THE BANKING SECTOR.

In a move that will give further fillip to the affordable housing segment, banks and financial institutions have started to cut the interest rate on home loans. The public sector giant, State Bank of India, cut the interest rate on its home loan by 25 basis points for loans up to ₹30 lakh for new homebuyers. As a result of this rate cut, the applicable rate for new home borrowers for a loan up to ₹30 lakh is 8.35%. Following the rate cut by the State Bank of India, other leading players in the home loan space like ICICI Bank and HDFC too followed suit. ICICI Bank reduced its home loan rates by 30 basis points for loans up to ₹30 lakh. After this rate reduction, the effective rate for a salaried woman is 8.30% and 8.40% for others. Housing Finance major, HDFC, too reduced its interest rates on home loans up to ₹30 lakh to 8.35% for women and 8.40% for others. With banking giving the necessary push to the affordable housing segment, others players in this space should take a cue and reduce their rates as well.

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Response from the developers. During our field surveys in the Mumbai Metropolitan Region (MMR), Delhi NCR and Bengaluru, it was observed that the affordable housing scheme has received a very good response. In the MMR, affordable housing projects have already started taking shape. XRBIA Chembur Central by XRBIA and Crystal Group, in Mumbai, is one such example. Ruparel Realty’s affordable housing project in Kandivali West is another example.

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3

RESPONSE FROM THE DEVELOPERS.

During our field surveys in the Mumbai Metropolitan Region (MMR), Delhi NCR and Bengaluru, it was observed that the affordable housing scheme has received a very good response. In the MMR, affordable housing projects have already started taking shape. XRBIA Chembur Central by XRBIA and Crystal Group, in Mumbai, is one such example. Ruparel Realty’s affordable housing project in Kandivali West is another example. Instances of affordable housing schemes, like the ones mentioned above, are yet to be visible on the ground in markets like Delhi NCR and Bengaluru but during our field visits, it was noted that a number of leading developers have plans to realign their business objectives and build more modest, affordable apartments. The plans are still in the initial stages and a few affordable housing projects are expected to be launched in the forthcoming months.

4

CONCLUSION.

As result of the above mentioned push towards affordable housing, we will witness a structural shift from the supply side. We can expect affordable housing projects to come up within metro cities and in urban agglomerations like Thane in the MMR and in Gurugam and Noida in Delhi NCR. However, an affordable housing project is a volume game, the major challenge for the Government of India will be to facilitate in providing suitable land parcels and that too at a competitive price for the project to be financially viable. It also goes without saying, the importance of having systems in place that will help in getting approvals in an efficient manner.

CO-WORKING SPACES IN INDIA –
THE DAWN OF A NEW ERA

- BY SANGEETA SHARMA DUTTA

India is at the cusp of a co-working revolution with several large players spread across the country. Some of the major co-working spaces are run by firms like WeWork, Office Pass, Awfis, myHQ, Altf Coworking, CoWrks, Bangalore Alpha Lab, Garge, BHIVE Workspace, Bombay Connect, Co Life, 91 Springboard, Investopad and Innov8, amongst others.

In the age of millennials where disruption is the order of the day, office space has come a long way since it was conceptualised as a place of work, with ungainly desks and chairs comprising the set up. Over the years, various researches endeavoured to map the productivity of an employee, most of which pointed towards a better work environment to achieve greater heights. The past few decades, therefore, were devoted to an evolution in the workplace, observing significant structural change in office space, right from space utilisation to placement of equipment and automation. With newer business avenues opening up, office space design continued to evolve at an incessant pace, covering not only its structural facet but also involving aspects such as recreation facilities and digitalisation of the office.

It comes as no surprise that with the quantum of ground covered in office space design and development, a workplace today has ceased to be a single, fixed address in a commercial district located 15–20 km away. Like most commodities in present times, workplaces, too, have come to be redefined as space that could be accessed anytime and from anywhere, providing Just-In-Time services with the help of technology. While this forms just one aspect of co-working, the concept of co-working spaces essentially involves groups of start-ups, creative consultants, freelancers and small and medium enterprises (SMEs) who share workspace and breakthrough ideas, enhance their business horizon and gain a fresh standpoint on their own businesses by the dint of sharing workspaces.

India, today, is witnessing a proliferation of start-ups and SMEs, buoyed by the government's concerted efforts to create a sustainable eco-system for entrepreneurs in the country. On their part, the entrepreneurs—a large number of them being millennials—believe in harbouring global aspirations and the mantra adopted by their start-ups reflect their staggeringly ambitious mindset that was not prevalent till a few years back. This provides a perfect platform for co-working business centres to cater to the office space needs of these growth-seeking start-ups. Thus, with the increasing number of start-ups and freelance professionals in the country, there is a palpable demand for co-working spaces in metro cities that had hitherto been lying untapped.

START-UPS AND SMES STAND TO SAVE

15-20%

by working in a co-working space, while enjoying the benefits of a fully functional, plug-and-play modern workplace.

Recently, Sequoia India invested ₹ 130 crore in co-working space start-up, Awfis, while WeWork, the US-based shared office space leader, entered India last year and signed an agreement with the Embassy Group to develop a facility in Bengaluru at an estimated investment of $100 million.

Besides companies, people such as business nomads, expats or those travelling to the country for a limited period are amongst those preferring to work out of co-working spaces. Till a few years ago, they would have opted to work from coffee shops.

There are several benefits to be had from working in co-working set-ups. For one, start-ups get flexible working options at affordable rents, as they offer seats at cheaper rentals in an office-like environment. The companies are offered an organised and synergised working environment along with business networking opportunities with the other members. Start-ups and SMEs stand to save as much as 15–20% by working in a co-working space, while enjoying the benefits of a fully functional, plug-and-play modern workplace. Moreover, the co-working business model also provides access to a number of shared amenities and services such as conference rooms, Wi-Fi connection, refreshments and recreational space, as well as the flexibility to scale up or decrease the number of seats, based on business needs. Companies can also base their key project teams out of co-working places in order to let them be located close to their clients. While co-working business centres provide a viable model for corporates looking for flexibility in work locations, companies are slowly realising that collaborative work spaces where conversation and ideas can flow freely and encourage an environment of gainful ideas can improve employee productivity as well.

India is at the cusp of a co-working revolution with several large players spread across the country. Some of the major co-working spaces are run by firms like WeWork, Office Pass, Awfis, myHQ, Altf Coworking, CoWrks, Bangalore Alpha Lab, Garge, BHIVE Workspace, Bombay Connect, Co Life, 91 Springboard, Investopad and Innov8, amongst others.

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Awfis is the first company in this space to have introduced a mobile app that enables users to find and book office and meeting spaces on a real time basis in its centres across the country. Besides its own managed co-working spaces, Awfis also offers a large repository of listed third-party meeting rooms in hotels in various cities. Another co-working player, myHQ, offers a mobile app that lets one book a corner in cafes, restaurants and hotels. As opposed to a conventional co-working model, myHQ converts unused spaces into work areas. Additionally, one could even avail discounts on food and beverages at the pub or café chosen. Meanwhile, WeWork plans to expand through an 'operating agreement' with Embassy Group, who will be providing the capital and will handle the real estate and construction aspects of the American company. Approximately 6 mn sq ft is planned to be built over the next five years in Bangalore, Mumbai and the National Capital Region (NCR).

Of late, several developers, too, are planning on starting their own co-working offices to provide incubation spaces, or divide large floor plates for smaller occupants. On an average, the cost per seat per month in a co-working centre in a region like NCR is in the range of ₹10,000–15,000 in central business district (CBD) Delhi and ₹12,500–15,000 in CBD Gurugram. With prime rentals in Gurugram averaging ₹250 per sq ft per month, an office space of 700 sq ft, housing 10 employees, would amount to a whopping ₹75,000 per month. In contrast, 10 seats in a co-working centre would cost ₹150,000 per month. Besides, the 'tenant' opting for co-working space does not have to worry about heavy overhead expenditures or comply towards formalities such as providing security deposits, payment of brokerage and even furnishing the office. Thus, ease of working in such pocket-friendly and hassle-free set-ups has increased the popularity of co-working space amongst start-ups and small businesses.

Despite the demand for co-working space, there are several challenges that have to be tackled; for instance – changing the conventional mindset of a client who would want to book a meeting room based on the touch and feel factor rather than an app. Further, owing to the inherent risks involved in the sector, a few operators strive to mitigate the risk by preferring to lease out their entire area, or a large part of it, to companies that can act somewhat as 'anchor tenants', thereby helping them get a fixed-income stream.

Going forward, with the advent of major co-working players in India and an increasing number of such facilities coming up across cities to cater to the demand of start-ups and SMEs, the co-working sector is expected to thrive and could prove to be a significant disruptor on India's commercial real estate market. Currently, NCR and Mumbai figure prominently on the seat availability front, followed by cities such as Bangalore and Kolkata. Mumbai accounts for a substantial amount of trasactions as well. However, at present, the segment is at a nascent stage and not all the co-working operators are likely to be able to hold their own in the long run, owing to their inability to mitigate the risks in their business models or have enough stronghold in non-prime markets. This would expectedly result in consolidation among co-working operators and the market would be divided amongst a handful of large players.

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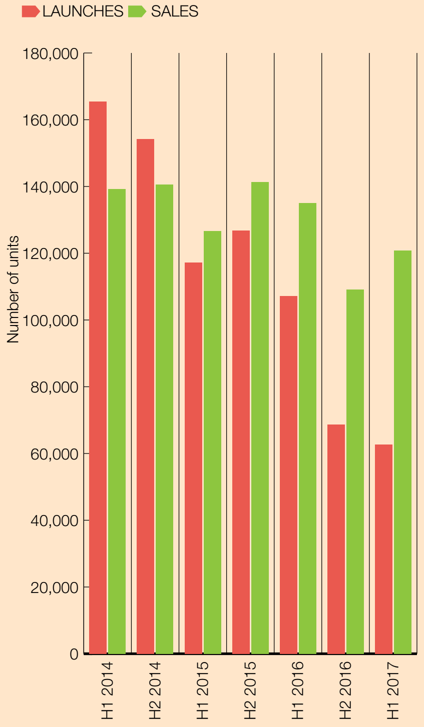
ALL INDIA

RESIDENTIAL

- After the tumultuous H2 2016 when the demonetisation needle punctured the market pulling down residential sales and launches by 46% and 23% respectively, H1 2017 has ushered as an eventful period.
- The first two months of H1 2017 saw consumers and the industry as a whole grapple with the aftermath of demonetisation. While activity encouragingly picked up in March and April, May 1 earmarked the dawn of the single largest change in history of Indian real estate industry – through the implementation of the Real Estate (Regulation and Development) Act 2016.
- After the initial dilemma regarding the implementation of the RERA, largely all stakeholders have reconciled to the fact that RERA will be a reality sooner than later. With developers re-directing efforts from launches to RERA compliance, pace of launches was lower in H1 2017.
- In the backdrop of these landmark events this performance has also been dictated by the developers baggage of unsold inventory, which until a year ago was mainly in the under construction category. However, now 'ready for possession' apartments are also available across markets. With ready projects kept outside the ambit of RERA, developers have been focusing heavily on sales of their ready possession stock.
- The impetus to the realty market particularly the residential market has come with government's focused attention to the affordable housing segment. Over the last year the government has announced a series of measures to revive a fresh lease of life into this segment of market.
- We believe that the focus on affordable housing is a structural change and the supply side response to this focus area implies that it is going to be a sustainable theme going forward. The latest set of numbers indicate that the share of less than ₹2.5 mn ticket size housing that had risen from 17% in H1 2016 to 20% in H2 2016, has further jumped in the latest H1 2017 period to 36%. The category of housing valued at less than INR 5 mn is now as much as 71% across the top 8 cities, substantially higher than the 52% share in H1 2016.
- With this backdrop, residential launches in the top eight cities of the country declined by 41% to 62,738 units in H1 2017 compared to 1,07,120 units in H1 2016. The decline was 9% compared to the demonetisation period of H2 2016 when 68,702 units were launched. Ahmedabad and NCR wore the worst hit with launches falling by 79% and 73% respectively.
- With consumers opening up to the confidence infused by RERA and a slew of government measures towards affordable housing, sales

FIGURE -1

HALF-YEARLY LAUNCHES AND SALES TREND IN THE TOP EIGHT CITIES

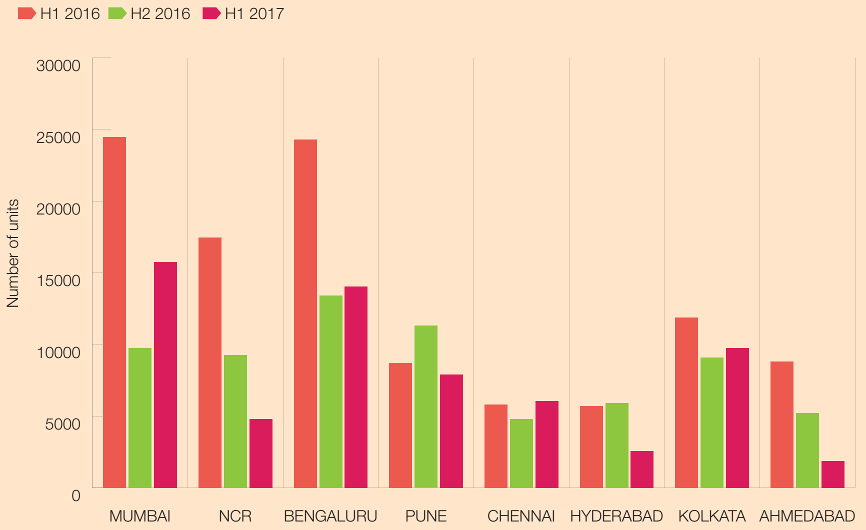


Source: Knight Frank Research

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

FIGURE -2

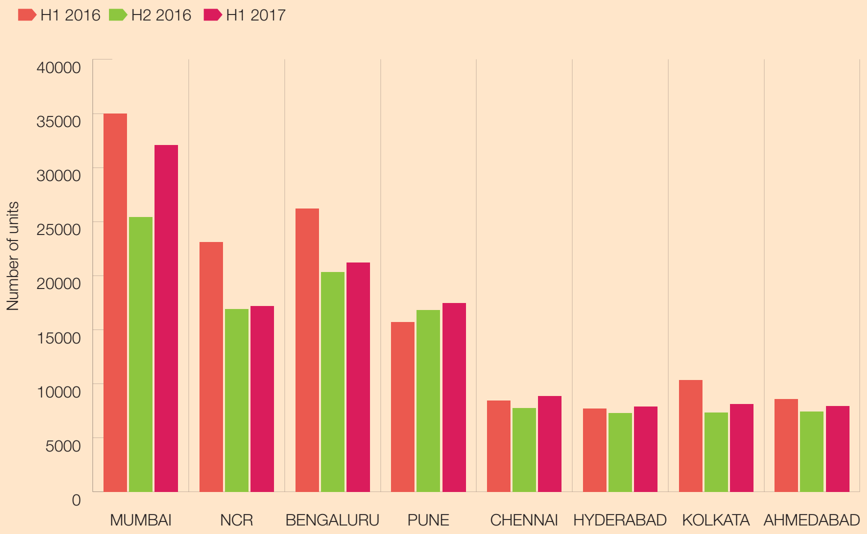
HALF-YEARLY LAUNCHES IN THE TOP EIGHT CITIES



Source: Knight Frank Research

FIGURE -3

HALF-YEARLY SALES IN THE TOP EIGHT CITIES



Source: Knight Frank Research

After the initial dilemma regarding the implementation of the RERA, largely all stakeholders have reconciled to the fact that RERA will be a reality sooner than later. With developers re-directing efforts from launches to RERA compliance, pace of launches was lower in H1 2017

decline was not as severe as noticed in launches. Sales during H1 2017 declined by 11% to 1,20,756 units in H1 2017 compared to 1,35,016 units in H1 2016. Sequentially, however, the sales are 11% better compared to the demonetisation period of H2 2016 when 1,09,159 units were sold.

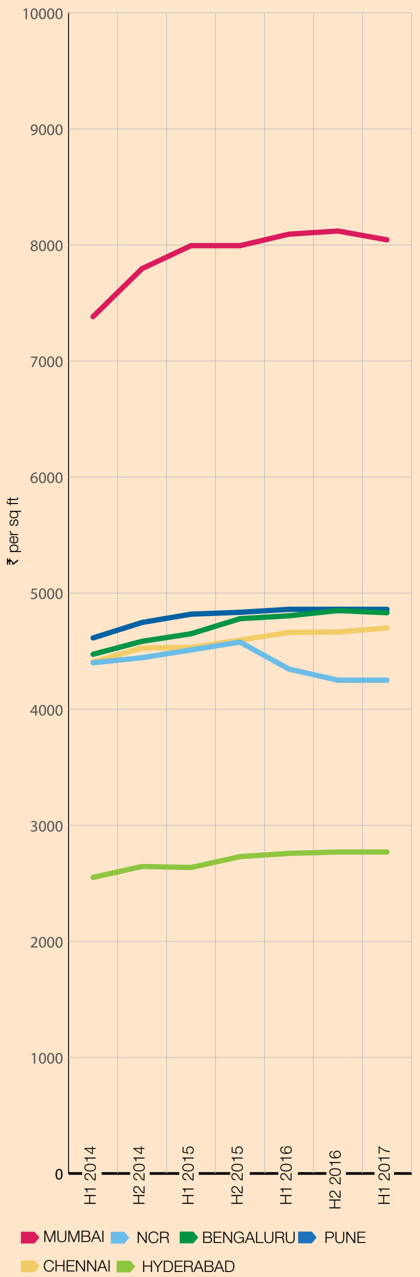
- Unsold inventory levels at 5,96,044 units in H1 2017 are 10% lower than 6,60,239 units in H1 2016 and are consistently trending lower compared to its peak of in H2 2014. However, the numbers are lower mainly on account of the shrinking market size.

- With the baggage of unsold inventory and the state of the residential property market, weighted average property price has stagnated. Developers in most markets have been forthcoming in offering freebies and discount for sales closure.

TICKET-SIZE SPLIT OF LAUNCHED UNITS IN THE TOP EIGHT CITIES

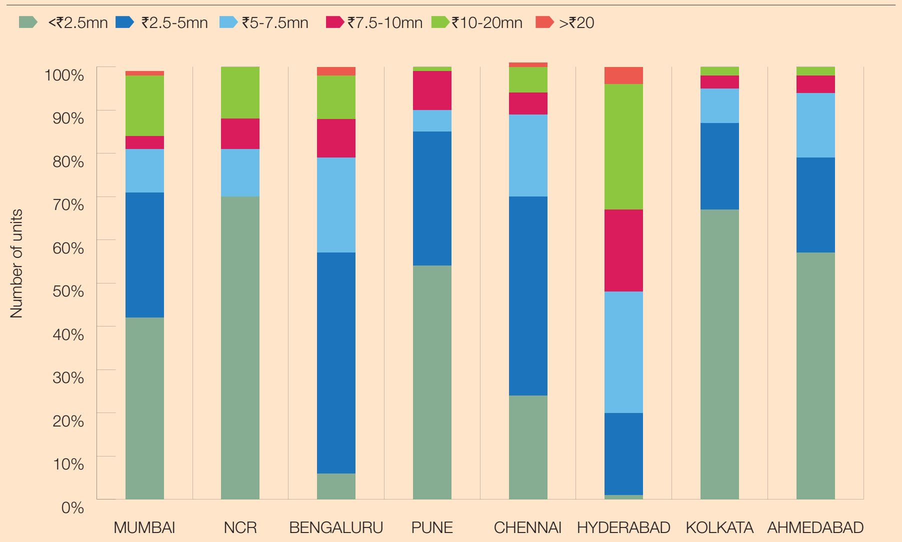
	H1 2016	H2 2016	H1 2017
<2.5 mn	17%	20%	36%
2.5-5 mn	35%	39%	35%
5-7.5 mn	22%	20%	15%
7.5-10 mn	10%	11%	6%
10-20 mn	10%	6%	8%
>20 mn	5%	4%	1%

FIGURE -6
COMPARISON OF CITY-WISE PRICE LEVELS (WT. AVG. PRICE TREND)



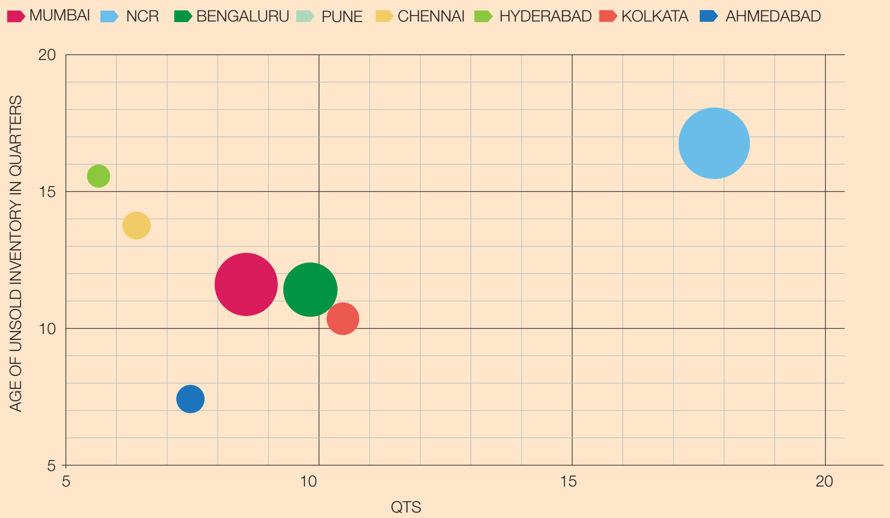
Source: Knight Frank Research

FIGURE -4
TICKET-SIZE SPLIT OF LAUNCHED UNITS IN H1 2017



Source: Knight Frank Research

FIGURE -5
CITY-WISE QTS VS AGE OF UNSOLD INVENTORY ANALYSIS



Source: Knight Frank Research

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

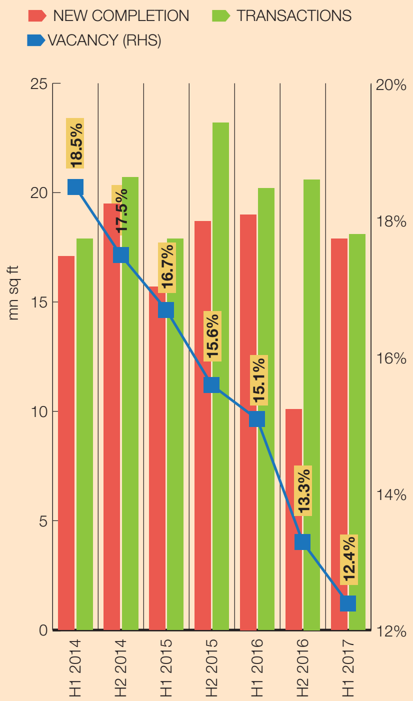
OFFICE MARKET

- Office market fundamentals across the country remain tight with vacancy levels hitting new lows for the 11th straight period as the supply crunch shows little sign of abating with any meaningful impact.

- The supply crunch that has hamstrung the market and macro headwinds in the form of the slowdown in the IT/ ITeS spending by Europe and USA has weighed down office space demand and caused a 10% decline YoY in transaction levels during H1 2017 compared to a 13% growth in the previous reference period.

- The 10% decline in transaction levels translates to 18.1 mn sq ft of office space being taken up across the six office space markets during H1 2017. A similar 5% decline in supply saw 17.9 mn sq ft come online in the same period.

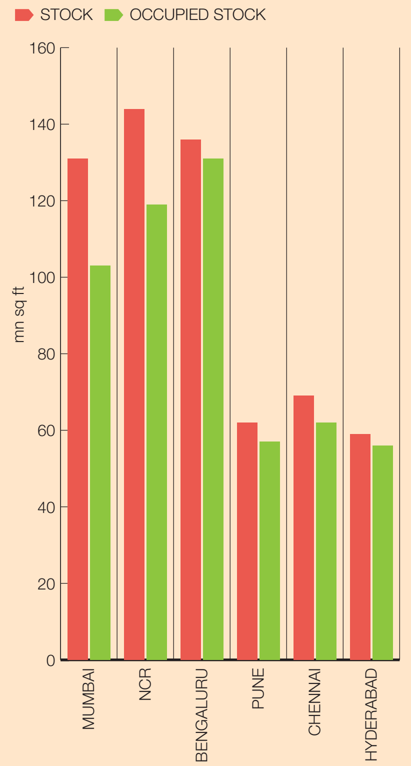
FIGURE -1
HALF-YEARLY NEW COMPLETION, TRANSACTIONS AND VACANCY LEVEL (TOP SIX CITIES)



Source: Knight Frank Research

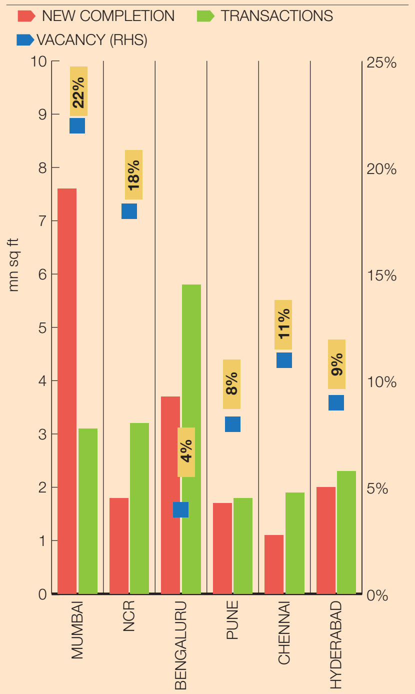
Note: The top six cities are Mumbai, NCR, Bengaluru, Pune, Chennai and Hyderabad

FIGURE -2
OFFICE SPACE STOCK AND OCCUPIED STOCK AS OF JUNE 2017



Source: Knight Frank Research

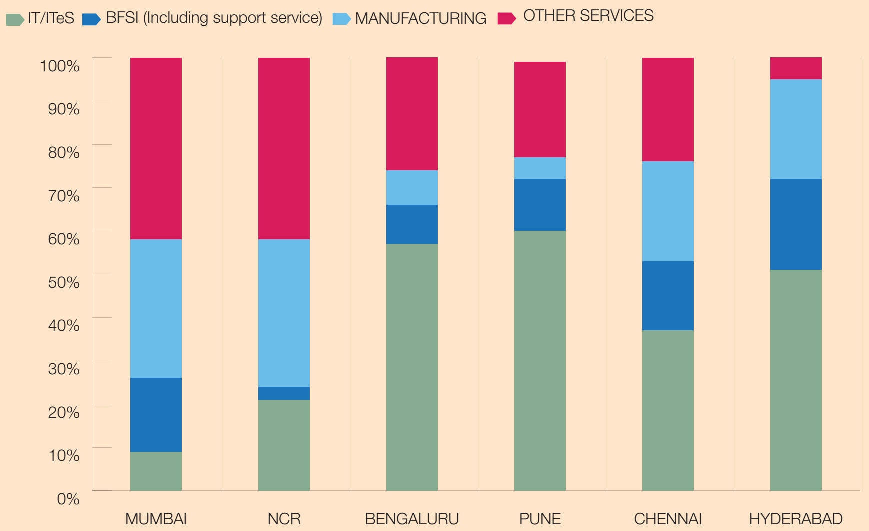
FIGURE -3
CITY-WISE NEW COMPLETION, TRANSACTIONS AND VACANCY LEVEL DURING H1 2017



Source: Knight Frank Research

The abject lack of fresh office space is most visible in the IT/ITeS sector dominated markets of Bengaluru, Pune and Hyderabad that currently have single digit vacancy levels at 4%, 8% and 9% respectively.

FIGURE -4
SECTOR-WISE TRANSACTION SPLIT DURING H1 2017

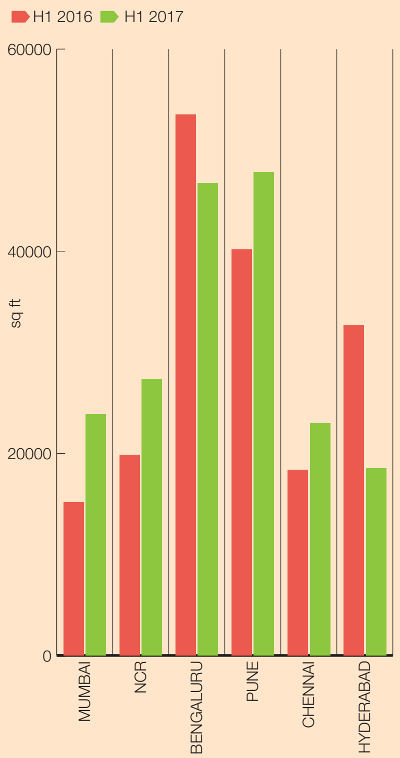


Source: Knight Frank Research

SECTOR-WISE TRANSACTION SPLIT (TOP SIX CITIES)

INDUSTRY	H1 2016	H2 2016	H1 2017
BFSI	12%	13%	12%
IT/ITeS	43%	49%	39%
Manufacturing	16%	17%	18%
Other Services	30%	21%	31%

FIGURE -5
DEAL SIZE ANALYSIS



Source: Knight Frank Research

- Consistently falling since H1 2012, the vacancy level now stands at 12% that is the lowest level in recent recorded history. The abject lack of fresh office space is most visible in the IT/ITeS sector dominated markets of Bengaluru, Pune and Hyderabad that currently have single digit vacancy levels at 4%, 8% and 9% respectively.
- The IT/ITeS sector share in transactions has been showing signs of weakening in recent periods but it continues to be the largest driver of office space in India, accounting for nearly 40% of the transactions during H1 2017. This was followed by Other Services sector, which includes sectors such as consulting, media, telecom and infrastructure, at 28%.
- Co-working spaces as a trend is emerging as we see firms taking up space in Bengaluru, Pune and NCR. The concept of co-working spaces essentially involves groups of start-ups, creative consultants, freelancers and Small and Medium Enterprises (SMEs) who share workspace and break through ideas, expand their business horizon and gain a fresh standpoint on their own businesses by dint of sharing workspaces. Across the top 6 cities, such co-working space providers have taken up around 0.5 mn sq ft of office space during H1 2017.
- In terms of deal size, Pune recorded the largest deals, marginally edging out Bengaluru, with the average deal size in the city amounting to nearly 48,000 sq ft in H1 2017. Chennai and Hyderabad witnessed the smallest average deal sizes at 23,000 sq ft and 18,500 sq ft, respectively.
- Average rental values across these six cities grew at 7% YOY during H2 2016. While Mumbai saw flat YoY rental growth, Hyderabad and Bengaluru experienced the strongest rental growth at 14% and 8% YoY respectively.

A WAVE OF INSTITUTIONAL FUNDS EYE INDIAN SHORES

- *BY* **YASHWIN BANGERA**

Developed markets in the West have been progressively becoming de-globalised as they experienced increasing competition from the developing world. This is a clearly observable phenomenon as the world watches Great being taken out of Britain and the 'hawkish' Trump regime policy on work visas for immigrants.. The protectionist measures are purely symptomatic of a much broader economic malaise characterised by the fact that products and services from developed economies are continuously losing ground to those originating in competitive Asian economies.

As developed economies struggle to hold their ground in this post-Global Financial Crisis (GFC) structural shift, their Asian counterparts have been flourishing as economic realities slowly and surely direct global capital toward the more efficient and productive economies. Asia has thus been attracting increasing capital from investment banks, private equity funds and other financial institutions. Recognising the structural shift in India's economic and political landscape, foreign capital has been vying to find avenues to invest in this country's potential growth.

Sweeping structural reforms such as the introduction of the Goods and Services Tax (GST) Act 2017 and the implementation of the Real Estate (Regulation and Development) Act, 2016 (RERA) showcase the political will of the current regime to promote the ease of doing business and increase transparency in the massive Indian real estate sector. The erstwhile cumbersome tax web that the GST would replace, created huge compliance complications and proved to be needless hindrances to the smooth functioning of trade and commerce. Similarly, RERA will help investors and end users navigate the traditionally dark annals of the real estate industry.

Massive infrastructure projects such as the Dedicated Freight Corridor (DFC) and the Delhi-Mumbai Industrial Corridor (DMIC) hold the promise of seamlessly connecting the thus far remote corners of the country to its existing and future manufacturing and distribution hubs, much like the coast-to-coast highways and inter-city railroads on which America built the foundation of its economy. The DFC and DMIC will involve the construction of almost 9,500 km of railroads crisscrossing the length and breadth of the country and the creation of eight investment regions that will easily prove to be among the largest infrastructure initiatives in the world today. Their creation would spawn the need for

"

Massive infrastructure projects such as the Dedicated Freight Corridor (DFC) and the Delhi-Mumbai Industrial Corridor (DMIC) hold the promise of seamlessly connecting the thus far remote corners of the country to its existing and future manufacturing and distribution hubs, much like the coast-to-coast highways and inter-city railroads on which America built the foundation of its economy.

massive real estate development as factories, office spaces, residential units, malls and warehouses will need to come up to house the working populations of these cities. These infrastructure projects along with the Make in India and the Invest in India initiatives of the government will set the Indian economy on course to become a manufacturing powerhouse and enable it to attract global investments to fast-track its economic evolution.

Investment banks and private equity funds such as Blackstone, KKR, JP Morgan and Morgan Stanley, pension funds such as the Canada Pension Plan Investment Board and logistics moguls such as DP World, have already forayed into the commercial, residential and warehousing space in India.
The opportunity and need for further development is immense, as just the city of New York has more office space than the whole of India and according to various estimates, we currently face a shortfall of 18 mn to 23 mn housing units.

A few notable mentions of recently concluded deals and investment pledges made in the Indian real estate space include:

$1 bn

1 bn investment by KKR Asset Finance Pvt. Ltd in residential projects in Bengaluru, Gurugram and Chennai

DP World's $1 bn pledge to tap into opportunities arising in the Indian logistics infrastructure space

$0.75 bn

$0.75 bn Infrastructure Investment Trust (InvIT) public issue by IRB Infrastructure

$2 bn

GIC's nearly $2 bn acquisition of DLF's 40% stake in DLF Cybercity Developers Ltd., which owns and operates its leased commercial office spaces

Residential and commercial office spaces have been the staple for institutional equity entering the real estate market and recent forays into alternative real estate property types, such as warehousing, by players such as Embassy, CPPIB and DP World showcase the increasing appetite of institutional investors. The Indian real estate sector attracted $5.7 bn of global capital flows in 2016 and just the first quarter of 2017 saw a massive $3.41 bn enter the market. Such aggressive capital commitments and the propagation of investment structures Such aggressive capital commitments and the propagation of investment structures such as REITs and InvITs in tandem with the relaxation of the FDI policy, will greatly increase market depth and attract further investments in the Indian economy in times to come.

$ 3.41 bn

In The first quarter of 2017 saw a massive USD3.41 bn enter the market.

"

Investment banks and private equity funds such as Blackstone, KKR, JP Morgan and Morgan Stanley, pension funds such as the Canada Pension Plan Investment Board and logistics moguls such as DP World, have already forayed into the commercial, residential and warehousing space in India.

SHIFTING POWER CENTRES IN AHMEDABAD'S REAL ESTATE MARKET

- *BY* **PANKAJ ANUP TOPPO**

"The real estate market in Ahmedabad is very boring," quipped one of the stakeholders of the Ahmedabad real estate market. Another prominent developer explained this very point further. "Unlike bigger real estate markets like Delhi NCR and Mumbai, the Ahmedabad real estate market is very stable. There are not too many ups and downs," stated the developer. The real estate market in Ahmedabad maybe dull and boring but it too was exposed to the vagaries of policy interventions. Like other real estate markets of the country, the impact of demonetisation was visible even in the real estate market of Ahmedabad but things have started to return to the days before demonetisation happened in India. While sales have certainly moved to the levels before demonetisation, new launches in the past six months have nose-dived. "Due to lack of clarity on policies like RERA, new launches have considerably slowed down since January," opined one developer. At a macro level however, the real estate market in Ahmedabad has been slowly spreading its wings across the city, more so towards its western side.

> **While micro markets along the SG highway have become prime area for offices, residential developments are mostly coming up in the area between the SG Highway and Outer Ring Road. In some cases, like in the case of Bopal developments have also spilled beyond the Outer Ring Road on the western side of Ahmedabad.**

A LOOK AT THE PAST.

Despite the staid nature of the city, it has been gradually expanding over the years. As regards the modern beginnings of the city, Ahmedabad got its first textile mill in 1859 courtesy Shri Ranchhodlal Chhotalal. Since then, many textile mills have sprung up in Ahmedabad and the city was often being referred to as the 'Manchester of the East'. Giants like Reliance industries and Arvind Limited too established their bases in Ahmedabad. Most of these mills came up in the eastern part of the city. Even today there are mills belonging to Arvind that are functional in Ahmedabad. This to a great extent defines the character of the residential development in this part of the city. Even today, this part of the city caters largely to the affordable segment where capital values hover around ₹1,800–₹2,200 per sq ft. Most of these affordable housing units are coming up in the micro markets of Ramol, Vastral, Narol, Vatva, Nikol and along the Naroda Dehgam Road.

The western part of the city however, catered to a very different class of gentry. The city originally came up around the banks of the Sabarmati River and around Kalupur, which also houses the city's main railway station. The main business centres in this part of the town came up around Ashram Road and CG Road, which later started moving towards the 132-ft Ring Road. As Ahmedabad began to grow, the Indian Space and Research Organisation (ISRO) set up its Space Applications Centre in the city, in 1972. A road was made which even in the present day is called Satellite Road that provided connectivity to the 132-ft Ring Road. People employed at the Space Applications Centre and especially those who were not from Ahmedabad started residing along the ISRO establishment. Thus, this area inherited a cosmopolitan character. Named Satellite this neihourhood was the first development to have come up outside the 132-ft Ring Road.

COMING TO THE PRESENT DAY.

Moving further west, on the SG Highway is ISCON Crossroad, which presently is considered to be the city centre of Ahmedabad. To further add value to this landmark in Ahmedabad, the top residential locations of Bodakdev, Vastrapur, Prahlad Nagar and Thaltej are close by. The capital values in these regions hover around ₹5000–6,000 per sq ft. Most of the micro markets are on either side of the SG Highway. While micro markets along the SG highway have become prime area for offices, residential developments are mostly coming up in the area between the SG Highway and Outer Ring Road. In some cases, like in the case of Bopal developments have also spilled beyond the Outer Ring Road on the western side of Ahmedabad.

THE OUTLOOK.

While micro markets in the north such as the Airport Road, Anand Nagar, Chanakyapuri, Chand Kheda, Chandlodia, Gota, Hansol, Vaishnodevi Circle too will continue to grow courtesy their locations sandwiched between Ahmedabad and Gandhinagar the city growth on the western will remain unabated for a while. The prime reason for this is that the Sanand GIDC has been promoted by the State Government of Gujarat for a while and has received good response from the corporate sector. Most experts to whom we spoke were of the view that Sanand will continue to be the pull factor for the city. The areas to look for going forward are the micro markets between SG Highway and Outer Highway and micro markets like Bopal beyond Outer Ring Road. The capital values in Bopal are still around ₹2,800–3,000 per sq ft.

AHMEDABAD

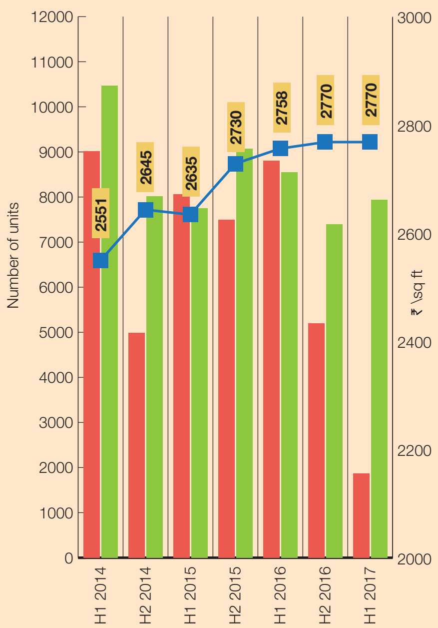
RESIDENTIAL

1. AHMEDABAD RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

- New launches in Ahmedabad hit a new low in H1 2017. Between January and June 2017 only 1,874 new housing units were launched. Lack of clarity, especially on The Real Estate (Regulation & Development) Act, 2016 (RERA) was the single most important factor which held back developers from launching new projects.
- Compared to H1 2016, new launches were down by 79% in H1 2017. When compared to H2 2016 new launches were down by 64% between January and June 2017. Going forward, once there is clarity on RERA and systems are put in place for its efficient implementation launches should pick up. The interim head for the RERA in Gujarat was appointed on 1 June 2017.
- Even though the number of units launched has been the lowest in Ahmedabad developers have responded in a strong manner to the government's initiative towards affordable housing. Of the total units launched in H1 2017, 57% were launched in the sub ₹ 2.5 mn price category. If the price bar is raised to sub ₹ 5 mn, then of the total units launched, 75% were launched in this price category.
- After hitting a low of 7,400 units in the demonetisation-induced H2 2016 sales picked up in H1 2017. This was possible because of availability of ready to move in homes as developers were in a rush to complete their under construction projects before RERA came into force from May 1. Sales went up by 7% in H1 2017 compared to H2 2016 but it is still lower by 7% than the same period last year.

FIGURE -1

AHMEDABAD MARKET TRENDS - HALF-YEARLY



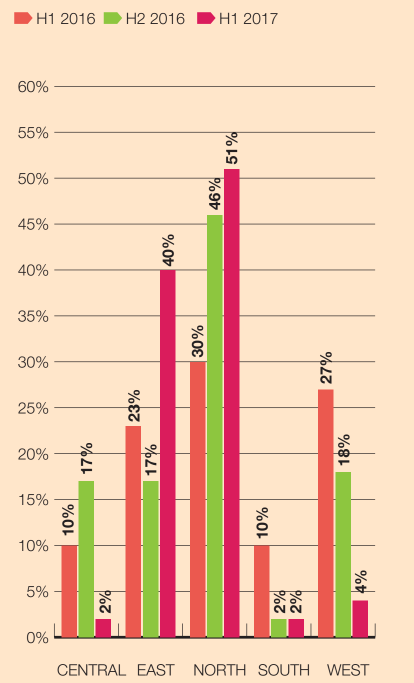
Source: Knight Frank Research

2. MARKET SPLIT OF RESIDENTIAL LAUNCHES

- The lion's share of new launches in the last six months happened in North Ahmedabad which has locations such as Chandkheda, Gota, Motera and Ognaj. 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 2017, more than 70% of the new launches in this market were below the ticket size of ₹5 mn.
- After north, east Ahmedabad witnessed the maximum launches. At least 41% of the new launches that happened in the last six months were in east Ahmedabad. Most of these launches happened in Naroda and along the Naroda-Dehgam Road.
- Of the total units launched between January and June 2017 the percentage share of units launched in south, west and central Ahmedabad came down to single digits. While west is a promising market, the prevaing lull in this part of the market is transient in nature.

FIGURE -2

MICRO-MARKET SPLIT OF LAUNCHED UNITS



Source: Knight Frank Research

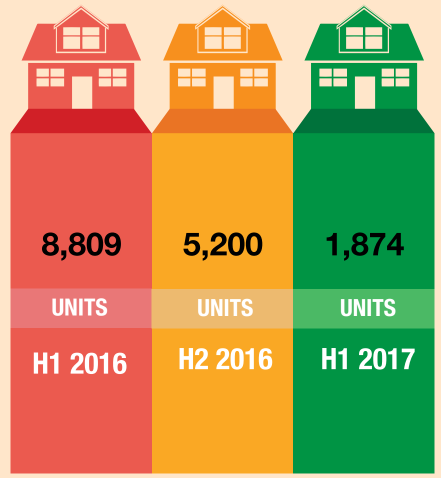
- The lack of available spaces in south and high capital values In central Ahmedabad did not infuse much confidence in developers to come up with new projects in these two micro markets.

TICKET-SIZE SPLIT ANALYSIS OF LAUNCHED UNITS

	H1 2016	H2 2016	H1 2017
<2.5 mn	28.94%	29.78%	56.51%
2.5-5 mn	41.73%	42.72%	22.15%
5-7.5 mn	15.32%	18.50%	15.26%
7.5-10 mn	5.45%	6.32%	3.68%
10-20 mn	7.54%	2.41%	2.40%
>20 mn	1.02%	0.28%	

Source: Knight Frank Research

- Developers have responded positively to the government's focus on affordable housing in Ahmedabad.
- Between January and June 2017, Ahmedabad had largely been an affordable market, especially with regards to new launches that



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 2017, more than 70% of the new launches in this market were below the ticket size of ₹5 mn.

happened in the city. Of the total units that were launched in Ahmedabad between January and June 2017, close to 79% happened in the sub ₹ 5 mn ticket size.

- What sets H1 2017 apart from the previous six months is the fact that housing units launched in the sub ₹ 2.5 mn almost doubled. Also, in H1 2017 the lion's share of new launches happened in the sub ₹ 2.5 mn price bracket.

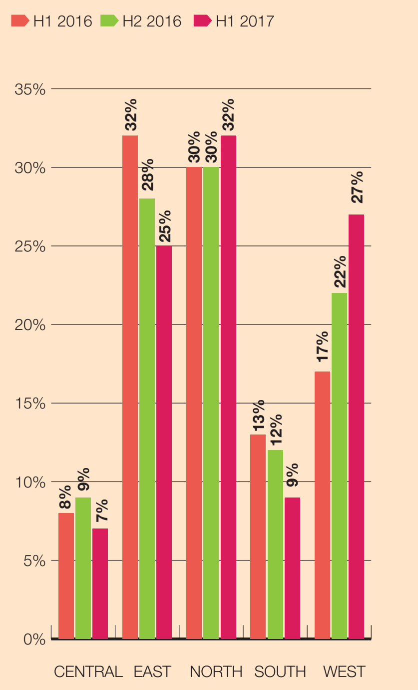
3. MICRO-MARKET WISE RESIDENTIAL SALES

- From the new launches between January and June 2017 the definite move towards affordable housing is crystal clear but the same is not apparent in sales during the same period. The silver lining however, is that the homebuyers too have started showing their affinity towards affordable housing projects. The micro markets of east and north which are largely affordable compared to other parts of the city contributed to a little over 50% of the total sales.
- Sales activity continued to remain robust in west Ahmedabad. This micro market's proximity to GIDC Sanand has increased its attractiveness. Its share in the total sales, increased from 22% in H2 2016 to 27% in H1 2017. Compared to H1 2016 the share of west Ahmedabad increased to 27% in H1 2017 from 17%.

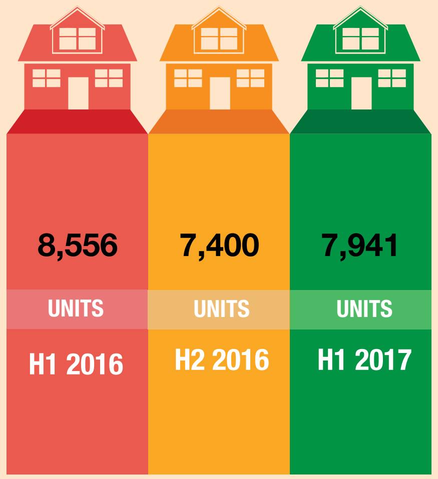
From the new launches between January and June 2017 the definite move towards affordable housing is crystal clear but the same is not apparent in sales during the same period. The silver lining however, is that the homebuyers too have started showing their affinity towards affordable housing projects.

FIGURE -3

MICRO-MARKET SPLIT OF SALES



Source: Knight Frank Research



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

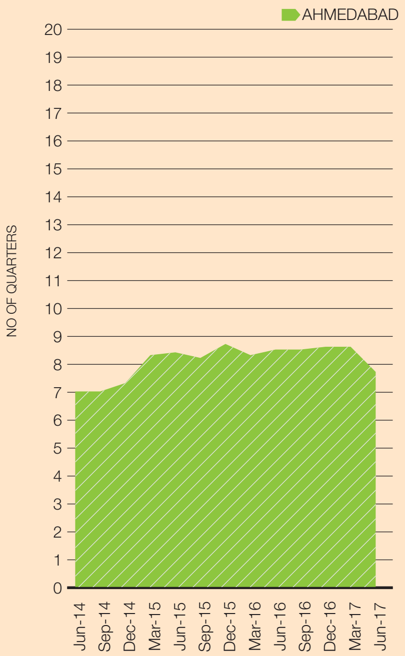
AHMEDABAD MICRO-MARKET MAP

4. AHMEDABAD MARKET HEALTH

- The quarters to sell (QTS) 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.
- The new low in number of new launches and a healthy growth rate in sales have had a bearing on the quarters to sell (QTS) the existing unsold inventory. As a result the QTS has come down from 8.6 in H2 2016 to 7.7 in H1 2017. At present the city has more than 32,000 units in various stages of construction that remain unsold. The unsold inventory in Ahmedabad is less than two years old which just about manages to catch up with the average construction time.
- Central Ahmedabad is the best performing market. It has the lowest QTS and the age of inventory. East Ahmedabad remains a consistent performing market in the city with the lowest level of quarters to sell of unsold inventory and this is closely followed by north Ahmedabad. Affordable pricing, easy access to the major employment hubs and integrated development have helped these markets in attracting homebuyers over the last few years.
- Even though West Ahmedabad has the highest QTS and age of inventory among micro markets, off late it has witnessed a lot of traction. The city too is expanding towards the west, which augurs well for this micro market. The growing importance of Sanand GIDC should work in favour of West Ahmedabad.

FIGURE -4

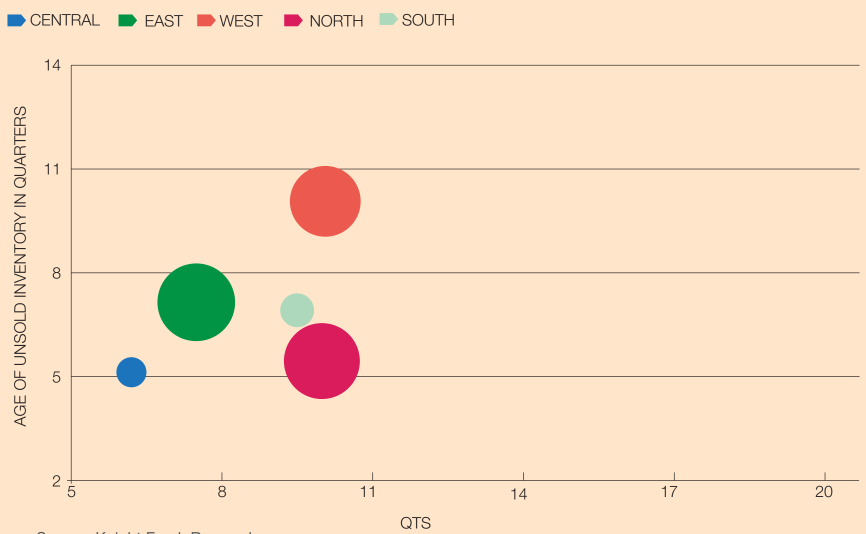
QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS



Source: Knight Frank Research

FIGURE -5

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

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

MICRO-MARKET	UNSOLD INVENTORY
Central	2,380
East	8,275
North	10,158
South	2,366
West	9,756
Ahmedabad	32,934

Source: Knight Frank Research

5. PRICE MOVEMENT IN H1 2017

- The market has just about started to pick after demonetisation had pulled things back. At the macro level prices remained at the same level as it was in H2 2016. Capital values of both premium and budget projects saw a tepid growth of only 2%. Once clarity comes on issues like RERA and GST the market should pick in Ahmedabad which should give some fillip to prices as well.

The market has just about started to pick up after demonetisation. At the macro level prices remained at the same level as it was in H2 2017. Capital values of both premium and budget projects saw a tepid growth of only 2%.

PRICE MOVEMENT IN SELECT LOCATIONS

LOCATION	MICRO-MARKET	PRICE RANGE IN H1 2017 (₹/SQ FT)	12-MONTH CHANGE	6-MONTH CHANGE
Ambawadi	Central	5,500 - 7,500	0%	0%
Navrangpura	Central	5,500 - 7,500	0%	0%
Mani Nagar	Central	3,500 - 6,000	3%	0%
Paldi	Central	4,500 - 6,200	3%	0%
Naroda	East	2,000 - 3,000	0%	0%
Vastral	East	1,900 - 2,500	1%	0%
Nikol	East	1,850 - 2,500	1%	2%
Prahlad Nagar	West	5,000 - 6,500	0%	0%
Satellite	West	5,500 - 7,200	0%	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	1%	0%
Motera	North	2,800 - 3,600	0%	0%
Gota	North	2,800 - 3,600	0%	0%

Source: Knight Frank Research

BANGALORE METRO – AN INFRASTRUCTURE BEHEMOTH IN THE WAITING

- *BY* **SANGEETA SHARMA DUTTA**

42.3km

Completion of the first phase of the Bangalore Metro

It was on June 17, 2017 that a long awaited milestone was achieved in Bengaluru's timeline. The city witnessed the completion of the 42.3-km-long first phase of the Bangalore Metro, as the last leg of its Green Line was flagged off by the President of India, thus closing a chapter that was scheduled to have been completed six years ago in 2011. This concluding section of Phase 1 added 12 km to the operational network with the new line now connecting the southern part of the city with seamless access to Chickpet, KR Market, National College, Lalbagh, South End Circle, Jayanagar, RV Road, Banashankari, JP Nagar and Yelachenahalli (erstwhile Puttenahalli).

As an overview, Bangalore Metro Phase 1 stretches from Mysore Road in the west to Baiyappanahalli in the east – a distance of 18.2 km and from Nagasandra on Tumkur Road in the north-west to Yelachenahalli on Kanakapura Road in the south, a 24-km-long stretch While last year witnessed the launch of the east-west corridor, garnering much recognition in the western suburbs, this year the much awaited north-south corridor was rolled out. It would now be possible to traverse a distance of 24 km from the north-west part of the city to the southern region in 45 minutes, a boon for both regions as the roadways between them are riddled with severe traffic bottlenecks. The line towards the southern part of the city passes through some of the preferred residential neighbourhoods of Bengaluru housing large population and would expectedly account for a higher ridership. As per Bangalore Metro Rail Corporation's (BMRCL) estimates, the daily ridership is expected to reach 5 lakhs from the current 1.8 lakhs along the entire stretch of Bangalore Metro Phase 1.

With the first phase of the metro completed, the second phase has become the cynosure of all eyes today. Phase 2 spans a length of 72 km and is expected to add 61 stations to the network. It includes the extension of the four Phase 1 corridors, as well as the construction of two new lines. Further, a new 18-km-long line connecting Silk Board with K.R. Puram has been included, categorised as Phase 2A. The line will be called the Outer Ring Road (ORR) Metro and is proposed to have 13 stations encompassing major stations such as Silk Board, HSR Layout, Bellandur, Kadubeesanahalli, Marathahalli, Mahadevapura and K.R. Puram. As per the timeline set by BMRCL, the second phase shall be completed by December 2020. It is estimated that after its completion, Bangalore Metro would transport an average of 10 lakh commuters per day.

The impact of an infrastructure project such as the metro rail is enormously powerful and comprehensive, affecting not only a city's real estate and commercial proposition but also its population density and employment generation. Accessibility through the metro leads to creating office hubs and producing jobs, which in turn aids in improving the demand for residential property of select residential neighbourhoods, while providing a boost to the commercial sector of the region simultaneously. Also, reduced commuting time owing to the metro has been observed to enhance the potential of a micro market exponentially. As a result, micro markets along the metro line witness steep rise in real estate values, coupled with hectic new

> **This concluding section of Phase 1 added 12 km to the operational network with the new line now connecting the southern part of the city with seamless access to Chickpet, KR Market, National College, Lalbagh, South End Circle, Jayanagar, RV Road, Banashankari, JP Nagar and Yelachenahalli (erstwhile Puttenahalli).**

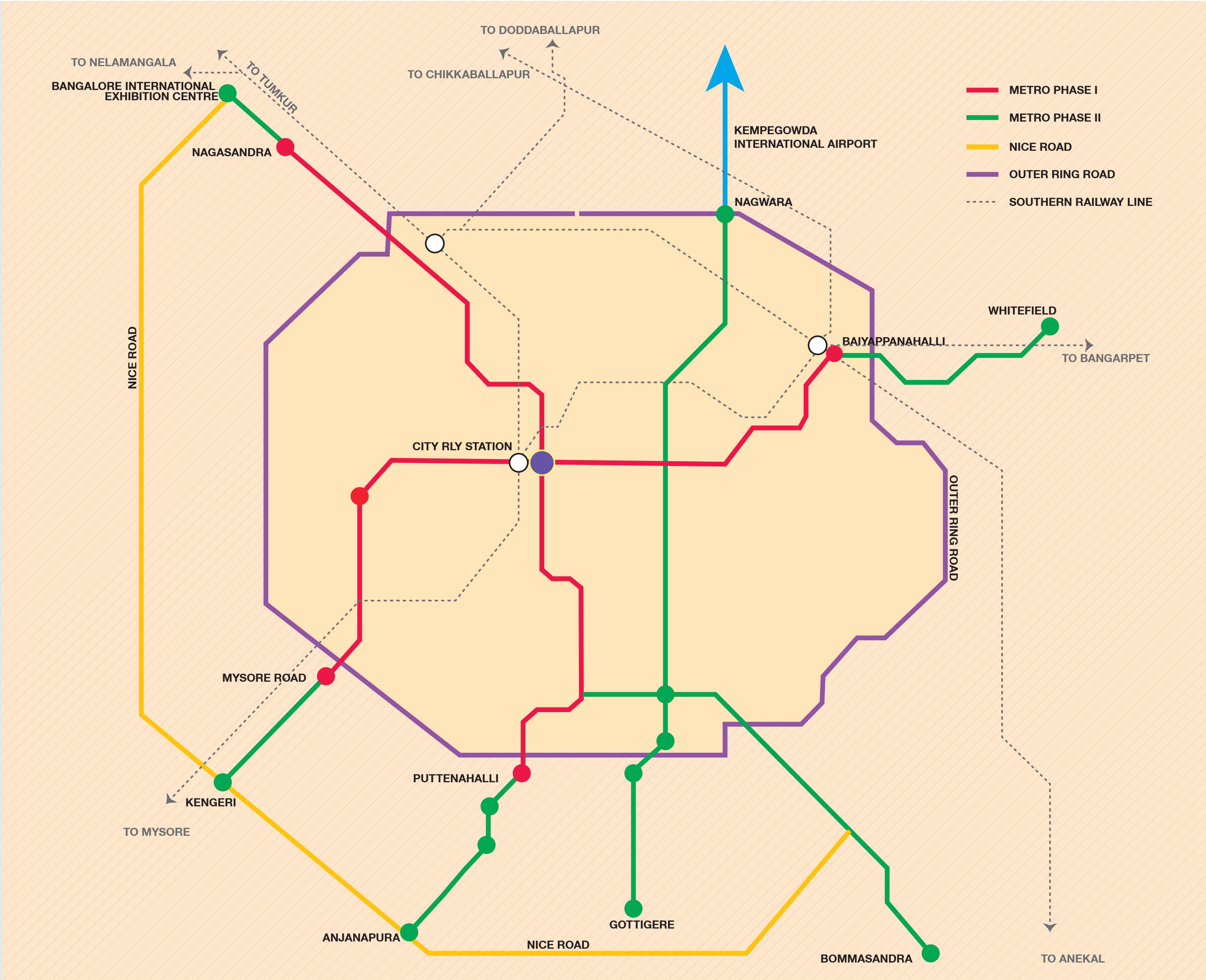
10Lakh

After its completion, Bangalore Metro would transport an average of 10 lakh commuters per day.

developments in the adjacent vacant land parcels, as developers strive to capitalise on the profit implications of large-scale developments resulting from additional FSI, if applicable. For investors, the return on investment is sizeable, given that homebuyers are willing to pay a premium for residential properties located close to public transit systems like the metro.

For many, Bangalore Metro is the beacon of hope. It is envisaged as a key player that would inter-connect different parts of the city seamlessly and decongest the city's choked road network. While Phase 1 of the metro largely covers the city centre and the suburban neighbourhoods, the four extension lines under Phase 2 are expected to optimise the operations of Phase 1. Work from Mysore Road to Kengeri and Yelachenahalli to Anjanapura Township up to the NICE Road Crossing is going on at a rapid pace and BMRCL plans to open these two sections by the end of 2018. The line between Baiyappanahalli and Whitefield, eagerly awaited by the IT community, is expected to be ready for operations by the end of 2020. Further, the two new lines under Phase 2 (north-south corridor of Nagwara–Gottigere and southern line of RV Road–Bommasandra) traverse through some of the densest and traffic-congested areas of the city, housing key IT hubs, and will seek to unclog the bottlenecks in order to support the growth of the IT sector.

With Phase 2 of the Bangalore Metro covering fast-growing micro markets like Bommasandra and Electronics City in the south and Nagawara towards the north, there is immense scope to unlock the potential of these locations as well as other neighbouring ones. Going forward, peripheral micro markets such as Chandapura, Hosa Road and Hulimavu in the south, Kengeri and Nayandahalli in the west, and Thanisandra in the north are likely to witness substantial growth



in residential real estate. Already these micro-markets have been witnessing a proliferation of mid-end and affordable housing projects, adding to the residential stock on a yearly basis. It is expected that metro connectivity would aid in easing the unsold inventory situation in such locations, particularly in South Bengaluru, which had witnessed a glut in supply in the recent years but was facing a low sales traction owing to lack of infrastructure. On the other hand, Phase 2A is expected to smoothen out the traffic issues faced by office occupiers along the ORR. At present, work along the Bangalore Metro Phase 2 has been going on unobstructed; the extensions of Phase 1 observing more traction. While there is still a long way to go, an infrastructure behemoth such as the Bangalore Metro, which harbours enormous advantages, the wait for its completion is expected to be worth the pain.

“Going forward, peripheral micro markets such as Chandapura, Hosa Road and Hulimavu in the south, Kengeri and Nayandahalli in the west, and Thanisandra in the north are likely to witness substantial growth in residential real estate.

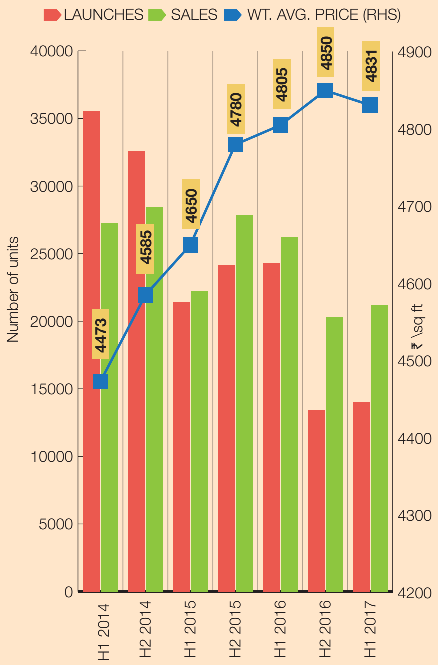
BENGALURU

RESIDENTIAL MARKET

1. BENGALURU RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

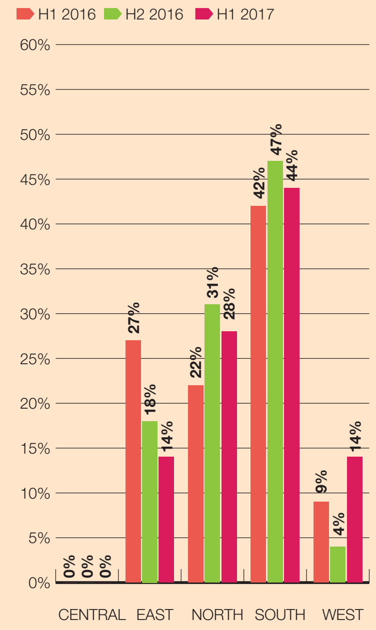
- The residential market of Bengaluru has seen a drastic change in its dynamics in the past two and half years. Until recently recognized as one of the most resilient residential markets in the country, today, the market is reeling under pressure and is striving to keep afloat amidst constricting conditions.
- The second half of last year 2016 (H2 2016) was a particularly trying period for the city's residential market with the announcement of the demonetisation measure that brought real estate activities almost to a halt.
- However, things have started looking up slightly for Bengaluru this year and although the figures are still restrained, marginal improvements were observed in the number of new launches and sales. H1 2017 witnessed an increase of 5% in new launches and 4% in sales over the figures in H2 2016.
- On a Year-Over-Year (YOY) basis, the city is still far behind the numbers observed in H1 2016. The number of new launches in H1 2017 lagged behind those of H1 2016 by a significant 42%, while for sales it was 19%, during the same period.
- While the tightening of new launches is partly attributable to the quantum of unsold inventory build-up in the market, factors such as insecurity regarding the RERA policy implementation and demonetisation, to some extent, played major roles in the slowdown.
- On the other hand, the city's sales volume continues to be in a relatively better position although it has failed to recover the momentum it had achieved in H1 2016. Buyers' interest has been gradually picking up post-demonetisation and while the actual purchase rate has been low, enquiries have risen positively.
- In a bid to offload their unsold inventory and cash in on GST that permits credit for taxes paid on input costs such as cement and steel, which would bring down prices, city developers have launched several schemes to attract maximum buyers. While some of them have reduced the prices of their projects, others are offering freebies such as free modular kitchens and electrical fittings worth lakhs.
- Meanwhile, weighted average prices remained by and large stagnant, witnessing a mere increase of 1% in H1 2017 compared to H1 2016.
- The inclusion of Bengaluru in the Smart City list is expected to have a far reaching impact on the residential market in the forthcoming years, as that would lead to improved infrastructure in the city. This would, in turn, add to the overall attractiveness and brand image of Bengaluru as a residential market.

FIGURE -1
BENGALURU MARKET TRENDS - HALF-YEARLY



Source: Knight Frank Research

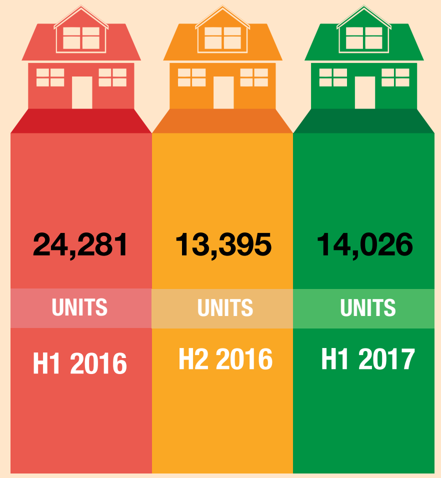
FIGURE -2
MICRO-MARKET SPLIT OF LAUNCHED UNITS



Source: Knight Frank Research

2. MARKET SPLIT OF RESIDENTIAL LAUNCHES

- As in the previous periods, the southern zone of the city accounted for the largest share in the total number of new launches in H1 2017, primarily in peripheral locations such as Electronics City, Chandapura and Sarjapur. The region continues to be favoured by both the local populace as well as the expatriate population employed with the IT sector.
- North Bengaluru, which in recent years has been characterised by factors such as high land cost, low social infrastructure and relatively expensive property prices, strove to bounce back on the developers' radar with a number of office projects becoming operational in the region. It saw the share of new launches increase to 28% in H1 2017 from 22% in H1 2016, although, as compared to H2 2016, the share of new launches was less.
- From accounting for a substantial share of 27% in H1 2016, East Bengaluru's share in the total number of new launches almost halved to 14% in H1



Bengaluru till recently was recognized as one of the most resilient residential markets in the country. Today, the market is reeling under pressure and is striving to keep afloat amidst constricting conditions. However, things have started looking up slightly in 2017 and although the figures are still restrained, marginal improvements were observed in the number of new launches and sales in H1 2017.

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2017. Locations such as Whitefield and Gunjur witnessed a number of new launches.

- In contrast, West Bengaluru saw its share of new launches increase significantly from a mere 4% in H2 2016 to 14% in H1 2017. The region's share of new launches in H1 2017 was also an improvement over the share in H1 2016 and majority of the launches took place in micro-markets such as Rajarajeshwari Nagar and Kengeri.

TICKET-SIZE SPLIT ANALYSIS OF LAUNCHED UNITS

	H1 2016	H2 2016	H1 2017
<₹2.5 mn	8%	2%	3%
₹2.₹5-5 mn	29%	64%	59%
₹5-₹7.5 mn	41%	18%	22%
₹7.5-₹10 mn	11%	6%	5%
₹10-₹20 mn	8%	6%	10%
>₹20 mn	3%	4%	1%

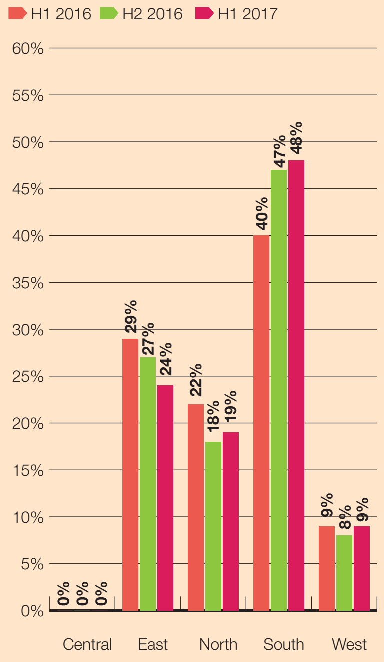
Source: Knight Frank Research

- On the ticket size front, H1 2017 observed a significant chunk of new launches taking place in the bracket ₹ 2.5-5 Mn, a trend that was noted in H2 2016 as well. Till H1 2016, majority of the new launches were in the higher ticket size bracket of ₹ 5-7.5 Mn.
- Notably, most of the new launches in H1 2017 are in peripheral locations of the city with promise of infrastructure development in the near future.
- This development comes as a welcome trend, given the recent slew of government's initiatives to boost the affordable housing sector, such as according infrastructure status to this sector in the Union Budget with a host of tax incentives, provisioning buyer-friendly clauses like on-time-delivery in the RERA Act, lower home loan rates, as well as commissioning the nationwide scheme of Pradhan Mantri Awas Yojana (PMAY).

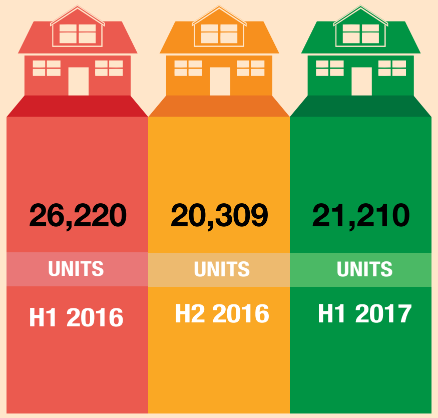
3. MICRO-MARKET WISE RESIDENTIAL SALES

- Similar to new launches scenario, South Bengaluru continued to dominate on the sales front as well. The region saw its share increase from 40% in H1 2016 to a substantial 48% of the total sales in H1 2017. While the region has always attracted buyers, courtesy its healthy congregation of large IT hubs, the launch of a number of affordable projects in its peripheral markets has increased the demand over the recent past. For instance, micro-markets such as Electronics City and Bommasandra are scheduled to be connected to the other parts of the city through the metro rail in the next three years, thereby creating a favourable impact on the potential buyers' mind.
- On the other hand, most other regions of the city saw a decline in their share of sales in H1 2017. Although West Bengaluru witnessed a consistent demand, the north and the east regions saw their shares reduce noticeably in H1 2017 as compared to H1 2016.

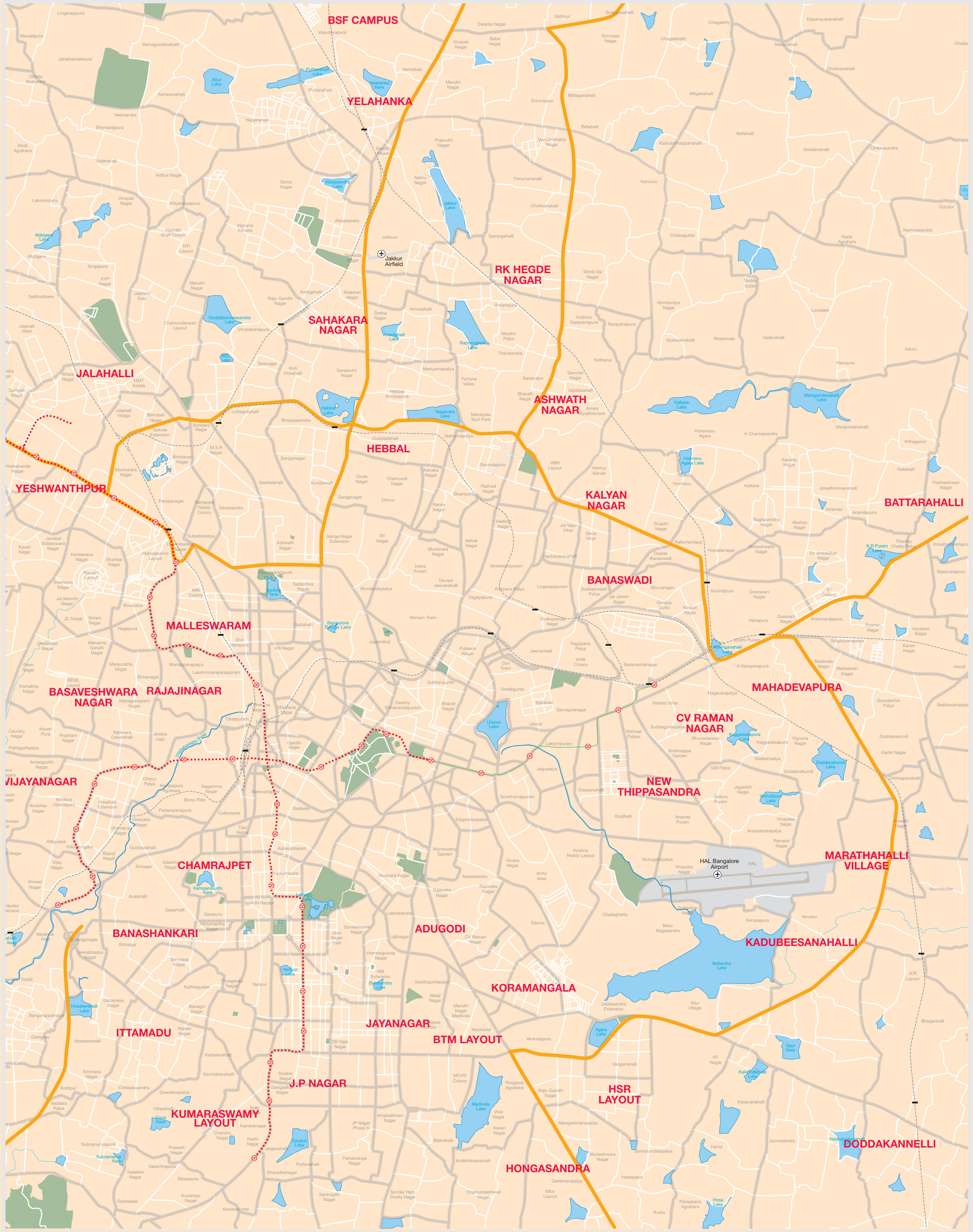
FIGURE -3
MICRO-MARKET SPLIT OF SALES



Source: Knight Frank Research



BENGALURU MICRO-MARKET MAP



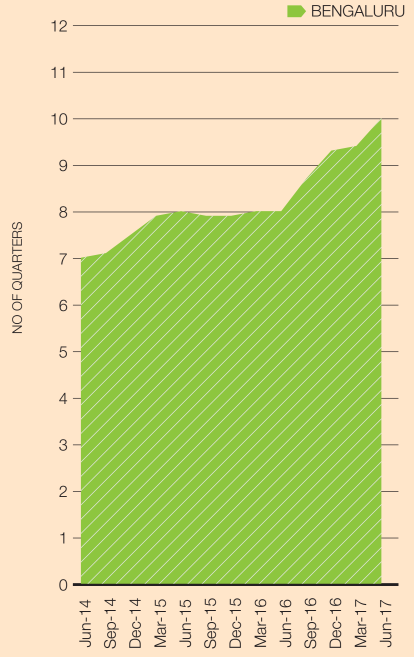
MICRO-MARKET	LOCATIONS
Central	M.G. Road, Lavelle Road, Langford Town, Vittal Mallya Road, Richmond Road
East	Whitefield, Old Airport Road, Old Madras Road, K.R. Puram, Marathahalli
West	Malleswaram, Rajajinagar, Yeshwanthpur, Tumkur Road, Vijayanagar
North	Hebbal, Bellary Road, Hennur, Jakkur, Yelahanka, Banaswadi
South	Koramangala, Sarjapur Road, Jayanagar, J.P. Nagar, HSR Layout, Kanakapura Road, Bannerghatta Road

4. MARKET HEALTH

- The quarters to sell unsold inventory (QTS) is the number of quarters required to exhaust the existing unsold inventory in the market. The existing unsold inventory is divided by the average sales velocity of the preceding eight quarters in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market. Also, size of the bubble indicates relative size of unsold inventory in terms of number of units.
- The QTS for Bengaluru has been increasing gradually since September 2013, and currently stands at 10 quarters. The unsold inventory of the city is recorded at around 114,064 units in various stages of construction, leading to a matter of concern.
- East Bengaluru is currently the best performing market of the city, with the lowest QTS and a low age of inventory. While traction has been slightly weakening in the past one year, the presence of several large employment hubs, good social infrastructure, substantial availability of housing in various budget sizes and metro connectivity with the central and western parts of the city are some of the prime factors that has led the eastern region to perform well on an eight-quarter sales basis.
- South Bengaluru follows East Bengaluru as the second best performing market, owing to low QTS and the lowest age of inventory. However, the southern part of the city is faced with a glut of unsold inventory, based on the number of new launches that take place annually in the region. With the sales velocity of the region improving in the past few quarters and with infrastructure development in the offing, the situation is expected to amend further in the forthcoming periods.
- Meanwhile, North Bengaluru accounted for QTS higher than East and South Bengaluru, and a high age of inventory as well. The unsold inventory in the region can be attributed primarily to relatively higher property prices and the dearth of adequate social infrastructure in place, amongst other factors. We expect this market to gain momentum once the office sector gains prominence in the near future.
- On the other hand, West Bengaluru still does not have a sufficient inventory and sales volume compared to the other zones of the city. It has the highest QTS and the second highest age of inventory as North Bengaluru. Despite its smaller size at present, the region holds promise and the metro rail connectivity is expected to be one of the prime factors for this potential.
- The premium residential market of Central Bengaluru, catering to a niche clientele, does not have a sufficient part to play in the city's residential market dynamics owing to its minimal unsold inventory size.

FIGURE -4

QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS



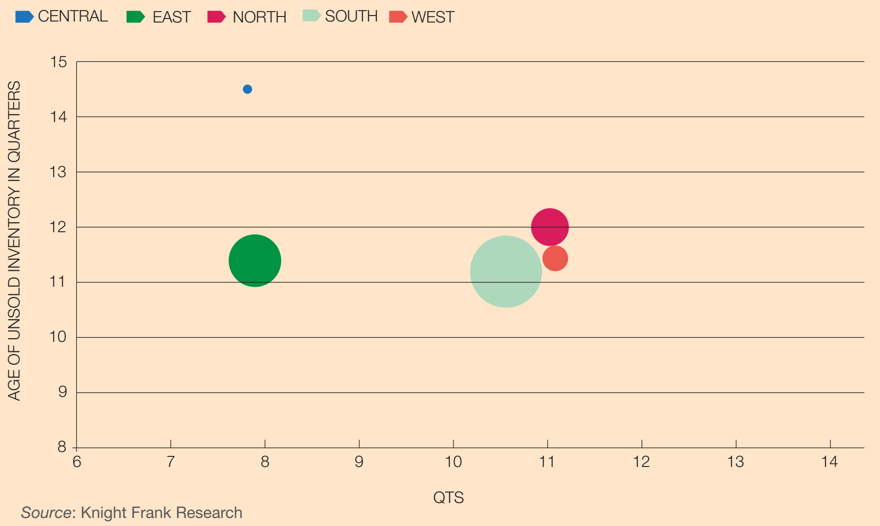
Source: Knight Frank Research

MICRO-MARKET	UNSOLD INVENTORY
Central	243
East	24,096
North	25,596
South	54,075
West	10,054
BENGALURU CITY	114,064

Source: Knight Frank Research

FIGURE -5

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

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

5. PRICE MOVEMENT IN H1 2017

- Price appreciation across most locations in Bengaluru has remained stagnant during the last 12 months. The range of price appreciation during the period has been a mere 1-2% in select markets.
- There has been no noticeable growth observed in the city's residential market in the last six months, primarily due to the sluggish movement in sales as well as owing to the huge unsold inventory present in the market.

PRICE MOVEMENT IN SELECT LOCATIONS

LOCATION	MICRO-MARKET	PRICE RANGE IN H1 2017 (₹/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	0%	0%
Whitefield	East	4,500–8,500	1%	0%
Marathahalli	East	4,500–7,100	0%	0%
Indiranagar	East	9,000–12,500	0%	0%
Yeshwanthpur	West	6,500–10,800	0%	0%
Malleshwaram	West	9,000–13,300	0%	0%
Rajajinagar	West	8,500–14,000	0%	0%
Tumkur Road	West	4,000–5,100	2%	0%
Yelahanka	North	4,500–7,500	2%	1%
Hebbal	North	5,000–9,800	0%	0%
Hennur	North	4,500–7,500	1%	0%
Thanisandra	North	4,100–7,500	0%	0%
Sarjapur Road	South	4,500–7,500	0%	1%
Electronics City	South	4,000–6,500	2%	1%
Kanakapura Road	South	4,300–6,000	0%	0%
Bannerghatta Road	South	4,200–7,500	0%	0%

Source: Knight Frank Research

SARJAPUR ROAD – A CORNUCOPIA OF SOCIAL LIVING

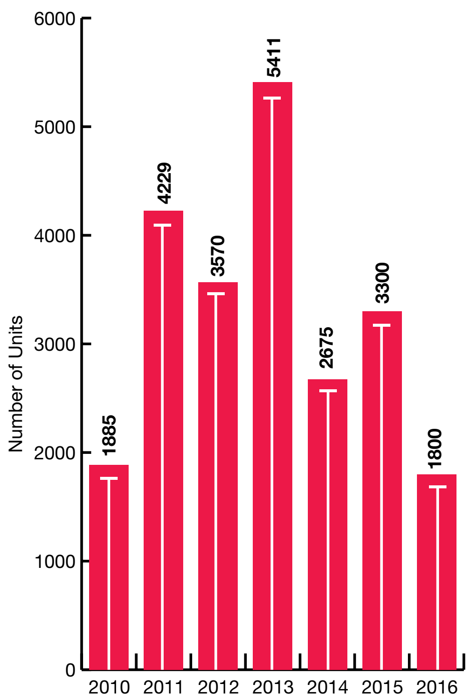
- *BY* **SANGEETA SHARMA DUTTA**

Every city has its own dynamics, and there is always a catalyst that transforms the city's character. In the case of Bengaluru, the advent of the IT industry was one such phenomenon that turned the staid, pensioners' paradise into a bustling cosmopolitan city, stirring up its real estate composition. Within the realm of a decade and a half, Bengaluru developed into one of the major office destinations of the country. Soon, newer residential neighbourhoods emerged and there were more options to look forward to for the discerning homebuyer.

One of the main regions that emerged as a favoured residential market was Sarjapur Road towards the south-eastern part of the city. Once a distant, dusty, jagged road that lead to Sarjapur village garnered much significance with the development of the Outer Ring Road (ORR) as a key office hub of the city housing large multi-tenanted office projects, the major occupiers being the IT/ITeS companies. Besides ORR, Sarjapur Road's proximity to other major IT hubs and business centres in South and East Bengaluru such as Electronics City, Whitefield and Koramangala, made it a preferred destination for people related to the sector to reside in the region.

FIGURE -1

RESIDENTIAL LAUNCHES ON SARJAPUR ROAD (2011–16)



The period 2011–13 was marked by hectic construction activity and it observed the launch of approximately 13,210 units on a stretch of 16.5 km – starting from the Sarjapur ORR junction till Sarjapur village. The region soon became a cornucopia of residential real estate, offering different types of projects that ranged from apartments to villa projects and plotted developments, catering mostly to mid-end and premium segment housing budgets. Significantly, the residential projects here are relatively smaller in scale to the ones observed in the adjacent neighbourhood of Haralur Road.

Until recently, Sarjapur Road was characterised by rows of under-construction projects, barring the initial 2 km from the ORR junction. The slew of project launches observed in the past years had led to a glut in supply and not surprisingly, a general slowdown in the market was observed. Chart 1 depicts the number of new launches in the region on a Year-Over-Year (YOY) basis.

Although the number of new launches have reduced in the past few years, the region is still witnessing project launches in the latter part of the stretch leading to Sarjapur village, albeit with small project sizes and mostly by local developers. The area around Sarjapur village is primarily marked by villa projects and plotted developments. At present, the average price for a residential apartment in the region ranges between ₹ 4,200–7,000/sq ft.

Despite the slowdown in number of launches, the Sarjapur residential market is by no means inactive. Till early last year, a number of older projects were still under construction at a slow pace. However, things have changed in the recent few quarters. Today, the first 7 km on Sarjapur Road from the ORR junction till the new Wipro SEZ is choc-a-bloc with newly operational residential projects, undergoing possession. Where until only a year back there were grey concrete blocks with cranes overhead, today there stand brightly coloured residential towers with imposing gateways. Most of the residential projects are undergoing a handover process, while a few of them are putting on the finishing touches to their second phases. While this fast-paced completion of projects by developers are seen by most as efforts to comply with the 'timely completion' clause of the Real Estate (Regulation and Development) Act, 2016 (RERA), it has come as a boon for home owners who are looking for early completion of their projects. Prospective buyers seeking ready-to-move-in properties stand to gain as speedy progress in construction has brought in confidence among buyers who were indecisive in booking under-construction projects primarily due to timely delivery issue.

> **Prospective buyers seeking ready-to-move-in properties stand to gain as well as speedy progress in construction has brought in confidence among buyers who were indecisive in booking under-construction projects primarily due to timely delivery issue.**

5411 units

Highest number of new launches on Sarjapur Road in 2013

Over the years, social infrastructure has improved substantially and has become a major driver for growth in the region, besides the IT corporate offices. Proximity to a host of reputed educational institutes and hospitals has lent to its overall attractiveness. In addition, Sarjapur Road also benefitted from widening of roads and the announcement of the ORR Metro has lured residents to region. Today, with most projects being handed over on time, the region is well up the social attractiveness ladder. It is expected that by the year end, majority of the newly completed projects would see occupancy with families moving in and creating a more sociable setting in the region.

Sarjapur Road will continue to be one of the preferred residential destinations in Bengaluru, primarily owing to its location advantage of being situated in proximity to the key IT hubs of the city. Techies from the neighbouring Whitefield and Electronic City, who generally opt for housing options within the range of ₹ 50–75 lakh, are likely to choose Sarjapur Road due to the availability of more options in that range. Further, the planned Peripheral Ring Road once operational will give an alternative route to commuters to reach north of the city from Electronics City, Sarjapur Road via Bellary Road and KR Puram, thereby improving the region's connectivity issues further and would serve to decongest the traffic bottlenecks. Besides, with more people moving into their ready apartments, it would aid in creating a cosmopolitan environment and a self-sustainable eco-system. Thus, Sarjapur Road is set to see better days ahead, taking the social living factor notches higher.

"Techies from the neighbouring Whitefield and Electronic City, who generally opt for housing options within the range of ₹ 50–75 lakh, are likely to choose Sarjapur Road due to the availability of more options in that range.

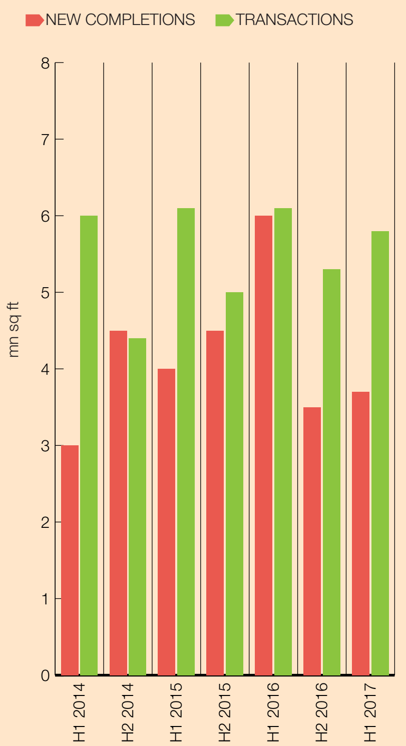
OFFICE MARKET

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

- Bengaluru, known for its buoyant office market led by IT/ITeS demand, observed a somewhat moderate activity in office space traction in the first half of 2017 (H1 2017) as compared to the same period in the recent past.
- The transaction quantum of 5.8 mn sq ft in H1 2017 reflected a decline of 5% over the transactions in H1 2016. While this decline could mainly be attributed to dearth of ready office spaces that forestalled potential occupiers looking to expand, stiff competition from other cities, primarily Hyderabad, could also be a key factor behind the growth constraint.
- Another reason that explains the rather restrained behavior of the office market of the city is the tepid growth the IT/ITeS sector - the key demand driver of the office market in Bengaluru. Having matured over the years the sector stands on a bigger base today thereby limiting the scope for remarkable expansion that was witnessed earlier.
- On the new completions front, the city witnessed the infusion of 3.7 mn sq ft of office space in H1 2017, which is slightly better than the quantum of new completions in H2 2016. However, this new office space infusion is considerably less in proportion to the demand observed in the recent periods.
- The inadequacy of ready to occupy space has resulted in lending a downward pressure on vacancies while creating an upward pressure on office rents in key office markets of the city in H1 2017. The increase in rental values observed on a Year-Over-Year (YOY) basis was recorded at 9% during the period.
- Vacancy rates, which had been declining steadily over the years owing to consistent transactions and restrained new completions, continued on its downward movement and are presently at 4%.
- Going forward, the inclusion of Bengaluru in the Smart City list bodes well, as that would lead to improved infrastructure in the city and attract more investors and office occupiers. Smart solutions will be taken up to bridge service delivery gaps, thereby enabling the use of technology in these sectors.

FIGURE -1

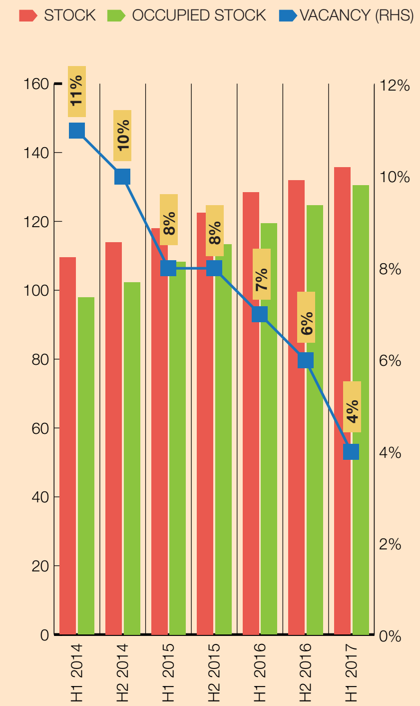
NEW COMPLETIONS AND TRANSACTIONS – HALF-YEARLY TREND



Source: Knight Frank Research

FIGURE -2

OFFICE SPACE STOCK AND VACANCY LEVELS – HALF-YEARLY TREND



Source: Knight Frank Research

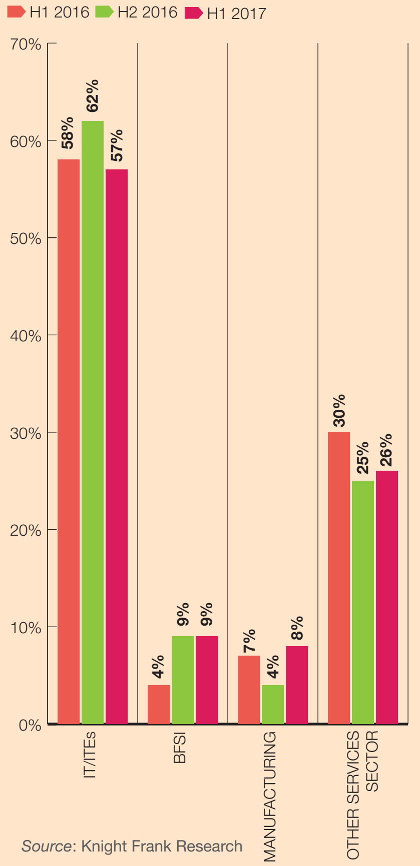
Bengaluru, known for its buoyant office market led by IT/ITeS demand, observed a somewhat moderate activity in office space traction in the first half of 2017 (H1 2017), as compared to the same period in the recent past. It clocked 5.8 mn sq ft in total transactions in H1 2017 - a decline of 5% over H1 2016, which can be primarily attributed to the dearth of ready office spaces that deterred the expansion plans of potential occupiers.

2. SECTOR ANALYSIS

- Bengaluru continued to attract substantial occupier interest from the IT/ITeS sector in H1 2017. The sector accounted for 57% of the total transactions in H1 2017, albeit with a drop in share as compared to H1 2016. The share of the sector was a staggering 62% in the second half of 2016. Of late, the IT/ITeS share has been gradually witnessing a decline courtesy the emergence of newer service sectors in the city.
- The share of the Other Services Sector which includes businesses such as e-commerce has slightly decreased from 30% in H1 2016 to 26% in H1 2017. While the build-up over the e-commerce sector's large scale transactions in the past seems to have cooled down presently, other services sector companies like consulting firms, telecommunications and media houses accounted for considerable office space offtake during H1 2017. A prominent development observed during this period is the quantum of office space taken up by co-working space operators, such as Awfis, Indiqube and 91 Springboard. Altogether, these companies accounted for an offtake of around 213,000 sq ft of office space in H1 2017.
- Meanwhile, a few major transactions were recorded in the manufacturing sector in H1 2017. The sector accounted for a share of 8% of the total office space transactions, showing a nominal increase over its share of 7% in H1 2016 and a tad better than its share of 4% in H2 2016.
- The BFSI sector remained consistent in its share of transactions and accounted for a 9% share of the transactions in H2 2016 as well as H1 2017, reflecting an increase over its share of 4% in H1 2016. Notable transactions in the sector during H1 2017 include deals inked by companies such as State Street Global Services, Morgan Stanley, Western Union and Oben Insurance.

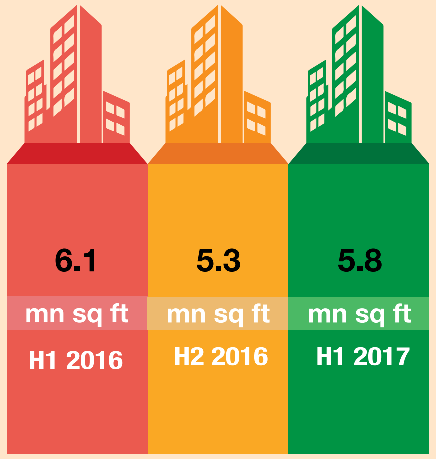
Bengaluru continued to attract substantial occupier interest from the IT/ITeS sector in H1 2017. However, of late, the IT/ITeS share has seen a gradual drop in its share courtesy the advent of newer service sectors in the city. A prominent development observed during this period is the quantum of office space taken up co-working office space operators.

FIGURE -3
SECTOR-WISE SPLIT OF TRANSACTIONS



Source: Knight Frank Research

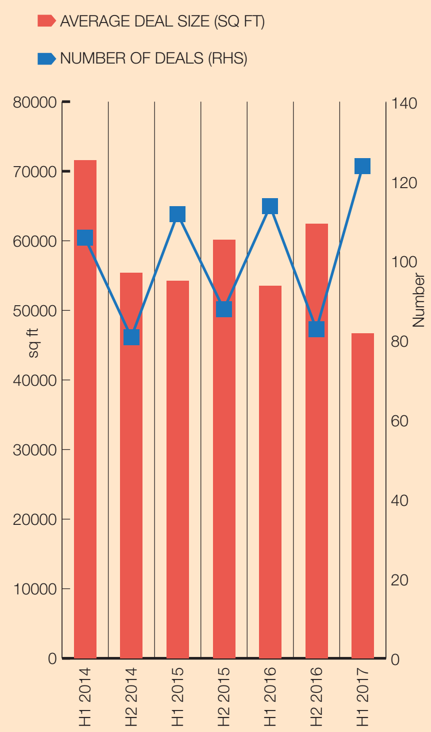
Note: BFSI includes BFSI support services



3. DEAL SIZE ANALYSIS

- The average deal size in H1 2017 was recorded at 46,728 sq ft, which is lower than the average deal size observed in H1 2016 at 53,515 sq ft. This is primarily due to the non-availability of substantial large sized office space in the city as well as the preference of smaller office spaces by medium-sized IT companies and other service sector companies.
- The number of deals, however, improved by 9% in H1 2017 as compared to the corresponding period in the previous year.

FIGURE -4
AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

SELECT TRANSACTIONS

OCCUPIER	BUILDING	LOCATION	APPROX AREA (SQ FT)
Deloitte	Prestige Trade Towers	Golf Road	159,000
Microsoft	Prestige Ferns Galaxy	Sarjapur Outer Ring Road	588,784
Lowes	Manyata Embassy Business Park (Block L 2)	Hebbal Outer Ring Road	450,000
TCS	Brigade Bhuwalka Icon	Whitefield	375,000
State Street Global Services	RMZ Ecoworld (Block 6B)	Sarjpur Outer Ring Road	225,000
Rambus	IBC Knowledge Park (Tower D)	Bannerghatta Road	75,000
Mitel Communications	Madhuvan North Avenue (Block M2)	Hebbal Outer Ring Road	48,650

Source: Knight Frank Research

4. BUSINESS DISTRICT ANALYSIS

- The Outer Ring Road (ORR) office market, which has been struggling in the past few quarters on account of dearth of ready to occupy space, saw its share increase in H1 2017 compared to H1 2016. Its share in the total transactions in H1 2017 improved to 44%, as opposed to 33% in H1 2016, owing to a slew of big ticket transactions led by companies such as Microsoft, Lowes and Sandisk. Majority of the transactions took place along the Sarjapur ORR. The region still accounts for a large quantum of pre-committed space, which is scheduled to become operational in the forthcoming months.
- On the other hand, the other prominent employment hubs of the city - PBD East, comprising Whitefield, and PBD South office markets observed their shares in the total number of transactions to decrease significantly in H1 2017 compared to their shares in H1 2016. Factors such as fewer grade A office projects becoming operational and infrastructure bottlenecks have led their shares to drop in H1 2017.
- Meanwhile, the share of the CBD/ off-CBD markets and SBD markets increased substantially in H1 2017 over the share in H1 2016, largely owing to companies looking for smaller and medium sized office spaces in centrally connected areas with good social infrastructure.

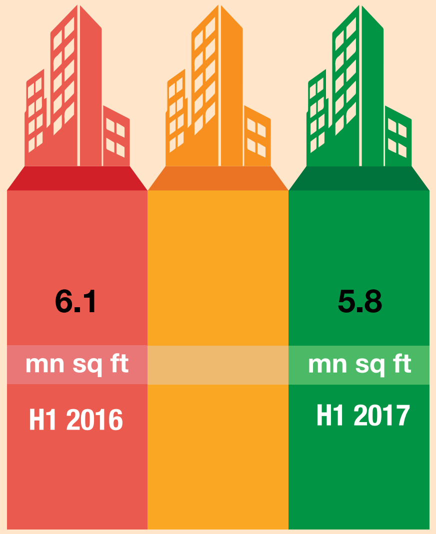
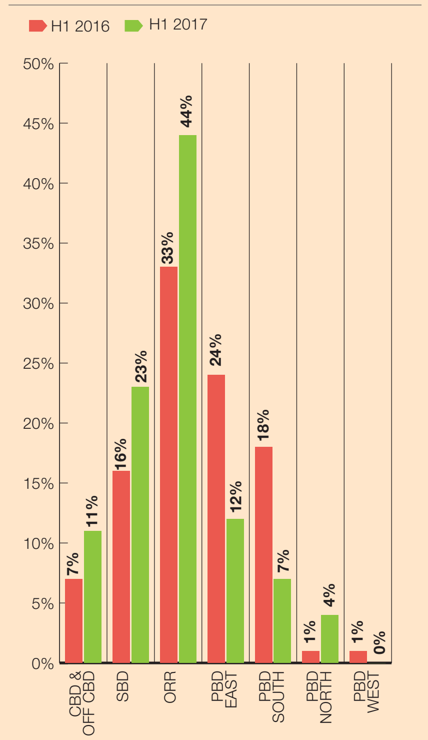


FIGURE -5
BUSINESS DISTRICT-WISE TRANSACTION SPLIT



Source: Knight Frank Research

BENGALURU BUSINESS DISTRICT MAP

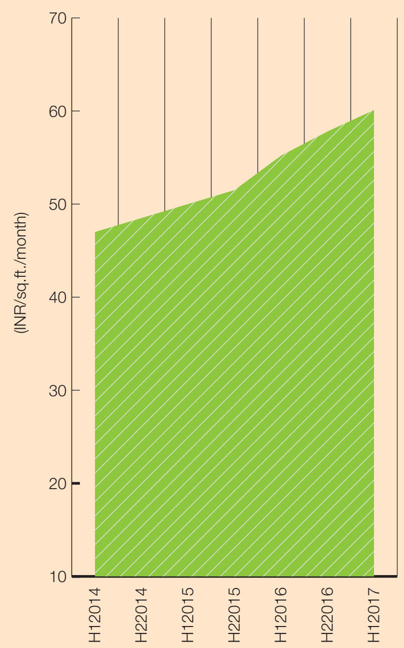
BUSINESS DISTRICT	MICRO MARKETS
Central business district (CBD) and off-CBD	M. G. Road, Residency Road, Cunningham Road, Lavelle Road, Richmond Road, Infantry Road
Suburban business district (SBD)	Indiranagar, Koramangala, Airport Road, Old Madras Road
Peripheral business district (PBD) East	Whitefield
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

5. RENTAL TREND

- Rental values have been on a steady rise as demand continues to surpass new completions. Currently, the weighted average rent in Bengaluru is around ₹60 per sq ft per month – 9% higher than in H1 2016.
- The CBD and ORR office markets witnessed the maximum rise in rentals in H1 2017, primarily due to the strong corporate demand for office space in these regions, coupled with declining new completions and vacancies in key office markets of the city.

FIGURE -6

WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

The Outer Ring Road (ORR) office market, which has been struggling in the past few quarters on account of dearth of ready to occupy space, saw its share increase in H1 2017 compared to H1 2016, owing to a slew of big ticket transactions led by companies such as Microsoft, Lowes and Sandisk. Majority of the transactions took place along the Sarjapur ORR.

BUSINESS DISTRICT-WISE RENTAL MOVEMENT

BUSINESS DISTRICT	RENTAL VALUE RANGE IN H1 2017 (₹/SQ FT/MONTH)	12-MONTH CHANGE	6-MONTH CHANGE
CBD & Off-CBD	78-110	9%	5%
SBD	55 – 95	5%	3%
PBD East	33 – 48	3%	2%
PBD South	32 – 48	2%	1%
ORR	50 – 85	9%	5%

Source: Knight Frank Research

IS THERE A RECOVERY ON THE CARDS?

- *BY* **YASHWIN BANGERA**

Caught in the ongoing lull in the Indian real estate industry, Chennai has probably been among the worst hit residential markets in India. The existent slowdown has only been exacerbated by a series of events ranging from political uncertainty due to changes in leadership, extreme weather conditions and to the recent demonetisation drive that didn't allow market volumes to recover. In fact, H2 2016 saw residential market volumes fall below those of Hyderabad. Even the strength shown by the premium segment till a year back has waned as increasing supply forced developers to compromise on price growth to entice wary buyers back into the market.

However, early indications show that the damage caused by the demonetisation drive has been repaired to a large extent in early 2017 as developers across the country have been seeing increased interest from buyers. Increasing commercial office space demand is a good indicator for employment growth in any region and points at increasing incomes and a consequent requirement of new housing units for the growing workforce. This bodes well for the city, as it does seem like Chennai's ailing residential market is due for a healthy boost in volumes, as the office space demand has been consistently robust and has hit a four year high at 5.3 mn sq ft in 2016. These reasons made a compelling case for us to investigate the reality by interviewing leading developers and financial institutions and visiting major residential projects on the ground.

> **Two developers with the largest stock of unsold inventory also revealed that a large chunk of this interest was being seen in the ₹ 40 lakh and under budget category. The developer fraternity has been proactively moving toward accommodating this need by reducing unit sizes and offering discounts as high as 20% in some projects in an effort to boost demand.**

A discussion with a leading financial institution in the Chennai home loan market was encouraging, as they have seen a sharp uptick in activity with average monthly applications exceeding 600 in 2017 from approximately 450 in the preceding two years. Developers too have experienced a similar trend with purchase enquiries increasing significantly over last year. A deeper probe with two developers with the largest stock of unsold inventory also revealed that a large chunk of this interest was being seen in the ₹ 40 lakh and under budget category. The developer fraternity has been proactively moving toward accommodating this need by reducing unit sizes and offering discounts as high as 20% in some projects in an effort to boost demand.

Prices continue to stagnate on the OMR (Old Mahabalipuram Road) as it has to contend with a comparatively much bigger stock of unsold inventory and increasing competition from locations such as Tambaram, Vandalur and Medavakkam that are located along the length of the GST Road and the Velachery-Tambaram road that extends and connects the GST road to the OMR. Locations along the GST Road are experiencing a lot of buyers' interest as prices here are at a 10-20% discount from comparable locations on the OMR and are seeing increasing development in the lower ticket sizes. Increasing office space development on the GST Road, Mount Poonamalle High Road and Guindy has also increased its attractiveness as a residential location.

> **The positive vibe we picked up from our interactions with market stakeholders regarding an uptick in demand, robust office space market fundamentals and the concerted effort by developers to make their product more affordable provide strong tailwinds for an improvement in the Chennai residential market.**

Recent legislations like the Real Estate (Regulation and Development) Act, 2016 (RERA) and policy initiatives such as the Pradhan Mantri Awas Yojna (PMAY) were quite conspicuous in terms of their lack of impact on the market. While the RERA has just been notified in Tamil Nadu, there is very little awareness of the PMAY among residential buyers in spite of leading developers making attempts to educate their target buyers on the same. The positive vibe we picked up from our interactions with market stakeholders regarding an uptick in demand, robust office space market fundamentals and the concerted effort by developers to make their product more affordable provide strong tailwinds for an improvement in the Chennai residential market.

CHENNAI

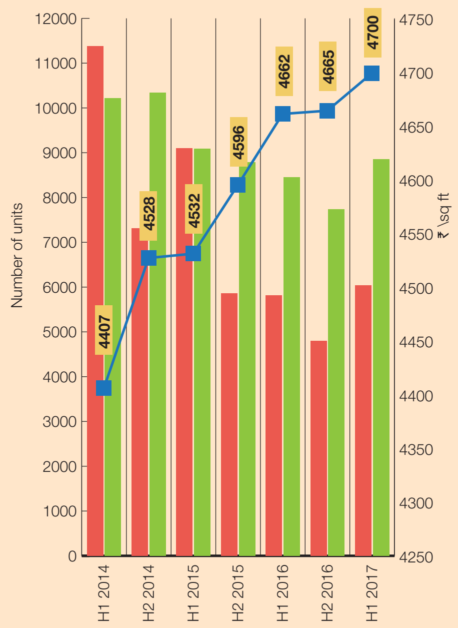
RESIDENTIAL MARKET

1. CHENNAI RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

- At long last, the Chennai residential market has had some respite as 2017 began on a positive note with sales as well as unit launches seeing a healthy bounce back.
- Bogged down by the ongoing slowdown in the country in addition to its own issues ranging from political uncertainty, building collapses (due to flouting development norms), to the near catastrophic floods, the Chennai residential market had been in a downward spiral, finally finding a bottom in H2 2016 that saw its half-yearly sales' numbers fall below those of the Hyderabad residential market.
- A 14% growth in sales during H1 2017 compared to the preceding period clearly indicates the transient impact of the demonetisation drive, while a more modest 5% YoY growth could finally point at the beginning of a more sustained revival in demand. The increase in sales can also be attributed to a sustained effort on part of the developers' fraternity to bring more affordable product into the market and to negotiate hard to push sales.
- Similarly, the number of units launched also saw a healthy 4% growth YoY and a much more pronounced 26% growth over the preceding period in H1 2017, as developers who had held off project launches during the demonetisation drive brought their product to the market during the current period.
- H1 2017 clocked 8,850 and 6,035 units in terms of sales and unit launches, respectively, re-attaining the levels seen in mid-2015.

FIGURE -1

CHENNAI MARKET TRENDS - HALF-YEARLY



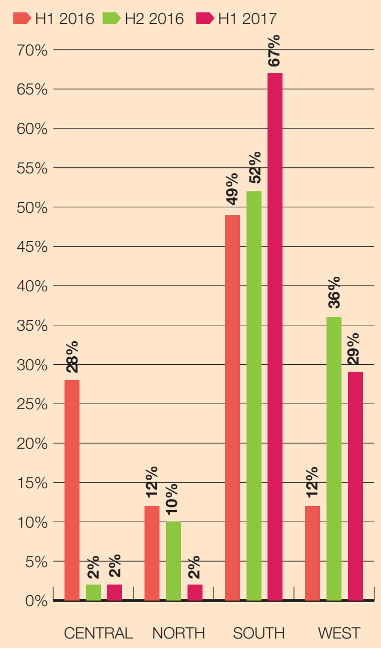
Source: Knight Frank Research

2. MARKET SPLIT OF RESIDENTIAL LAUNCHES

- The comparatively affordable locations of South Chennai saw the most development activity by far, as two third of the unit launches during H1 2017 took place in locations such as Pallavaram, Mahindra World City, SIPCOT – OMR Road, Thalambur and Shollinganallur.
- These southern locations along with their western counterparts accounted for a massive 96% of the residential products coming online during H1 2017.
- Bulk of the residential development has clearly taken place in relatively cheaper micro markets as developers have consciously taken steps to cater to the cost-conscious consumer looking to stay closer to the large office space concentrations along the OMR and GST roads.
- A deeper analysis of the ticket size split of units launched since H1 2016 clearly depicts a strong supply-side response to the changing tastes of consumers as developers have progressively increased launches in lower ticket sizes over the past three periods.

FIGURE -2

MICRO-MARKET SPLIT OF LAUNCHED UNITS



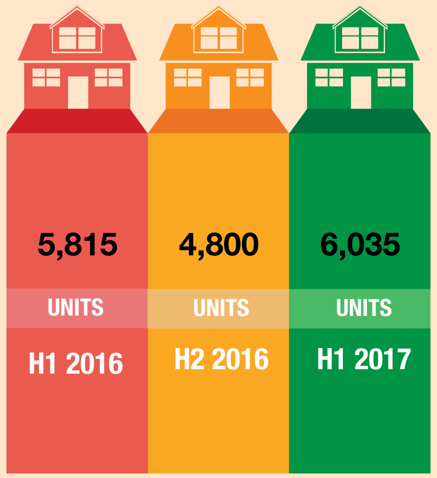
Source: Knight Frank Research

- The share of projects launched with average ticket sizes under ₹5 mn has ballooned from 39% in H1 2016 to 69% in H1 2017, while the share of those projects with average ticket sizes under ₹7.5 mn has grown from 52% to 89% during the same period.
- Appaswamy Real Estates, Brigade Group, Jones Foundations and Casa Grande featured prominently among the developers that launched projects during H1 2017.

TICKET-SIZE SPLIT ANALYSIS OF LAUNCHED UNITS

	H1 2016	H2 2016	H1 2017
<2.5 mn	18%	22%	23%
2.5-5 mn	21%	36%	46%
5-7.5 mn	13%	28%	20%
7.5-10 mn	21%	8%	5%
10-20 mn	13%	3%	6%
>20 mn	16%	2%	1%

Source: Knight Frank Research



A 14% growth in sales during H1 2017 compared to the preceding period clearly indicates the transient impact of the demonetisation drive, while a more modest 5% YoY growth could finally point at the beginning of a more sustained revival in demand.

3. MICRO-MARKET-WISE RESIDENTIAL SALES

BUSINESS DISTRICT	MICROMARKETS
Central Chennai	T. Nagar, Alandur, Nungambakkam, Kodambakkam, Kilpauk
West Chennai	Porur, Ambattur, Mogappair, Iyyappanthangal, Sriperumbudur
South Chennai	Perumbakkam, Chrompet, Sholinganallur, Guduvancheri, Kelambakkam
North Chennai	Tondiarpet, Kolathur, Madhavaram, Perambur

CHENNAI MICRO-MARKET MAP

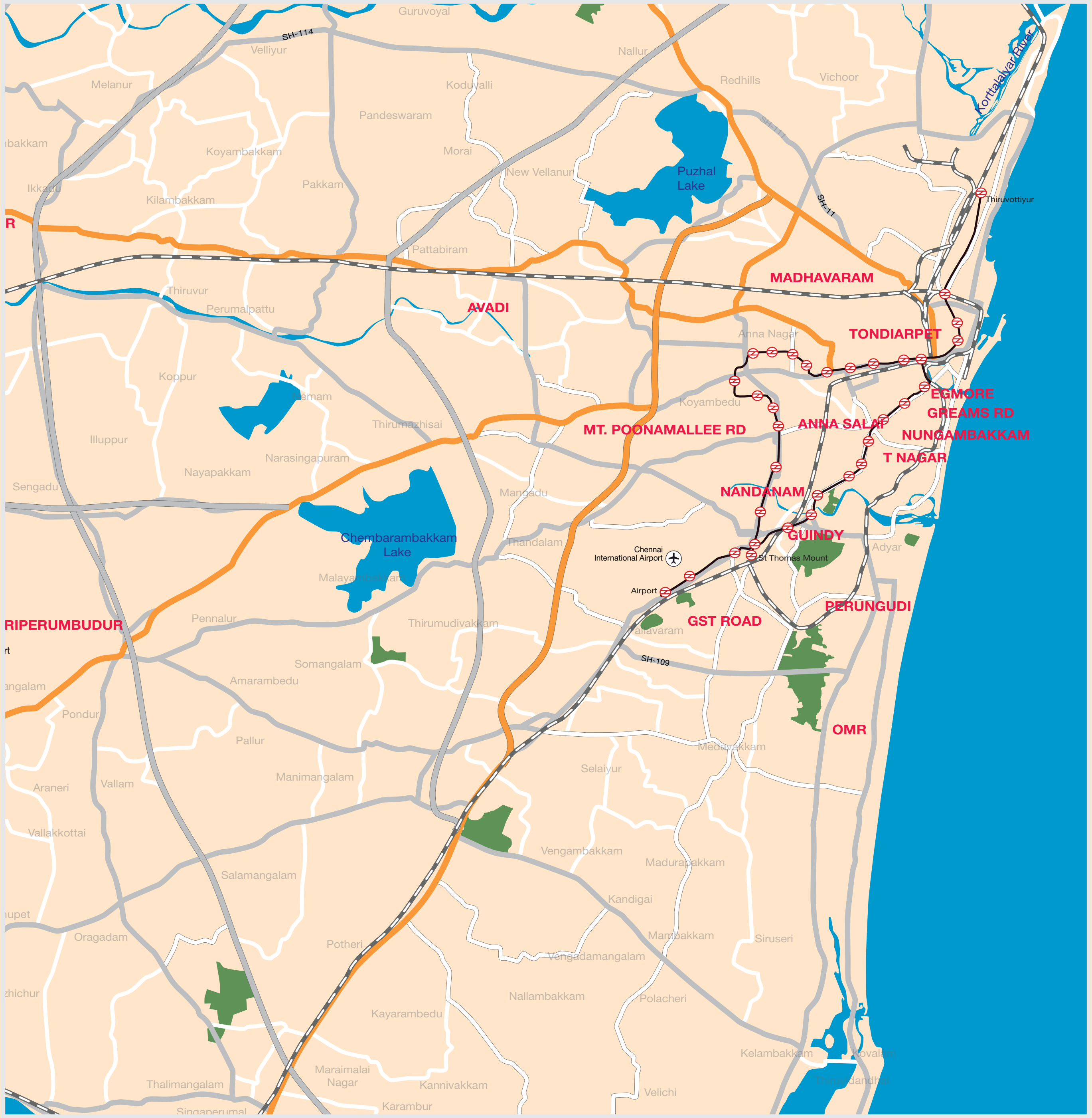
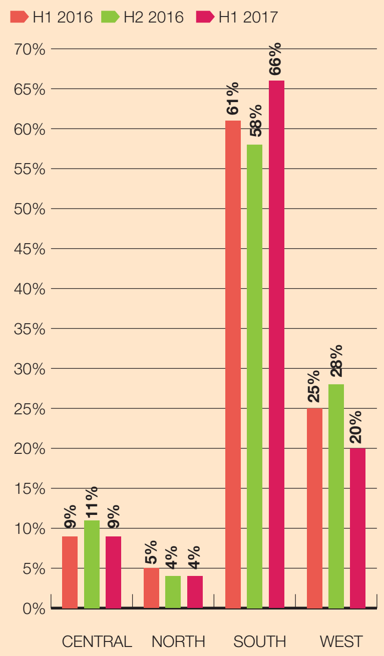
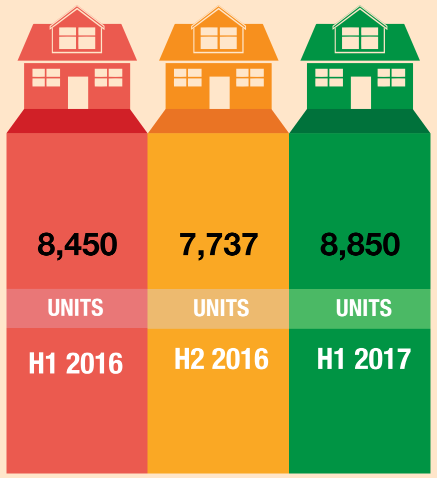


FIGURE -3
MICRO-MARKET SPLIT OF SALES



Source: Knight Frank Research



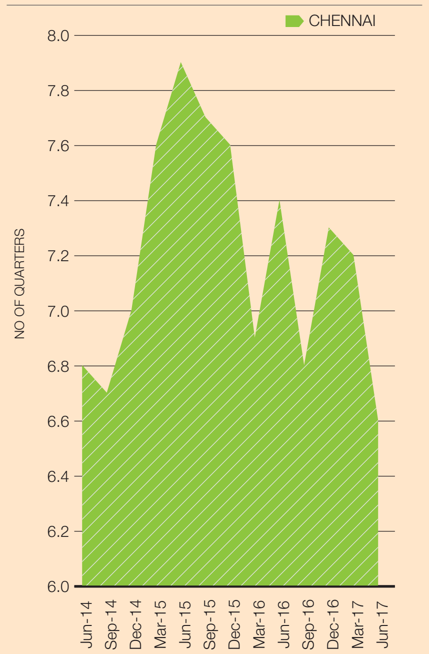
- Demand has been largely consistent with the upcoming supply as the south and west micro markets that contain the relatively cheaper inventory have dominated the demand pie consistently over the three analysis periods since H1 2016.
- Locations along the OMR and GST roads in the southern micro markets far outstrip their peers in other parts of the city in terms of buyer preference as they offer the most appropriate mix of relatively affordable housing, connectivity to workplaces and a reasonably well-developed social infrastructure.
- Western locations such as Thiruverkadu that had been experiencing increasing buyer interest in recent periods saw some of that interest dwindle as prices have fast approached those of locations in the south that have comparatively better residential dynamics and will be naturally preferred by buyers with comparable budgets.

5. MARKET HEALTH

- The quarters to sell unsold inventory (QTS) is the number of quarters required to exhaust the existing unsold inventory in the market. The existing unsold inventory is divided by the average sales velocity of the preceding eight quarters in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market.
- The Chennai residential market currently has a QTS of 6.5, with an average age of inventory of 13.8 quarters. The concerted focus of developers to reduce the unsold inventory load before ramping up supply along with the recent growth in demand in H1 2017 has paid dividends, as the QTS of the Chennai residential market is now at 2014 levels.
- While the city's residential market has finally hit bottom after nearly four years, it remains to be seen if the current bounce is just a speed bump on the way down or the beginning of a more sustained recovery.
- A concerted effort by developers over the past three years to lighten unsold inventory loads by constricting new supply has paid off. Unsold inventory levels have plummeted nearly 30% over the last two years to the current 28,110 units.
- Restricted supply and falling unsold inventory has also pulled down the inventory load on the market from eight quarters to a little over six quarters.
- The south and west micro markets hold the highest amount of unsold inventory and will take under two years to get absorbed at the current rate. The north micro market holds over two years' worth of inventory but the ongoing dras-

The share of projects launched with average ticket sizes under ₹5 mn has ballooned from 39% in H1 2016 to 69% in H1 2017, while the share of those projects with average ticket sizes under ₹7.5 mn has grown from 52% to 89% during the same period.

FIGURE -4
QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS



Source: Knight Frank Research

tic reduction in supply by developers in that zone will ensure that it will maintain equilibrium in the short term and see an improvement if demand continues to sustain and grow from current levels.

- The recent 33% reduction in guideline values across the state by the Tamil Nadu government along with an increase in the registration fee from1% to 4% does increase the effective acquisition cost marginally for the home buyer. However, game-changing measures, such as the application of the Real Estate (Regulation and Development) Act, 2016 (RERA) and the PMAY, will go a long way in increasing consumer confidence by effectively regulating developers and increasing transparency in the real estate industry. This regulatory focus of the government will prove to be a strong buffer for market sentiment in the year ahead and should aid a more sustained recovery in Chennai's real estate market fundamentals.

MICRO-MARKET	UNSOLD INVENTORY
Central	1,505
North	1,319
South	16,642
West	8,644
CHENNAI	28,110

Source: Knight Frank Research

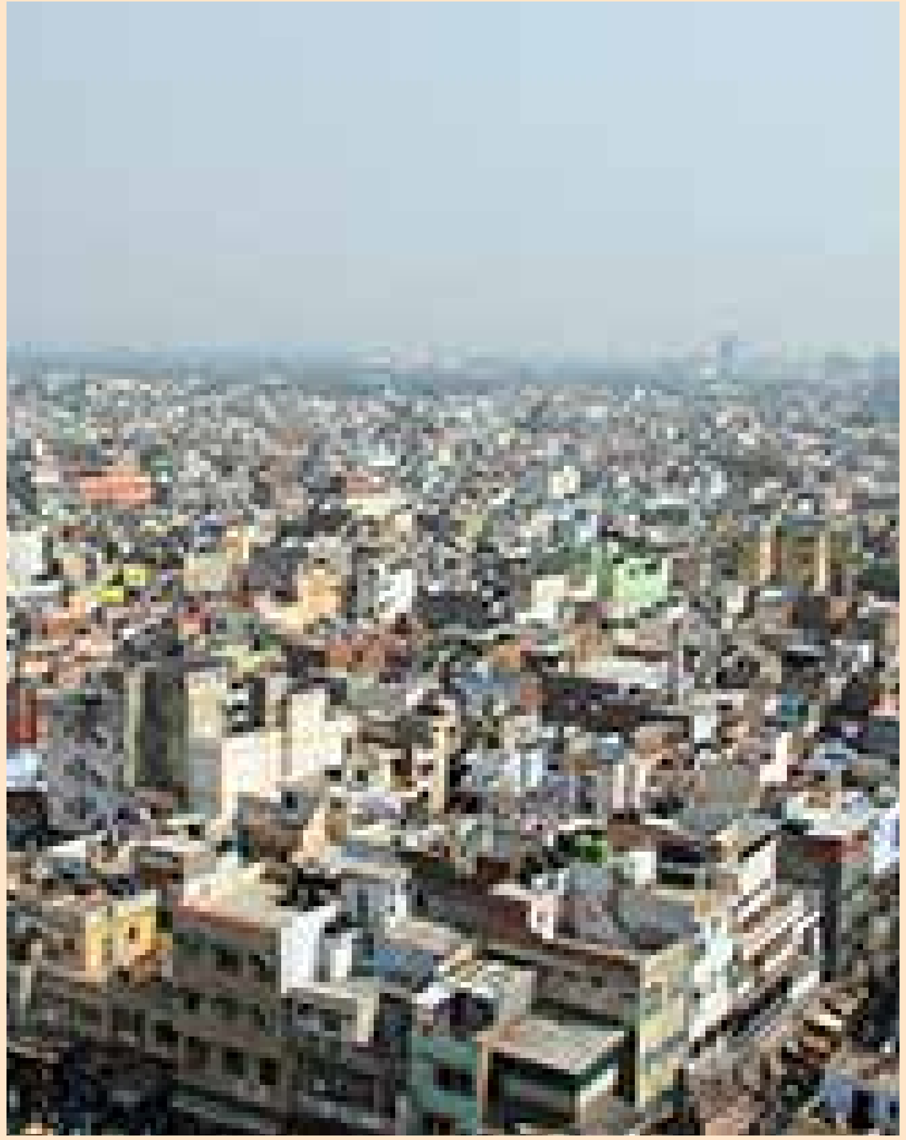
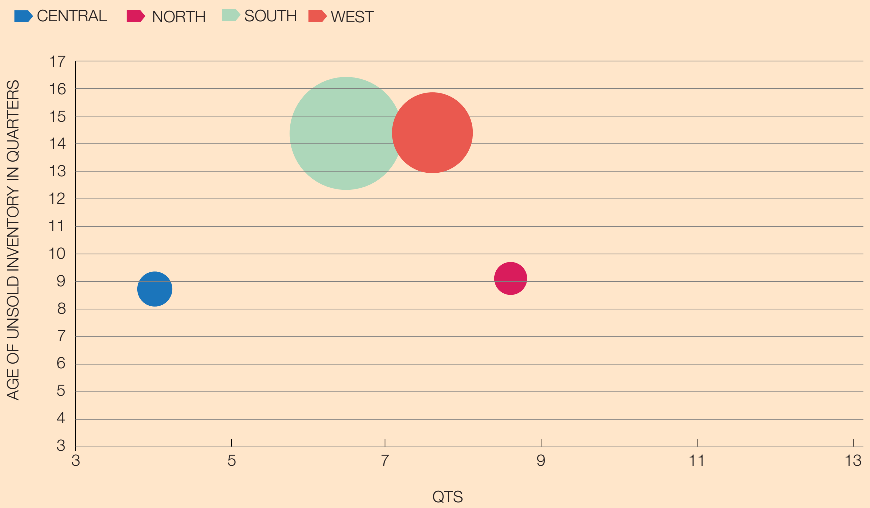


FIGURE -5

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

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

5. PRICE MOVEMENT IN H1 2017

- Residential price growth has been weakening in the Chennai residential market and H1 2017 prices were in line with this trend, growing by a modest 1% YoY.
- Stagnating prices have not helped the investor's cause but have played their role in keeping the Chennai house prices within the affordability range of the homebuyer.

While the city's residential market has finally hit the bottom after nearly four years, it remains to be seen if the current bounce is just a speed bump on the way down or the beginning of a more sustained recovery.

PRICE MOVEMENT IN SELECT LOCATIONS

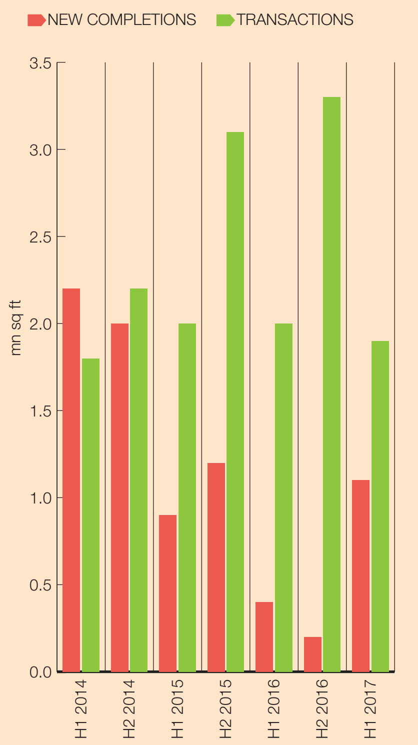
LOCATION	MICRO-MARKET	PRICE RANGE IN H1 2017 (₹/SQ FT)	12-MONTH CHANGE	6-MONTH CHANGE
Anna Nagar	Central Chennai	10,700–11,900	2%	1%
Kilpauk	Central Chennai	14,800–16,000	2%	0%
T. Nagar	Central Chennai	18,250–19,450	2%	1%
Alandur	Central Chennai	7,000–7,500	2%	2%
Porur	West Chennai	5,200–5,500	2%	2%
Ambattur	West Chennai	4,150–4,600	2%	1%
Mogappair	West Chennai	6,200–6,700	2%	2%
Iyyappanthangal	West Chennai	4,000–4,500	2%	2%
Sriperumbudur	West Chennai	2,700–3,200	2%	1%
Perumbakkam	South Chennai	4,100–4,500	1%	0%
Chrompet	South Chennai	4,200–4,700	1%	0%
Sholinganallur	South Chennai	4,500–5,500	2%	1%
Guduvancheri	South Chennai	3,200–3,700	1%	0%
Kelambakkam	South Chennai	3,500–3,900	0%	0%
Tondiarpet	North Chennai	4,500–4,800	1%	0%
Kolathur	North Chennai	4,800–5,500	2%	1%
Madhavaram	North Chennai	4,500–5,000	2%	0%
Perambur	North Chennai	6,200–6,500	2%	1%

Source: Knight Frank Research

OFFICE MARKET

The total office space transaction volume in H1 2017 was 1.9 mn sq ft, while only 1.1 mn sq ft of new office space came online.

FIGURE -1
NEW COMPLETIONS AND TRANSACTIONS – HALF-YEARLY TREND

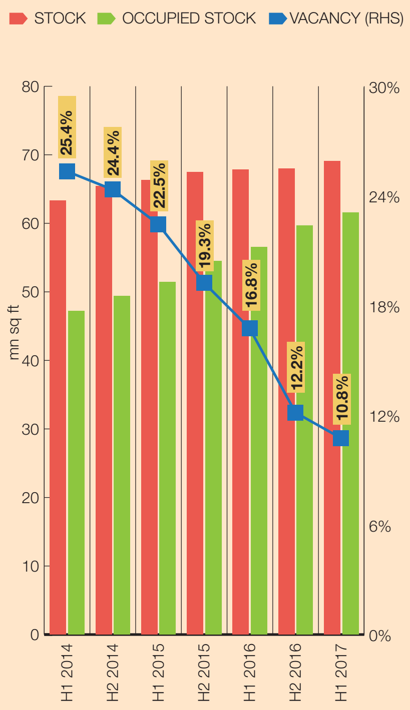


Source: Knight Frank Research

1. CHENNAI OFFICE MARKET STOCK, NEW COMPLETIONS, TRANSACTIONS AND VACANCY TRENDS

- The Chennai office space market could not maintain the momentum in transactions that it had gained over the last three analysis periods that culminated with H2 2016 experiencing the highest transaction volumes in history.
- To a large extent this can be attributed to the abject lack of viable office space supply that continues to hamstring the market.
- Paucity of quality office space caused the current period to witness a drop in transaction activity with H1 2017 recording 1.9 mn sq ft of transactions, 4% lower than the 2 mn sq ft transacted in H1 2016 and the lowest in the last three years.
- The fact that the city saw just 3.7 mn sq ft of supply since H1 2015, compared to the 12.2 mn sq ft of transaction volume, has pushed down vacancy levels from 22.5% in H1 2015 to 10.8% H1 2017.
- The total office space transaction volume in H1 2017 was 1.9 mn sq ft, while only 1.1 mn sq ft of new office space came online.

FIGURE -2
OFFICE SPACE STOCK AND VACANCY LEVELS – HALF-YEARLY TREND

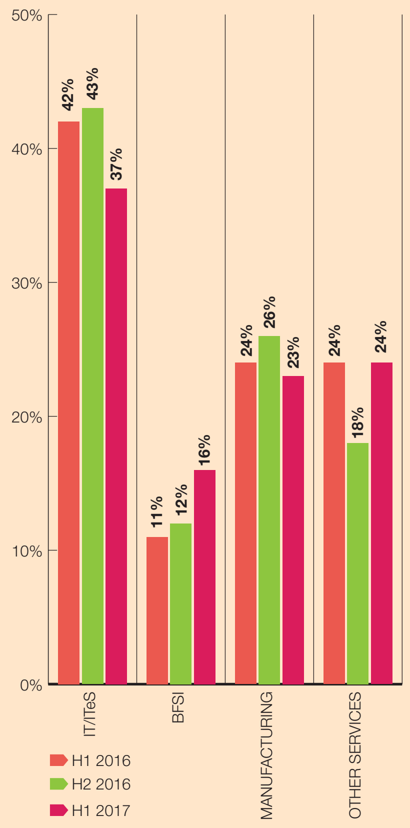


Source: Knight Frank Research

2. SECTOR ANALYSIS

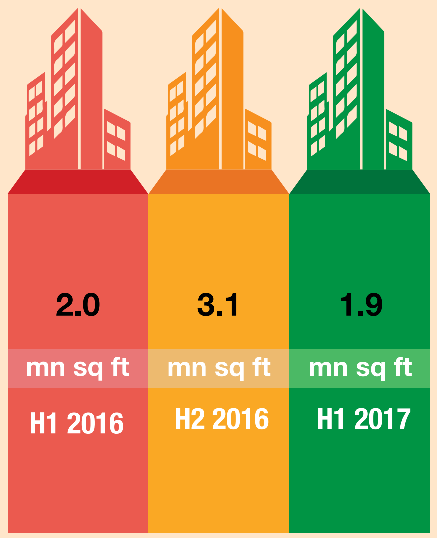
- The Chennai office market has traditionally been anchored by the IT/ITeS sector and recent periods—especially the last 18 months—have seen it give way to the the Other Services and the BFSI sectors.
- The BFSI sector has been the smallest consumer of office space in the Chennai office space market. Notwithstanding the lack of large format office spaces required by the back offices of BFSI sector companies, the current analysis period saw its share increase substantially due to two large leases being taken up by Wells Fargo and HDFC Bank amounting to over half of the 0.31 mn sq ft space transacted by this sector.
- The IT/ITeS sector continues to be the largest consumer in the Chennai office space market and accounted for 0.7 mn sq ft of office space transactions in H1 2017. Automotive technology provider Valeo, Zifo Technologies and Paragon Digital were among the most active IT/ITeS companies during this period.
- The share of the manufacturing sector has been on the rise, as the bulk of the quality office spaces available in recent times, particularly in the SBD, conformed to their requirements compared to those of IT/ITeS companies and BFSI back office operations. This sector along with the Other Services sector took up close to 24% or 0.45 mn sq ft during H1 2017.

FIGURE -3
SECTOR-WISE SPLIT OF TRANSACTIONS



Source: Knight Frank Research

Note: BFSI includes BFSI support services



H1 2017 saw the BFSI sector's share of transactions increase substantially due to two large leases by Wells Fargo and HDFC Bank amounting to over half of the space transacted by the sector

3. DEAL SIZE ANALYSIS

- The dearth of fresh office supply curtailed the ability of potential occupiers to occupy large format office spaces and this is depicted clearly in the average deal size during H1 2017 that is one of the lowest in the past seven reference periods.

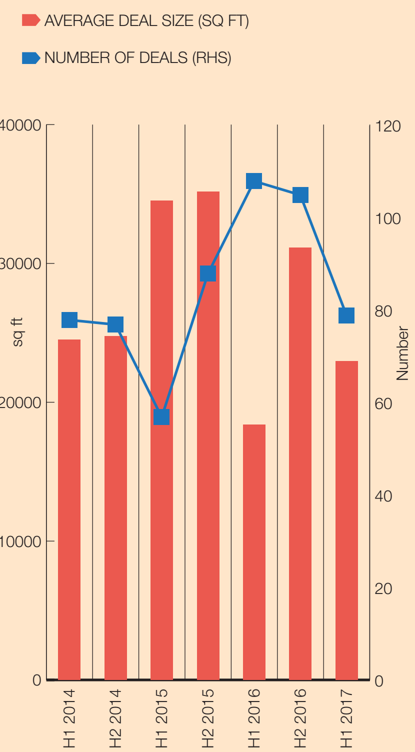
SELECT TRANSACTIONS

OCCUPIER	BUILDING	LOCATION	APPROX AREA (SQ FT)
Valeo	CeeDeeYes	Navallur	155,000
Wells Fargo	Chennai One	Thoraipakkam	119,000
Renault Nissan Technology	Ascendas Cybervale	Mahindra World City	112,000
FCI	ETA Technopark	Navallur	70,000
Kone	Indiabulls	Ambattur	50,000
HDFC Bank	Krishna Tech Tower	NM Road	49,500
Paragon Digital	CeeDeeYes	Perungudi	49,000
TVS Wabco	RMZ Infinity	Manapakkam	42,000
Shell	RMZ Millenia	Kandanchavadi	42,000

Source: Knight Frank Research

FIGURE -4

AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

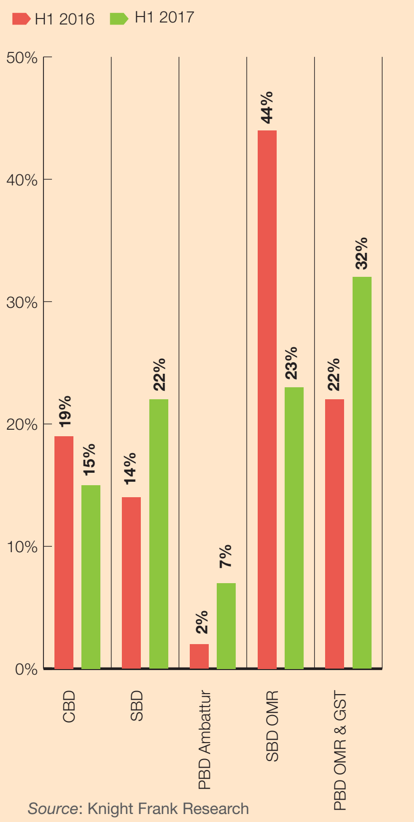
4. BUSINESS DISTRICT ANALYSIS

BUSINESS DISTRICT	MICROMARKETS
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

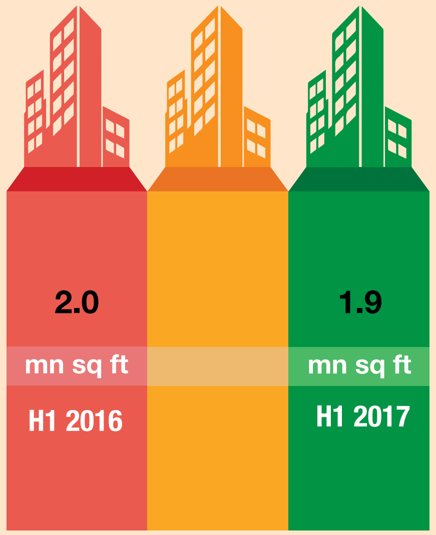
CHENNAI BUSINESS DISTRICT MAP

FIGURE -5

BUSINESS DISTRICT-WISE TRANSACTION SPLIT



Source: Knight Frank Research



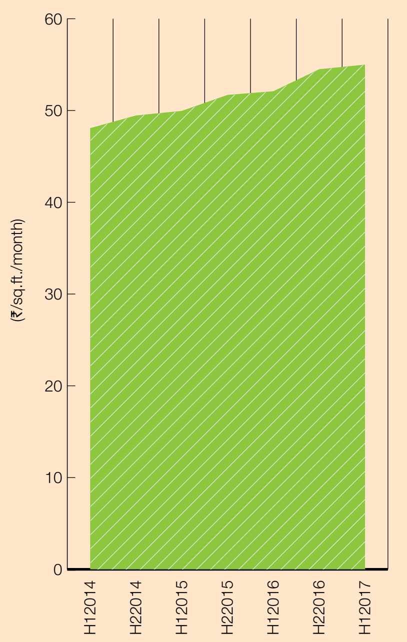
- The OMR attracted over 55% of the demand during H1 2017 as occupiers took up space in the relatively lower priced SBD OMR,the PBD OMR and GST business districts.
- The PBD OMR and GST business districts that had vacancy levels as high as 50% at the end of 2015, has seen this number steadily come down and almost halve in H1 2017. Occupiers, especially from the IT/ITeS industry took up space in Navallur, Thoraipakkam and Mahindra World City in projects such as CeeDeeYes, Chennai One and Ascendas Cybervale.
- Over half of the space taken up by the BFSI sector comprised Chennai One in Thoraipakkam and Krishna Tower in Mylapore.

5. RENTAL TREND

- Rental values have seen a sustained rise since 2012 on the back of steady demand coupled with drastic reduction in office space inventory during successive years.
- The lack of vacant office stock, coupled with steady demand, has pushed weighted average rentals in the Chennai office space market to ₹55 per sq ft per month at the end of H1 2017 – a significant 5.6% growth YOY.
- Rental growth was healthy across micro-markets and SBD locations such as Perungudi, Guindy and Taramani. These areascontinued to witness above-average rental growth, particularly as vacancy levels drop to as low as 6% in the SBD and 11% on the SBD OMR.

FIGURE -6

WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

BUSINESS DISTRICT-WISE RENTAL MOVEMENT

BUSINESS DISTRICT	RENTAL VALUE RANGE IN H1 2017 (₹/SQ FT/MONTH)	12-MONTH CHANGE	6-MONTH CHANGE
CBD & off-CBD	60–95	4%	2%
PBD OMR & GST Road	26–37	8%	4%
SBD OMR	45–80	6%	3%
PBD Ambattur	28–35	3%	1%
SBD	50–65	5%	2%

Source: Knight Frank Research

HYDERABAD METRO: BRINGING GACHIBOWLI CLOSER TO CHARMINAR

- *BY* **PANKAJ ANUP TOPPO**

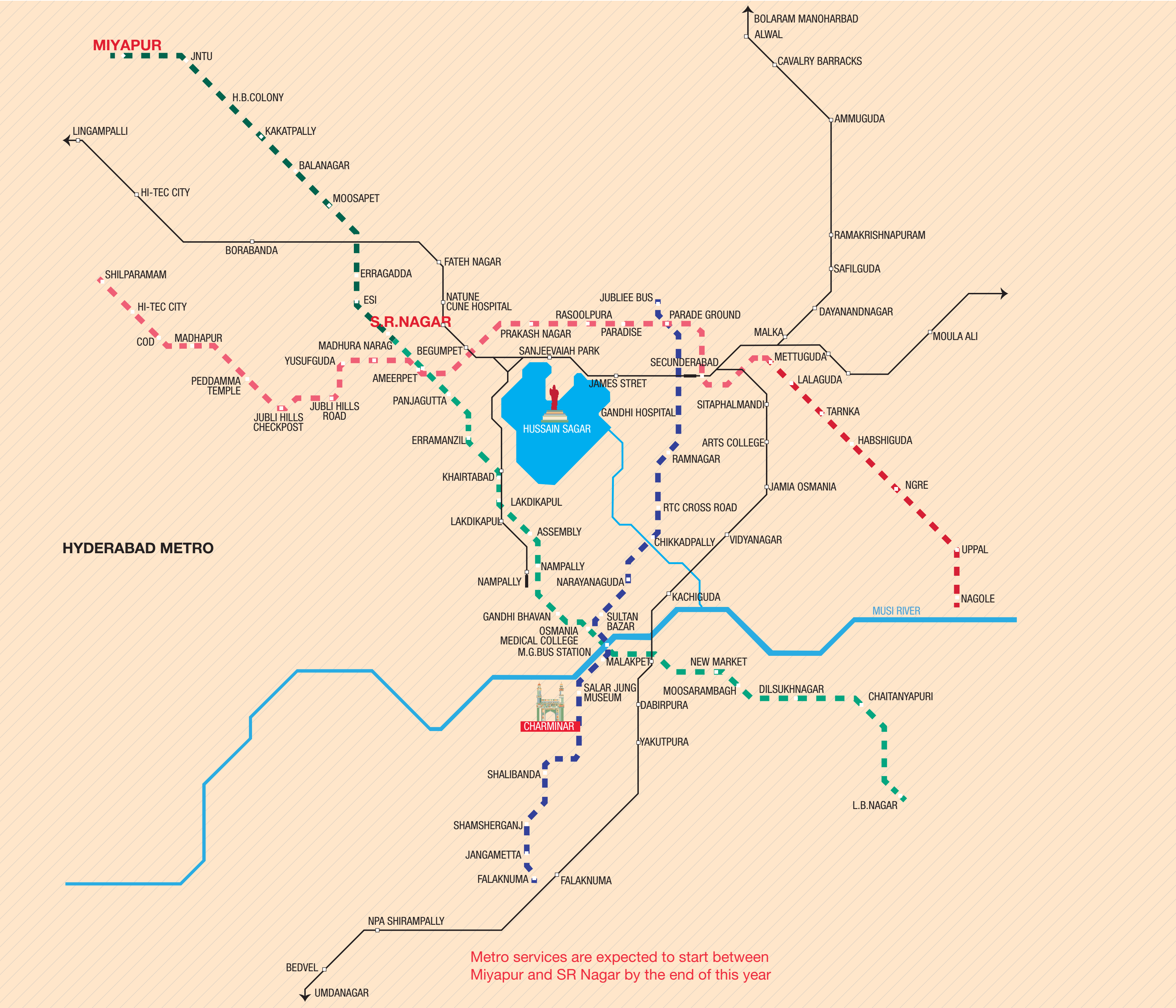
With a stable state government in place and uncertainties of the past laid to rest, it looks like the Hyderabad real estate market is finally making its presence felt both at the national level and at the Asia Pacific region. To further add to the growing attractiveness of Hyderabad, the ci.bilee Bus Stand. The metro was expected to be functional by this year end. As per our survey, the metro will start services on the SR Nagar and Miyapur stretch by the end of the year. It would be operational in phases. Work is going on at a break-neck speed on the green line and red line.

THE IMPACT OF THE METRO:

At a macro level, it will make movement within the city hassle free and that too at a quicker pace. The most important impact however, will be to further embellish the growing brand of Hyderabad as an IT city. The metro will have a positive impact on the city at different levels.

At a granular level, it will further add to the growing attractiveness of the north-western parts of the city, which typically represent the new, changing face of the city of Nawabs. It will make these north-western corridors of the city more livable and could also add to the capital values of housing units in these areas. Even offices around the metro corridors could put a premium on their rentals.

The major impact of this infrastructure push will however, be felt in the established, residential colonies of the city such as Ameerpet and Srinagar Colony. These micro markets are thickly populated, residential colonies with an established social infrastructure. The best part is that these micro markets are in the heart of the city. Infact, Ameerpet is one of the



Metro services are expected to start between Miyapur and SR Nagar by the end of this year

major junctions and has the potential to become what Rajiv Chowk has in the Delhi Metro Rail network. This will have a positive impact on the rentals in locations like Ameerpet and Srinagar Colony. Once the metro becomes operational in these locations, rentals here could move up by 10–15%.

The biggest benefit of the metro for Hyderabad however, will be that it will infuse new life into the old city, especially the Charminar. The metro will bring the areas around Charminar closer to residents of the city who in the present day do no visit these parts of the city. During our survey, many respondents spoke in unison about the lack of easy access being the prime reason for not visiting parts of the old city. To give an example, in the present day, depending on traffic conditions, it will take anywhere around one and a half hours to two hours to reach Charminar from Ameerpet, and when the metro begins its operations, it should not take more than 40–45 minutes to cover the same distance. The ease of access will give new life to these parts of the city.

On the whole, the metro will make the city more livable but from a real estate point of view it could push up rentals and capital values along its corridors. From a branding perspective however, it will be another feather in the cap of Hyderabad. Unlike other cities, where the metro was required to help the movement of traffic, which had come to a standstill as its roads had got choked, Hyderabad should get its metro when the traffic on its roads is still moving.

RENT

10-15%

Once the metro becomes operational in these locations, rentals here could move up by 10–15%.

The biggest benefit of the metro for Hyderabad however, will be that it will infuse new life into the old city, especially the Charminar.

HYDERABAD

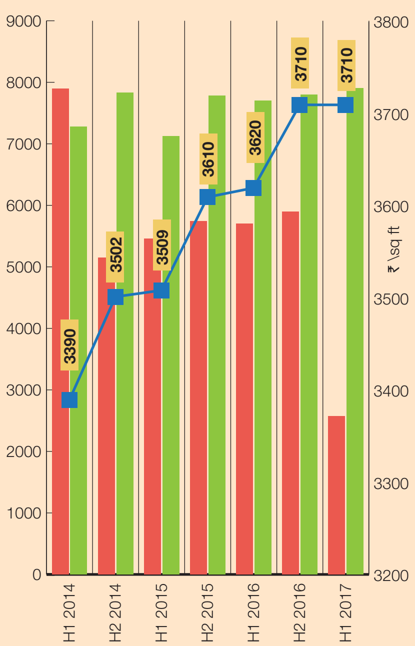
RESIDENTIAL MARKET

1. HYDERABAD RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

- Historically Hyderabad has seen new launches of more than 5,000 units but in H1 2017 it hit an all-time low of just over 2500 units. Compared to H1 2016 new launches were down 55% and compared to H2 2016 it shrunk by 56%.
- Lack of clarity on the implementation of the Real Estate (Regulation & Development) Act (RERA), 2016 has emerged as major factor dampening new launches in Hyderabad. In comparison, RERA is already in force in the neighbouring state of Andhra Pradesh. There is still time before RERA comes into force in Telangana.
- On the other hand developers were in a rush to complete ongoing projects before RERA came into force, the deadline for which was 1 May 2017.

FIGURE -1

HYDERABAD MARKET TRENDS - HALF-YEARLY



Knight Frank India Research

The increased pace of construction in ongoing projects gave homebuyers the confidence to go ahead and buy a house. This increased confidence among homebuyers is largely responsible for a marginal uptick in sales in H1 2017 compared to H2 2016 and H1 2016.

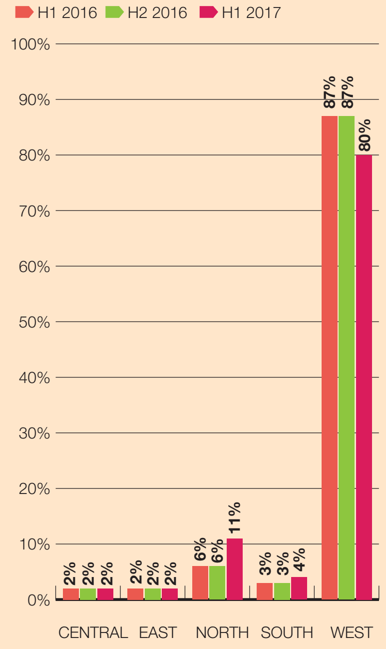
- Compared to other markets, sales figures for H2 2016 in Hyderabad did not reflect the true impact of demonetisation. Sales in Hyderabad remained steady in H2 2016, despite demonetisation bringing sales to a halt in other major markets. This can be attributed to the fact that sales in first three months of H2 2016 were robust and it saved the day for Hyderabad.
- While launches have nose-dived, sales are still steady. Meanwhile, prices have remained muted and are expected to move in the same manner, in the near future.

2. MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

- Of the total launches that happened in H1 2017, over 80% per cent happened in West Hyderabad. Micro-markets that witnessed new launches in West Hyderabad include Nallagandla, Chandanagar, Serilingampally, Kukatpally, Narsingi, Hayathnagar, Narsingi and Kokapet.
- West Hyderabad attracts most of the development interest in the city courtesy its upscale residential pockets and proximity to the IT/ITeS and BFSI sector hubs. Neighbourhoods such as such as HITEC City and Gachibowli continue to attract young IT employees that form the bulk of the city's workforce.
- The much awaited Hyderabad metro too will make its debut in the city between Miyapur and SR Nagar in West Hyderabad, by the end of this year. This also reflects the government's focus in improving infrastructure in the western part of the city.
- While West Hyderabad continues to maintain its dominance in the share of new launches in H1 2017, its share has gone down from H1 2O16 and H2 2016

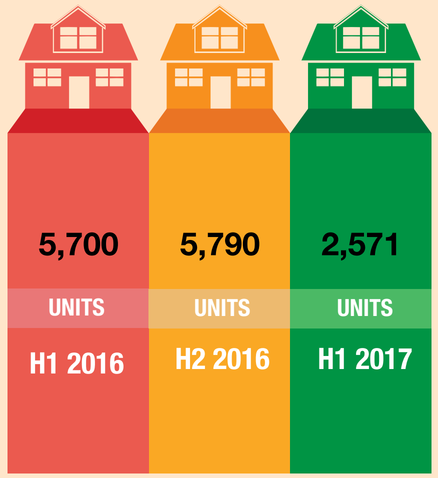
FIGURE -2

MICRO-MARKET SPLIT OF LAUNCHED UNITS



Knight Frank India Research

Sales in Hyderabad remained steady in H2 2016, despite demonetisation bringing sales to a halt in other major markets. This can be attributed to the fact that sales in first quarter of H2 2016 were robust and it saved the day for Hyderabad.



- The minor loss of share in new launches for West Hyderabad has been the gain of North Hyderabad. The marginal switch could be attributed to developers taking interest in affordable housing projects.
- While capital values of new launches in West Hyderabad typically ranges from ₹ 3,500-6,500, those in North Hyderabad are in the range of ₹ 2,000-3,000 units.

TICKET-SIZE SPLIT ANALYSIS OF LAUNCHED UNITS

	H1 2016	H2 2016	H1 2017
<2.5 mn	0.70%	8%	1%
2.5-5 mn	28.25%	15%	19%
5-7.5 mn	32.15%	27%	28%
7.5-10 mn	19.89%	27%	19%
10-20 mn	4.81%	14%	29%
>20 mn	14.21%	9%	4%

Source: Knight Frank Research

- The shift towards affordable housing is not apparent in Hyderabad as the bulk of the launches in Hyderabad are concentrated in relatively higher priced markets in the western side of the city. As a result the below ₹ 5 mn ticket size contributes around 20% of the new launches. In fact one-third of the new launches are in the price category of more than 10 mn.

MICRO-MARKET WISE RESIDENTIAL SALES

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, Quthbullanpur
HMR-South	Rajendra Nagar, Shamshabad

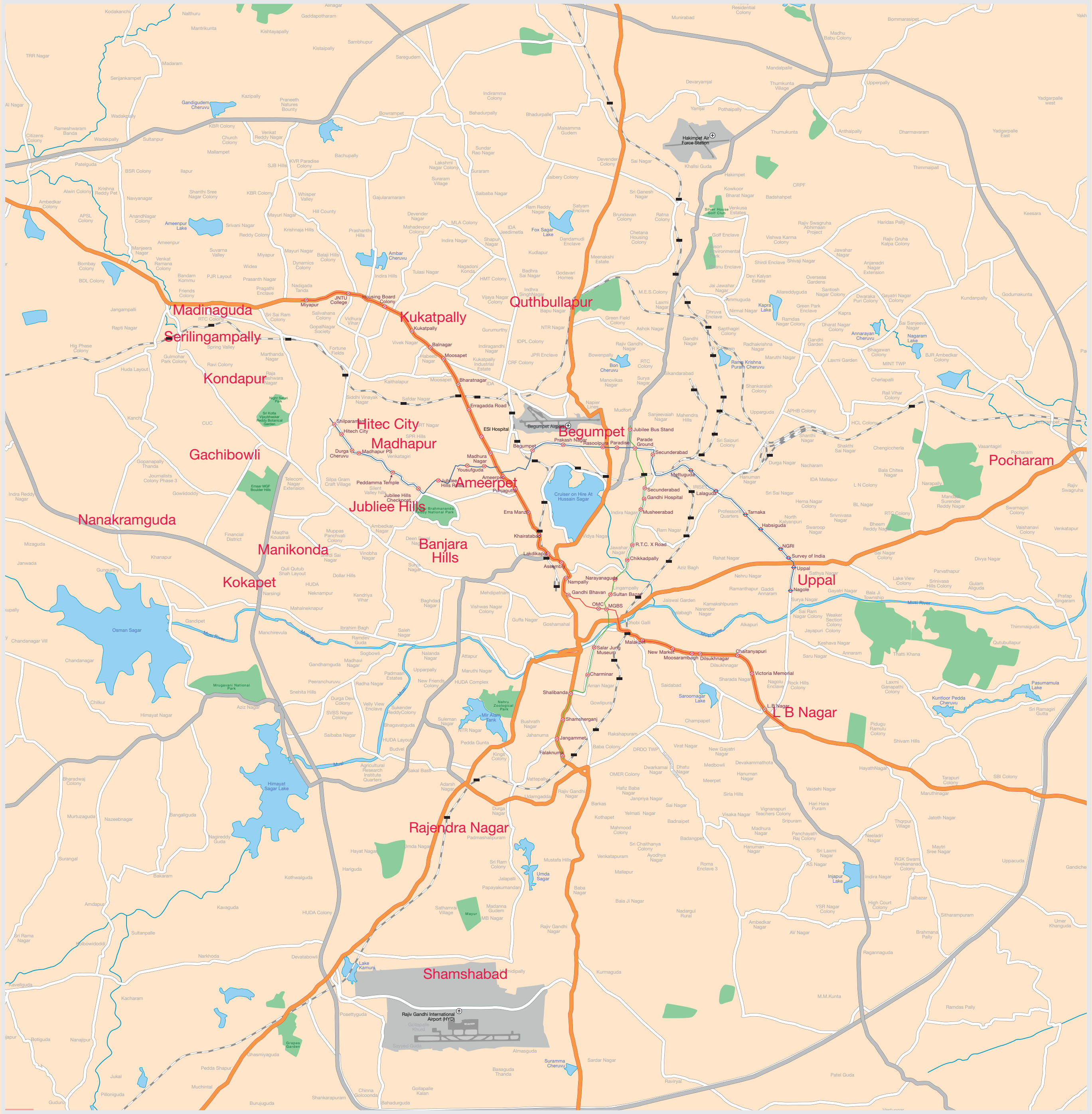
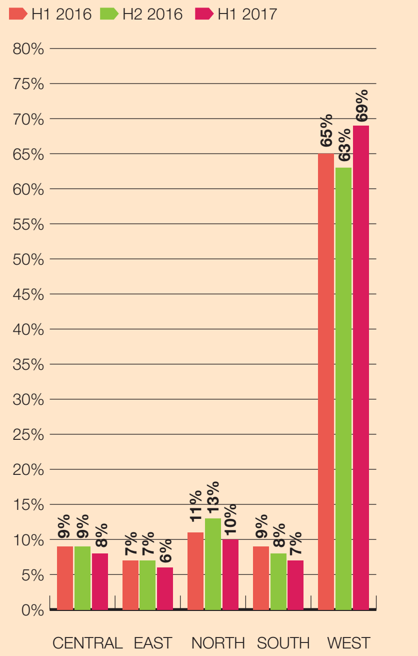
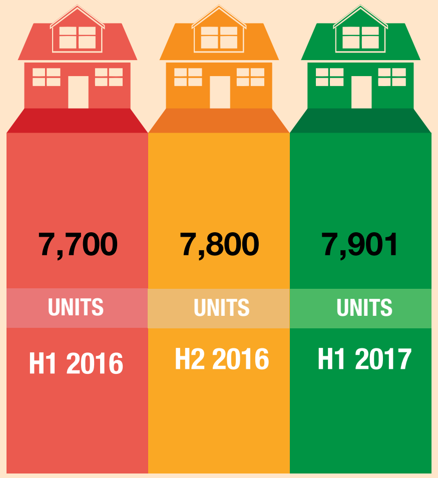


FIGURE -3

MICRO-MARKET SPLIT OF SALES



Knight Frank India Research

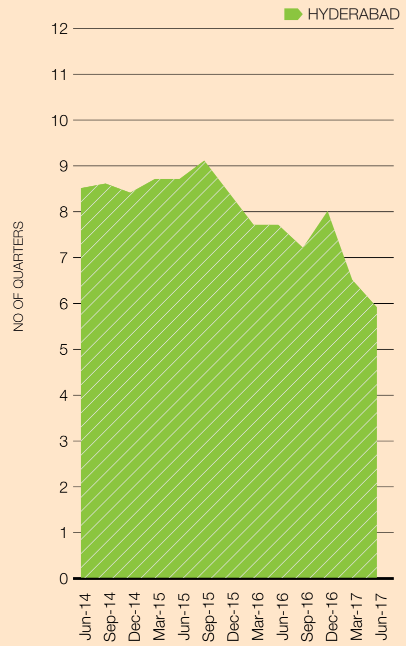


- West Hyderabad remains the preferred market, largely because buyers have a preference for ready to move in properties closer to the office hubs. Nearly 69% of the home sales took place in this zone.
- While the relative shares of other residential zones have gone down in H1 2017 compared to H2 2016, West Hyderabad recorded an uptick in sales
- North Hyderabad has the potential to grow in the future albeit with dedicated support from the government .

4. HYDERABAD MARKET HEALTH

FIGURE -4

QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS

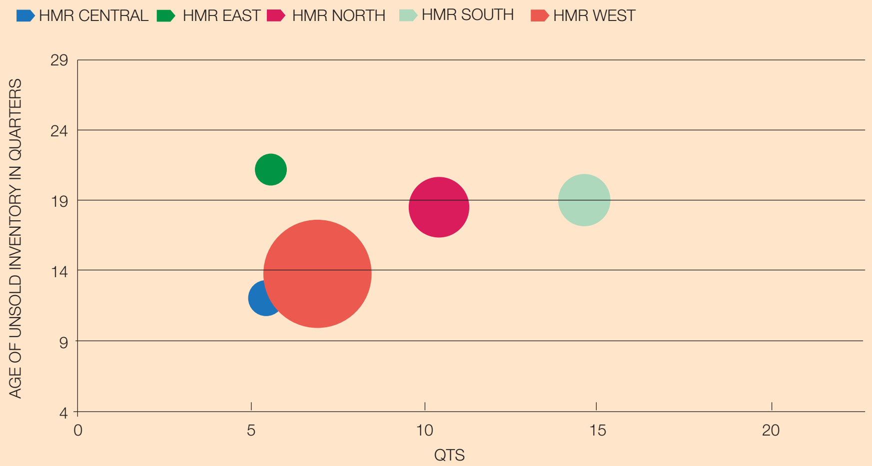


Source: Knight Frank Research

- The quarters to sell unsold inventory (QTS) is the number of quarters required to exhaust the existing unsold inventory in the market. The existing unsold inventory is divided by the average sales velocity of the eight preceding quarters in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market.
- With drastic reduction in launches and steady sales QTS H1 2017 fell down compared to H2 2016. In H2 2016 QTS was 8 quarters and now it stands at 5.9 quarters.
- The markets of north and south are however, under pressure as their QTS and age of inventory is extremely high. The age of inventory of west and east are also high but they have a healthy sales velocity. The high sales velocity could be attributed to the fact that it is the preferred market in the city for homebuyers looking for affordable options.

FIGURE -5

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



MICRO-MARKET	UNSOLD INVENTORY
HMR - Central	1,390
HMR - East	1,185
HMR - North	3,985
HMR - South	2,993
HMR - West	13,105
HYDERABAD	**22,658**

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

Source: Knight Frank Research

PRICE MOVEMENT IN H1 2017

- With lack of clarity on policy issues, capital values remained muted in Hyderabad. While prices in the city remained muted, premium markets witnessed a marginal uptick of 1% in the past six months.
- On a Y-O-Y comparison prices in premium markets have moved up at a healthier rate than the overall price movement of the city.

With drastic reduction in launches and steady sales QTS in in H1 2017 compared to H2 2016. In H2 2016 QTS was 8 quarters and now it stands at 5.9 quarters.

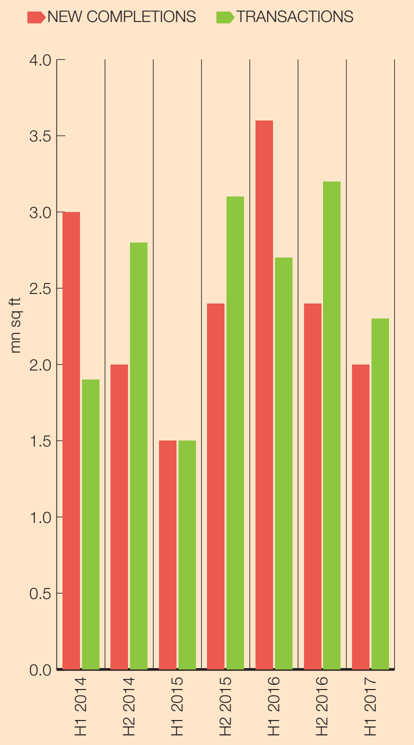
PRICE MOVEMENT IN SELECT LOCATIONS

LOCATION	MICRO-MARKET	PRICE RANGE IN H1 2017 (₹/SQ FT)	12-MONTH CHANGE	6-MONTH CHANGE
Begumpet	Central	4,500–6,000	2%	1%
Banjara Hills	Central	7,000–10,000	1%	0%
Jubilee Hills	Central	8,000–9,500	2%	0%
Madhapur	Central	5,800–7,800	3%	1%
Uppal	East	2,600–2,800	2%	0%
L. B. Nagar	East	2,500–2,900	1%	2%
Nacharam	East	2,200–2,800	1%	0%
Kompally	North	2,200–3,100	2%	1%
Quthbullapur	North	2,100–2,600	1%	0%
Shamirpet	North	2,000–2,400	1%	0%
Shamshabad	South	2,300–3,000	0%	0%
Bandlaguda	South	2,200–3,100	0%	0%
Rajendranagar	South	2,100–3,100	2%	0%
Kondapur	West	4,000–4,800	2%	1%
Gachibowli	West	3,800–5,250	3%	1%
Manikonda	West	3,400–4,500	3%	1%
Kukatpally	West	2,800–4,000	3%	1%
Madinaguda	West	2,600–3,350	2%	1%

Source: Knight Frank Research

FIGURE -1

NEW COMPLETIONS AND TRANSACTIONS – HALF-YEARLY TREND



Source: Knight Frank Research

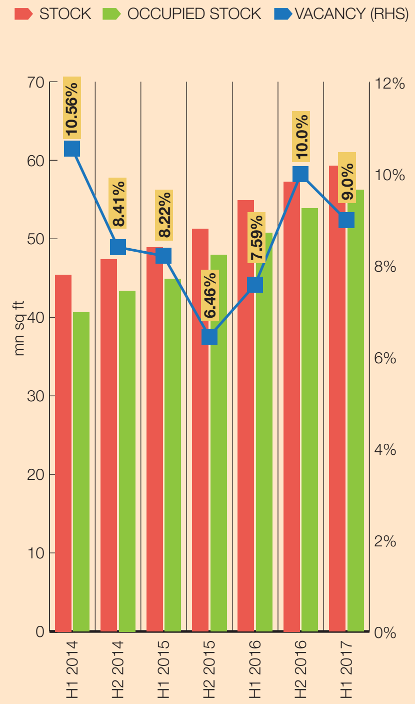
OFFICE MARKET

1. HYDERABAD OFFICE MARKET STOCK, NEW COMPLETIONS, TRANSACTION AND VACANCY TRENDS

- The Hyderabad office market witnessed transaction of 2.33 mn sq ft in H1 2017. This is approximately 26% lower than the office space transacted in H2 2016. But the dip in transacted office space should not be looked in isolation. The preceding six months set a new high in the amount of office space transacted in Hyderabad. When compared to H1 2016, office space transaction fell by 15%.
- The fall in office space transaction is a result of paucity in supply of quality spaces coming into the market. Approximately 2 mn sq ft of office space was delivered during H1 2017. New completions in H1 2017 were 45% lower than H1 2016 and 17% lower than H2 2016. The dip in new completions is a result of many projects being in the pipeline.
- Shrinking new completions has not been able to keep pace with the demand for quality office space. This has pushed vacancy levels to a new low. Vacancy level in Hyderabad is around 9% which is lower than the level witnessed in H2 2016.
- Low vacancy is one of the biggest challenges for the Hyderabad market as occupier interest continues and quality office space is not available. It also includes office stock in locations that are not much preferred by occupiers. Moreover, vacancy levels in the most sought after locations such as Madhapur, HITECH City, Gachibowli and Nanakramguda are as low as 2–4%.

FIGURE -2

OFFICE SPACE STOCK AND VACANCY LEVELS – HALF-YEARLY TREND



Source: Knight Frank Research

The dip in transacted office space should not be looked in isolation. The preceding six months set a new high in the amount of office space transacted in Hyderabad. When compared to H1 2016, office space transaction fell by 15%.

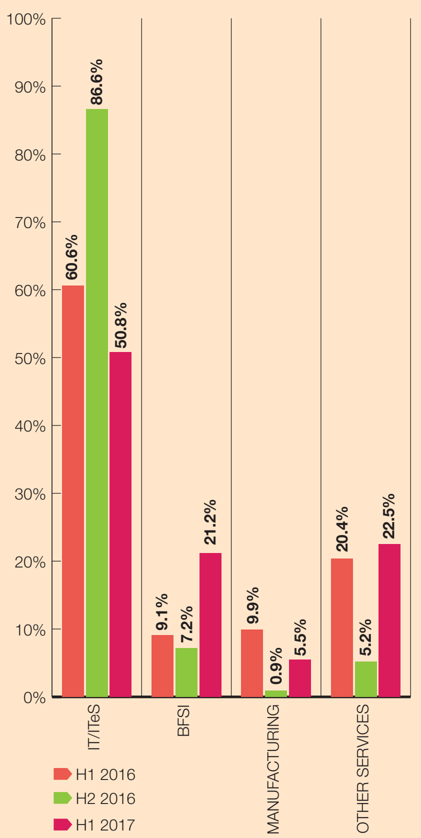
2. SECTOR ANALYSIS

- Although the IT/ITeS sector has traditionally dominated the transaction pie in the Hyderabad office space market its share dipped to 51% in H1 2017. The fall in share of IT/ITeS sector is a result of lack of availability of quality IT spaces in the city.
- The share of BFSI increased from 7.2% in H2 2016 to 21.2% in H1 2017. State Street Corporation, HDFC and Intellect Design were some of the major occupiers from the BFSI sector in H1 2017.
- The share of the Other Services sector also moved up in H1 2017 compared to H2 2016. In fact it is marginally higher than in H1 2016.

Although the IT/ITeS sector has traditionally dominated the transaction pie in the Hyderabad office space market its share dipped to 51% H1 2017. The fall in share of IT/ITeS sector is a result of lack of availability of quality IT spaces in the city.

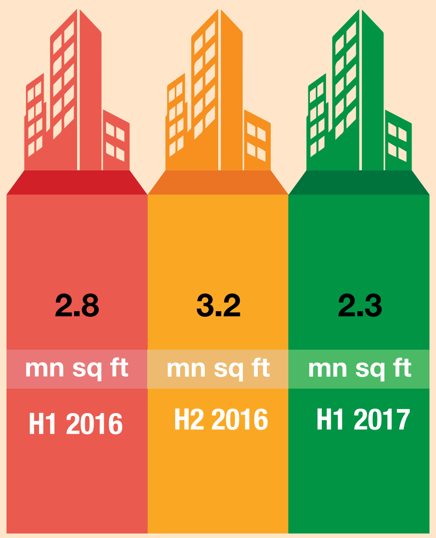
FIGURE -3

SECTOR-WISE SPLIT OF TRANSACTIONS



Source: Knight Frank Research

Note: BFSI includes BFSI support services

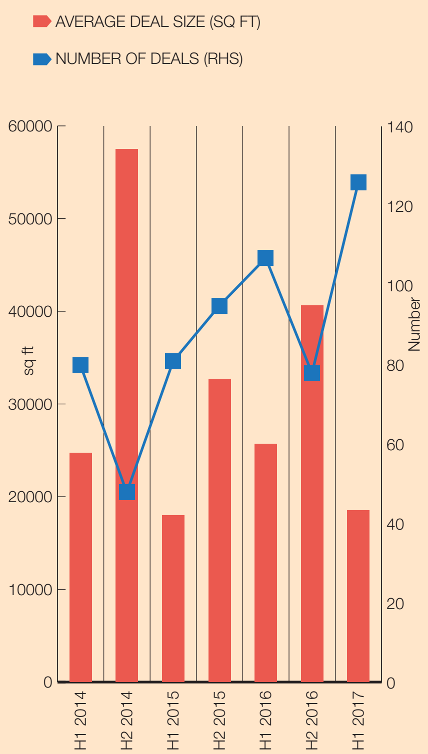


3. DEAL SIZE ANALYSIS

- The average deal size in H1 2017 was reported to be 18,516 sq ft, which is 54% lower than H2 2016 and 28% less than H1 2016. The shrinking deal size is a direct result of the fall in the share of IT/ITeS sector within the transacted office space in the city.
- H1 2017 however, witnessed the highest number of deals ever in the city. The substantial increase in the number of deals indicates greater confidence among occupiers to take up office space in the market.

FIGURE -4

AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

SELECT TRANSACTIONS

OCCUPIER	BUILDING	LOCATION	APPROX AREA (SQ FT)
State Street Corporation	Knowledge City	Madhapur	230,000
ServiceNow	Knowledge City	Madhapur	150,000
Karvy	APFSC	Gachibowli	100,000
E&Y	TSI Waverock	Gachibowli	82,000
Teradata	Ascendas	Madhapur	75,000
HDFC	Meghana Tower	Saifabad	73,000
Sears IT	Avance SEZ	Madhapur	53,050
Verity Knowledge Solutions	Divyasree Orion	Raidurgam	48,000
OMICS	Divyasree Orion	Raidurg	45,000
Primera Medical Technologies	My Home Hub - P2	Gachibowli	43,000
Media Mint	Kala Jyothi	Gachibowli	38,000
Intellect Design Arena	Reliance Building	Madhapur	38,000
Ryan India Tax Services	Ascendas	Madhapur	36,346
Commvault Systems	Ascendas	Madhapur	36,346
AT&T	Ascendas	Madhapur	36,346
Deloitte	KRC Building 9	Madhapur	35,000

Source: Knight Frank Research

4. BUSINESS DISTRICT ANALYSIS

- The business district that experienced the maximum increase in market share during H1 2017 was SBD, courtesy availability of good quality office spaces in locations such as Madhapur, Raidurgam and Kothaguda. Nearly 62% of the office space transaction took place in SBD.
- Madhapur, in SBD, took the lion's share of transacted office space within the city in H1 2017. Of the total office space transaction, in H1 2017, 51% happened in Madhapur. Within SBD this location accounted for 83% of the transactions..
- Second only to the SBD in terms of quality of office development for the IT/ITeS sector PBD West contributed nearly 23% of the transacted space during H1 2017.
- The spill-over demand from the SBD's IT/ITeS hotspots such as Madhapur and Kondapur, which have almost no viable large-format office spaces left, pushed occupiers to take up spaces in PBD West.

BUSINESS DISTRICT	MICROMARKETS
CBD and 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

HYDERABAD BUSINESS DISTRICT MAP

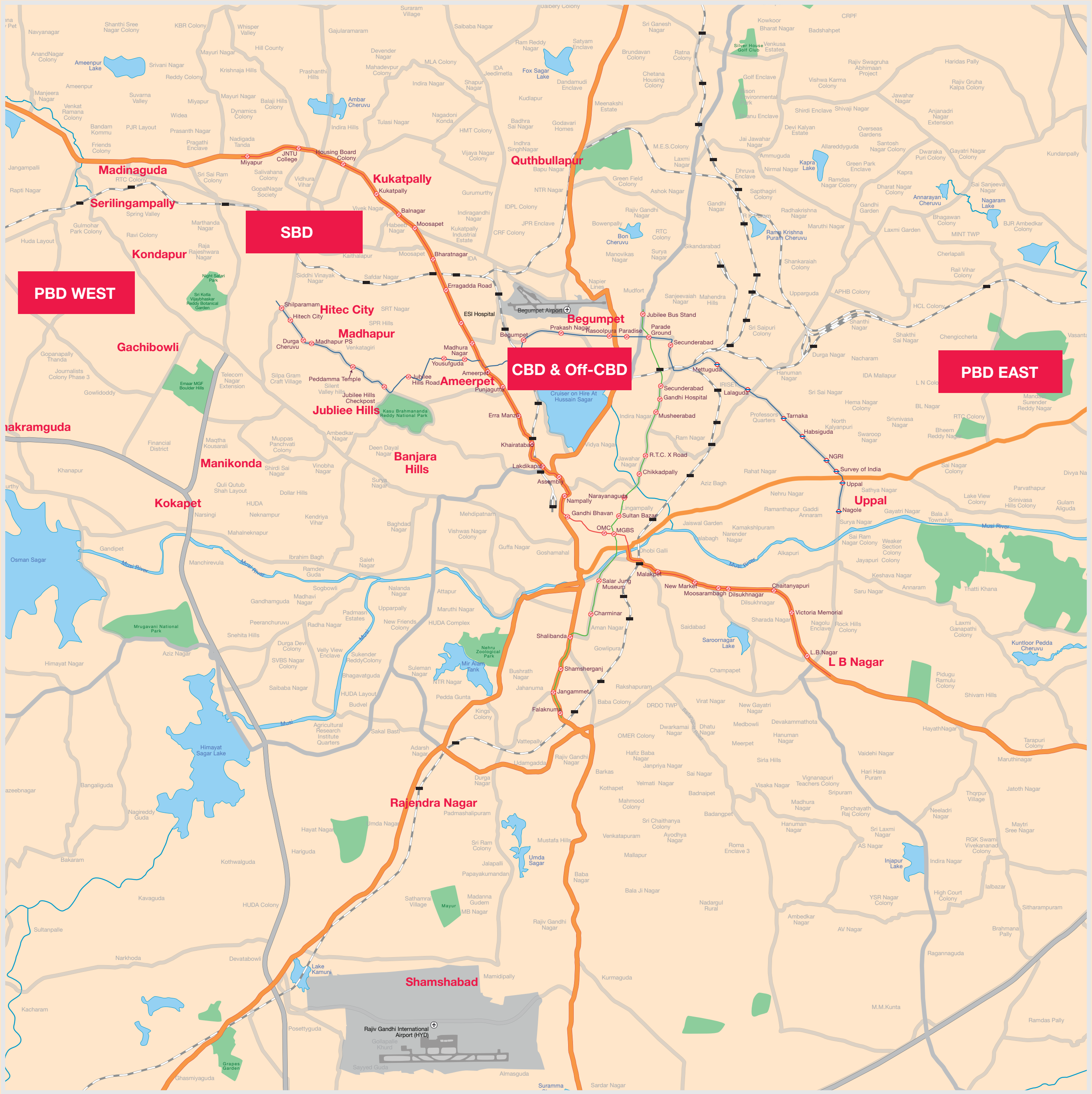
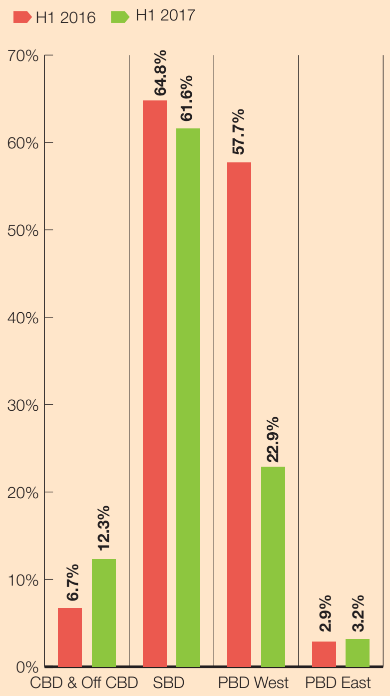
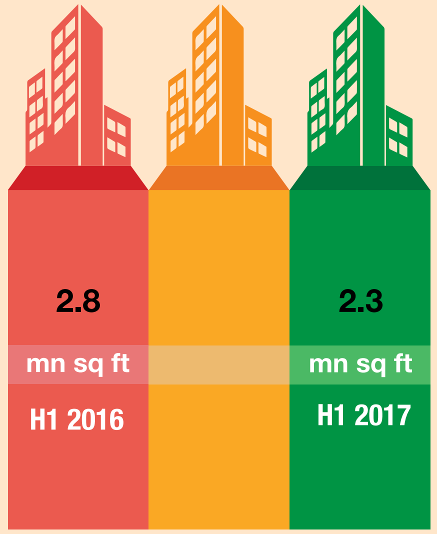


FIGURE -5
BUSINESS DISTRICT-WISE TRANSACTION SPLIT



Source: Knight Frank Research

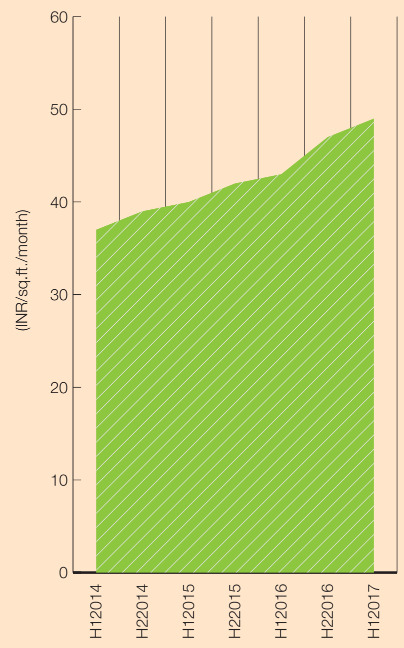


Madhapur in SBD took the lion's share of transacted office space within the city. Of the office space transaction in H1 2017, 51% happened in Madhapur. Within SBD this location accounted for 83% of the transactions.

5. RENTAL TREND

- Lack of vacant office stock, coupled with steady demand, has pushed the weighted average rentals in the Hyderabad office space market to just over ₹49 per sq ft per month at the end of H1 2017, a 14% growth YoY.
- H1 2017 saw rental levels grow across locations, compared to the same period in the previous year. The upward movement of rentals can be gauged from the fact that rentals in Somajiguda, in CBD and off-CBD, reached ₹ 70 per sq ft. While Gachibowli in PDB West witnessed office space transaction at ₹ 68 per sq ft, Madhapur in SBD also witnessed a couple of office space transactions at ₹ 58 per sq ft.

FIGURE -6
WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

BUSINESS DISTRICT-WISE RENTAL MOVEMENT

BUSINESS DISTRICT	RENTAL VALUE RANGE IN H1 2017 (₹/SQ FT/MONTH)	12-MONTH CHANGE	6-MONTH CHANGE
CBD and off-CBD	45-50	19%	6%
SBD	45-55	15%	2%
PBD West	45-50	16%	0%
PBD East	45-50	9%	2%

Source: Knight Frank Research

KOLKATA NORTH AND SOUTH – THE RISE OF THE PERIPHERAL MARKETS

- *BY* **SANGEETA SHARMA DUTTA**

The burgeoning city of Kolkata has grown by leaps and bounds on the organised real estate front in the past one and a half decade. Several micro-markets, which hitherto had been sleepy neighbourhoods, have come to the fore, attracting not only the local populace but also investors from beyond the state. While Rajarhat became the star attraction amongst the new residential markets that emerged as a result of the new real estate order set up in the city, of late, the peripheral locations towards the north and the south have begun shining forth as well.

North Kolkata, recognised primarily as an industrial area till recently, has today emerged as a preferred residential location among the city's dwellers, almost relieved of its industrial tag. The region has typically been a bastion of the trading community, largely occupied by the Punjabis and Sindhis. It gained prominence in recent years, owing to the existing and upcoming phases of the metro rail, impending infrastructure in and around VIP Road and Jessore Road, and its proximity to Rajarhat as well as the international airport.

Till a decade back, no national level developer had ventured into the region, although most city developers had a number of projects there in order to cater to the demand of the population residing in the northern part of the city. The distant peripheral neighbourhoods of North Kolkata, encompassing locations such as BT Road, Sodepur, Panihati and Barrackpore were largely unexplored by reputed developers, though other locations like Madhyamgram, VIP Road and Jessore Road received considerable interest owing to their proximity to Rajarhat. Significantly, despite its industrial tag, most of the residential neighbourhoods in North Kolkata are thickly populated and harbour good residential demand.

In 2010, Godrej Properties launched its first residential project in Kolkata – Godrej Prakriti, on BT Road, at a distance of 21 km from the city centre. Spread over 22 acres and housing over 2,400 apartments, the project was the largest, residential-gated community that the region had seen. Today, BT Road and the residential neighbourhoods along it have numerous mid-end and affordable projects underway, witnessing favourable buyer response. The market boasts of a diversified developer profile as well. In addition to national level developers such as Godrej Properties and Tata Value Homes, other reputed developers also have large-scale residential projects in the region, offering compact apartments at affordable rates. Although the region has managed to gain buyer interest from all across the city, majority of the homebuyers still belong to the trading community that have resided in North Kolkata since generations. The average price range here varies from ₹ 2,600–4,400/sq ft.

The peripheral micro markets in the north have a number of advantages in their support. The upcoming metro rail extension from Baranagar to Barrackpore, scheduled to be completed in 2019, will aid in faster commute. Till then, the Kalyani Expressway will offer ease of access to other parts of North Kolkata. In any case, the northern peripheral micro markets are relatively closer to the international airport than the southern parts of the city. On the social infrastructure front, there are several good educational institutes in the region, such as St. Xaviers Institution and Adamas International, although it suffers from a dearth of organised retail and entertainment avenues.

Meanwhile, South Kolkata has been a conventionally-preferred residential destination of the city, accounting for around 36% of the residential development underway. The region has a large concentration of housing stock, catering to all budgets, and has typically been a bastion of the serviced class. While the south-central areas such as Bhowanipur and Ballygunge are largely occupied by the gentry, the south-east and south-west neighbourhoods are home to the mid-income populace. In recent years, a number of southern peripheral locations such as Behala, Narendrapur, Sonarpur Road and Diamond Harbour Road came up on the developers' radar owing to their growth potential for residential development and within the span of a short period, these locations became a hot hub for mid-end and budget housing.

Of late, the attention of developers and homebuyers has been drawn further down south towards Baruipur, the new administrative headquarters of 24 South Parganas. The stretch of EM Bypass between Garia and Baruipur, hitherto considered as the city's hinterlands, has a number of large residential projects, launched by reputed developers such as Siddha Group and joint ventures by PS Group and Srijan. These projects have observed substantial demand from neighbouring locations, consisting of residents who had spent most of their lives in congested southern localities and now aspired to live in well-maintained, gated communities with first-class amenities. While this stretch of EM Bypass adjacent to Baruipur runs along a canal and seems like a distant proposition without much social infrastructure, a number of factors prove to be advantageous. There is good connectivity to Baruipur through the suburban railway and more than 75 pairs of local trains ply through it on a daily basis. Besides, with Baruipur having been designated as the new headquarters of 24 South Parganas, it is expected to become a key employment hub of the region with several offices opening up, thereby boding well for residential demand. Presently, the average price of an apartment here ranges between ₹ 2,500–4000/sq ft.

Going forward, these northern and southern peripheral locations of Kolkata are expected to perform better in the forthcoming periods, primarily due to the abundance of mid-end and affordable housing here. Also, given the present conditions, where the government has placed significant importance to the promotion of the affordable housing segment, reflected both in the Union Budget 2017–18 as well as the nation-wide scheme of Pradhan Mantri Awas Yojana, locations such as BT Road, Sodepur and Barrackpore in the north, and Baruipur, Garia and Sonarpur Road in the south are expected to gain importance owing to their immense potential for the affordable housing sector to thrive. With an adequate infrastructure push, these distant neighbourhoods have the propensity to fulfil their potential.

"The stretch of EM Bypass between Garia and Baruipur, hitherto considered as the city's hinterlands, has a number of large residential projects launched by reputed developers. These projects have observed substantial demand from neighbouring locations, consisting of residents who had spent most of their lives in congested southern localities and now aspired to live in well-maintained, gated communities with first-class amenities.

KOLKATA

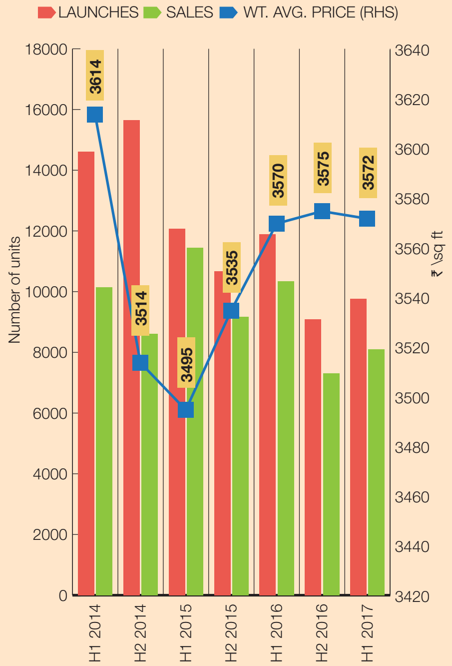
RESIDENTIAL MARKET

1. KOLKATA RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

- The Kolkata residential market has recently been witnessed tightening of new launches, after hitting its peak in 2014. While the first half of 2016 (H1 2016) had seen the launch of almost 11,900 units, the numbers dipped substantially by 18% in H1 2017.
- However, the new launches figure in H1 2017 saw a slight improvement of 7% over the figure six months prior in H2 2016, when the government's demonetisation initiative had rendered most real estate activities to come to a pause, leading developers and buyers alike to refrain from making any property related decisions.
- In the past few years, end-user driven sentiments of the city had led the sales volumes to remain mostly steady, barring the anomalistic period of H2 2016 that was instrumental in bringing down the sales volume drastically. H1 2017 saw an increase of 11% in sales in over the sales figure in H2 2016.
- However, more importantly, on a Year-Over-Year (YOY) comparison between H1 2016 and H1 2017, the city's residential market is still much behind the numbers observed in H1 2016 and the decline noted was to the tune of 22% in H1 2017.
- The weighted average price remained stagnant in H1 2016, depicting the fact that the market is almost at a standstill, owing to the decrease in new launches and sales, waiting for clarity on factors such as RERA compliance and GST amongst other factors.

FIGURE -1

KOLKATA MARKET TRENDS - HALF-YEARLY



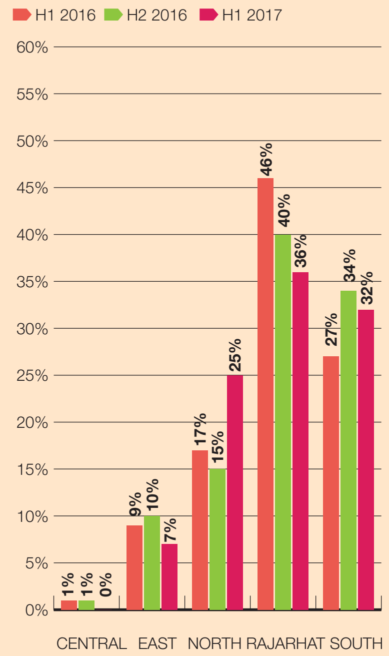
Source: Knight Frank Research

2. MARKET SPLIT OF RESIDENTIAL LAUNCHES

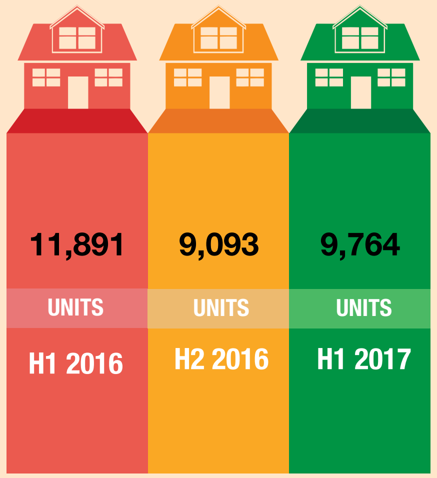
- Over the last few years, Rajarhat has been accounting for the largest share in the total number of new launches in the city owing to persistent interest from the developer community. It accounted for 36% share of the total number of new launches in H1 2017, emerging once again as the region with the highest number of residential units launched in Kolkata. However, there was a decrease in the share compared to H1 2016 and H2 2016. Rajarhat is expected to maintain its momentum in the forthcoming years considering the quantum of office-sector development and infrastructure underway in the region. The road infrastructure is well-planned in the region with upcoming metro rail connectivity that will provide a further boost to the region.
- South Kolkata followed Rajarhat with the second highest share of new launches. It accounted for 32% of the total new launches in H1 2017, as compared to 27% in H1 2016. The region has been a conventionally-preferred residential destination of the city and in recent years a number of southern peripheral locations such as Narendrapur, Sonarpur Road and Baruipur have come up on the developers' radar. Going forward, these pockets have good potential for residential development, particularly for budget housing.
- North Kolkata which had seen a gradual decline in new launches in the recent past saw resurgence in H1 2017. While its share was 17% in H1 2016, dipping further in H2 2016, the first half of this year witnessed the share increase to 25%. The surge is attributed to a number of launches in locations such as BT Road and Barrackpore. The region holds potential in the near future owing to the existing and upcoming phases of the metro rail as well as impending infrastructure around VIP Road and Jessore Road. Its proximity to Rajarhat and the international airport is an added advantage.
- The East zone comprising locations such as Salt Lake and Kankurgachi, and the central region of the city observed a limited number of new launches due to land constraints. While East Kolkata's share reduced to 7% in H1 2017 from 9% in H1 2016, Central Kolkata did not have sufficient number of launches.

FIGURE -2

MICRO-MARKET SPLIT OF LAUNCHED UNITS



Source: Knight Frank Research



The Kolkata residential market that has been witnessing a tightening of new launches in recent years saw the numbers dip substantially by 18% in H1 2017, compared on an annual basis, although it was a slight improvement over H2 2016. Sales volumes also observed an increase in H1 2017 over H2 2016, but recorded a substantial 22% decline as compared to H1 2016

Rajarhat accounted for 36% share of the total number of new launches in H1 2017, emerging as the region with the highest number of residential units launched in Kolkata during the period, followed by South Kolkata. North Kolkata saw resurgence in its new launches share in H1 2017, with a number of projects launched in the peripheral markets.

TICKET-SIZE SPLIT ANALYSIS OF LAUNCHED UNITS

	H1 2016	H2 2016	H1 2017
<₹2.5 mn	60%	70%	67%
₹2.5-₹5 mn	17%	19%	20%
₹5-₹7.5 mn	9%	7%	8%
₹7.5-₹10 mn	5%	3%	3%
>₹10 mn	9%	1%	2%

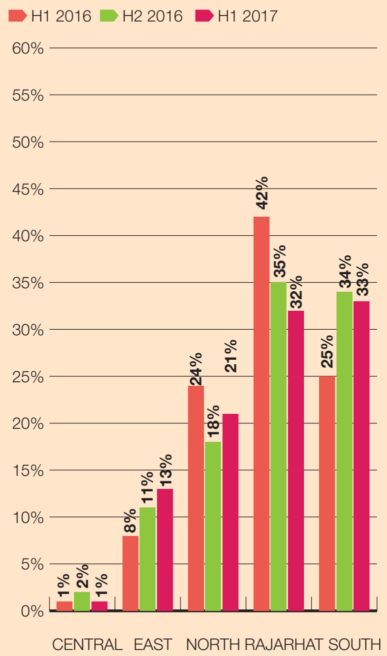
Source: Knight Frank Research

- A whopping 87% of the new launches announced in H1 2017 were in the below ₹ 5 mn ticket size bracket. The trend was observed even in H2 2016 when the share was higher at 89%.
- Most of the new launches in the recent months have been taking place in peripheral locations of the city with promise of infrastructure development in the near future, thereby explaining the lower price bracket.
- This development comes as a welcome trend given the recent slew of government's initiatives to boost the affordable housing sector. For instance, the infrastructure status accorded to this sector in the Union Budget with a host of tax incentives, buyer-friendly regulations such as the RERA, lower home loan rates and the nationwide scheme of Pradhan Mantri Awas Yojana (PMAY) were some of the measures announced.

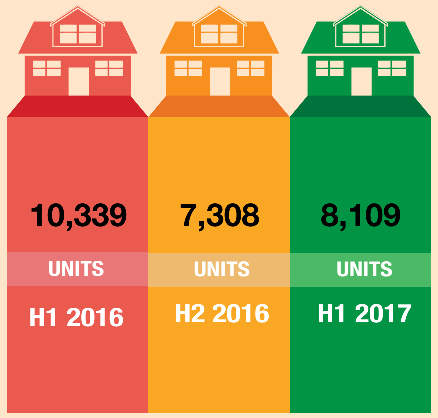
3. MICRO-MARKET WISE RESIDENTIAL SALES

- South Kolkata witnessed the largest share of sales volume in H1 2017 accounting for 33% of the total sales volume when it edged past Rajarhat for the first time in the recent past. This was a significant improvement compared to its previous share of 25% in H1 2016. The increase in sales is attributable to the host of affordable and mid-end housing projects that has come up in the southern peripheral locations such as Baruipur, Narendrapur and Garia.
- On the other hand, Rajarhat, which has been accountable for the largest share of sales in the past few years, was relegated to the second place after South Kolkata. The region saw its share reduce considerably from 42% in H1 2016 to 32% share in H1 2017. While the decrease has been substantial during this period, it remains to be seen whether it conforms to becoming a trend in the forthcoming months.
- North Kolkata, too, saw its share reduce to 21% in H1 2017, from 24% in H1 2016. Although its share is less, we expect this region to perform better in the forthcoming periods due to the abundance of mid-end and affordable housing here.
- East Kolkata accounted for 13% of the total number of sales in H1 2017, an improvement from H1 2016 when it had secured a mere 8% share. The eastern region is a much preferred domicile, especially of the affluent class. It boasts of key commercial areas such as Salt Lake Sector V and the road infrastructure is well-planned. Various flyovers provide easy connectivity with the CBD, thereby making it a sought-after residential destination.

FIGURE -3
MICRO-MARKET SPLIT OF SALES



Source: Knight Frank Research



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)

KOLKATA MICRO-MARKET MAP

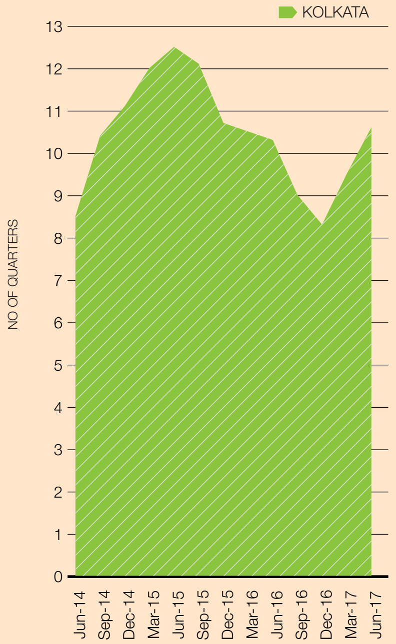
4. MARKET HEALTH

- The quarters to sell unsold inventory (QTS) is the number of quarters required to exhaust the existing unsold inventory in the market. The existing unsold inventory is divided by the average sales velocity of the preceding eight quarters in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market. Also, size of the bubble indicates relative size of of the unsold inventory in terms of number of units.

South Kolkata emerged as the best performing market in H1 2017, as it has the lowest QTS amongst all the micro-markets in the city. This is on account of the steady rate of sales in the past quarters.

FIGURE -4

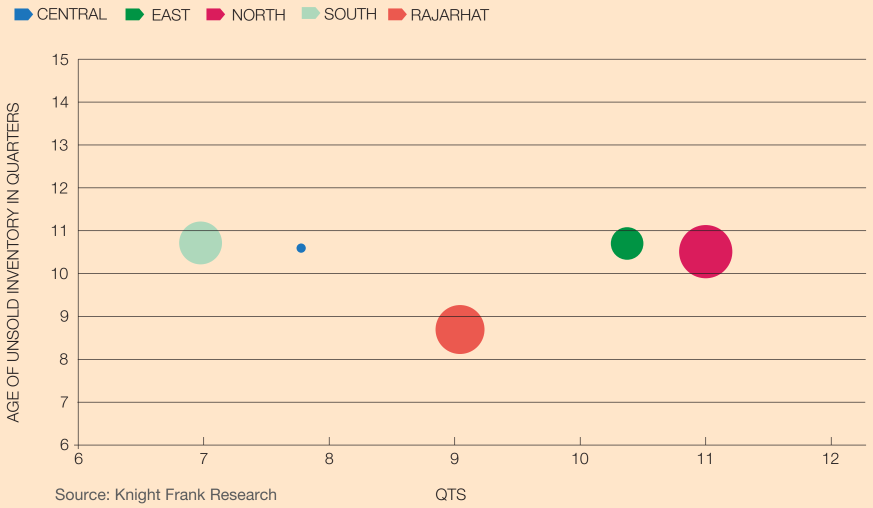
QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS



Source: Knight Frank Research

FIGURE -5

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

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

- The QTS for Kolkata currently stands at 10.6 quarters. The unsold inventory of the city is recorded at around 39,114 units in various stages of construction, which is a matter of concern.
- Among the various zones, we infer South Kolkata as the best performing market in H1 2017, as it has the lowest QTS amongst all the micro-markets in the city. This is on account of the steady rate of sales in the past quarters. However, the region still accounts for a high age of inventory and a large unsold inventory, having evolved much earlier as a residential destination in the city.
- Rajarhat is the second best performing market in the city, based on its low QTS, after South Kolkata. Factors such as presence of office projects, 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 have helped this micro-market perform well in recent months.
- North Kolkata has the highest QTS in the city. This is on account of the large number of launches that the region has witnessed since 2014. However, with better sales momentum expected in the affordable housing sector, coupled with infrastructure push, North Kolkata is projected to perform better in the forthcoming periods.
- East Kolkata emerged as the region with a QTS lower that the northern region but with a higher age of inventory.

MICRO-MARKET	UNSOLD INVENTORY
Central	377
East	5939
North	11333
South	7350
Rajarhat	14116
KOLKATA CITY	39114

Source: Knight Frank Research

5. PRICE MOVEMENT IN H1 2017

- Price appreciation across most locations in Kolkata has remained stagnant during the last 12 months.
- There has been no noticeable growth observed in the city's residential market in the last six months, primarily due to the sluggish movement in sales

PRICE MOVEMENT IN SELECT LOCATIONS

LOCATION	MICRO-MARKET	PRICE RANGE IN H1 2017 (₹/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	0%	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	0%	0%

Source: Knight Frank Research

INFRASTRUCTURE - TRANSFORMING MUMBAI REALTY

- *BY* **NIBODH SHETTY**

POPULATION SURGE: 2001-2011

3.9% FOR MUMBAI CITY

17.8% FOR MMR

THE MUMBAI LANDSCAPE

The Mumbai Metropolitan Region (MMR) is spread over an area of 4,355 sq. km, which includes 458 sq. km of the Mumbai City district and the rest comprising regions in the Thane, Palghar and Raigad districts. The city boasts the headquarters of all the major companies in the country across sectors with a huge mixture of BFSI, media, marketing and other services providing companies.

The population of Mumbai increased from 11.9 mn in 2001 to 12.4 mn in 2011 - a decadal growth rate of 3.9% while the MMR's population growth was much higher, at 17.8%, taking its population from 19.3 mn to 22.8 mn during the same period.

THE DYNAMICS OF CITY'S REVERED PROPERTY MARKET

The residential prices in the city vary across a steep gradient while one moves from Mumbai city to MMR regions. The prices vary from ₹1,00,000 per sq ft. to ₹3,000 per sq ft. Such huge price gradient arises because of multiple factors – commuting time to employment hubs and other places of importance such as access to education, healthcare, entertainment avenues, location profile and gentry, etc. These factors vary across localities and so does the property price. The city is divided along 3 major railways line- western, central and harbor.

The offices are mainly concentrated in Mumbai whereas the population resides in neighboring MMR where housing prices are more affordable. Since a major chunk of the population travels from the place of residence to work, it makes the role of infrastructure in particular the transport infrastructure very crucial. The transportation needs of the population have been identified by the Government and it came up with a nodal agency to plan and coordinate the implementation of transportation projects in Mumbai- The Mumbai Metropolitan Regional Development Authority (MMRDA).

MMRDA has been very instrumental in implementing some of the major transportation projects like Mumbai Metro I (Versova-Andheri-Ghatkopar), Eastern Freeway, Mumbai Monorail, Santacruz Chembur Link Road (SCLR), flyovers and many more.

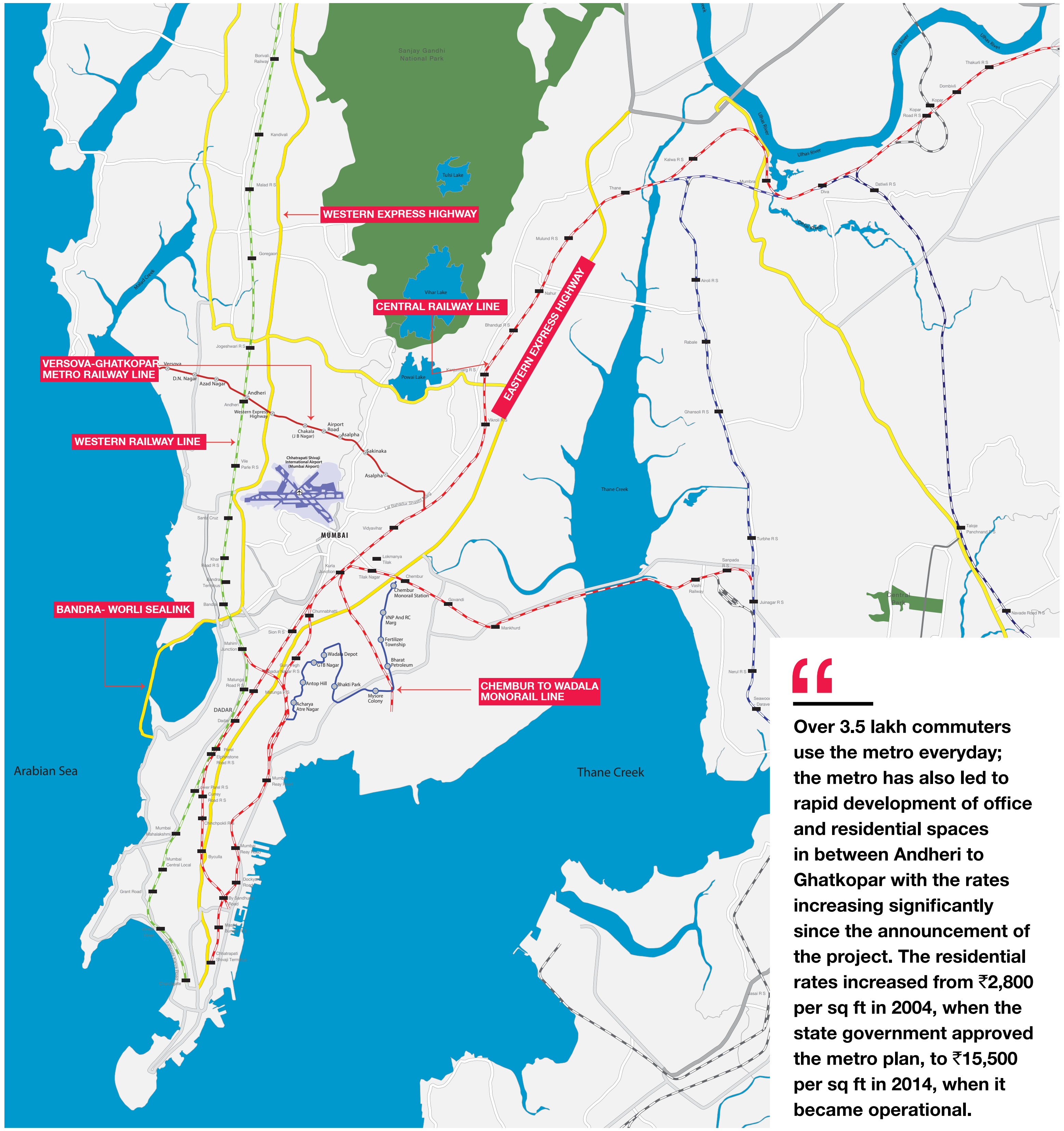
INFRASTRUCTURE AS A CATALYST

The Mumbai Metro I has changed the face of east-west connectivity forever. Earlier people commuting from locations along the western line to central line using the local railways had to go Dadar (a central point) to change trains inorder to reach their destination; despite going to Dadar having them take a long detour. This detour was reduced significantly after the Metro I became operational. Majority of the commuters now get off at Andheri railway on western line and take the metro to reach Ghatkopar railway station on the central line. Not only is the detour avoided, but the travel time is reduced significantly from 90 mins to 44 mins. Earlier the average road travel time from Andheri to Ghatkopar was over 150 mins during peak hours, post metro the vehicular traffic on this route reduced significantly bringing down the road travel time to less than 90 mins. Over 3.5 lakh commuters use the metro every day, the metro has also led to rapid development of office and residential spaces in between Andheri to Ghatkopar with the rates increasing significantly since the announcement of the project. The residential rates went up from ₹2800 per sq ft. from 2004 when the State Government approved the metro plan to ₹15,500 per sq ft. in 2014 when it became operational.

UPCOMING INFRASTRUCTURE PROJECTS

Additional metro lines have been planned across the city and three are being implemented currently- The Mumbai Metro Line II (Dahisar West–DN Nagar), Mumbai Metro Line III (Colaba-Bandra-Airport-SEEPZ) and Mumbai Metro Line VII (Andheri East–Dahisar East).

A. COLABA-BANDRA-AIRPORT-SEEPZ



Over 3.5 lakh commuters use the metro everyday; the metro has also led to rapid development of office and residential spaces in between Andheri to Ghatkopar with the rates increasing significantly since the announcement of the project. The residential rates increased from ₹2,800 per sq ft in 2004, when the state government approved the metro plan, to ₹15,500 per sq ft in 2014, when it became operational.

METRO

As a part of the MRTS project, the MMRDA has started implementing the 33.5 km all underground metro route of the Metro Line III connecting Colaba to SEEPZ via Bandra. The projected is slated to be completed in 2021. The residential price gradient along the metro line varies from over ₹75,000 per sq ft. at Colaba to ₹17,000 per sq ft. at SEEPZ. The average office rental varies from approximately ₹220 per sq ft. per month at Nariman Point to ₹250 per sq ft. per month at BKC; however, it reduces to ₹110 per sq ft. per month towards Andheri-SEEPZ belt. The MIDC-SEEPZ area in Andheri East currently has connectivity to other areas of Mumbai only via roads and lacks access to other modes of mass transportation. The railways stations on Central line and Western line are a significant distance away from SEEPZ. Once the Colaba-Bandra-SEEPZ metro line becomes operational this belt would witness increase in demand for residential and commercial projects as it would get connectivity to the major office and residential districts of Mumbai and also the Versova-Andheri-Ghatkopar metro line via this metro. Currently there are a large number of old industrial sheds and warehouses located in this area most of which are non-operational; these may give way to another business district emerging in the area like we witnessed in case of Lower Parel.

In addition to the metro lines the Government has also planned 2 major road infrastructure projects – The Coastal road and Mumbai Trans-harbour Link (MTHL).

B. THE COASTAL ROAD

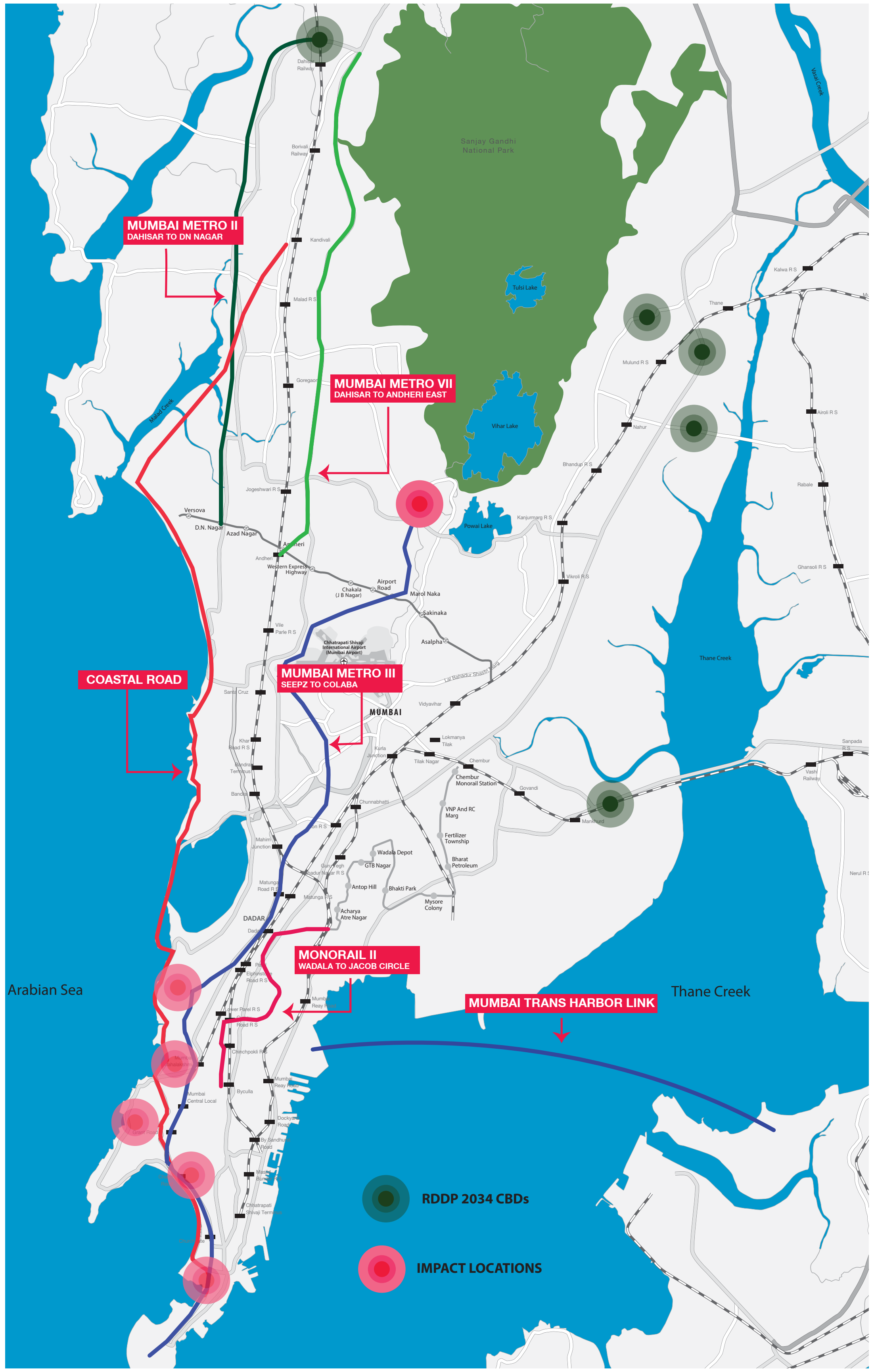
Every day there are a significant number of private vehicles using the western express highway to go from the densely populated north Mumbai where majority of residences are located to southern part of Mumbai, where offices are located. Every year the number of vehicles keep going up due to rising affluence and inability of railways to provide additional capacity in local trains to cater to the growing population. As a result there are a huge number of traffic snarls along the western express highway during peak hours. In order to decongest the highway the Government has planned the 35.6 km long Coastal Road Project. The bidding process is expected to start in mid of 2017, the project is estimated to be completed by 2020. Running along the city's coastline, this road will be the first of its kind, which will provide high-speed connectivity between the western suburbs and south Mumbai. The coastal roads would have exit ramps which would provide seamless connectivity to Marine Lines, Princess Street, Tardeo, Mahalaxmi, Worli, Girgaon, Kalbhadevi, Tulsi Wadi and Peddar Road. The business districts in these areas would benefit immensely from this much needed connectivity, whereas the residential areas of North Mumbai may witness reduction in price gradient compared to South Mumbai. The residential price in the belt varies from ₹75,000 per sq ft. at Napean Sea Road in South Mumbai to ₹13,000 per sq ft. at Charkop and ₹15,500 per sq ft. In Goregaon West in North Mumbai. The primary reason for the huge price difference is to proximity to employment hubs apart from those markets in South Mumbai having premium characteristics. In comparison to the most expensive micro-market of Napean Sea Road on this corridor, Goregaon West and the Charkop residential markets trade at a discount of 79% and 83%, respectively. With the upcoming Coastal Road, the commute time will shrink significantly along the route and price gaps will narrow down. We foresee markets such as Charkop and Goregaon West to be the major beneficiaries of this project, and expect a price upside for these markets.

C. MUMBAI TRANS-HARBOUR LINK (MTHL)

The existing Mumbai airport has a capacity of handling 45 million passengers annually and it has almost reached its saturation. The city is in dire need of another airport to support the proliferating air traffic growth. The Government has identified a site in Navi Mumbai for the city's new airport. Earlier Navi Mumbai was envisaged as a satellite town in MMR to decongest the Mumbai city. However, over the years it grew as an additional city with huge number of vehicles going to and fro during peak hours. With the new airport coming up, the traffic woes are going to increase further. To ease the burden of traffic and provide access to the new airport, the Government planned the 22.5 km 6-lane sea bridge– the Mumbai trans-harbor link (MTHL) connecting Sewri in South Mumbai to Nhava Sheva near the new airport. The project is in its final stage of bidding with 29 bidders being shortlisted. The work on the project is expected to begin later this year and is expected to be completed by end of 2019. Nhava Sheva was earlier a remote area in Navi Mumbai having limited access with very little real estate potential. There were no organized players willing to go and construct in this area due to very low rates. The average rate in Sewri is ₹30,000 per sq ft. and in Nhava Sheva the comparable development from organized developers is virtually non-existent, the prices at Drongari 10 km from Nhava Sheva is around ₹3,000 per sq ft. Once the MTHL is constructed, the increased proximity and access to Sewri and other areas in South Mumbai due reduction in travel time would drive real estate prices in this area and make it a hot spot for real estate development.

CAN INFRASTRUCTURE ALSO CATALYZE THE DEMAND FOR ERSTWHILE BUSINESS DISTRICTS?

Until a decade back Nariman Point, Fort and other business districts of South Mumbai which were once the most sought after office destinations of the country witnessed a significant fall in preference amongst occupiers. One of the major reasons for this fall was the shift in residential demand of the population



demand in search of relatively cheaper housing locations towards north Mumbai - western and central suburbs. As a result, new business districts have emerged in BKC, Lower Parel, Andheri, Goregaon and Powai. With the horizontal expansion city, saturation of the transport infrastructure and rapid increase in population, commuting from different regions of Mumbai to South Mumbai has become increasingly difficult and time consuming.

The state government has taken initiatives to improve connectivity and reduce travelling time from the western and central suburbs to south Mumbai through implementation of three important infrastructure projects; namely, the Coastal Road, the Colaba-Bandra-SEEPZ metro line and the Mumbai Trans-Harbour Link. These infrastructure initiatives would not just reduce travelling time to South Mumbai, but also have the potential to breed a new lease of life into the business districts of south Mumbai. Currently, it takes around 2.5 hours to 3 hours during peak hours to travel from the western suburbs to south Mumbai. This is expected to come down to an hour once the coastal road is operational. The Colaba-Bandra-SEEPZ metro would provide improved access from the north eastern regions of the city to south Mumbai. The Mumbai Trans-Harbour Link would not only reduce travelling time from Navi Mumbai to south Mumbai but would also provide access to the new International Airport.

The Eastern Freeway which was constructed a few years back significantly reduced the commuting time and improved connectivity of central suburbs to south Mumbai. Once these under construction infrastructure projects become operational by 2021-22, the business districts of south Mumbai would get improved connectivity to all areas of Mumbai — the western suburbs, central suburbs, central Mumbai, Navi Mumbai and it would become the only business district within Mumbai region closest to the new International Airport. Due to all these initiatives we may witness a sudden revival in preference for office space in these business districts.

THE REVISED DRAFT DEVELOPMENT PLAN 2034 (RDDP2034) IMPETUS

Mumbai city is about to witness investments upwards of ₹60,000 crore over the next 5 years in the above mentioned infrastructure projects. Once complete, these projects would transform the way of transport in Mumbai. Travelling across the city would become easier and we would witness emergence of new hotspots with real estate development potential in the areas surrounding these projects. Brihanmumbai Municipal Corporation is also drafting its new master development plan - the Revised Draft Development Plan 2034 (RDDP2034) which identifies this potential. It has provisions to develop new central business districts or CBDs around areas having access to various modes of transportation by providing additional FSI for the development of the plot. An FSI of five has been proposed for the new CBDs. This move is expected to encourage commercial development within the city, to a great extent particularly in and around the areas where the new and existing mass transport projects would intersect or cross over each other. Not just these areas, but the areas around the Octroi Naka would also benefit from RDDP2034. With the Goods and Services Tax (GST) becoming effective from July 1, 2017, the Octroi would be subsumed in GST and the Octroi Nakas in Mumbai would be redundant. In order to make use of this huge chunk of land approximately 49 hectares in the periphery of Mumbai, the RDDP2034 has made provisions for the land to be used for parking hubs, commercial space and office space development.

With the implementation of RDDP2034, we expect locations like Andheri, Dadar, Dahisar, Govandi-Mankhurd, Mulund and Ghatkopar to become the hotspots for real estate development with focus on the development of new commercial hubs locations.

₹ **60,000**
CRORE

Mumbai city is about to witness investments upwards of ₹60,000 crore over the next five years in the above mentioned infrastructure projects.

"Once the Colaba–Bandra–SEEPZ metro line becomes operational, this belt would witness an increase in demand for residential and commercial projects, as it would get connectivity to the major office and residential districts of Mumbai and also the Versova–Andheri–Ghatkopar metro line via this metro. Currently, there are a large number of old industrial sheds and warehouses located in this area most of which are non-operational. These may give way to another business district emerging in these areas like we witnessed in the case of Lower Parel.

DUMPING GROUND GROUNDS REAL ESTATE IN MUMBAI

- *BY* **NIBODH SHETTY**

9000 tonnes

GARBAGE GENERATED DAILY

3000 tonnes

GARBAGE DISPOSAL CAPACITY

Mumbai generates around 9,000 tonnes of solid waste per day out of which approximately 3,000 tonnes is treated and disposed scientifically; the rest of the untreated waste is dumped illegally. This indiscriminate dumping has led to severe environmental problems. There were many fires at the dumping ground in 2016 and some of the major fires had caused the air quality in the city to deteriorate severely causing the particulate matter (PM) levels to increase many times beyond permissible levels. Since it took several days for the firemen to douse the fire at the landfill in Deonar the entire city for weeks was buried in smog arising from the fires at the dumping ground. Since 2005, around 16 petitions have been filed against various dumping grounds in Mumbai, the maximum being against the Kanjurmarg dumping ground, which is supposed to be the only dumping ground in the city where waste is disposed off scientifically.

Due to repeated fires deteriorating the air quality in the city and the inability of the Government of Maharashtra and Brihanmumbai Municipal Corporation (BMC) to comply with the Municipal Solid Waste (Management and Handling) rules-2000 at the Deonar and Mulund dumping grounds, the Bombay High Court came down heavily on BMC by putting a stay on all development permissions/ Intimation of Disapproval (IOD) on the applications/proposals submitted from 1st March 2016 onwards for construction of new buildings for residential or commercial use including malls, hotels and restaurants. The Court ruled that the stay on constructions would remain until the city's solid waste treatment capacity is enhanced from 3,000 tonnes a day to 11,000 tonnes a day.

The Court order is not very clear on IT parks. It appears prima facie that IT parks may be outside the purview of this stay order as IT parks come under the purview of the industrial vertical.

Our assessment is - the order would adversely affect residential constructions mostly in western suburbs and central suburbs and office constructions in the suburban business districts (central and western), as these areas had seen the maximum real estate launches/office space completions over the past few years. central suburbs and western suburbs accounted for 51% and 42%, respectively, of the residential launches from 2014–2016. The suburban business districts, western and central, accounted for 51% and 23%, respectively, of the new office space completions from 2013–2016.

THE STAY, HOWEVER, DOESN'T APPLY TO;

- Construction of hospitals, educational institutions and redevelopment projects covered by clauses (5), (6), (7), (8), (9) and (10) of DCR No. 33
- Projects which had received IOD before the judgment was passed. For those projects the construction would continue. However, for new projects the civic body can only accept proposals for but not issue IOD and CC certificates.
- Consideration of the proposals for repairs/reconstruction of the existing buildings, which do not involve use of any additional FSI in addition to the FSI already consumed.

The Maharashtra Chamber of Housing Industry (MCHI) had also filed a review petition challenging the ban on new constructions in the city, including buildings meant for residential and commercial purposes, which was dismissed by the Bombay High Court in May 2017.

The Brihanmumbai Municipal Corporation could take certain cues from its neighbouring municipal corporation – the Kalyan-Dombivali Municipal Corporation (KDMC). A similar ruling was passed by the Bombay High Court in April 2015 staying all new constructions in the KDMC area due to inadequate facilities for safe disposal of waste. Over 150 building projects that had applied for permissions were stuck. Reports indicated that projects worth over ₹500 crore had failed to take off as a result of the ban, which had also affected KDMC's coffers.

However, in April 2016, the Bombay High Court lifted the ban on new construction projects in the twin townships of Kalyan and Dombivli following a plan of action submitted by KDMC to initiate measures for a garbage disposal management system. KDMC had submitted a plan to the Court that included setting up two waste processing plants to dispose of garbage scientifically. It said that it had identified land at Barave and Umberde and was in the process of issuing tenders. We hope that akin to the KDMC move, BMC also comes up with its own waste disposal plan at the earliest, as this will ensure that construction in the Mumbai realty market is back on track.

> **Central Suburbs and Western Suburbs accounted for 51% and 42%, respectively, of the residential launches from 2014–2016. The suburban business districts, Western and Central, accounted for 51% and 23%, respectively, of the new office space completions from 2013–2016.**

MUMBAI

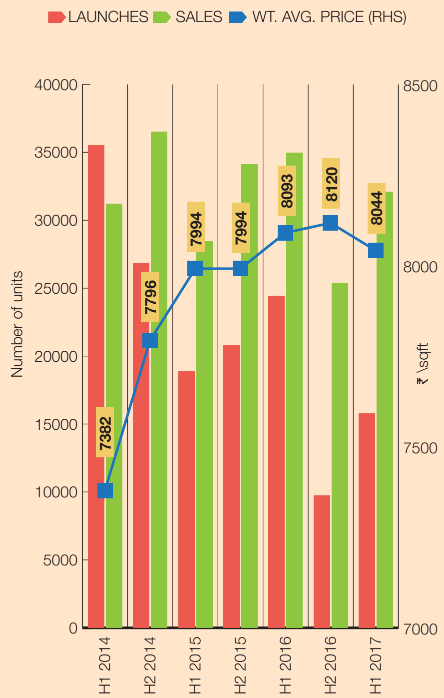
RESIDENTIAL MARKET

1. MMR RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

- In H1 2016, the Mumbai Metropolitan Region (MMR) residential market witnessed its best growth momentum after the 2008 global financial crisis. The signals were optimistic even for the remaining part of the year, thereby raising hopes that the MMR residential market which has been on a downward spiral since 2010 would see a growth in sales in 2016. However, in H2 2016, the market suffered a big blow with both launches and sales plummeting due to demonetisation.

- H1 2017 was better than H2 2016 w.r.t. launches and sales, but in terms of overall launches, it was lower than the comparable periods of the previous years. There are two primary reasons for lower launches– huge stock of unsold under-construction inventory and the Real Estate (Regulation and Development) Act, 2016 (RERA). Earlier, Mumbai had unsold inventory in the under-construction category, however, it has started witnessing build-up in the unsold inventory even in the ready-possession category. This has deterred developers from launching new projects before their pile of unsold inventory is cleared.

FIGURE -1
MMR MARKET TRENDS - HALF-YEARLY



Source: Knight Frank Research

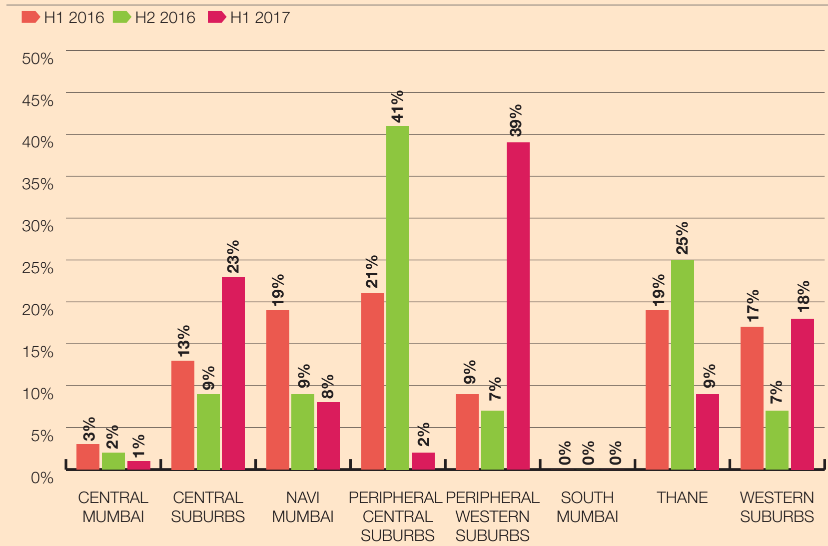
- In the latter part of H1 2017, a large number of developers had stopped all marketing activities and were not ready to provide any details of their projects on paper or e-mail before they became RERA complaint. Despite that, the sales increased by 26% sequentially, but were down 8% YoY. Any buyer/consumer would not have confidence to buy a property, if the developer is not ready to provide any details of the project on paper, hence RERA compliance deterred builders from marketing their projects, thereby impacting residential sales.

- Apart from the primary issues of unsold inventory and RERA, there were two other lingering issues, which also affected new launches in Mumbai – the dumping ground issue and announcement of the Revised Draft Development Plan 2034 (DP2034). Few developers were awaiting clarity on those issues before they could start construction.

- For unsold inventory in buildings which has completed construction where the unit size could not be changed, there was a marginal reduction in prices on account of promotional schemes adopted to push sales. Hence, the weighted average prices for residential property in MMR reduced by 0.6% YoY and 1% sequentially.

- However, an interesting trend was emerging in the Mumbai residential market for new launches. For a large number of new launches, the residential prices per sq ft was not reduced, but developers had reduced the size of the apartments significantly, thereby reducing the overall price that the buyer would have to pay, i.e. the ticket size of the apartments would be lower. The lower ticket size gave the apartments a perception of being affordable. Such apartments had a higher sales velocity and witnessed a higher buyer demand than for the older ones.

FIGURE -2
MICRO-MARKET SPLIT OF LAUNCHED UNITS

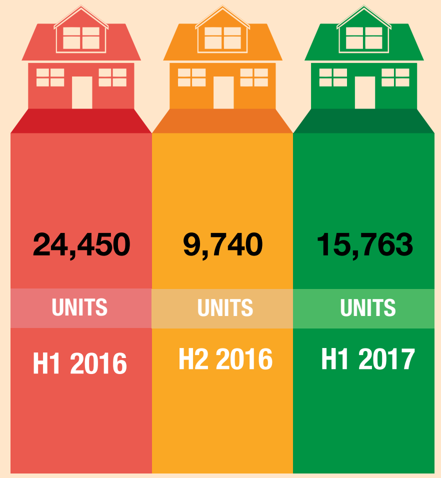


Source: Knight Frank Research

2. MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

- During H1 2017, a large number of developers deferred their plans to launch residential units due to RERA. Most of them were either focussing on completing existing projects or transforming their businesses to be RERA complaint. As a result, the launches were lower by 36% YoY but higher by 61.8% than H2 2016, the H2 2016 numbers were abysmally low due to demonetisation.

- Across Mumbai there is a huge stock of under-construction inventory, particularly in the peripheral central suburbs, Navi Mumbai and westerns suburbs. Hence, the developers have slowed down on new launches. The peripheral central suburbs had the highest proportion of under-construction units; therefore, the launches have been drastically lower in this area in H1 2017. In the peripheral western suburbs, there



An interesting trend was emerging in the Mumbai residential market for new launches. For a large number of new launches, the residential prices per sq ft was not reduced, but developers had reduced the size of the apartments significantly, thereby reducing the overall price that the buyer would have to pay, i.e. the ticket size of the apartments would be lower.

was a launch of a large number of units in a single project in Palghar. The same was the case in the central suburbs. In central suburbs there was a project launched in the affordable housing segment – The Crystal Xrbia. This project came up in Chembur with over 2000 units in a single project having smaller unit size of apartments. This led to significant increase in the share of units launched in central suburbs.

TICKET-SIZE SPLIT ANALYSIS OF LAUNCHED UNITS

	H1 2016	H2 2016	H1 2017
<2.5 mn	13%	11%	36%
2.5-5 mn	20%	52%	32%
5-7.5 mn	23%	13%	16%
7.5-10 mn	6%	9%	3%
10-20 mn	22%	7%	12%
>20 mn	16%	9%	1%

Source: Knight Frank Research

- There has been an unprecedented response from the developers in Mumbai to the Government of India's focus on affordable housing and its efforts to push through this initiative by granting it infrastructure status for affordable housing projects along with the interest subsidy on loans given to this segment. The seeds to push affordable housing were sown in the Union Budget 2015-16 proposals, but the real impetus came in the Prime Minister's announcement on 31 December 2016 and the Union Budget 2016-17 proposals. Post the budget proposals, developers had started skewing constructions in this favour and began launching units in the affordable segment. The overall ratio of the units launched in the price range of below ₹75 lakh has increased significantly in a short span of time from 56% during H1 2016 to 84% in H1 2017. The units costing less than ₹25 lakh formed the highest percentage of launches i.e. 36% in H1 2017 much higher than 13% in H1 2016 and 11% in H2 2016.

The Crystal Xrbia project in Chembur which launched over 2000 units in a single project with smaller unit sizes of apartments, this led to significant increase in the share of launched in Central Suburbs.

MICRO-MARKET WISE RESIDENTIAL SALES

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

MUMBAI METROPOLITAN REGION MAP

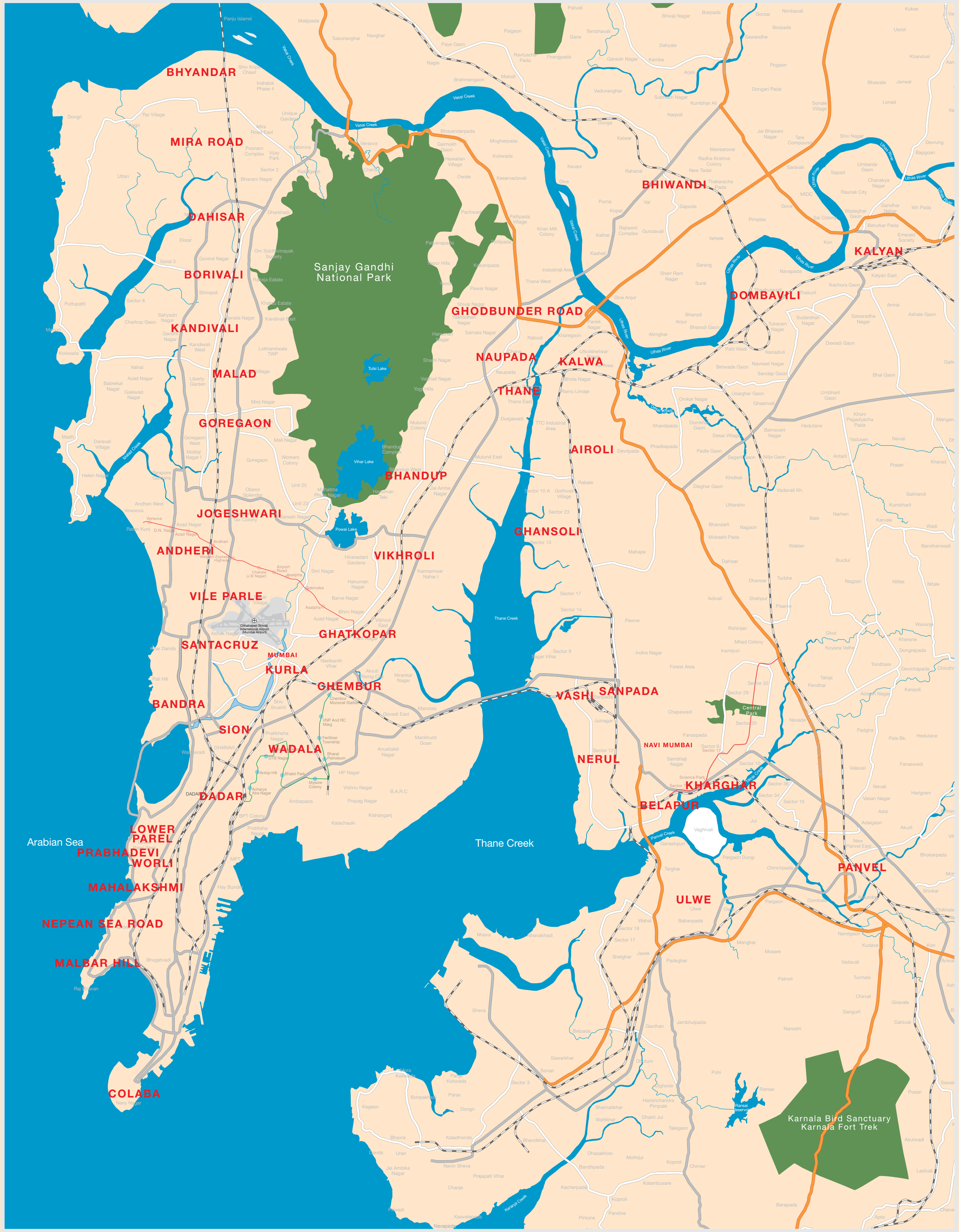
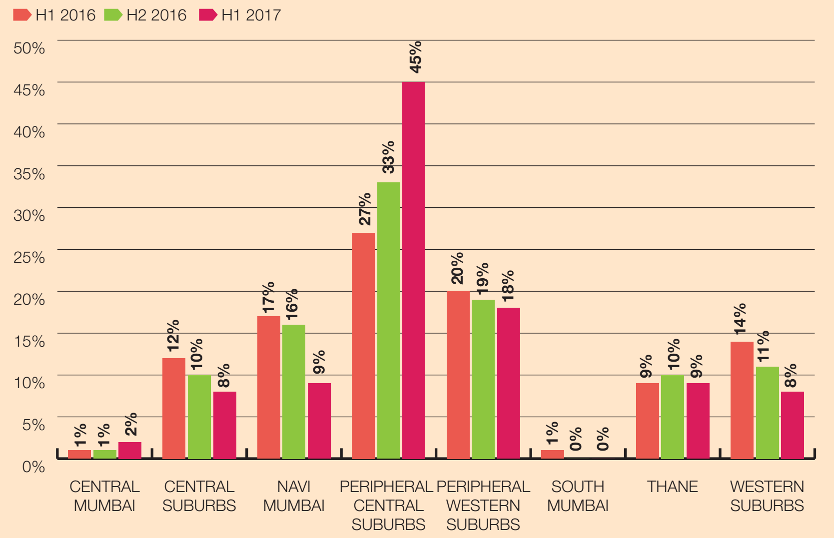
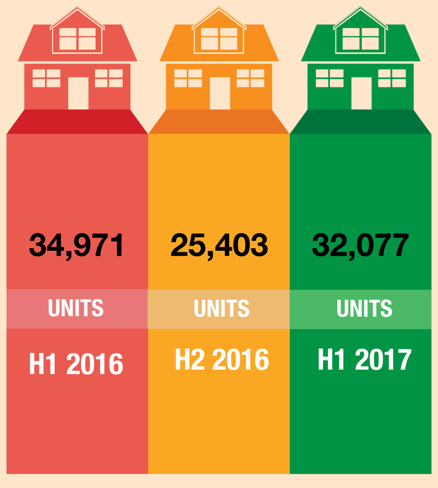


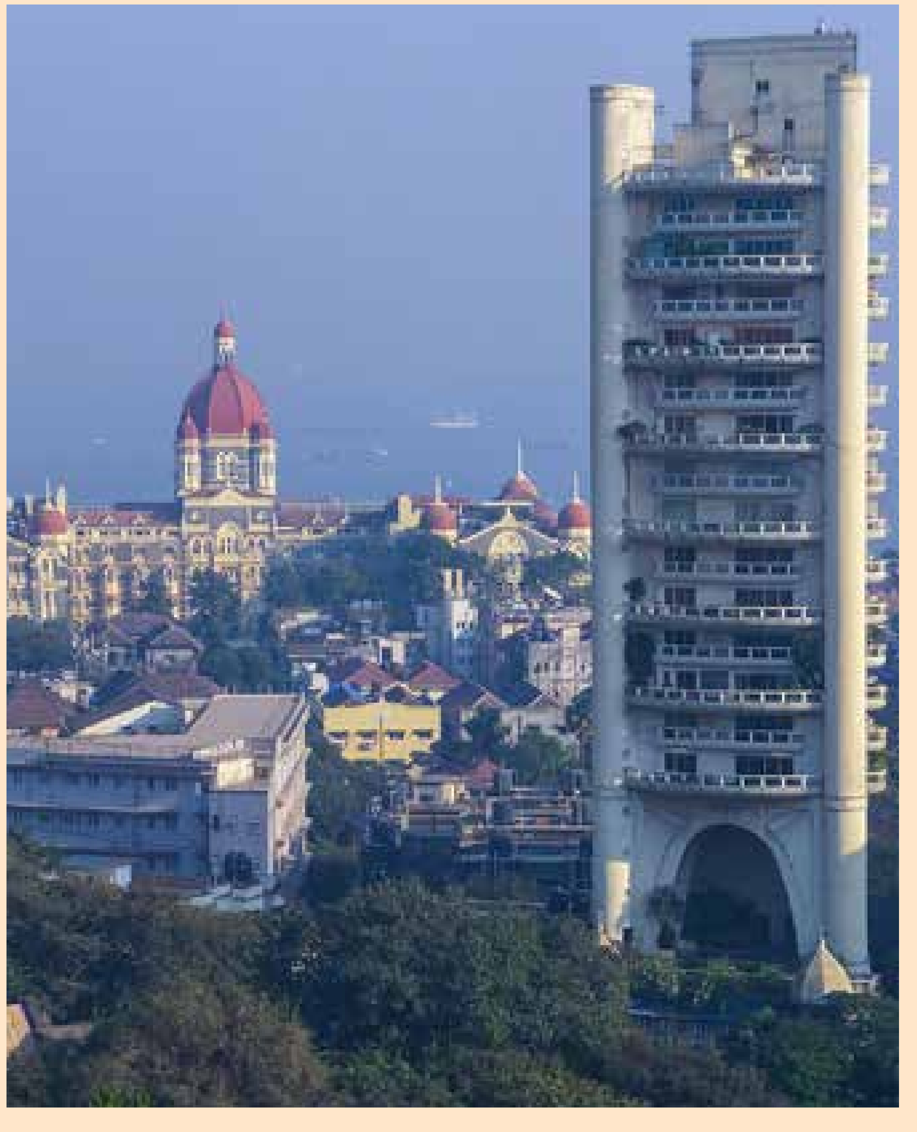
FIGURE -3
MICRO-MARKET SPLIT OF SALES



Source: Knight Frank Research



- Along with supply, the demand has also shifted towards affordable housing, which is evident from the jump in sales in the peripheral central suburbs.



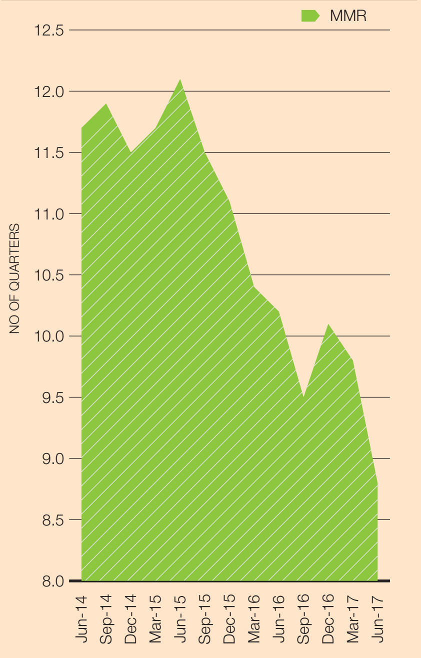
4. MARKET HEALTH

- The quarters to sell unsold inventory (QTS) is the number of quarters required to exhaust the existing unsold inventory in the market. The existing unsold inventory is divided by the average sales velocity of the preceding eight quarters in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market.
- The unsold inventory level has come down steadily from a peak of 213,742 units in H1 2014 to 138,653 units in H1 2017. Consequently, the QTS for MMR has also come down from 12.1 quarters to 8.8 quarters. However, this is not a desirable phenomenon considering that the decline came on account of a sharp reduction of launches as the market continues to shrink.
- Even while the premium markets of South Mumbai and Central Mumbai contribute to just about 4% of the unsold inventory, they face the worst QTS at 16 and 17, respectively.
- The Peripheral Central Suburbs is the largest market in the MMR in terms of the quantum of under-construction housing units. This lead has been maintained for a long period of time. However QTS was lowest for the Thane market.

MICRO-MARKET	UNSOLD INVENTORY
Central Mumbai	4,281
Central Suburbs	19,453
Navi Mumbai	24,618
Peripheral Central Suburbs	31,758
Peripheral Western Suburbs	22,126
South Mumbai	1,174
Thane	13,192
Western Suburbs	22,051
Mumbai	138,653

Source: Knight Frank Research

FIGURE -4
QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS

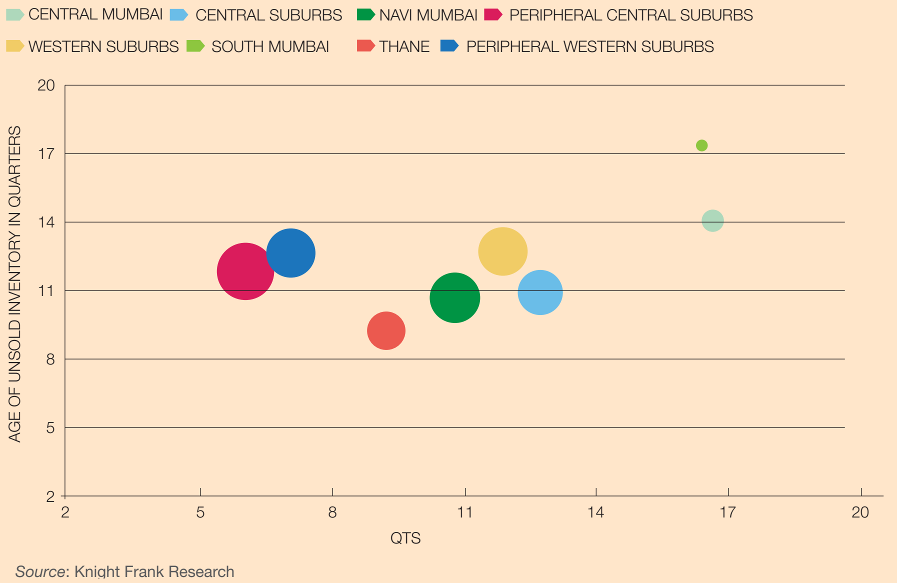


Source: Knight Frank Research

The Peripheral Central Suburbs is the largest market in the MMR in terms of the quantum of under-construction housing units. This lead has been maintained for a long period of time.

- Peripheral western suburbs had the highest percentage of inventory in ready possession category. As the unit size for inventory in this category cannot be varied, the developers who are unwilling to reduce the prices are finding it difficult to find the desired number of buyers.

FIGURE -5
MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research
Note: The size of the bubble indicates the quantum of unsold inventory

5. PRICE MOVEMENT IN H1 2017

- Residential property prices in Mumbai are witnessing a time correction since the last two years. The demonetisation decision has further fuelled consumer expectation of price cuts. However, no across-the-board price cuts have been recorded in the market except for some projects in Mira Road and Virar.
- In case of an under-construction project, price reduction disturbs the equation with existing buyers and investors. Hence, most cases have reported to offer indirect discounts by waiving stamp duty and registration charges. Instances of free gifts, in the form of gold and consumer appliances or a liberal financing plan, where a buyer pays only 5% upfront and remaining on possession, have become a widespread phenomenon. A price protection plan is also being offered to prospective consumers to assuage concerns in the event of a price decline.

The new landscape of transparency, efficiency and governance brought collectively by the demonetisation scheme, benami property law and the real estate regulation will challenge the status quo of real estate investment and transactions

PRICE MOVEMENT IN SELECT LOCATIONS

LOCATION	MICRO-MARKET	PRICE RANGE IN H1 2017 (₹/SQ FT)	12-MONTH CHANGE	6-MONTH CHANGE
Lower Parel	Central Mumbai	25,000–36,000	1%	0%
Worli	Central Mumbai	31,000–55,000	1%	0%
Ghatkopar	Central Suburbs	12,000–22,000	1%	1%
Mulund	Central Suburbs	10,700–14,000	2%	0%
Powai	Central Suburbs	14,500–20,000	2%	1%
Panvel	Navi Mumbai	4,000–6,500	-2%	-2%
Kharghar	Navi Mumbai	6,700–9,000	3%	1%
Vashi	Navi Mumbai	10,000–15,000	1%	0%
Badlapur	Peripheral Central Suburbs	2,700–3,500	0%	0%
Dombivali	Peripheral Central Suburbs	4,500–6,000	2%	2%
Mira Road	Peripheral Western Suburbs	5,500–7,300	-3%	-2%
Virar	Peripheral Western Suburbs	4,500–5,500	-4%	-2%
Tardeo	South Mumbai	40,000–60,000	0%	0%
Ghodbunder Road	Thane	6,000–10,000	-1%	0%
Naupada	Thane	14,000–18,000	0%	0%
Andheri	Western Suburbs	15,000–22,000	0%	0%
Bandra(West)	Western Suburbs	40,000–60,000	0%	0%
Borivali	Western Suburbs	11,000–15,000	-1%	0%
Dahisar	Western Suburbs	9,000–11,000	0%	-1%
Goregaon	Western Suburbs	13,000–15,000	-1%	-1%

Source: Knight Frank Research

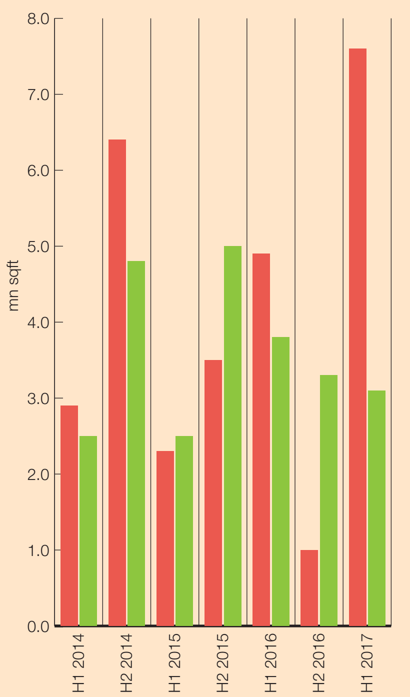
OFFICE MARKET

1. MUMBAI OFFICE MARKET STOCK, NEW COMPLETIONS, TRANSACTIONS AND VACANCY TRENDS

- The office transactions have been slowing down since H2 2015. The overall transactions were down by 19% YoY and 5% sequentially. The GDP growth of India for the quarter ending March 2017 was 6.1%, indicating a significant slowdown in the economy post demonetisation. The slowdown in business environment was one of the primary reasons for low demand of office spaces.
- Over the past few years developers shunned office developments plans in favour of residential projects, which has caused significant constrain in supply of Grade A office spaces in preferred locations of the city. In spite of the slowdown in GDP growth a significant number of discussions have surfaced between occupiers and developers in the recent past. However, the talks have not translated into transactions primarily because the developers are holding on to rates and are unwilling to reduce their rates while negotiating with potential occupiers.
- H1 2017 witnessed the highest supply of new completions over the past several years. The new supply increased to 7.6 mn sqft during H1 2017 higher by 54% YoY. This has caused significant increase in vacancy rates. Across the MMR the vacancy rates had reduced to 19.6% during H2 2016; however, it has jumped back to 21.9% in H1 2017 higher than the vacancy rates during H1 2016. The vacancy levels were lowest in Central Mumbai at 0.4%, followed by BKC at 5.2%.
- The total occupied stock increased by 6% YoY and sequentially by 3% to 103 Mn sqft.

FIGURE -1

NEW COMPLETIONS AND TRANSACTIONS – HALF-YEARLY TREND



Source: Knight Frank Research

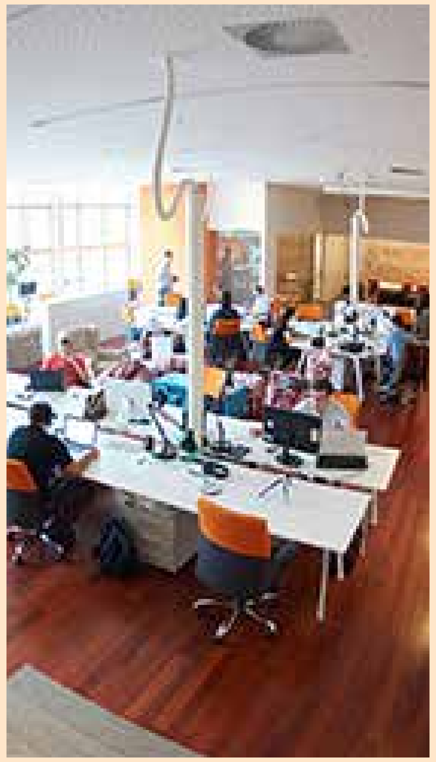


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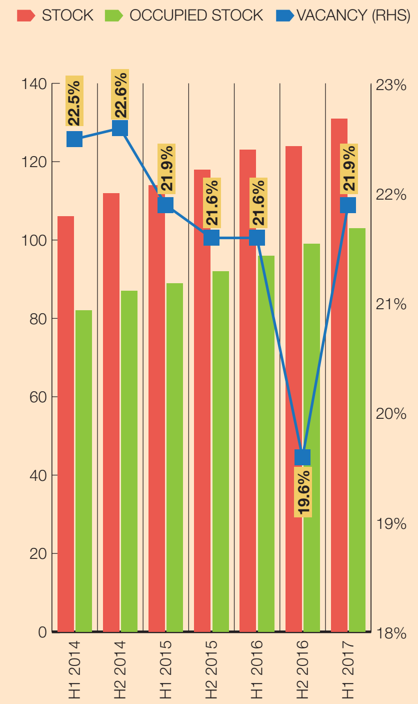
FIGURE -2

OFFICE SPACE STOCK AND VACANCY LEVELS – HALF-YEARLY TREND



Source: Knight Frank Research

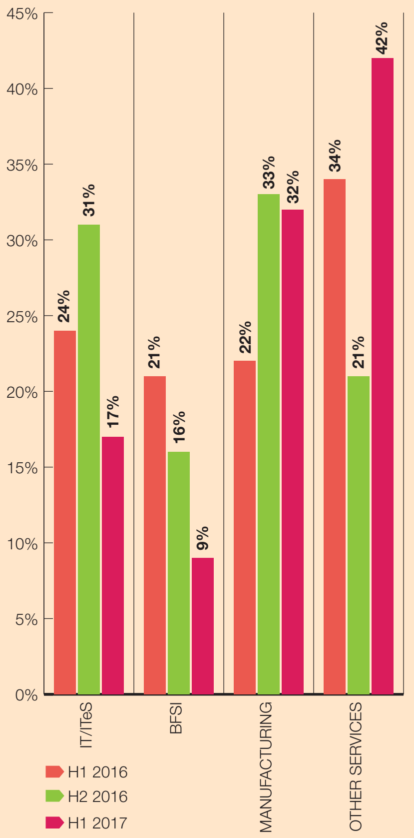
2. SECTOR ANALYSIS

- There was a slowdown in demand from the BFSI sector and the IT/ITES. Sequentially both the sectors saw a drop of 45% in demand, which led to companies under the category of 'other services' becoming the largest consumers of office space for H1 2017, which generally require smaller size units compared to IT/ ITES. This category which comprises e-commerce, consulting, media etc. also recorded a staggering 96% sequential increase in demand in H1 2017.
- While developments within India have a limited impact on the Indian IT industry, global developments particularly Americas and the Europe, has put the technology sector under pressure, hence the demand from IT/ ITES has been reducing. Coupled with absence of any large deals in H1 2017, the IT sectors' demand share has almost halved from 16% in H2 2016 to 9% in H1 2017. The demand share of the manufacturing sector during the same period was stable around 32% sequentially.

Sequentially both the BFSI and IT/ITES companies saw a drop of 45% in demand which led to companies under the category of 'other services' becoming the largest consumers of office space in H1 2017.

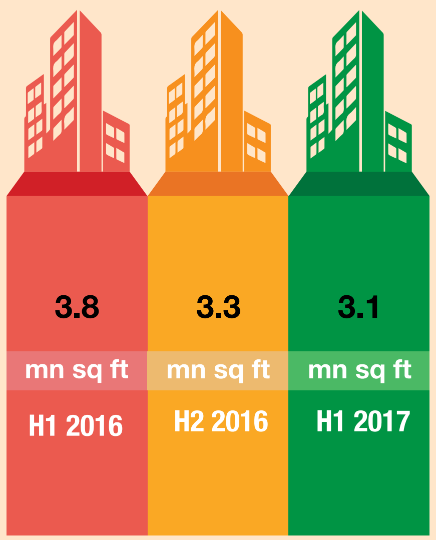
FIGURE -3

SECTOR-WISE SPLIT OF TRANSACTIONS



Source: Knight Frank Research

Note: BFSI includes BFSI support services

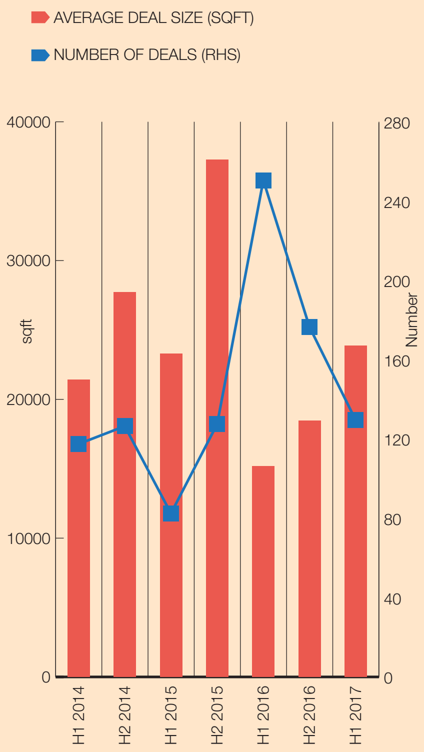


3. DEAL SIZE ANALYSIS

- The average deal size during H1 2017 increased by 57% YoY and 29% sequentially since the volume of deals dropped by 48% YoY and 27% sequentially.
- Not only were the volume of transactions lower, the largest transaction in terms of sqft of space leased was also lower in H1 2017. The largest transaction in H1 2017 was 120,000 sqft compared to 250,000 sqft in H2, 2016.

FIGURE -4

AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

SELECT TRANSACTIONS

OCCUPIER	BUILDING	LOCATION	APPROX AREA (SQ FT)
Jacobs	Gigaplex	Navi Mumbai	120,000
Syedna Trust	Fort House	Fort	120,000
Novartis	Inspire BKC	BKC	100,000
TCE	Reliable Empire	Navi Mumbai	90,000
Zydus	HQ 460	Goregoan East	80,000
Here Maps	Gigaplex	Navi Mumbai	65,000
New York Film School	Urmi	Lower Parel	40,000
Vertex	Rupa Solitaire	Navi Mumbai	40,000
FDC Pharma	Independent building	Andheri West	38,000
SBI Bank	Kalpavruksha	Navi Mumbai	36,000

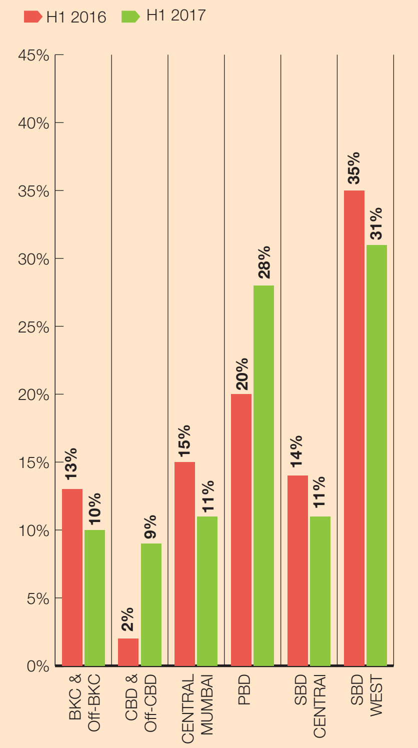
Source: Knight Frank Research

4. BUSINESS DISTRICT ANALYSIS

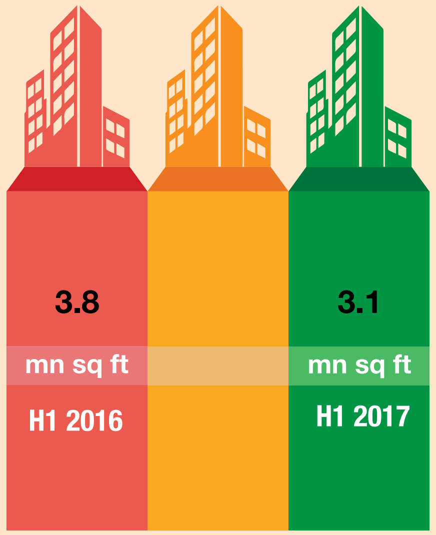
- Office rent consciousness coupled with the changing profile of residential catchments across the metropolitan region is translating into movement of office demand to the north of the city where rents are much lower compared to the central business districts.
- SBD Western and PBD witnessed the largest contribution to the office demand during H1 2017. Given the residential density and good connectivity to localities in SBD West, the companies in the other services sector which generally have smaller space requirements preferred taking office space up in these regions.

FIGURE -5

BUSINESS DISTRICT-WISE TRANSACTION SPLIT

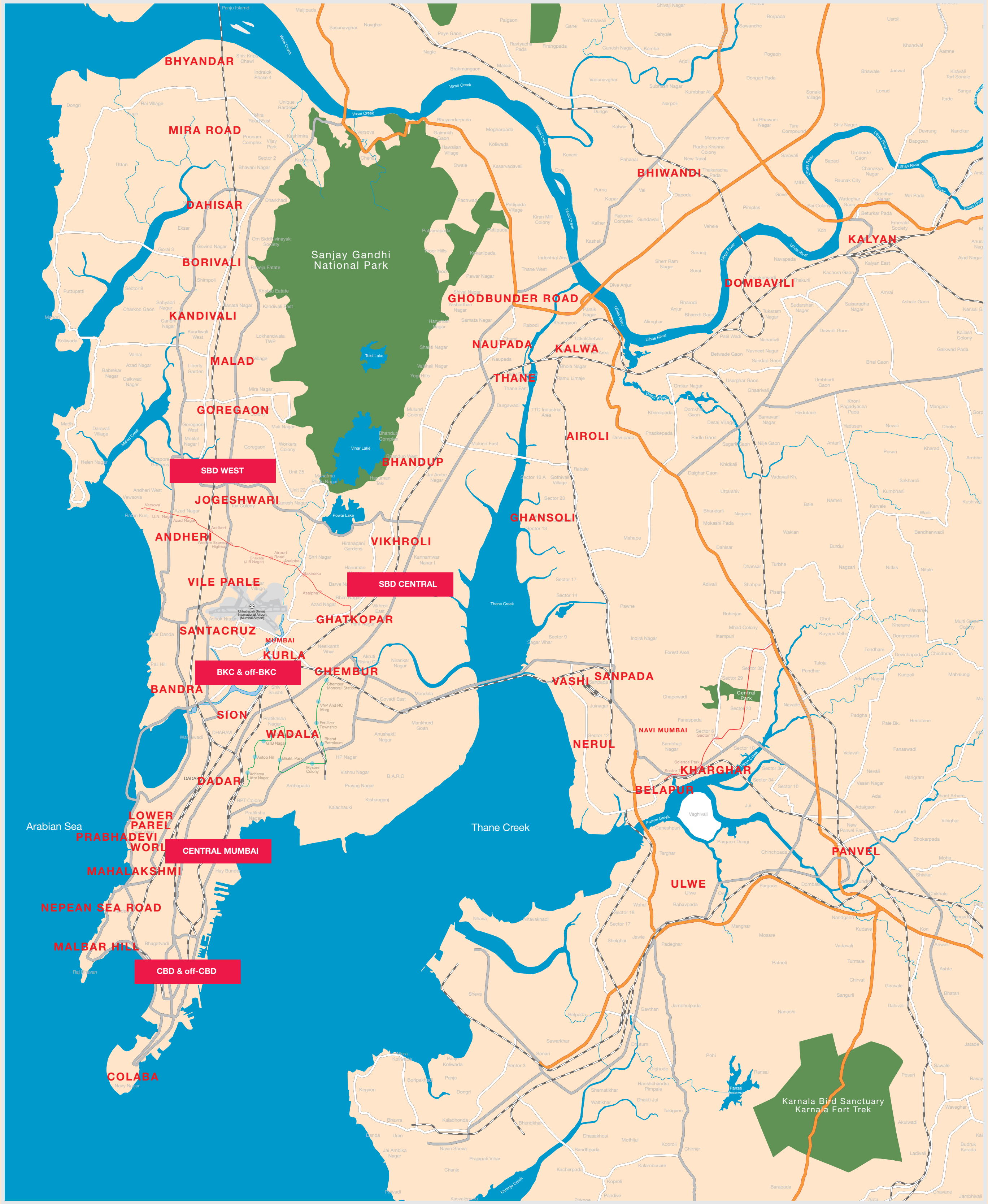


Source: Knight Frank Research



Not only were the volume of transactions lower, the largest transaction in terms of sqft of space leased was also lower in H1 2017. The largest transaction in H1 2017 was 120,000 sqft compared to 250,000 sqft in H2, 2016.

MUMBAI METROPOLITAN REGION MAP



BUSINESS DISTRICT	MICRO-MARKETS
CBD & off-CBD	Nariman Point, Cuffe Parade, Ballard Estate, Fort, Mahalaxmi, Worli
Bandra Kurla Complex & off-Bandra Kurla Complex (BKC & off-BKC)	BKC, Bandra (E), Kalina and Kalanagar
Central Mumbai	Parel, Lower Parel, Dadar, Prabhadevi
SBD West	Andheri, Jogeshwari, Goregaon, Malad
SBD Central	Kurla, Ghatkopar, Vikhroli, Kanjurmarg, Powai, Bhandup, Chembur

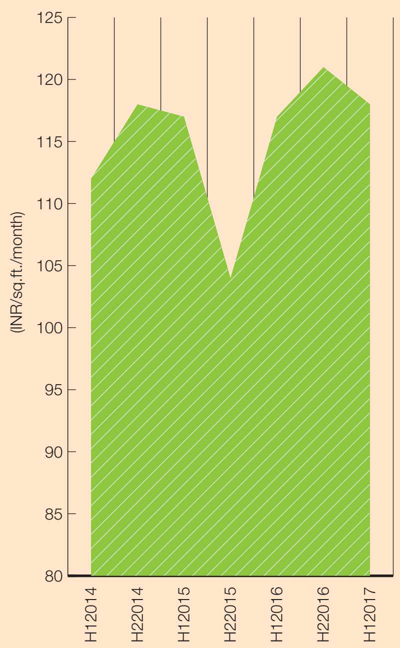
Source: Knight Frank Research

5. RENTAL TREND

- The rental values have increased in most office markets except for peripheral business districts which had the highest vacancy rates of 32%. Due to lower vacancy levels compared to rest of the city, both BKC and Central Mumbai recorded 6% surge in rentals in H1 2017 over H1 2016.
- The rents for MMR appreciated to ₹118/ sqft/month in H1 2017 higher by 1% YoY compared to ₹117/sqft/month in H1 2016. The rents had gone up during H2 2016 due to fall in vacancy rates.

FIGURE -6

WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

The rental values have increased in most office markets except for peripheral business districts which had the highest vacancy rates of 32%.

BUSINESS DISTRICT-WISE RENTAL MOVEMENT

BUSINESS DISTRICT	RENTAL VALUE RANGE IN H1 2017 (₹/SQ FT/MONTH)	12-MONTH CHANGE	6-MONTH CHANGE
BKC & Off-BKC	220-330	6%	2%
CBD & Off-CBD	160-250	2%	0%
Central Mumbai	170-200	6%	3%
PBD	50-90	-4%	-3%
SBD Central	80-150	3%	2%
SBD West	80-140	2%	1%

Source: Knight Frank Research

GETTING THINGS RIGHT – INFRASTRUCTURE PUSH IN GURUGRAM

- *BY* **ANKITA SOOD**

Urban growth is an inevitable phenomenon and the only reason why Gurugram is different is the fact that it happened too fast for this city. Projected from the start as the 'millennium city', Gurugram grew by leaps and bounds owing to it being a natural extension to the country's capital and its proximity to the international airport in New Delhi. Factors such as the availability of huge land parcels, favourable tax policies, availability of manpower and good connectivity to national highways, all worked in favour of this city. So much so, that Gurugram took the lead over its contemporary market – Noida, in terms of the supply and absorption of office space or price appreciation of residential real estate.

The saying that people follow jobs proved right in the case of Gurugram when Maruti made its foray in the city in the 1980s. In 1983, the Maruti Suzuki plant proved to be a major turning point in Gurugram's economy, which was then followed by the movement of General Electric (GE) in 1997. This paved the way for other multinational corporations (MNCs) such as American Express, IBM, Microsoft, Infosys, Ericson and many more, to set up businesses in Gurugram which in turn, changed the social and physical landscape of the city.

This spurt in job creation resulted in the movement of people to the city and Gurugram's population grew by over a whopping 500% from 2001 to 2011. The economic pull factor of the city is such that thenumber of vehicles that enter Gurugram are three times more than the ones registered in the city.

> **This spurt in job creation resulted in the movement of people to the city and Gurugram's population grew by over a whopping 500% from 2001 to 2011. The economic pull factor of the city is such that the number of vehicles that enter Gurugram are three times more than the ones registered in the city.**

As time passed, and office and residential developments took place, Gurugram slackened its pace of infrastructure development and somewhere lost the lead it had maintained over its contemporary market Noida. If we look at the past few years, Gurugram has been struggling with the delivery of various infrastructure projects, unlike Noida. While work on the roads and metro connectivity in Noida has been going on in record speed, the pace of development in Gurugram has been extremely slow. The breeze of the roads in Gurugram has been lost with bumper-to-bumper traffic jams at various junctions.

This has put pressure on the seamless connectivity to the economic hub and the monsoons in 2016 proved to be a wake-up call for the authorities. The rains brought Gurugram to a standstill and left people stranded helplessly on various such important junctions. The result of this was the push to either speed up work or construct new decongestion alternatives such as like flyovers and underpasses in the city. Most of the road infrastructure construction underway is slated to finish by 2019. Let's take a view at some of the major ongoing infrastructure projects in Gurugram that will help in decongesting the city.

It is only wise that the authorities take cognisance of the fact that the resource pressure on Gurugram is only going to increase in future owing to it being an economic nucleus. Going forward, if the physical infrastructure does not keep pace with the economic development, then Gurugram would only be a ‘millennium city’ on paper.

INDIAN FARMERS FERTILIZERS CORPORATION (IFFCO) CHOWK

This is a complex intersection in Gurugram where vehicles converge from multiple points such as the retail corridor of Mehrauli–Gurugram (MG) Road, Old Gurugram, Sector 17/18 and Shankar Chowk. Once completed, this flyover will facilitate the movement from Jaipur to Delhi and also help movement towards the office hub of Udyog Vihar and the Old Gurugram area. It will also further facilitate easy access to the retail stretch of MG Road from Sector 14 and Sector 17.

HERO HONDA CHOWK

The 1.4-km and eight-lane flyover at the Hero Honda Chowk is nearing completion and will bring relief to commuters on the Delhi–Jaipur Highway or NH-8, who in peak times have to crawl to enter or exit Gurugram. This flyover will also provide additional connectivity to the upcoming Dwarka Expressway where the new residential sectors (81–95) of New Gurugram are coming up. Once completed, the flyover will also ease access to office locations of Sohna Road and DLF Cybercity and is expected to halve the travel time . In the present day coming to Soha Road and DLF Cybercity from the sectors of New Gurugram (Sectors 81–95) could take anywhere between 1–1.5 hours during peak office hours.

SIGNATURE TOWER

This is a two-way, four-lane underpass on the Delhi–Gurugram Expressway (NH-8). The underpass will improve connectivity to the residential catchment of Old Gurugram and Palam Vihar via the Maharana Pratap Chowk. This improvement in access will make the residential catchment of Old Gurugram, like Sector 14, and further down the areas like Palam Vihar well connected with offices in Signature Tower and Unitech Cyber Park.Prominent hospitals like Max and Fortis would see seamless connectivity While the underpass will provide a seamless drive to the metro interchange at HUDA City Centre, it will also improve access to the packed F&B hub in Sector 29.

The 16-lane expressway. The upcoming (partially open) 10.5-km, 16-lane expressway will join NH-8 at Shankar Chowk to Sectors 55–56 on Golf Course Road. This will connect Golf Course Road with the commercial district of DLF Cybercity on one end and to the upcoming residential and office corridor of Golf Course Extension Road on the other. The road, once complete, will provide the much needed swift connectivity between these corridors and will ease the travel time to DLF Cybercity by half, as it would take only 8–10 minutes to reach the office hub of DLF Cybercity from Golf Course Extension. At present, the Genpact crossing is the only patch left.

RAPID METRO

Another important infrastructure push has been the linking of the Rapid Metro to Sectors 55–56 in Gurugram. The now operational, 7-km-long line from Sikandarpur metro station to Sectors 55–56 has made the commute to Golf Course Road and Golf Course Extension Road smoother from the DLF Cybercity. However, the woes of unreliable road transport on this stretch for last mile-connectivity still remains a problem. On a broader level, the metro has opened up areas like Golf Course Extension and improved its perception of being inaccessible without having a vehicle. The metro on this route has five metro stations and will cater to the riders from Golf Course Road Sectors 42, 43, 53, 54, 55, 56 and DLF Phase 1 to commercial and office stretches of DLF Cybercity and MG Road. The attractiveness of the Golf Course Road and the areas along Golf Course Extension Road will only increase with the completion of these two major infrastructure projects (16-lane expressway and Rapid Metro) by the end of 2017.

OUTLOOK

This push for improvement in infrastructure, especially road infrastructure, in Gurugram will not only decongest the city but also add to the brand value of this city and enhance its attractiveness as a location for business and residence. However, even in the present day there are projects like the Dwarka Expressway in Gurugram that have been delayed for more than a decade. It is only wise that the authorities take cognisance of the fact that the resource pressure on Gurugram is only going to increase in future owing to it being an economic nucleus. Going forward, if the physical infrastructure does not keep pace with the economic development, then Gurugram would only be a ‘millennium city’ on paper.

NATIONAL CAPITAL REGION (NCR)

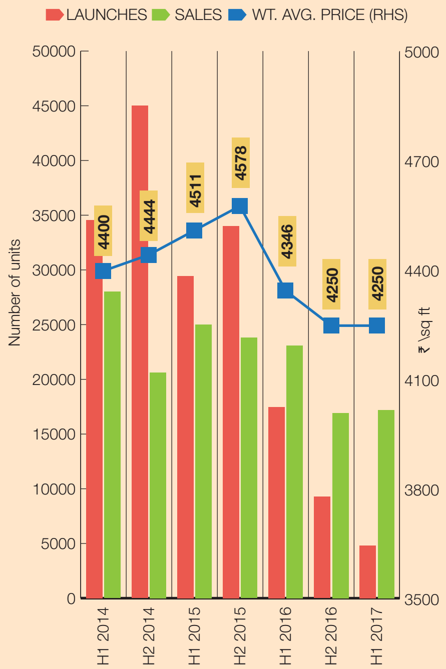
RESIDENTIAL MARKET

1. NCR RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

- New launches in NCR have shrunk to a staggering minimal of 4,800 units in H1 2017 registering a 73% de-growth YoY compared to H1 2016. The market shows no respite even from the bottomed out last half of 2016 and registered a 48% de-growth in new launches compared to H2 2016. Dwindling consumer confidence in the market courtesy delay in projects marred by litigations and poor connectivity in potential growth areas has slowed the market. That slowdown has restricted developers to launch new projects.
- The new launches in NCR have been dwindling since 2010, but have come to its nadir in H1 2017. With the Real Estate (Regulation and Development) Act, 2016 a reality, developers are focusing on completing pending projects as opposed to launching new ones. . Ambiguity over RERA guidelines in Haryana and Uttar Pradesh which house the two major residential markets of Gurugram and Noida respectively has also slowed new projects. . While RERA rules in Haryana are at the draft stage, the Uttar Pradesh government has notified it. But, in absence of a gazette the regulation is yet to come into force.
- The uncertainty coupled with slow sales velocity and time correction in price since 2013 has brought stagnancy to the market. NCR today has the highest unsold inventory under different stages of construction but is struggling to find buyers.
- Althoughthe sales volumeshave dropped by 26% YoY in H1 2017, it has shown a marginal increase over the demonetisation-induced slump in H2 2016.

FIGURE -1

NCR MARKET TRENDS - HALF-YEARLY



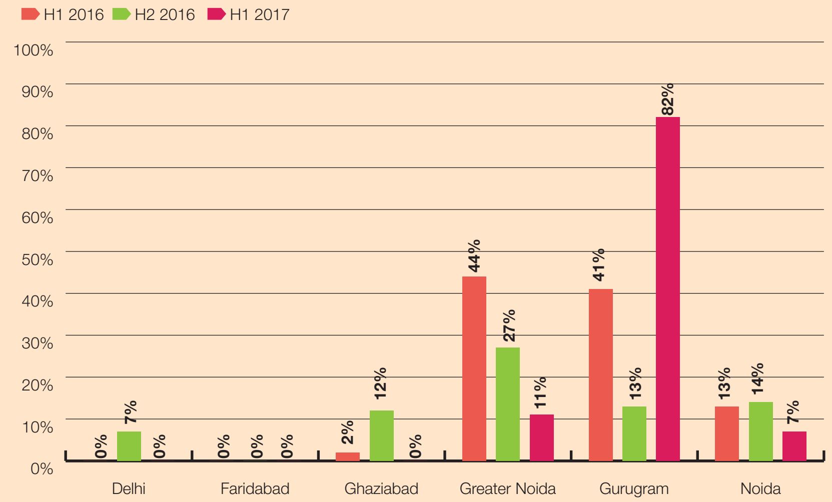
Source: Knight Frank Research

2. MARKET SPLIT OF RESIDENTIAL LAUNCHES

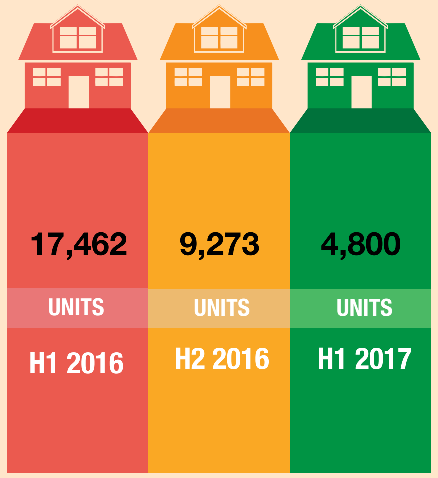
- The new launches in NCR have come down to a staggering 4,800 units in H1 2017 registering a YoY drop of 73%. On an average, NCR's six- monthly new launches have been above 50,000 units in the past, but have hit rock bottom in H1 2017.
- Many factors have contributed to this drop, such as the looming uncertainty over RERA that pushed developers to complete projects in hand instead of starting newones. The fear of provision for 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 and the ones which are yet to get a completion certificate) have to be registered with the real estate regulator.
- Developers have also taken note of the fact that the buyer preference has shifted towards projects that are either complete or are nearing completion. Also, the fact that most of the projects are construction linked, developers are rushing to finish their previously launched inventories in order to regulate their cash flows.

FIGURE -2

MICRO-MARKET SPLIT OF LAUNCHED UNITS



Source: Knight Frank Research



TICKET-SIZE SPLIT ANALYSIS OF LAUNCHED UNITS

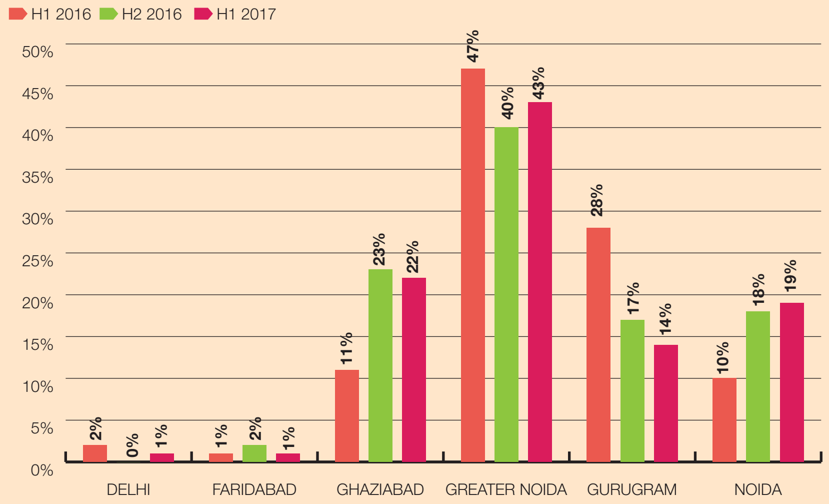
	H1 2016	H2 2016	H1 2017
<2.5 mn	8%	2%	70%
2.5-5 mn	56%	14%	11%
5-7.5 mn	15%	35%	7%
7.5-10 mn	14%	33%	12%
10-20 mn	8%	4%	0%
>20 mn	0%	11%	0%

With the attraction towards ready to move in projects and the structural change in the Indian Real Estate market in the form RERA becoming a reality, new launches in the National Capital Region have come to a historical low. Also, since most of the projects have a construction-linked payment plan, developers are concentrating on completing their existing projects to boost their cash flows

- It is also interesting to note that 70% of the 4,800 units launched in H1 2017 have been in the less than ₹2.5 Mn category signifying the inclination of the supply side towards the affordable housing segment. The central government has granted the infrastructure status to the affordable housing segment, which in turn has incentivised developers to launch projects in this price bracket.
- Gurugram known for its luxurious properties and unaffordable ticket size saw 85% of its new supply in the less than ₹2.5 mn price bracket. Sectors such as 95, 95A and 36 in Gurugram saw new launches under the Pradhan Mantri Awas Yojna (PMAY) in H1 2017.
- New launches in the micro-market of Greater Noida have dropped by 93% in H1 2017 compared to the same period in 2016. Taking cognisance of the volume of unsold inventory in this micro-market, developers in Greater Noida have refrained from launching new projects. The market is known for its residential property offerings under the ₹5 mn category.

FIGURE -3

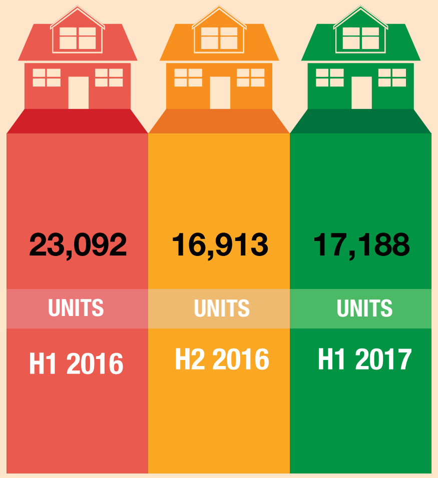
MICRO-MARKET SPLIT OF SALES



Source: Knight Frank Research

3. MARKET-WISE RESIDENTIAL SALES

- Approximately 17,188 units were sold in the first half of 2017, compared to 23,092 units in H1 2016, thus registering a drop of 26%. However, on a half yearly comparison, the market is showing green shoots of recovery and sales have picked up by a marginal 2% in H1 2017 compared to H2 2016.
- Demand in NCR had been on a downward spiral since 2013 and H2 2016 saw the lowest half yearly sales with only 16,913 units. This historic low in sales was evidence to the Indian Government's move to clamp down black money which brought the NCR real estate market on its knees.
- However, our survey suggests that there is an improvement in the buyers' sentiment in H1 2017 owing to the streamlining of the real estate sector through the implementation of RERA which is slowly bringing back the buyers' confidence to the market.
- Though there is a YoY 26% drop in sales in the overall market in H1 2017, there has been a huge uptick in the micro-markets of Ghaziabad and Noida.
- Ghaziabad which is mostly an under ₹50 Mn ticket size market has registered a 40% growth in sales in H1 2017. Primarily catering to the affordable and the mid-segment, Ghaziabad includes established residential clusters such as Kaushambi, Vaishali and Indirapuram and the relatively newer areas of Raj Nagar Extension, NH 24, including Crossings Republic. Ghaziabad has always garnered interest from price sensitive buyers.
- Noida on the other hand registers a 42% increase in H1 2017 sales compared to the same period in 2016.
- On a half- yearly comparison, sales in Greater Noida and Noida have started to look up post the currency demonetisation initiative in H2 2016 and have gone up by 9% and 10% respectively. This uptick in sales is majorly due to the traction in the affordable housing segment which is in the price bracket of ₹<5 mn.
- Going forward, the recent announcement of a new airport at Jewar in Greater Noida will add to the attractiveness of Noida as an office market which will have a positive reverberation on the residential market as well. The Central Government has given its final approval for a greenfield international airport at Jewar which is expected to finish its first phase in 5–6 years. The government has already set aside 3,000 hectares for this project and once operational the airport is expected cater to 30–50 million passengers a year. The coming of the airport will give a major boost to the office and residential market in Noida and Greater Noida, which was lagging behind Gurugram due its distance from the airport.



The NCR residential market is showing green shoots of recovery in H1 2017 with sales marginally picking up from its nadir point in H2 2016. Our survey suggests that there is an improvement in the buyer sentiment in H1 2017 owing to the streamlining of the real estate sector through the implementation of RERA, which is slowly bringing back confidence to the market.

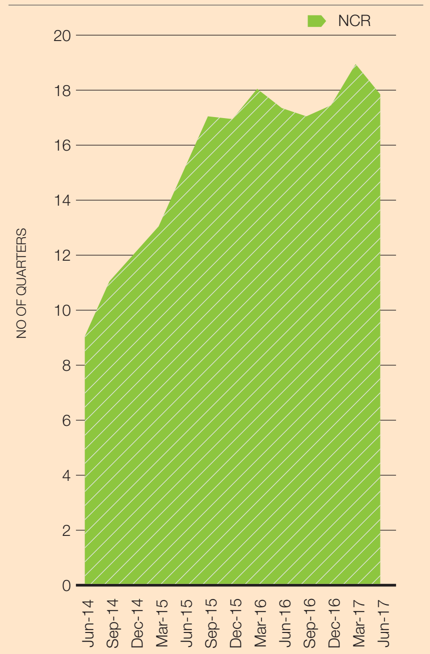
MICRO-MARKET	UNSOLD INVENTORY
Delhi	1,539
Faridabad	5,677
Ghaziabad	29,711
Greater Noida	69,019
Gurugram	47,480
Noida	26,944
NCR	180,370

Source: Knight Frank Research

4. MARKET HEALTH

FIGURE -4

QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS

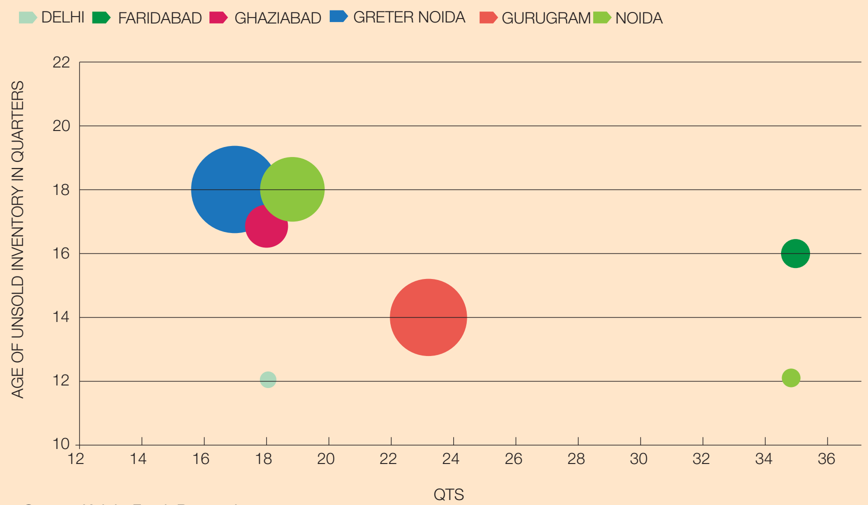


Source: Knight Frank Research

- 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 of NCR has been moving in close range of 17–18 in the past six quarters stands at 18 quarters at the end of June 2017, which is extremely high. This translates that if the sales velocity remains the same, it would take approximately 4.5 years to exhaust the current unsold inventory of 180,370 units.
- Though there have been no new launches in Ghaziabad and Greater Noida remain still NCR's comparatively better performing markets, with a QTS of 17 and 15, respectively. Affordability options add to the attractiveness of these markets, which has helped sales trickle in.

FIGURE -5

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

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

NATIONAL CAPITAL REGION MAP

4. PRICE MOVEMENT IN H1 2017

- Prices in the NCR residential market had already started correcting in the first half of 2016, where the market corrected for the first time and registered a 4% YOY drop. The story continues in the first half of 2017 as well and the market has seen no movement in weighted average prices which clearly shows a time correction.
- Factors such as speculative increase in prices over opening up of new land parcels, announcement of new infrastructure projects and investor interest in micro-markets such as Gurugram had fuelled the overnight increase in prices during 2010-2011 that time making the market more unaffordable.
- The fact that there has been no increase in prices since 2013 signifies that developers are cognisant of the accumulating inventory and slow sales velocity which has restrained them from increasing prices.

PRICE MOVEMENT IN SELECT LOCATIONS

LOCATION	MICRO-MARKET	PRICE RANGE IN H1 2017 (₹/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	-1%	0%
Sector 16 B	Greater Noida	3,100–3,400	0%	0%
Sector 16 C	Greater Noida	2,668–3,866	0%	0%
Sector 78	Noida	5,500–5,627	-1%	1%
Sector 70	Noida	4,100–4,101	-7%	0%
Sector 117	Noida	4,800–4,880	0%	1%
Sector 143 B	Noida	3,970–5,200	0%	1%
Sector 37	Gurugram	4,200–5,600	0%	0%
Sector 49	Gurugram	7,700–10,200	0%	0%
Sector 67	Gurugram	9,100–9,200	0%	2%
Sector 79	Gurugram	4,200–6,200	-2%	-2%
Sector 82	Gurugram	3,700–5,900	-1%	-1%
NH-24 Bypass	Ghaziabad	2,842–3,000	1%	1%
Raj Nagar Extension	Ghaziabad	2,884–2,900	-3%	-1%
Crossings NH24	Ghaziabad	3,200–3,300	-1%	1%
Sector 37	Faridabad	4,704–7,200	13%	1%
Sector 75	Faridabad	2,500 – 3,500	-20%	0%
Sector 76	Faridabad	2,720–2,900	0%	0%

Source: Knight Frank Research

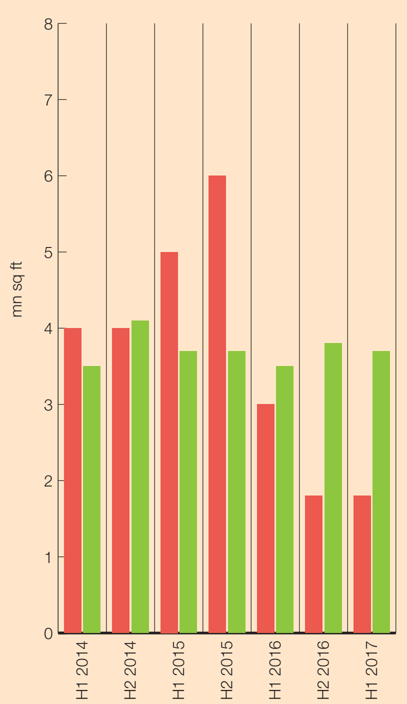
OFFICE MARKET

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

- The office stock in NCR stood at 144 mn sq ft at the end of June 2017, of which 119 mn sq ft is occupied stock.
- The new completions in NCR have been dwindling since 2016 and have failed to pick up even in the first half of 2017. New completions registered a YoY drop of 36% in H1 2017 with only 1.8 mn sq ft entering the market. Fresh supply of office space had already bottomed out in 2016 and the story is no different in the first half of 2017.
- In terms of leasing, NCR saw a total of 3.2 mn sq ft of office space transactions in H1 2017, registering a 9% drop compared to the same period in 2016.

FIGURE -1

NEW COMPLETIONS AND TRANSACTIONS – HALF-YEARLY TREND

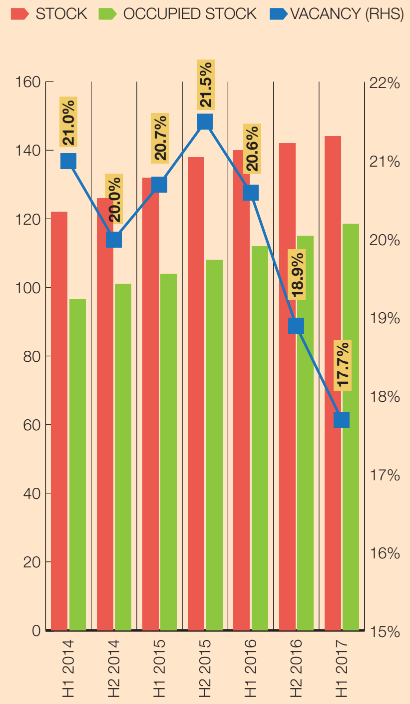


Source: Knight Frank Research

- The stable pace of absorption and the shrinking supply has nudged down vacancy levels to 17.7% in H1 2017 compared to 20.6% in H1 2016. However, vacancy levels in micro-markets of Gurugram such as DLF Cybercity and Golf Course Road have reached single digits.

FIGURE -2

OFFICE SPACE STOCK AND VACANCY LEVELS – HALF-YEARLY TREND



Source: Knight Frank Research

2. SECTOR ANALYSIS

- The proportion of BFSI in its total leased office space in NCR has dropped by a striking 80% in H1 2017. The sectors average transaction size also dropped from 21,196 sq ft in H1 2016 to a mere 14,919 in H1 2017. Some of the major transactions in this sector were from companies such as HDFC Ergo, RBL Bank and Dena Bank in Connaught Place, Delhi.
- The main driver of office space in NCR fails to impress in H1 2017 as well even though there is a YoY 14% uptick in the total space taken up by the sector. The

Project delays that plagued the real estate market were visible in the office market as well. As a result new completions in NCR have reached an all-time low. Only 1.8 mn sq ft of new completions hit the NCR market in H1 2017 registering a 36% decline from the same period in 2016.

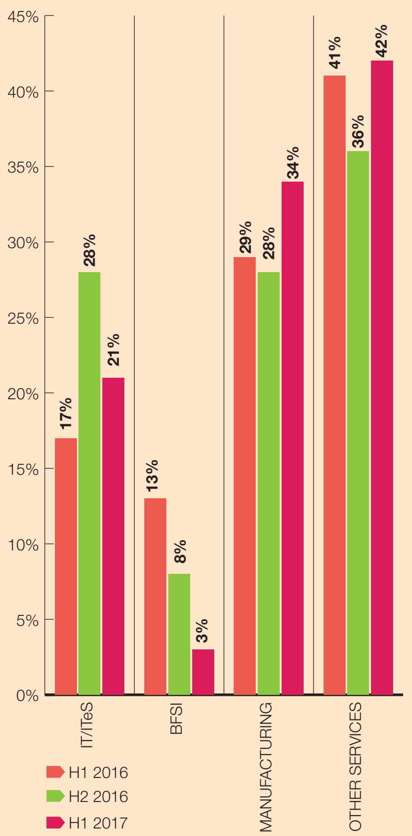
share of IT/ITeS is on a decline from 2014. Factors such as consolidation, cloud computing, automation and protectionist policies by developed countries have all contributed to the slowed growth of this sector. Adding to this the SEZ supply in NCR is in short supply and we believe that the slump in leasing is a temporary phase for the IT/ITeS sector. Some of the noteworthy transactions in this sector have been Google in Gurugram and Hi Pad in Noida.

- The Other Services sector accounted for 42% of the total office space demand in H1 2017, which is almost at par with the H1 2016 levels. Some of the large transactions in this sector include PayU, Gartner, Amazon and Ameriprise Financial.
- The share of manufacturing in the total transacted pie of H1 2017 stands at 34% compared to 29% in H1 2016. The sector registers a 6% increase in the total transacted space in H1 2017 compared to the same period in 2016. Demand from the sector has seen a steady increase post the Make in India campaign. Some of the prominent transactions in the manufacturing sector include Vivo Mobile, Stryker in Gurugram and Mitsui & Co in Aerocity in SBD Delhi.

The share of IT/ITeS is on a decline from 2014. Factors such as consolidation, cloud computing, automation and protectionist policies by developed countries have all contributed to the slowed growth of this sector. Adding to this the SEZ supply in NCR is in short supply, and we believe that this slump in leasing is a temporary phase for the IT/ITeS sector.

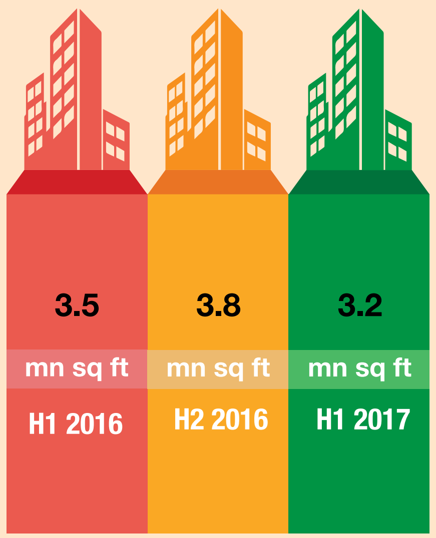
FIGURE -3

SECTOR-WISE SPLIT OF TRANSACTIONS



Source: Knight Frank Research

Note: *BFSI includes BFSI Support Services

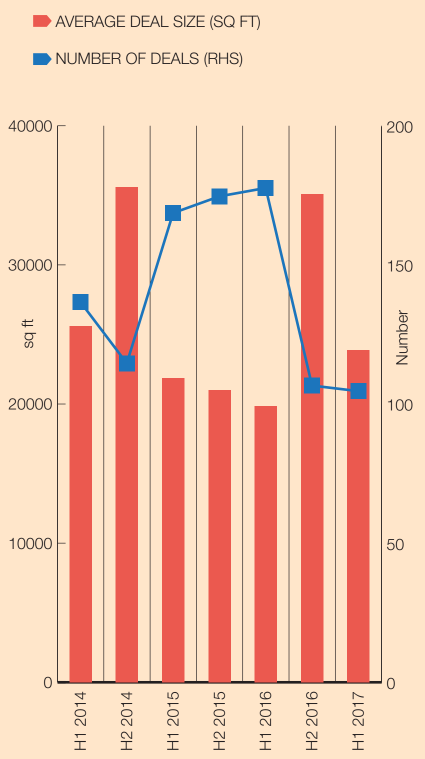


3. DEAL SIZE ANALYSIS

- The average transacted space which had come down significantly to 19,850 sq ft in H1 2016 has recovered to 27,300 sq ft in H1 2017.
- Gurugram yet again led the tally of the number of deals with 58% of the total 105 deals in H1 2017, followed by SBD Delhi and Noida with 22 and 16 deal conversions respectively. Locations such as Saket Aerocity in SBD Delhi and sector 62 in Noida were among the most preferred locations for occupiers in this half.

FIGURE -4

AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

SELECT TRANSACTIONS

OCCUPIER	BUILDING	LOCATION	APPROX AREA (SQ FT)
Amazon	Unitech Infospace	Sector – 62, Noida	200,000
Hi Pad	Dayal Tower	Sector – 63, Noida	150,000
Google	Rolta Tower	Udyog Vihar 1, Gurugram	140,000
AECOM	SP Infocity	Udyog Vihar – 1, Gugranur	66,000
Honeywell	Unitech Trade Center	Sushant Lok, Gugugram	65,000
Pay U	Bestech Business Tower	Sohna Road, Gurugram	65,000
Skootr	Building 9	DLF Cybercity, Gurugram	45,000
International Finance Corporation	World Mark– 3	Aerocity, SBD Delhi	38,000
Awfis	Lotus Business Park	Noida Greater Noida Expressway, Noida	30,000
HDFC Argo	Konnectus	Minto Road, CBD Delhi	23,000
NDTV	Good Earth Business Bay	Sector – 6, Noida	20,000
Aramco	Two Horizon Center	Golf Course Road, Gurugram	20,000
Accenture	World Mark – 3	Aerocity, SBD Delhi	18,000
Kone Elevator India Private Limited	Discovery Tower	Sector – 62, Noida	12,000
Dena Bank	Konnectus	Minto Road, CBD Delhi	7,000
AIS Research	Tapasya Corporate Heights	Noida Greater Noida Expressway, Noida	7,000

Source: Knight Frank Research

4. BUSINESS DISTRICT ANALYSIS

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

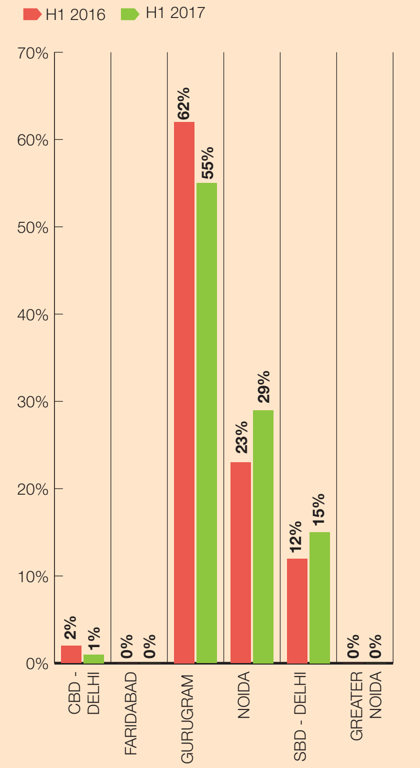
NATIONAL CAPITAL BUSINESS DISTRICT MAP

Gurugram yet again emerged as the most preferred office market in NCR in H1 2017. Approximately 55% of the total transacted space of 1.7 mn sq ft here was in the micro-markets of DLF Cybercity and Golf Course Road. Some of the prominent occupiers here in H1 2017 are PayU, AECOM, Tower Research, Gartner, Google and Honeywell.

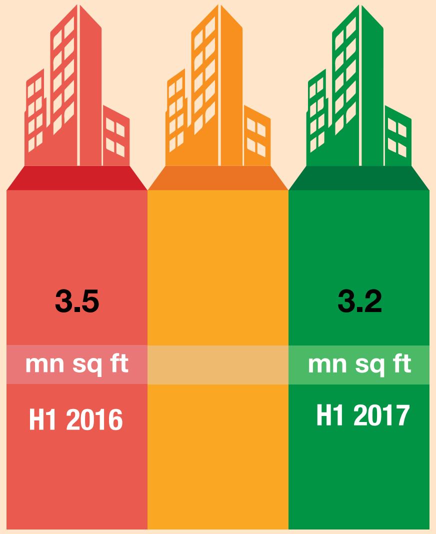
- Gurugram yet again emerged as the most preferred office market in NCR in H1 2017. It accounted for 55% of the total transaction pie of 3.2 mn sq ft. More than half of the leasing activity in the business district was concentrated in locations such as DLF Cybercity, Golf Course Road and Golf Course Extension Road. Approximately 55% of the total transacted space of 1.7 mn sq ft was in these micro-markets. Some of the prominent occupiers who leased space in Gurugram in H1 2017 are PayU, AECOM, Tower Research, Gartner, Google and Honeywell.
- Noida registered a 14% increase in the total transacted space in H1 2017 compared to the same period in 2016. With this increase in the leasing activity, the percentage share of Noida in the total office take up has also gone up to 29% in H1 2017 from 23% in H1 2016.
- Known for its options for IT/ITeS's back office, the announcement of a new airport at Jewar in Greater Noida is set to increase the attractiveness of Noida as an office market. The Central Government has given its final approval for a greenfield international airport at Jewar which is expected to finish its first phase in 5–6 years. The government has already set aside 3,000 hectares for this project and once operational the airport is expected cater to 30 – 50 million passengers a year. The coming of the airport will give a major boost to the office market in Noida, which was lagging behind Gurugram due its distance from the airport. Some of the major transactions in Noida in H1 2017 are Amazon, Awfis, Paytm, Hi Pad and Norgen.
- Leasing activity in CBD Delhi was steady and concentrated around Connaught Place on Minto Road while Aerocity and Saket were the most preferred micro-markets in SBD Delhi. Notably so, most of the leasing in Aerocity was concentrated in Bharti Worldmark. Some of the notable transactions in this area involve International Finance Corporation, Accenture, Haliburton and Duff & Phelps

FIGURE -5

BUSINESS DISTRICT-WISE TRANSACTION SPLIT



Source: Knight Frank Research

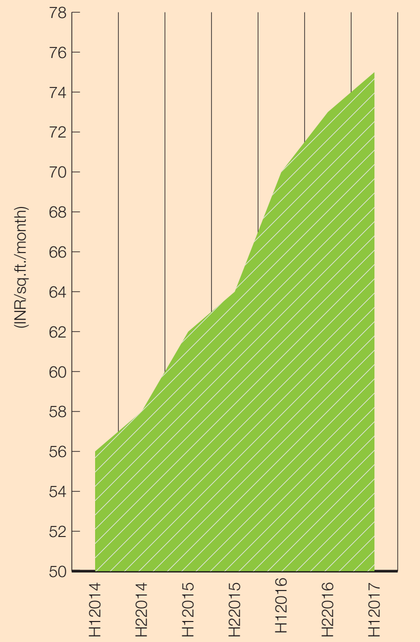


5. RENTAL TREND

- The new completions in NCR have dried up and only 1.8 mn sq ft was pumped into the market in H1 2017. Just as the residential sector even the office market faced delayed projects that brought in this supply crunch in NCR. Also, whatever supply has been coming up in the past one year has been in peripheral areas of Greater Noida which has failed to attract the occupiers. Another factor that is of major concern to the market is the lack of good quality supply. The occupiers are looking for good quality buildings with ready infrastructure and amenities which is currently in short supply.
- This lack of quality office space has put an upward pressure on rentals and has pushed the weighted average rental values from ₹70 per sq ft per month in H1 2016 to ₹75 per sq ft per month in H1 2017 registering a YoY increase of 7%.

FIGURE -6

WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

The stable pace of absorption and the shrinking supply has on one hand nudged down vacancy levels to 17.7% in H1 2017 compared to 20.6% in H1 2016 and have also created upward pressure on rentals. Rentals across business districts have firmed up in H1 2017 with occupiers willing to pay more for quality office buildings.

BUSINESS DISTRICT-WISE RENTAL MOVEMENT

BUSINESS DISTRICT	RENTAL VALUE RANGE IN H1 2017 (₹/SQ FT/MONTH)	12-MONTH CHANGE	6-MONTH CHANGE
CBD Delhi	214–350	4%	0%
SBD Delhi	93–163	1%	0%
Gurugram Zone A	106–165	12%	6%
Gurugram Zone B	72–134	8%	6%
Gurugram Zone C	25–35	0%	0%
Noida	44–70	9%	3%

Source: Knight Frank Research

NOIDA-GREATER NOIDA EXPRESSWAY

WHAT IS STOPPING THE OCCUPIER?

- BY **ANKITA SOOD**

It is an established fact that the two stalwarts of the Delhi NCR office market are Gurugram and Noida and they monopolise 75% of the current office stock of 144 mn sq ft. Both these micro markets are magnets for employment and infrastructure in Delhi NCR, and their prominence is evident from the fact that they absorb 85–90% of the total annual offtake of Delhi NCR. Good connectivity and robust infrastructure attracted occupiers to set up base in these markets, thus creating a plethora of white-collar employment opportunities. In the last few years, Gurugram has taken over the lead from Noida, in terms of supply and absorption of office space in NCR. Whereas Gurugram has hubs like DLF Cybercity, Golf Course Road and Sohna Road, Noida has not been able to attract and garner the same occupier interest for its 24-km, six-lane highway, popularly called the Noida–Greater Noida Expressway.

WHAT'S GOING FOR THE EXPRESSWAY?

SEAMLESS CONNECTIVITY

The singularity of this corridor is in 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. The link, which is slated to be completed by early 2018, will provide an alternative mode of travel for the workforce.

COMPETITIVE RENTALS

Apart from seamless connectivity, competitive rentals in the range of ₹35–55 per square feet per month give this corridor an added advantage over other similar locations in Delhi NCR like DLF Cyber City, where rentals are in the range of ₹110–120 per square feet per month and Noida, where rentals range between ₹45–70 per square feet per month. Companies such as SafeNet, IGATE, Genpact, Jubiliant Foodworks Ltd, NEC, Dell and Newgen are some of the major occupiers on this stretch, with transactions ranging between 60,000–90,000 sq ft.

READY RESIDENTIAL PRODUCT

The Expressway has a ready-to-move-in residential catchment, especially in sectors 93, 94, 137, 143 and 168. Unlike a few years back, when the stretch was perceived as distant and uninhabitable, today, the Noida–Greater Noida Expressway boasts of being one of the most developed corridors in Delhi NCR with ready social and physical infrastructure in the form of schools and hospitals and connectivity. There are a large number of property options on this stretch that run in the range of ₹3,800–5,900 per sq ft, even the rental value in this corridor is comparatively low as compared to the developed stretches in Gurugram.

WHAT IS GOING AGAINST THE EXPRESSWAY?

The missing airport:Even though there a lot of factors that work for the Expressway, the lack of easy access nullifies the advantages of this micro market. The only airport in Delhi NCR, Indira Gandhi International Airport in Delhi, is approximately 50 km from the Noida–Greater Noida Expressway. It could take anywhere between 2–2.5 hours or more during the peak hours of morning and evening traffic to commute from the Noida–Greater Noida Expressway to the airport. On the other hand, it takes 30–40 mins to cover a distance of 16 km from Golf Course Road in Gurugram to the airport. It is clearly a choice that the occupiers, especially corporates, make while setting up their offices along the Noida–Greater Noida Expressway.

QUALITY OFFICE SPACE

There is a dearth of quality office space along the Noida–Greater Noida Expressway to attract occupiers willing to pay higher rentals. The Expressway is yet to see state-of-the-art office space, such as Bharti Worldmark at Aerocity in Delhi or One Horizon Center on Golf Course Road in Gurugram, which commands the highest office rentals in NCR. By virtue of their location and building specifications, these office spaces command rentals in the range of ₹150–250 per square feet per month.

EASE OF DOING BUSINESS

As per our survey, occupiers have rated Gurugram higher than Noida on the ease of doing business parameter. Occupiers believe that governance issues are better taken care of in Gurugram than in Noida. We believe that authorities, in Noida, should take cognisance of this fact and improve the perception, of the micro market.

THE POTENTIAL GAME CHANGERS

Having delved into the strengths and weaknesses of the corridor, it can be said that though the Noida–Greater Noida Expressway has upped its game in infrastructure and competitive office rentals, it is the lack of quality office spaces and the distance from the airport that is slowing the pace of movement of offices in the corridor. In this regard, the recent announcement of a new airport at Jewar in Greater Noida will add to the attractiveness of Noida as an office market which will have a positive reverberation on the residential market as well. The Central Government has given its final approval for a greenfield international airport at Jewar which is expected to finish its first phase in 5–6 years. The government has already set aside 3,000 hectares for this project and once operational the airport is expected cater to 30–50 million passengers a year. The coming of the airport will give a major boost to the office market in Noida, which was lagging behind Gurugram due its distance from the airport.

Also, development of good quality office stock is critical for speeding up the pace of movement of companies along this stretch.

"It is an established fact that the two stalwarts of the Delhi NCR office market are Gurugram and Noida and they monopolise 75% of the current office stock of 144 mn sq ft. Both these micro markets are magnets for employment and infrastructure in Delhi NCR, and their prominence is evident from the fact that they absorb 85–90% of the total annual offtake of Delhi NCR.

PUNE PLAYING CATCH UP WITH THE MRTS PUSH

- *BY* **VIVEK RATHI**

the residential catchments of Aundh, Baner, Wakad, Hinjewadi and Bavdhan make up the action centre market of West Pune. This has been possible mainly on account of a robust presence of IT/ ITeS companies in the vicinity.

THE CANVAS OF PUNE CITY AND THE LARGER METROPOLITAN REGION

Pune's urban agglomeration, also known as the Pune Metropolitan Region (PMR), is spread over 3,500 sq km and consists of the Pune Municipal Corporation (PMC), Pimpri Chinchwad Municipal Corporation (PCMC), Pune Cantonment and Kirkee (Khadki) Cantonment. According to Census 2011, the total population of the PMR was 5.75 mn.

The development of the PMR is undertaken by various agencies, such as the PMC, PCMC, the Public Works Department (PWD) and others. Until last year, the absence of a single, unified planning authority for the metropolitan region has led to an inordinate delay in the execution of various infrastructure projects. However, last year, the Government of Maharashtra finally notified the formation of a regional development body, called the Pune Metropolitan Region Development Authority (PMRDA). PMRDA's integrated development plan (DP) for the entire region will replace the individual development plans of the various local bodies, including the PMC and PCMC. The PMRDA may also be responsible for major infrastructure projects, such as the metro rail and outer ring roads; the benefit of which accrues beyond the conventional city limits.

REAL ESTATE DYNAMICS AND THE INFRASTRUCTURE

The residential catchments of Pune are spread across the length and breadth of the city. We take a look at the major residential segments and also the office sectors to understand the need for urban transport that is affordable, convenient and contemporary.

Central Pune, with residential localities such as Koregaon Park, Dhole Patil Road, Model Colony and Kothrud, is the commercial heart of the city, with numerous corporate offices located in the central business district (CBD) areas of Bund Garden Road, M. G. Road, Deccan, Senapati Bapat Road and Shivajinagar. Neighbourhoods such as Katraj, Kondhwa, NIBM Road and Warje in South Pune are affordable alternative to Central Pune for home buyers . However, they lack a strong employment appeal.

North Pune, with major residential localities such as Pimpri, Chinchwad, Nigdi and Moshi are primarily industrial areas with various automobile and auto ancillary as well as engineering industries located here. The twin towns of Pimpri and Chinchwad host the manufacturing units of some of India's leading automobile companies, such as Bajaj Auto, Tata Motors, Force Motors and DaimlerChrysler. On the other hand, East Pune, with anchor localities like Viman Nagar, Kharadi, Wagholi, Hadapsar and Dhanori, has been developed and much sought-after residential market on account of the presence of a large number of IT/ITeS offices and social infrastructure. Similarly, the residential catchments of Aundh, Baner, Wakad, Hinjewadi and Bavdhan make up the action centre market of West Pune. This has been possible mainly on account of a robust presence of IT/ITeS companies in the vicinity.

Pune's office market is distributed broadly across the east and west zones. Currently, more than 80% of the city's office space stock is accounted for by these two zones, while the remaining is spread across the central, north and south zones. This means that more than 80% of the city's white-collared workforce commutes to either the East or West of the city.

Unlike its cousin city Mumbai, Pune's suburban train network is not the commuting option of choice. The city is also not equipped with metro rail or monorail connectivity. While there is a network of the bus rapid transit system (BRTS), the BRTS network does not do justice to this mass movement of the population. The biggest challenge that the city currently faces is the absence of a mass rapid transit system (MRTS) because of which a large section of the workforce either has to travel via private vehicles or employer-provided transportation to reach their workplaces. Metro rail as an MRTS has been a long pending demand of the city. The upcoming metro rail plan is a push in this direction. The Phase 1 shall have a route of 31.2 km, out of which the first corridor will run from PCMC to Swargate, a distance of 16.5 km, and the subsequent corridor will run from Vanaz to Ramwadi, which is a length of 14.6 km. Spread across the limits of more than one civic body, this project will enhance the north-south connectivity through the PCMC-Swargate corridor and the east-west connectivity through Vanaz-Ramwadi corridor. Thus, the proposed metro rail network will come as a big relief to the commuters in the region. It is only in December 2016 that the state government gave its approval to the project, which is targeted to be completed in an ambitious timeframe by 2021. While this will set the ball rolling on the city's most significant infrastructure parameter, the ultimate success will depend on how well and how fast the next phases of the metro rail become a reality.

Spread across the limits of more than one civic body, this project will enhance the north-south connectivity through the PCMC-Swargate corridor and the east-west connectivity through Vanaz-Ramwadi corridor.

80%

More than 80% of the city's white-collared workforce commutes to either the East or West of the city.

PUNE

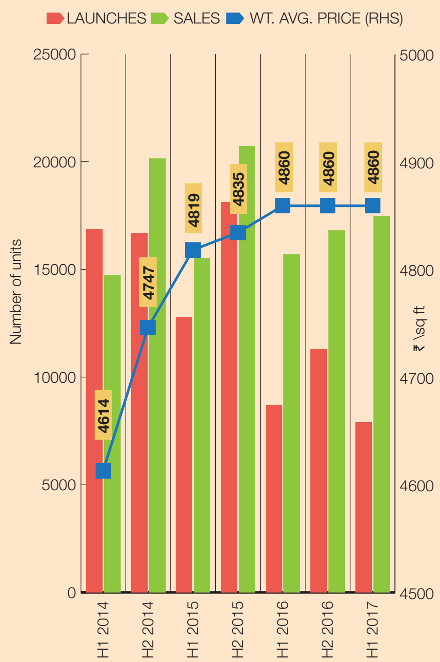
RESIDENTIAL MARKET

1. PUNE RESIDENTIAL MARKET LAUNCHES, SALES AND PRICE TRENDS

- After the tumultuous H2 2016 when the demonetisation needle punctured the market pulling down residential sales and launches by 38% and 19% respectively, H1 2017 has ushered as an eventful period.
- In H1 2017, launches stood at 7,905 units and sales at 17,480 units i.e. launches lower by 9% and sales higher by 11% compared to H1 2016. In comparison to the demonetisation period of H2 2016, the launches are sequentially 30% lower and the sales a modest 4% higher.
- The first two months of H1 2017 saw consumers and the industry as a whole grapple with the aftermath of demonetisation. Further, the state of Maharashtra was the first to implement the Real Estate (Regulation and Development) Act 2016 by notifying the law as well as putting the regulator in place on 1st May 2017. This single largest change in history of real estate industry will protect the consumer and provide a level playing field to all stakeholders by increasing the transparency and governance standards in the real estate industry. However, between 1st May 2017 and 31st July 2017 the window for registration of projects, any project whether new or on-going ones were barred from advertising, marketing or selling without registration with RERA. With developers re-directing efforts from sales to RERA compliance, pace of launches was lower in this period.

FIGURE -1

PUNE MARKET TRENDS - HALF-YEARLY



Source: Knight Frank Research

With developers re-directing efforts from sales to RERA compliance, pace of launches was lower in H1 2017

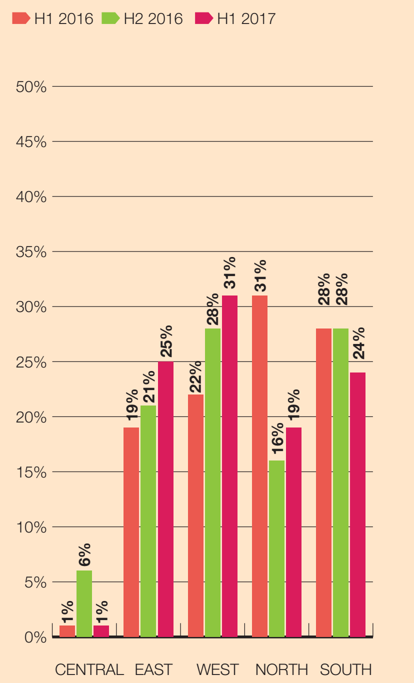
- In the backdrop of these landmark events this performance has also been dictated by the developers baggage of unsold inventory, which until a year ago was mainly in the under construction category. However, now 'ready for possession' apartments are also available across markets.
- The government has been paying focused attention to the affordable housing segment of the realty market. Housing loan interest rates, at around 8-8.5%, are at the lowest level last seen in 2009 and developers have been forthcoming in offering freebies and discounts to attract demand. As a consequence of these developments housing sales have seen 11% improvement in H1 2017 compared to H1 2016.

2. MARKET SPLIT OF RESIDENTIAL LAUNCHES

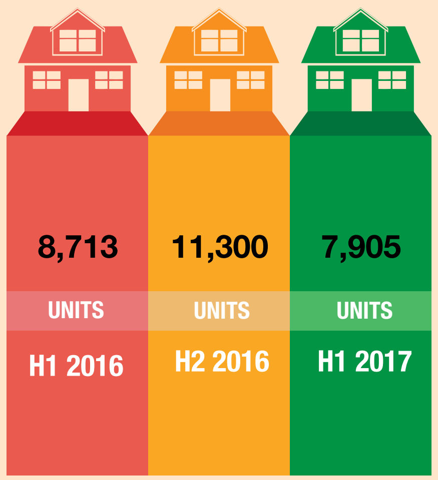
- In terms of launches, East and South Pune were the largest markets in the H1 2017. In East micro-market, localities like Kharadi, Wagholi, Hadapsar and Keshav Nagar were the largest contributors.
- In Pune's southern micro-market, Pisoli saw the largest share of launches in one project. The other localities in the south micro-market have been Katraj, Undri, and NIBM Road.

FIGURE -2

MICRO-MARKET SPLIT OF LAUNCHED UNITS



Source: Knight Frank Research



TICKET-SIZE SPLIT ANALYSIS OF LAUNCHED UNITS

	H1 2016	H2 2016	H1 2017
<2.5 mn	27%	21%	54%
2.5-5 mn	47%	49%	31%
5-7.5 mn	19%	18%	5%
7.5-10 mn	5%	3%	9%
10-20 mn	1%	8%	1%
>20 mn	1%	0%	0%

Source: Knight Frank Research

- The government's efforts towards 'Housing for All' agenda and incentives offered to fulfil this objective have started to reflect in the supply side response. The 'less than ₹ 2.5 mn' ticket size saw its launches share increase from 27% in H1 2016 to 54% in H1 2017.
- With residential property price around ₹3,500-4,500 per sqft the markets such as Pisoli, Chikhali, Kane Phata, Talwade saw the maximum launches in the 'less than ₹ 2.5 mn' ticket size.

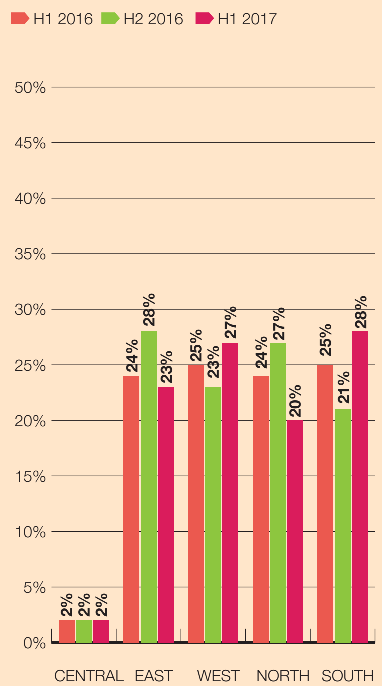
In Pune's southern micro-market, Pisoli saw the largest share of launches in one project. The other localities in south micro-market have been Katraj, Undri, and NIBM road.

PUNE MICRO-MARKET MAP

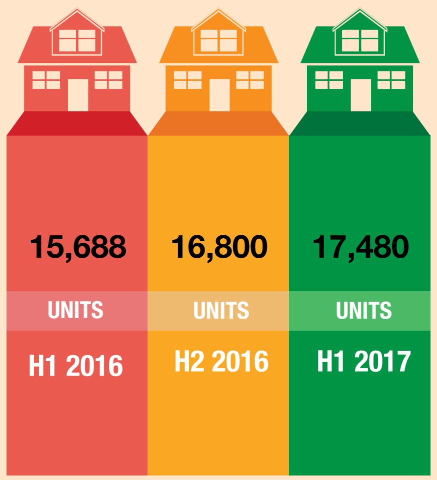
3. MICRO-MARKET WISE RESIDENTIAL SALES

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 -3
MICRO-MARKET SPLIT OF SALES



Source: Knight Frank Research

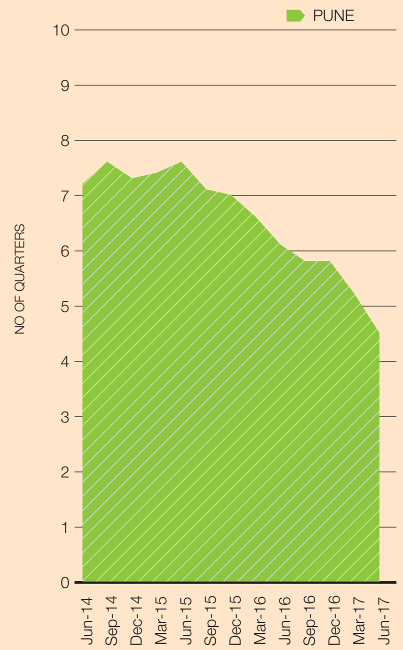


- Looking at the infrastructure dynamics of the city, absence of a mass rapid transit system (MRTS) is the the biggest challenge for the city. A large section of the workforce either has to travel via private vehicles or employer-provided transportation to reach their workplaces. Hence there is a strong preference to choose residential properties in the proximity to the place of work.
- Hence, the demand was spread across micro-markets. West and south markets contributed to 27% and 28% respectively.

4. MARKET HEALTH

- The quarters to sell unsold inventory (QTS) is the number of quarters required to exhaust the existing unsold inventory in the market. The existing unsold inventory is divided by the average sales velocity of the preceding eight quarters in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market.
- Until a year ago the developers baggage of unsold inventory was mainly in the under construction category. However, now 'ready for possession' apartments are also available across markets.
- Of the unsold inventory of around 40,000 units, east, eest and north micro-markets are the largest contributors. The share of ready possession inventory, which indicates that the sales schedule has stretched far beyond the construction schedule of the project, has increased. Of the available inventory in each market, south and north Pune

FIGURE -4
QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS



Source: Knight Frank Research

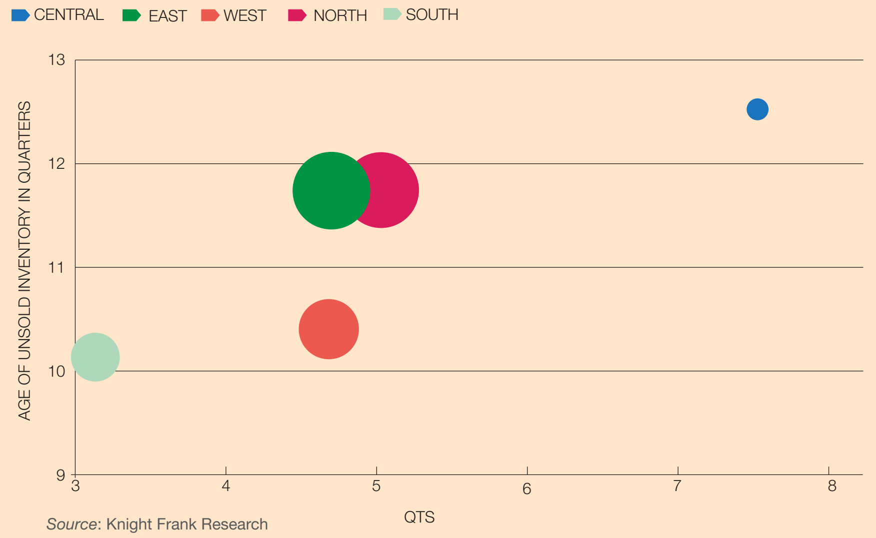
The developers baggage of unsold inventory, until a year ago was mainly in the under construction category. However, now 'ready for possession' apartments are also available across markets.

markets have higher number of such ready possession stock.

- The Pune residential market has seen a receding unsold inventory level. From the peak of around 71,000 units in H1 2014, the latest inventory level is around 40,000 units. Consequently, the QTS has also come down to an all-time low of 4.5 quarters.
- Amongst the micro-markets, the central Pune market on account of being the premium market has the highest QTS of 7.2 quarters.The age of unsold inventory is also among the highest in the city, indicating that a large number of previ-ously launched projects are still unsold in this micro-market.
- The south micro-market with localities such as Kondhwa, Ambegaon, Undri and Warje have the lowest QTS of 3.3 quarters.

FIGURE -5

MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

MICRO-MARKET	UNSOLD INVENTORY
Central	**1,108**
East	**10,597**
West	**10,616**
North	**10,994**
South	**6,826**
PUNE	**40,141**

Source: Knight Frank Research

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

PRICE MOVEMENT IN H1 2017

- The Pune weighted average price has stagnated at ₹4,860 per sqft. for the last one year implying no price growth for buyers of residential property. This has weakened the investment premise of the residential property asset class.
- Virtually no market has seen a price rise over the last six months. Some localities have seen a marginal price decline to the tune of 1 to2%. Developers have also been forthcoming in offering freebies and offers to attract demand.

PRICE MOVEMENT IN SELECT LOCATIONS

LOCATION	MICRO-MARKET	PRICE RANGE IN H1 2017 (₹/SQ FT)	12-MONTH CHANGE	6-MONTH CHANGE
Koregaon Park	Central	13,000 - 17,000	-1%	-1%
Kothrud	Central	7,500 - 13,000	-1%	-1%
Erandwane	Central	13,500 - 18,000	-1%	-1%
Boat Club Road	Central	14,500 - 19,500	0%	0%
Kharadi	East	5,300 - 6,300	2%	0%
Wagholi	East	3,500 - 4,600	2%	0%
Dhanori	East	3,900 - 4,800	0%	0%
Hadapsar	East	4,600 - 6,000	3%	0%
Aundh	West	7,800 - 9,500	3%	0%
Baner	West	5,600 - 8,000	0%	0%
Hinjewadi	West	4,800 - 5,900	5%	0%
Wakad	West	5,400 - 6,200	-1%	-1%
Moshi	North	3,700 - 4,300	0%	0%
Chikhali	North	3,500 - 4,100	0%	-2%
Chakan	North	3,000 - 3,400	3%	0%
Ambegaon	South	4,400 - 5,500	-1%	-1%
Undri	South	3,900 - 4,800	1%	-1%
Kondhwa	South	4,600 - 5,700	1%	-1%

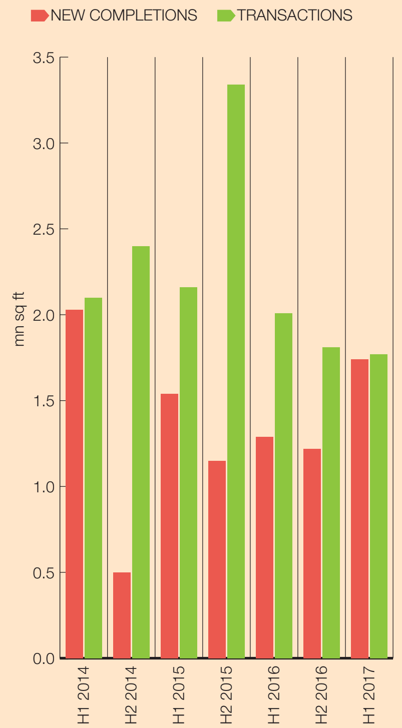
Source: Knight Frank Research

OFFICE MARKET

The headwinds that the Indian IT industry is facing, due to the anti-outsourcing wave in the developed markets and the automation drive, has been a factor. However, shortage of relevant office supply for the city's largest occupier segment has been a major factor for the decline in transactions.

FIGURE -1

NEW COMPLETIONS AND TRANSACTIONS – HALF-YEARLY TREND



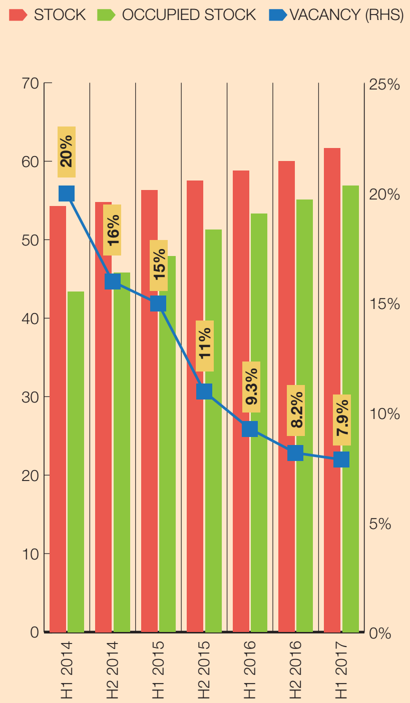
Source: Knight Frank Research

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

- The Pune office market is witnessing an ironical situation on account of the demand-supply dynamics. The headwinds that the Indian IT industry is facing, due tothe anti-outsourcing wave in the developed markets and the automation drive, has been a factor. However, shortage of relevant office supply for the city's largest occupier segment has been a major factor for the decline in transactions by 12% to 1.8 mnsqft in H1 2017 compared to H1 2016.
- In the case of new completions, H1 2017 recorded 1.7 mnsqft, a 35% increase compared to H1 2016. However, a significant portion of these were small projects with a leasable area of less than 0.1 mnsqft, which are not the ones desired by the city's top occupier industry.
- Since the global financial crisis era of 2008–09, the overall vacancy level in the city has been coming down each year. In H1 2017, the vacancy level remained 7.9% compared to 9.3% in H1 2016. In the yesteryears, the vacancy level in the market had been as high as 28% in 2009.The vacancy level in locations such as Kharadi, Viman Nagar, Yerwada and Nagar Road, which are highly preferred by occupiers, is even lower with absolutely no availability of good quality office space.
- For the remaining part of the year, we expect a similar situation as no major new supply has been lined up.Such a scenario would put pressure on occupiers to sign the available quality space.

FIGURE -2

OFFICE SPACE STOCK AND VACANCY LEVELS – HALF-YEARLY TREND



Source: Knight Frank Research

2. SECTOR ANALYSIS

- In H1 2017, the share of the IT/ITeS industry was the highest at 60%– a decline in comparison to the same period last year; the manufacturing sector on the other hand has suffered with a significant decline in share. The BFSI sector share is marginally lower at 12% in H1 2017 compared to 14% in H1 2016.
- The other services sector has been a promising group with its share jumping from 13% in H1 2016 to 22% in H1 2017. A trend emerges here as we see firms, like Awfis and Smartworks that provide co-working space, have taken up space in markets like Baner, Nagar Road and Hadapsar. The concept of co-working spaces essentially involves groups of start-ups, creative consultants, freelancers and Small and Medium Enterprises (SMEs) who share workspace and break through ideas, expand their business horizon and gain a fresh standpoint on their own businesses by dint of sharing workspaces. Such co-working space providers have taken up as much as 1,28,000 sq ft of office space during H1 2017.

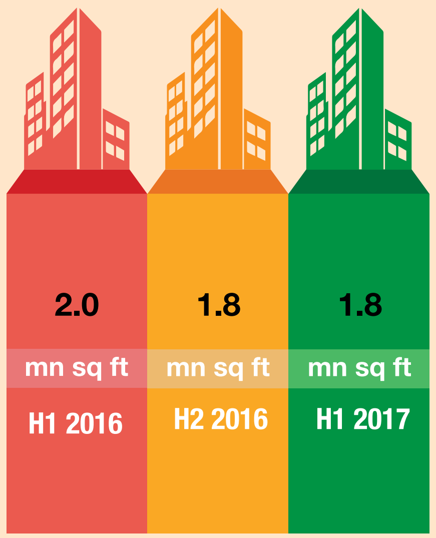
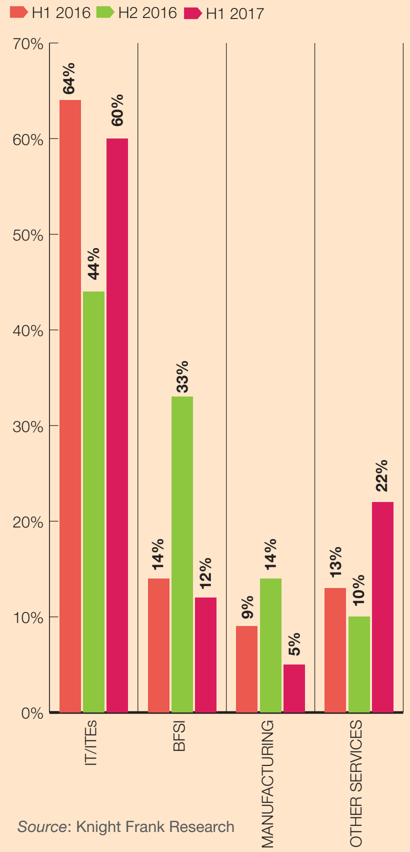


FIGURE -3

SECTOR-WISE SPLIT OF TRANSACTIONS



Source: Knight Frank Research

Note: BFSI includes BFSI support services

A trend emerges here as we see firms like Awfis and Smartworks that provide co-working space taking up office space in markets like Nagar Road and Hadapsar.

3. DEAL SIZE ANALYSIS

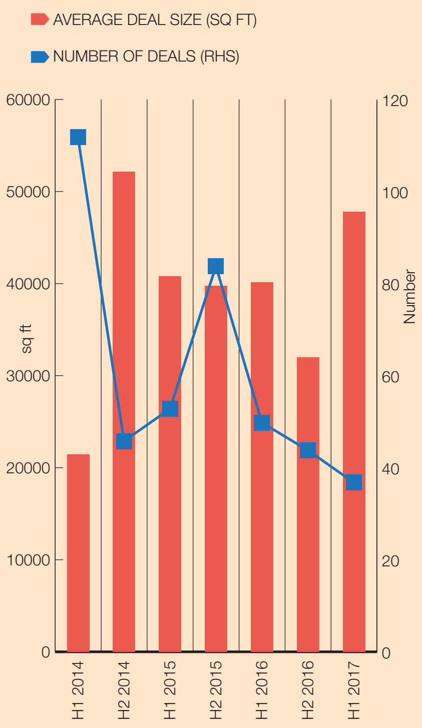
- With occupiers cognizant of the disappearing quality space, in H1 2017, we saw larger deals taking place and consequently, the average deal size increased from 40,000 sqft in H1 2016 to 47,800 sqft in H1 2017.
- The largest deals in excess of a 0.1 mn sq ft were from the IT/ITeS sector with companies like Fiserv and TIA Technology taking up spaces.

SELECT TRANSACTIONS

OCCUPIER	BUILDING	LOCATION	APPROX AREA (SQ FT)
Fiserv	Inorbit	Nagar Road	255,000
TIA Technology	WTC	Kharadi	132,000
Western Union	Business Bay	Yerwada	91,000
HSBC	Business Bay	Yerwada	90,000
Amdocs	SP Infocity	Phursungi	55,000
Accenture	Blue Ridge	Hinjewadi	50,000
Awfis	Business@Mantri	Nagar Road	50,000

Source: Knight Frank Research

FIGURE -4
AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

4. BUSINESS DISTRICT ANALYSIS

BUSINESS DISTRICT	MICROMARKETS
CBD and offCBD	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

Source: Knight Frank Research

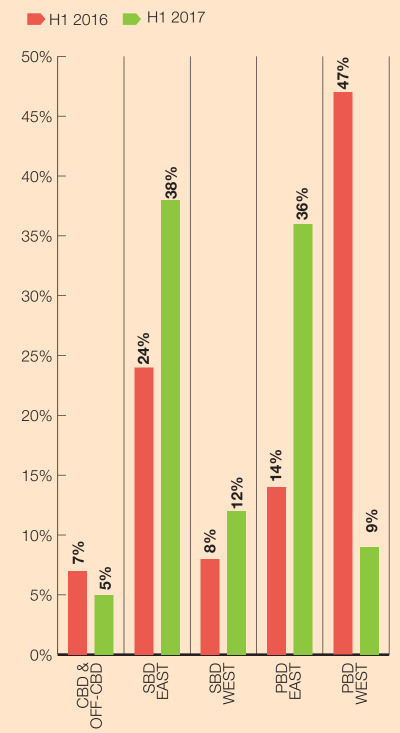
- SBDEast, which includes locations such as Kalyani Nagar, Yerwada, Nagar Road and Hadapsar, witnessed a sharp jump in its share of the total transaction volume, as many big-ticket deals took place in this micromarket in H1 2017.
- PBD West, as a market, is generally preferred by large-space requirement IT occupiers because of the lower rentals here. In the absence of large-space availability in existing projects, occupiers are not going over board for built-to-suit (BTS) deals on account of uncertainty in the operating environment of the IT/ITeS industry.

PUNE BUSINESS DISTRICT MAP

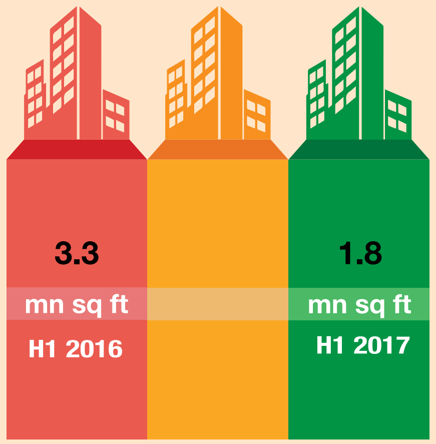
In the absence of large-space availability in existing projects, occupiers are not going over board for built-to-suit (BTS) deals on account of uncertainty in the operating environment of the IT/ITeS industry.

FIGURE -5

BUSINESS DISTRICT-WISE TRANSACTION SPLIT



Source: Knight Frank Research

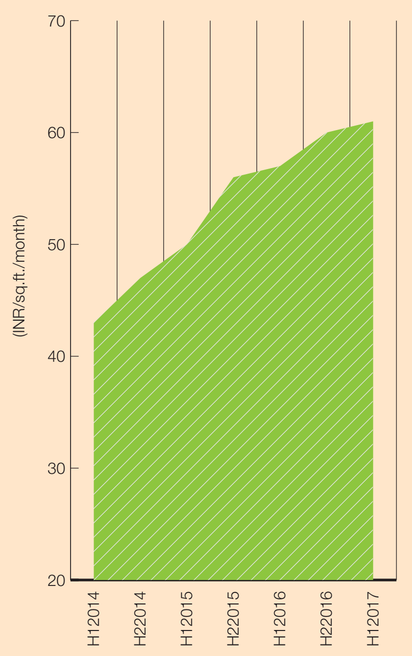


5. RENTAL TREND

- With the improving occupancy level in the market, the office rents in Pune have been on an ascent for more than five years. The weighted average rent has reached ₹61 per sqft per month, an increase of 7% compared to H1 2016 and 2% compared to H2 2016.
- The lack of significant IT/ITeS supply will keep occupiers on edge. At the same time, rent growth fromnow on will be moderate, as inter-city comparison will be made between these elevated rent levels by the cost-conscious IT occupiers.

FIGURE -6

WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

BUSINESS DISTRICT-WISE RENTAL MOVEMENT

BUSINESS DISTRICT	RENTAL VALUE RANGE IN H1 2017 (₹/SQ FT/MONTH)	12-MONTH CHANGE	6-MONTH CHANGE
CBD and off CBD	70–100	2%	1%
SBD East	55–85	5%	2%
SBD West	50–75	4%	2%
PBD East	45–75	4%	1%
PBD West	35–48	2%	1%

Source: Knight Frank Research

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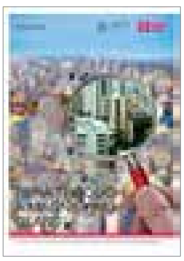
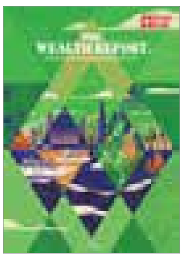


RERA THROUGH
A MAGNIFYING GLASS



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