PROPTIGER

India Realty Report
FY 2016

Dhruv Agarwala
CEO
PropTiger.com

FOREWORD

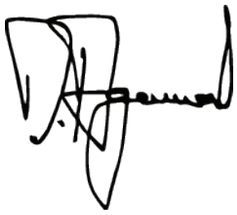
India's economy is now growing at a faster rate than that of China. India has exhibited an uninterrupted growth in the real GDP in FY'16. With the increasing signs of growth seen from different sectors, the economy is expected to grow above 7.5 per cent in the year 2016-17 as per the forecasts by IMF.

The year 2015-16 was one of the most difficult periods for the residential real estate sector, with almost all cities witnessing a decline in demand and supply, however, the extent of decline varied for different cities. The sector continued to grapple with slow inventory movement of existing projects; thus putting pressure on cash flow of projects, thereby impacting fresh deployment of funds in new projects.

The sector, however, seems to be finding its base, after witnessing significant fall over the last 2 years. Any downside is likely to be limited from the levels seen in 2016. While the launches and demand is going to be range bound, the product and positioning will continue to be aligned to end users preference. The developers will focus more towards bringing back the confidence of the consumer by being more transparent and focusing on constructing as per the commitments.

The fundamentals of the country are stronger today on account of political stability, improved international relationships, benign inflation and interest rates, better investment climate and proactive steps by the Union Government including its flagship program, "Make in India". The changing growth equation is likely to bring more global capital into the country and will help to achieve sustained economic growth. Additionally, the Real Estate Bill 2016 is going to be remembered as one of the hallmark event, and is expected to redefine the way industry used to operate as the implementation gains pace.

I continue to look at the positive aspects of the country including a firm fundamental demand given the large employable population, self-reliance in manufacturing, rapid pace of urbanization, expectation of better monsoon among other factors, which makes India as one of the shining stars across the world.



Anurag Jhanwar, MRICS
Head – Consulting and Data Insights

FROM THE BUSINESS HEAD'S DESK

It gives me great pleasure to share with you our Annual Edition, 'India Realty Report', for the Financial Year April 2015 – March 2016 (FY 2016). The 'India Realty Report' is our thought leadership series which analyses various macro and micro performance indicators of the residential segment. While strong GDP growth places India as a shining spot in the global arena, softening interest rates and inflation are expected to lead to a revival in investment cycle and increase in domestic consumption.

The performance of the residential sector in supply, demand and prices has largely remained lackluster, with sharp declines on all counts except prices over FY 2015. The positive factor, though, seems to be the declining pace of fall of supply and demand, coupled with negligible real price appreciation. On a half-yearly basis, the pace of decline was contained significantly in the second half of the year. Compared with H1 FY'16, the sales in H2 FY'16 were down by only 1 per cent, the lowest rate of decline since H1 FY'14 – possibly hinting that the downside risks going forward, if any, might be limited.

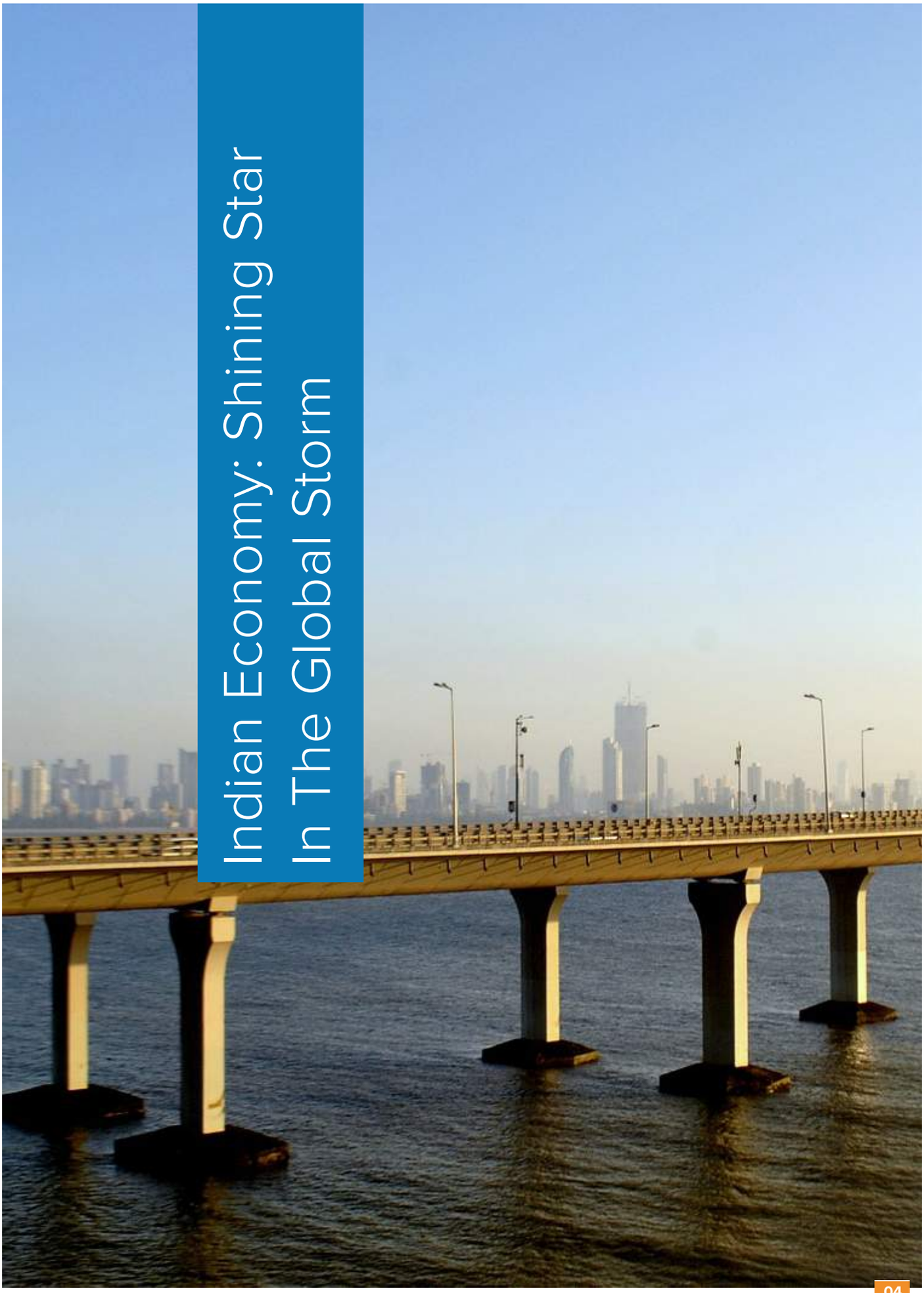
Some of the key highlights for the year were the passing of the Real Estate Regulatory Authority (RERA) Bill, the Government's thrust on the affordable housing sector through various budgetary sops, focus on the 'Housing for all' mission, and the Smart Cities initiative. The implementation of the measures announced in the Union Budget 2016-17 for first-time home buyers, as well as increased income levels of the middle class, are expected to trigger more sales in the sector, especially of 1 and 2 BHK units.

Among the major cities that largely remain affordable and have reasonable inventory overhang, Hyderabad and Ahmedabad are suitably placed for a better performance in FY'17. While Kolkata also remains affordable, growth would largely depend on the economic activity and investment flow. Pune and Bengaluru are expected to continue being dominant players on account of reasonable prices and healthy inventory overhang.

The end user will continue to lead the demand in the short term, so it would be critical for the supply side to realign product and promotion strategy. FY'16 saw a rise in discounts and attractive financing schemes, and a reduction in the size of residential units; there will be further increase in customer centricity in FY'17. While increased activity in launches is unlikely on account of the sector's focus on clearing the existing inventory, the demand is expected to see positive growth on the back of introduction of attractive deals to increase cash flows.

STRUCTURE

Indian Economy: Shining Star In The Global Storm



Key Economic Triggers

Union Budget FY'16

Boost in affordable housing; on both demand and supply side

GDP

Projected to grow at 7.5% in FY'17, increased FDI flow

Weakened by 5.98%, real estate investment proposition even stronger for NRIs

Repo Rate

Decreased to 6.5%, trigger point for residential demand from end-users

Inflation

Reduced to 4.83%, increased consumer spending power

FDI

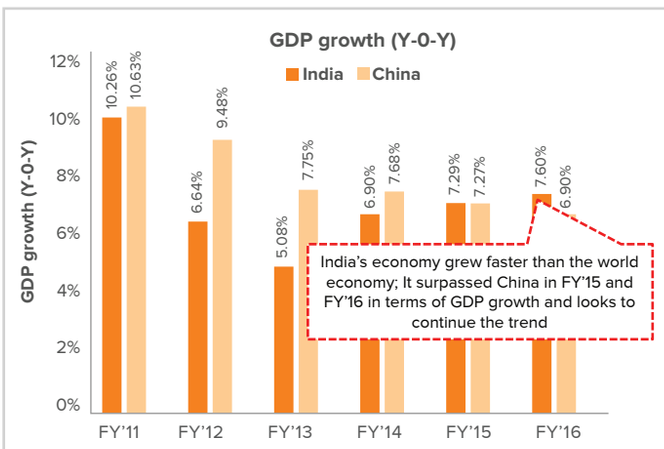
Cumulative inflows in construction development sector stands at 8% of total FDI inflows; Better corporate governance

Source: 1) DIPP, Govt. of India; FDI data till Dec'15
2) CSO, Min. of Statistics & Programme Implementation, Govt. of India
3) Reserve Bank of India 4) World Bank

Indian Economy: Shining Star In The Global Storm

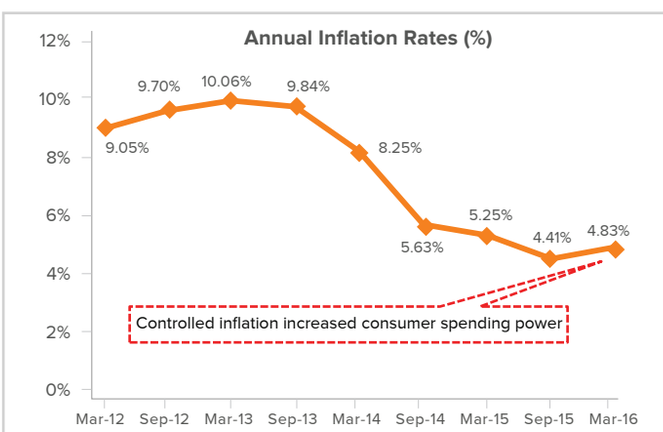
Will Favorable Economic Factors Invigorate Indian Residential Sector?

India's economy is now growing at a faster rate than that of China. The country has exhibited a healthy economic growth rate of 7.6 per cent in FY'16. According to research by Centre for International Development, Harvard University, over the next decade, the Indian economy might become the fastest-growing in the world. There being strong correlation between economic growth and real estate growth, the sector should see revival with the gain in economic momentum going forward.



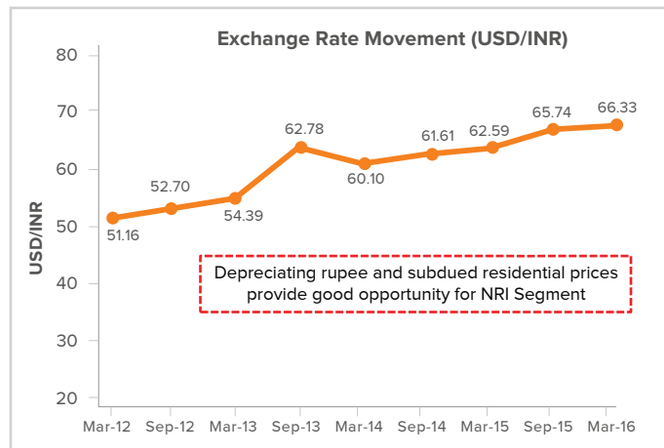
Source: CSO, Min. of Statistics & Programme Implementation, Govt. of India; World Bank

The macro economic factors of GDP growth, interest, inflation, FDI inflows are showing positive momentum. The rate of inflation in India was in double digits, and prices were rising steeply for many years. Inflation is now at 4.83 per cent, the lowest in the last four years.



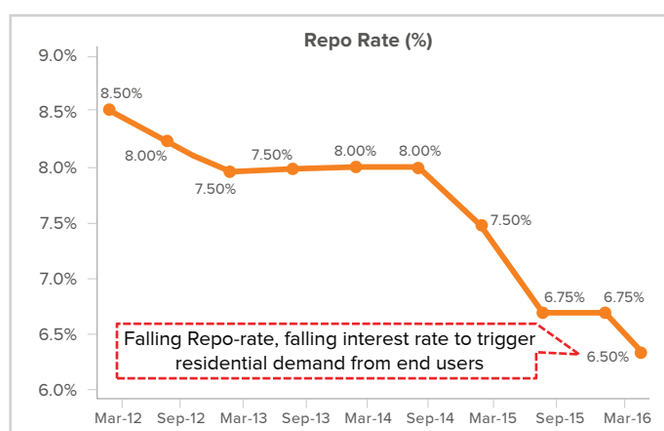
Source: CSO, Min. of Statistics & Programme Implementation, Govt. of India

Better investment climate has led to the cumulative influence in construction development standing at eight per cent of the total foreign direct investment flows into India. A depreciating rupee would lead to greater investment from foreign investors and the fall in the repo-rate would lead to greater investment from domestic buyers.



Source: Reserve Bank of India

The government recently eased the Foreign Direct Investment (FDI) norms for the construction sector. With greater FDI, the Indian economy is expected to grow at 7.5 per cent in FY'17 according to the recent forecasts by International Monetary Fund (IMF). As the Indian rupee has weakened by 5.8 per cent against the US Dollar (USD) in the past year, NRIs have even stronger reasons to invest in residential assets in India.



Source: Reserve Bank of India

The interest rate along with inflation, both seem to have taken the softer trajectory during FY'16. The repo-rate is now 6.5 per cent, significantly lower than the rate of 8 per cent before the Reserve Bank of India started reducing interest rates in January 2015. This was RBI's first instance of lowering the repo-rate in a year since 2014. It is expected to move further southward. This, in turn, would increase the affordability and also boost the purchasing power, which are critical to stimulate housing demand.

Capital inflows from both domestic and external sources have been rising since FY'13, after declining from FY'11 to FY'13.

The annual retail inflation rate, as measured by the Consumer Price Index (CPI), in March 2016 was nearly half as much as it was in September 2013.

The Union Cabinet recently cleared 20 major amendments to the Real Estate Bill. This is also expected to increase transparency in the real estate sector and prompt more people to invest in residential developments. These augur well for the country's real estate sector.

Key Residential Indicators

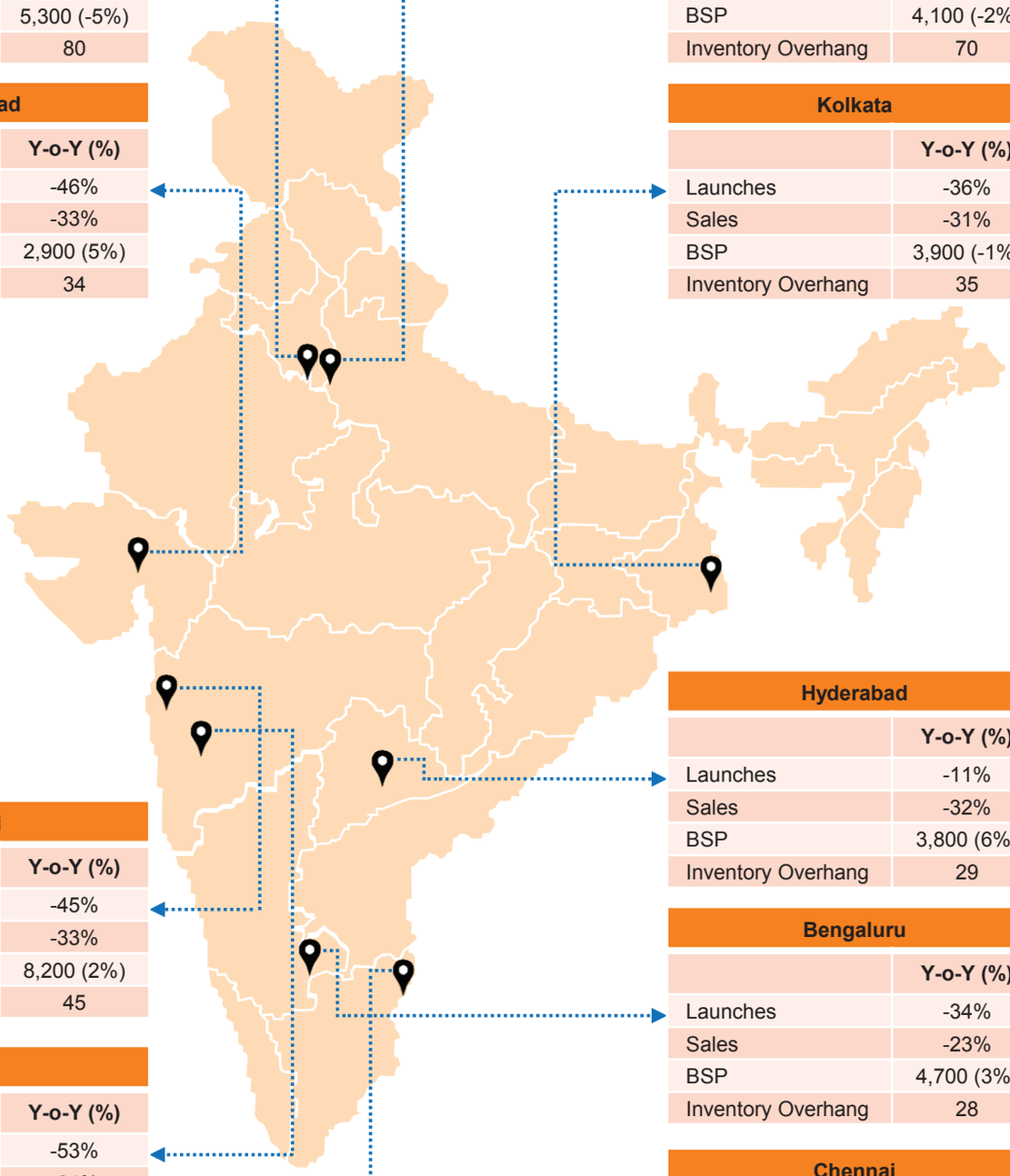
Residential Landscape

Gurgaon	
	Y-o-Y (%)
Launches	-58%
Sales	-50%
BSP	5,300 (-5%)
Inventory Overhang	80

Noida	
	Y-o-Y (%)
Launches	-68%
Sales	-51%
BSP	4,100 (-2%)
Inventory Overhang	70

Ahmedabad	
	Y-o-Y (%)
Launches	-46%
Sales	-33%
BSP	2,900 (5%)
Inventory Overhang	34

Kolkata	
	Y-o-Y (%)
Launches	-36%
Sales	-31%
BSP	3,900 (-1%)
Inventory Overhang	35



Hyderabad	
	Y-o-Y (%)
Launches	-11%
Sales	-32%
BSP	3,800 (6%)
Inventory Overhang	29

Mumbai	
	Y-o-Y (%)
Launches	-45%
Sales	-33%
BSP	8,200 (2%)
Inventory Overhang	45

Bengaluru	
	Y-o-Y (%)
Launches	-34%
Sales	-23%
BSP	4,700 (3%)
Inventory Overhang	28

Pune	
	Y-o-Y (%)
Launches	-53%
Sales	-21%
BSP	4,900 (-1%)
Inventory Overhang	24

Chennai	
	Y-o-Y (%)
Launches	-46%
Sales	-40%
BSP	4,900 (3%)
Inventory Overhang	42

Notes: BSP is represented in Rs./sq.ft.
Inventory overhang is represented in months.

With the stable performance on Sales, Price and Inventory Overhang – pain seems limited from hereon

Pan India Residential Trends in top-9 cities*

	H2 FY'14	H1 FY'15	H2 FY'15	H1 FY'16	H2 FY'16
New Launches	-13%	-32%	0%	-43%	-10%
Sales	-12%	-22%	-18%	-25%	-1%
Price Trend	1%	1%	1%	1%	1%
Inventory Overhang	11%	29%	24%	29%	2%

Key Performance indicators have converged to Stable Zone in H2 FY'16. Outlook largely looks stable

Strong/Marginal Decline Stable Strong/Marginal Increase

Notes: * Top 9 Cities are Mumbai (includes Navi Mumbai & Thane), Pune, Noida (includes Greater Noida & Yamuna Expressway), Gurgaon (includes Bhiwadi, Dharuhera & Sohna), Bengaluru, Chennai, Hyderabad, Kolkata, Ahmedabad.
Analysis includes Apartments and Villas across the regions.

Cities That May Shine The Brightest In FY'17

At a time when India's real estate sector in general was seen suffering through a phase of slow demand and declining sales, the financial year 2015-16 (FY'16) saw some key regulatory changes being effected, which in the long term are expected to lead to growth of real estate sector. Some of the better equipped cities showcased their preparedness to these changing standards with a great fervor. The changes include various upcoming infrastructure projects, creation/strengthening of economic hubs, and ambitious government plans like 'Housing for All by 2022' and 'Smart Cities Mission'.

Among the major cities which largely remains affordable and have reasonable inventory overhang, Hyderabad and Ahmedabad are suitably placed for better performance in FY'17. While Kolkata is also affordable, the growth would largely depend upon the economic activity and investment flow.

Pune and Bengaluru would continue to be the dominant players on account of reasonable prices and healthy inventory overhang.

Ahmedabad

The real estate developers in Ahmedabad cut down on new launches in FY'16 to tackle the problem of rising unsold inventory. New launches and absorption saw year-on-year declines of 46 per cent and 33 per cent, respectively, with a slight reduction in the share of sales in the cumulative sales of the nine major cities.
Despite declining sales, Ahmedabad witnessed a price appreciation of five per cent year-on-year, with some prominent localities of Gandhinagar and Ahmedabad Central witnessing price rise in the range of 12 per cent to 17 per cent.

Bengaluru

Considered one of the most active real estate markets in the country, Bengaluru is likely to get a renewed push from its robust local economy, a flourishing IT/ITeS sector and an expanding e-commerce market.

The city emerged as the largest contributor to launches in the country, with its share in total rising sharply from 20 per cent in FY'15 to 26 per cent in FY'16.

In terms of absorption, Bengaluru accounted for 21 per cent of total sales in FY'16, compared with 19 per cent in FY'15. The inventory overhang as on 31st March 2016 stood at a healthy range of 28 months. Overall, Bengaluru witnessed a three per cent year-on-year increase in prices.

In the affordable housing segment, the highest price increase was seen in some of the key Bengaluru localities near the economic zones.

Hyderabad

With the end of a political turmoil over formation of the new state of Telangana, a stable government in place, and a rise in economic activity, Hyderabad is poised to emerge as an outperformer among Tier-I cities in the coming years, especially with its growing IT/ITeS opportunities and better infrastructure.

In FY'16, the latent demand and new launches in the city remained in the high-end segment; there was a noticeable increase in the share of luxury properties in total launches in the city. Amid improved sales and launches, Hyderabad saw the steepest decline among the nine major cities in inventory overhang. It successfully managed to keep inventory overhang at a comfortable level of 29 months.

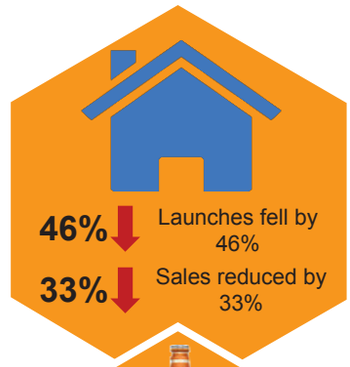
Hyderabad saw a year-on-year price appreciation of about six per cent, with more residential demand coming for projects in proximity to the major IT hubs. The city saw a price appreciation of 13 per cent growth as on 31st March 2016 over 31st March 2014. Ahmedabad was second with a five per cent price increase during the year.

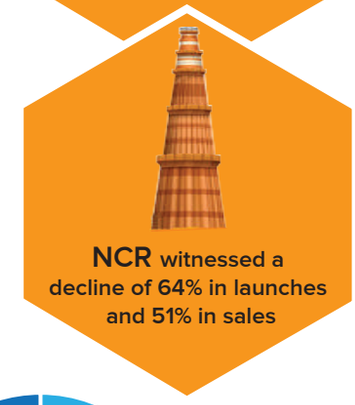
Pune

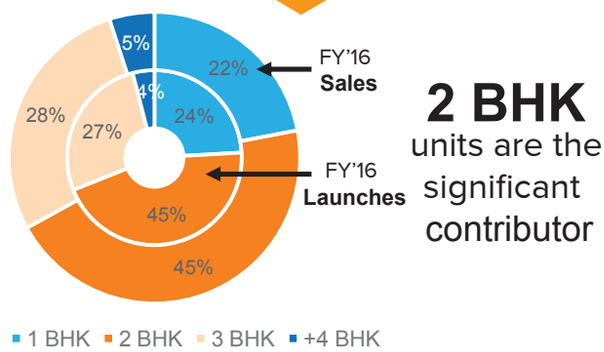
Being another IT-centric market like Hyderabad and Bengaluru, Pune is expected to attract IT/ITeS driven workforce in the years to come. Residential demand in the city is expected to remain robust due to the presence of several IT/ITeS multinationals along the Mumbai-Pune corridor and the Hinjewadi IT SEZ.

Launches and absorption in Pune declined by 53 per cent and 21 per cent respectively, year-on-year. However, Pune's share in sales across nine major cities of the country increased from 14 per cent in FY'14 to 19 per cent in FY'16 and the city continued to show a comfortable inventory overhang of 24 months.

Key Performance Snapshots





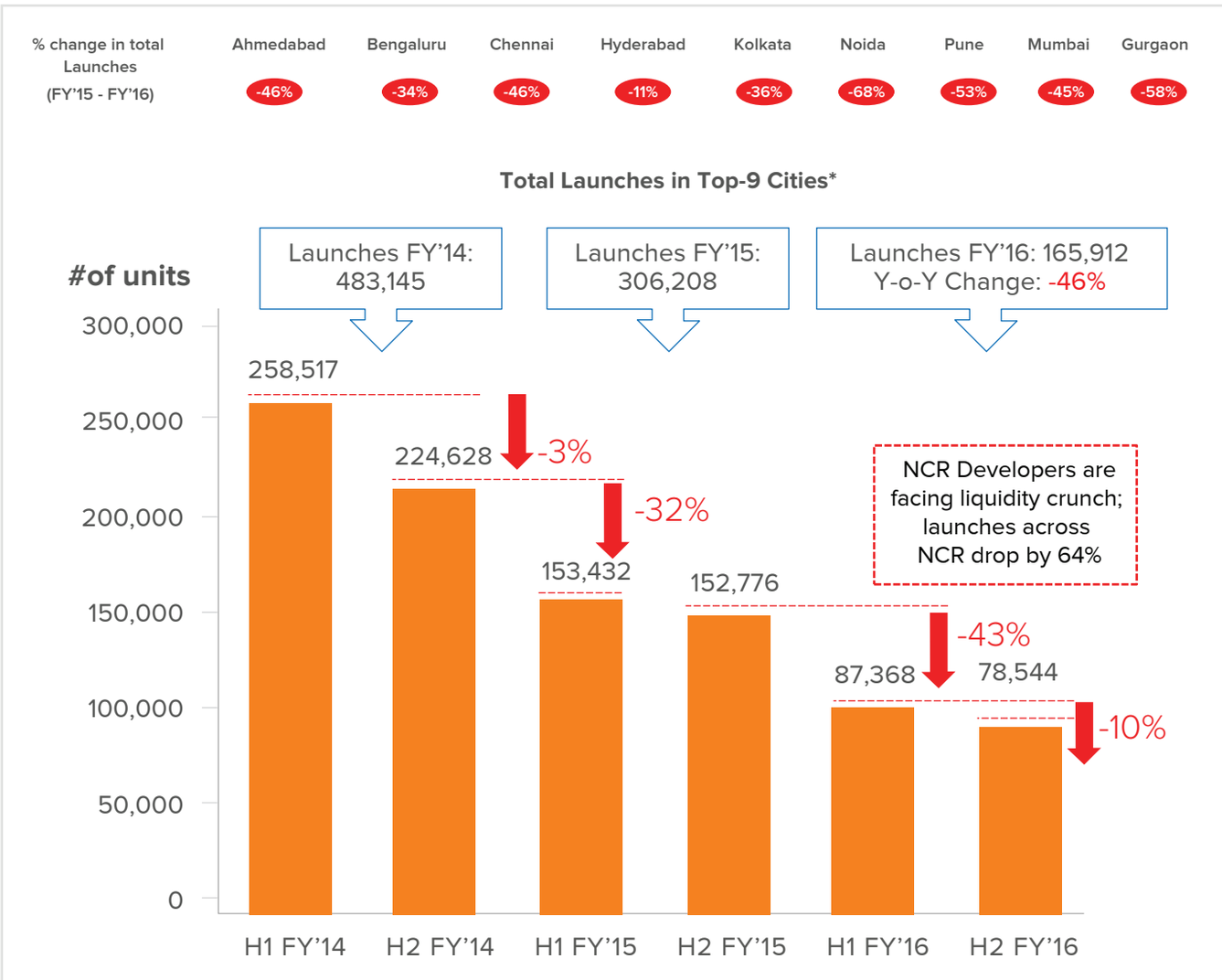


Launches Are More Rational And Targeted

Changing Landscape, New Lows in Launches Since H2 FY'14

Residential market saw a 46 per cent year-on-year drop in launches in 2015-16 (FY'16). However, the pace of decline fell towards the second half of the financial year (H2 of FY'16). After a fall of 43 per cent in the first half (H1) from H2 of FY'15, the rate of half-yearly decline fell to 10 per cent in H2 of FY'16, suggesting a bottom formation might be around the corner.

The decline was recorded across all major cities in FY'16 – in the range of -58 per cent to -11 per cent when compared with the previous year – the rate of decline were the lowest in Hyderabad and Bengaluru. These two cities' combined share in total launches increased from 25 per cent in FY'15 to 32 per cent in FY'16. Bengaluru emerged as the largest individual contributor to new launches during the year, with its share in total launches rising to 26 per cent in FY'16 from 20 per cent in FY'14.



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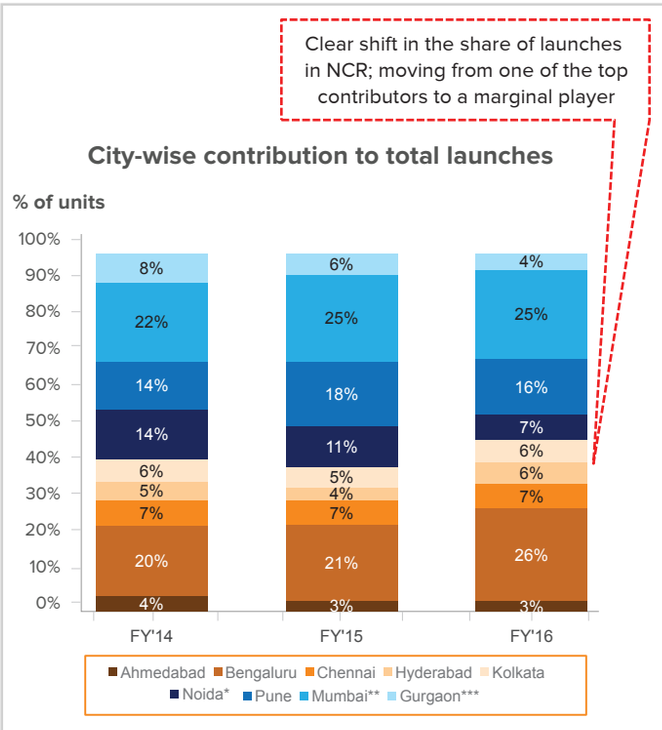
Analysis includes Apartments and Villas across the regions.

While response to the launches from quality developers has been relatively better, the sector is grappling with the slow inventory movement of existing projects; thus putting pressure on cash flow of projects, thereby impacting fresh deployment of funds in new projects.

The National Capital Region, meanwhile, saw the biggest year-on-year slide (64 per cent). This market has seen a continuous fall in the number of launches, mainly as developers were more focused on timely completion of their ongoing projects and liquidating their existing inventory to cover financial risks.

The combined share of Gurgaon and Noida in launches reduced from 22 per cent in FY'14 to 11 per cent in FY'16



Notes: *Noida includes: Greater Noida and Yamuna Expressway.
**Mumbai includes Navi Mumbai and Thane.
***Gurgaon includes Bhiwadi, Dharuhera and Sohna.
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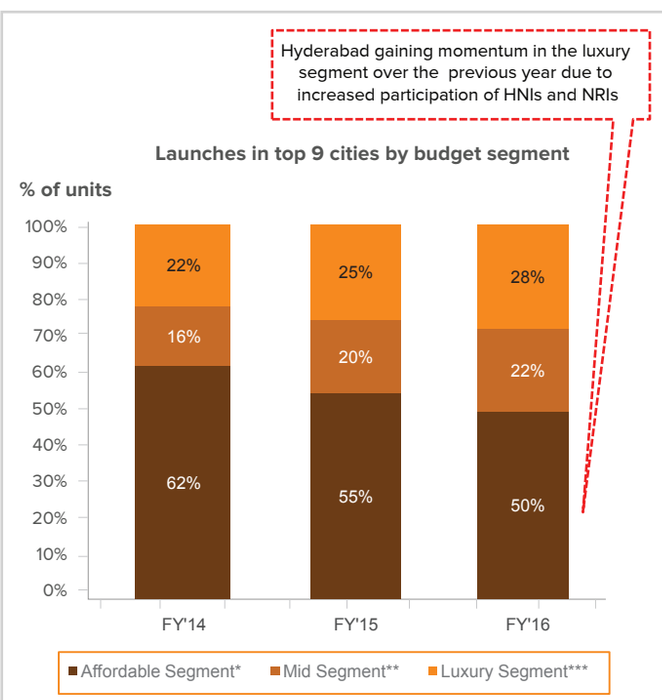
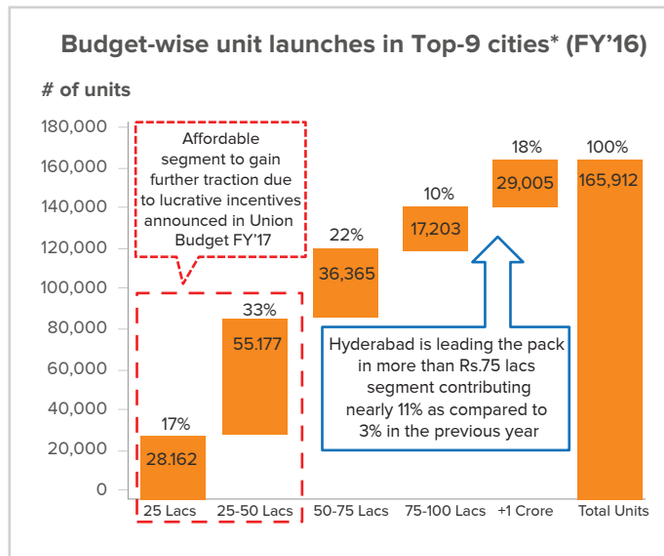
Affordable housing units (priced under Rs.50 lacs each) accounted for 50 per cent of total launches in FY'16. On the other hand, the luxury units (priced over Rs.75 lacs) witnessed 28 per cent year-on-year growth in FY'16, against 25 per cent in FY'15 and 22 per cent in FY'14.



Notes: *Affordable Segment : Units within < 50 lacs budget range.
**Mid Segment : Units within 50-75 lacs budget range.
***Luxury Segment : Units in +75 lacs budget range.

The share of 2 and 3 BHK apartments in total launches across nine major cities stood at over 70 per cent in FY'16. The units launched in the 1 BHK segment accounted for 24 per cent of total launches during the year against 21 per cent in FY'15.



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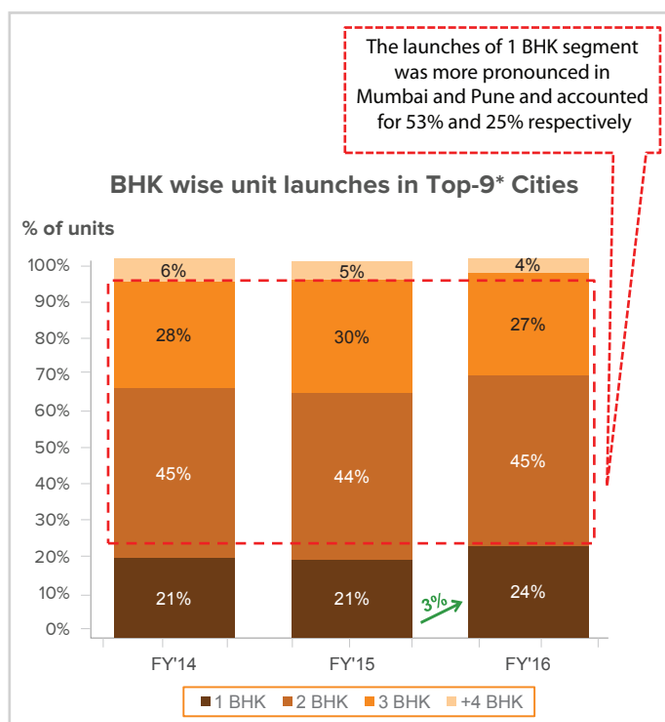
FY'17 is unlikely to see increased activity in launches as the sector will focus more towards clearing of existing inventory in a subdued demand environment.



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Discounts Galore to Revive Sales

Real estate prices in India had skyrocketed in the past few years, before the stagnation phase. While on one side, this kept properties out of bounds for most people, on the other side heavy drop in overall sales led to pile up of inventory levels across the sector. Data shows that housing sales across top nine cities fell as much as 33 per cent in FY'16, even as prices saw a marginal increase of only two per cent during the year. In fact, real estate in the National Capital Region market was the most affected, with the region seeing a sales decline of 51 per cent in FY'16.

Developers have been faced with multiple challenges - tight liquidity scenario, squeezed margins, longer sale cycles, construction management and the inherent nature of staggered cash inflows in the real estate business. On their part, developers, who were hit the hardest in this lackluster phase for the sector, made their best efforts to attract buyers back to the market by offering great discounts and attractive offers.

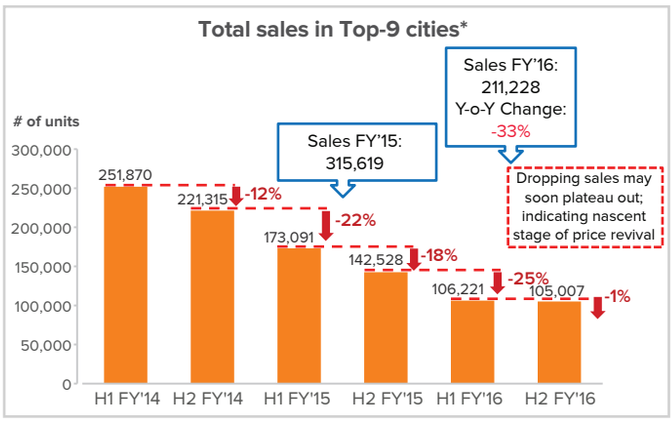
While most developers did not revise the prices upwards during the financial year, many were seen coming up with innovative schemes to boost sales. Consumer centric financing schemes were rampant throughout the year, where a majority of the developers joined hands with housing finance companies and banks to make property purchase more convenient and cost-effective from a buyer's point of view. Under such schemes, developers are going all out and offering huge relaxation in down payment and equated monthly instalment options too.

In fact, the festive season in October-December saw developers offering additional freebies like gold coins, furnishings, air conditioners, modular kitchens and wardrobes on purchase of housing units. Developers also offered automobiles, waiver of floor rise charges, stamp duty and registration fees, membership of premier clubs and holiday packages to sell some of their prime luxury projects. The short term would continue to see the developers vie for the incremental sale on back of innovative consumer proposition.

Absorption: Dropping; Will It Plateau Out?

Home Sales Drop, Rate of Decline Arrested

In a sign that the real estate sector could be set for a revival from here, the rate of decline in residential unit sales was contained at less than one per cent in the October-March period of 2015-16 (H2 of FY'16). Even as full-year sales were down by 33 per cent on a year-on-year basis, 1,05,000 residential units were sold in H2 of FY'16, compared with 1,06,000 in the preceding six-month period (H1 of FY'16). The drop in sales from H1 to H2 of FY'16 was less than one per cent – the lowest rate of half-yearly decline since H1 of FY'14. However, the rate of decline was 25 per cent in H1 of FY'16 when compared with H2 of FY'15.



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***Gurgaon includes Bhiwadi, Dharuhera and Sohna.
Analysis includes apartments and villas across the regions.

Overall residential sales in nine major cities of India – Ahmedabad, Bengaluru, Chennai, Gurgaon, Hyderabad, Kolkata, Mumbai, Noida and Pune – was primarily driven by Bengaluru, Pune and Mumbai in FY'16. These three cities together accounted for 63 per cent of total sales. Bengaluru, the top performer, accounted for 21 per cent of the total, compared with 19 per cent in FY'15.

Drop in sales was severe in Noida, Gurgaon and Chennai

City	Sales Contribution FY'14	Sales Contribution FY'15	Sales Contribution FY'16	Sales Change (FY'15 - FY'16)
Mumbai*	22%	23%	23%	-33%
Bengaluru	17%	19%	21%	-23%
Pune	14%	16%	19%	-21%
Noida**	15%	13%	10%	-51%
Chennai	8%	8%	7%	-40%
Gurgaon***	8%	6%	4%	-50%
Kolkata	5%	5%	6%	-31%
Hyderabad	5%	5%	5%	-32%
Ahmedabad	6%	5%	5%	-33%

Notes: *Mumbai includes Navi Mumbai and Thane.
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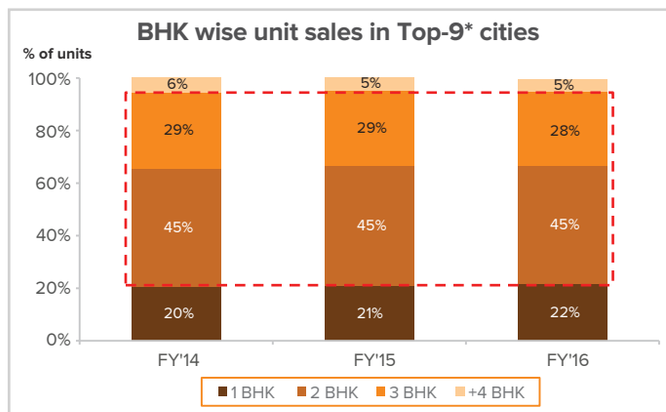
In fact, Bengaluru and Pune were two cities that saw the lowest individual sales declines – of 23 per cent and 21 per cent, respectively – mainly due to a higher base.

Among the weaker performers, the National Capital Region's real estate market was mostly subdued during the year. Sales in the region declined by 51 per cent compared with FY'15. The real estate market largely remained a 2 & 3 BHK typology, accounting for over 70 per cent of total sales witnessed over the last 3 years. 1 BHK as a category has witnessed around 22 per cent share in total sales in FY'16 with larger concentration seen from the cities of Bengaluru, Pune and Mumbai. This can be directly attributed to higher average prices in these cities, necessitating introduction of smaller sized units to contain the total cost.



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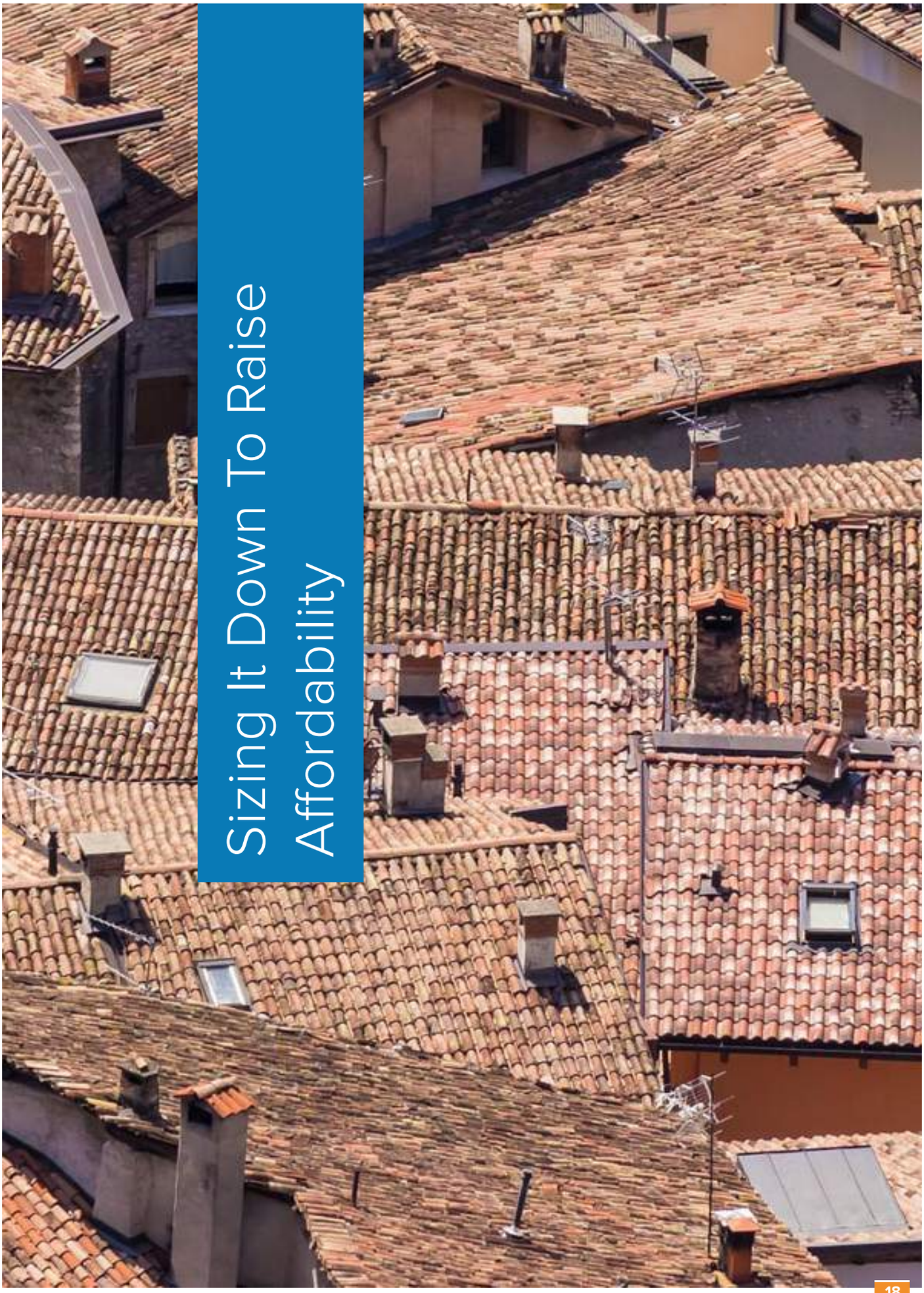
The share of luxury residential units (those priced above Rs.75 lacs a piece) in overall sales rose to 29 per cent in H2 of FY'16 from 26 per cent in H1 FY'16. This can be attributed to the quality of developers bringing the supply, attractive pricing and value proposition and flexible payment options offered by the developers.

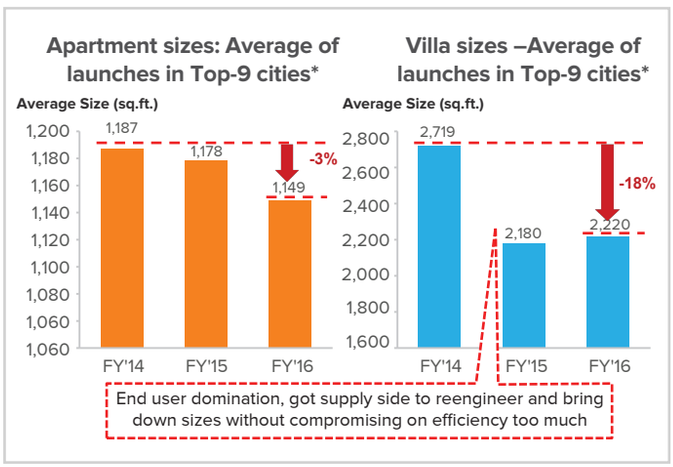
Sizing It Down To Raise Affordability



Reducing Average Sizes

Even as home buyers were staying off the markets amid a difficult time for the real estate sector, developers came up with several innovative strategies to bring them back. One of the leading trend was launching housing units with smaller sizes. While this gave home buyers the opportunity to buy smaller 2 BHK units for comparatively low prices, it also brought the much-needed cash to developers.

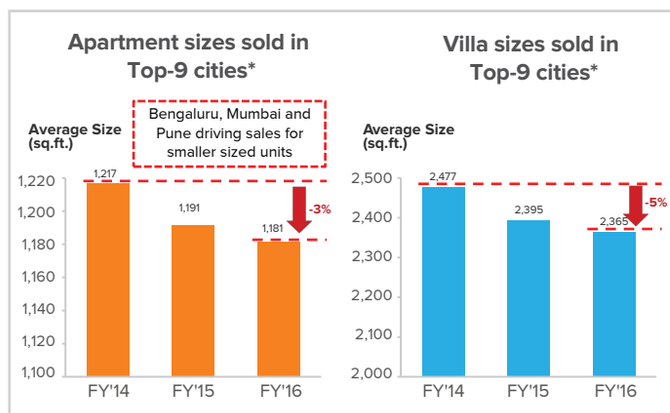
The average size of new apartments across top nine cities, therefore, saw a reduction of nearly three per cent in FY'16 – from 1,187 sq.ft. in FY'14 to 1,149 sq.ft. Villa sizes across cities saw a size reduction of as high as 18 per cent. The weighted average size of a villa, approximately 2,719 sq.ft. in FY'14, came down to 2,220 sq.ft. during the year. Supply was indicative of demand in the present context, as the past two years saw better sales of smaller apartments and villas.



Notes: * Top 9 Cities are Mumbai (includes Navi Mumbai & Thane), Pune, Noida (includes Greater Noida & Yamuna Expressway), Gurgaon (includes Bhiwadi, Dharuhera & Sohna), Bengaluru, Chennai, Hyderabad, Kolkata, Ahmedabad.
Analysis includes Apartments and Villas across the regions.

This trend was more prominent in cities like Bengaluru, Mumbai and Pune, the employment hubs that house high volumes of the migrant workers. Also, the combined sales of 1 BHK units in these three cities in FY'16 accounted for nearly 80 per cent of total sales there. Bengaluru, in fact recorded the highest volume of launches of such units during the year. Apart from the information technology hub, Pune and Mumbai also saw high proportions of 1 BHK units in total launches. While Pune contributed 25 per cent to the total 1 BHK unit launches across nine cities, Mumbai's share was the highest at 53 per cent. High property prices in these three cities have also been a reason behind size reductions. However, Bengaluru was the only one of the three cities that saw a price appreciation in FY'16.

The current trend indicates that the 1 BHK housing segment is likely to gain further momentum across cities due to increased sales velocities. The market will continue to see supply of multiple size options in the 1 and 2 BHK category in the near future; critical to cater to demand across the affordable price range. The winner would need to balance the equation between lower sizes and optimum efficiency though.



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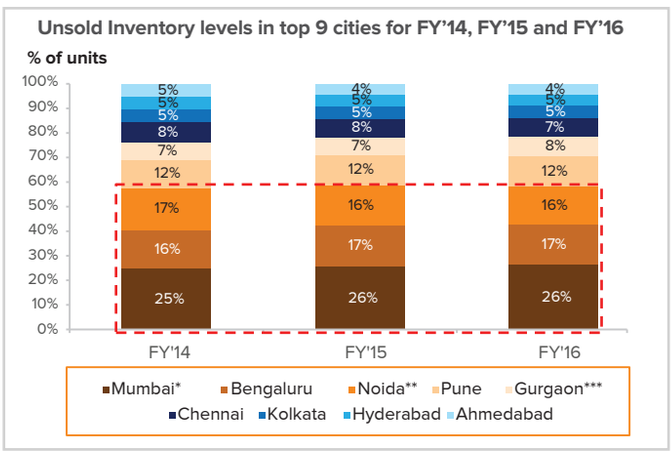
Analysis includes Apartments and Villas across the regions.

Inventory And Pricing: Options For Every Need

Bulk of Unsold Stock Accounted by Mumbai, Bengaluru, Noida

While macro-economic indicators show an improvement in overall economic outlook of the country, the inventory pile-up across the top nine cities continued to remain an area of concern for most of the developers. The inventory pile-up explains the remarkable drop in launches seen across India's major cities in FY'16.

In FY'16, Mumbai, Bengaluru and Noida continued to account for the bulk of inventory across nine major cities in the country. The respective share of these cities was 26 per cent, 17 per cent and 16 per cent – almost the same level as in the previous year. Inventory overhang increased marginally across the nine cities, but Pune was able to restrict the figure at a healthy range of 24 months and Hyderabad at 29 months. Cities like Chennai, Gurgaon, Mumbai and Noida had an inventory overhang of more than 40 months.



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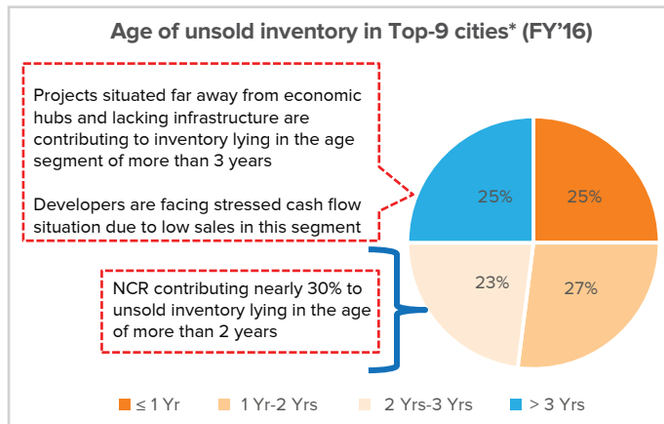
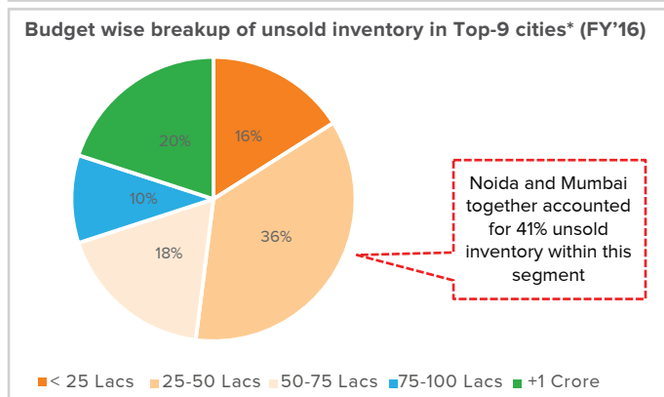
Analysis includes Apartments and Villas across the regions.

Around 25 per cent of the total inventory is aged more than three years at the end of FY'16. A large part of this inventory is either located far away from economic hubs or lacks access to proper infrastructural facilities. This is also the segment that, with its stressed cash flow, has been adding to developers' financial duress. The units unsold with two to three years ageing, accounted for 23 per cent of total inventory. About a third of this inventory is in the National Capital Region. The largest part (36 per cent) of the inventory across nine major cities in FY'16 was of units priced between Rs.25 - 50 lacs. Of these unsold units, 41 per cent was accounted for by Noida and Mumbai alone.

Residential units priced more than Rs.1 Crore formed the second-largest part of the inventory, with a 20 per cent share.





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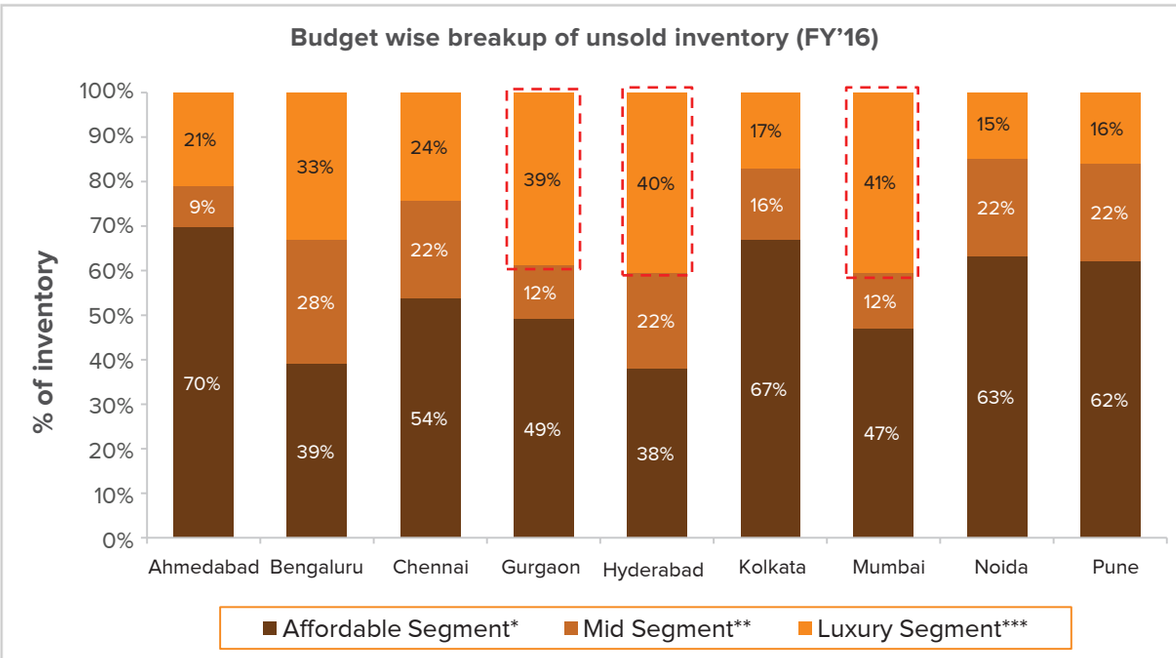
Analysis includes Apartments and Villas across the regions.

The luxury segment – units priced more than Rs.75 lacs each – had the largest share of the inventory in Mumbai, Hyderabad and Gurgaon (41 per cent, 40 per cent and 39 per cent, respectively). The inventory in the affordable segment – priced under Rs.50 lac each – formed the largest chunk of inventories in Ahmedabad (70 per cent of total in the city), Kolkata (67 per cent), Noida (63 per cent) and Pune (62 per cent).

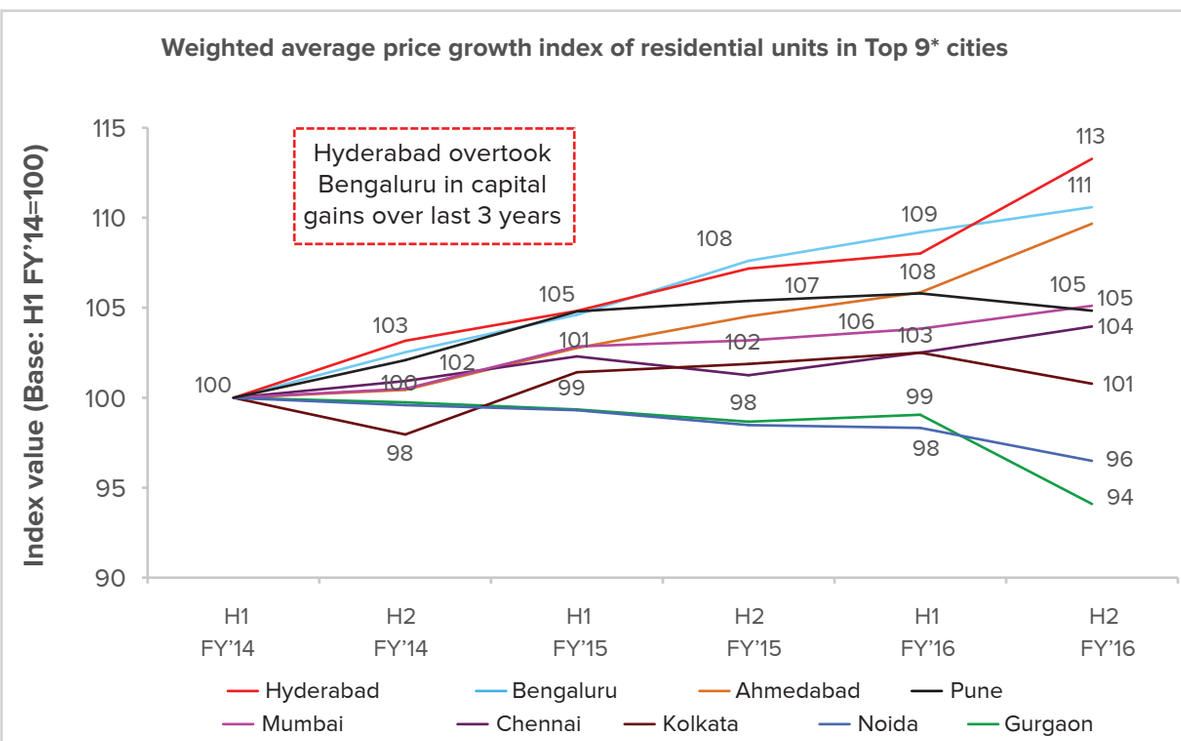
Hyderabad emerged as the new star on the horizon, thanks to its improved infrastructure and better employment opportunities. Prominent localities in the city saw a price increase of three to eight per cent in FY'16. Also, Hyderabad overtook Bengaluru in price appreciation over the past three years. While Hyderabad saw a year-on-year price appreciation of about six per cent and Ahmedabad of five per cent, property prices across other cities remained stable or declined.



Notes: *Affordable Segment : Units within < 50 lacs budget range. **Mid Segment : Units within 50-75 lacs budget range.
***Luxury Segment : Units in +75 lacs budget range.

Gurgaon and Noida were the only cities that saw a continuous decline in property prices since FY'14, while other cities recorded marginal growth. In the affordable housing segment, the highest price increase was seen in some localities of Bengaluru and Pune – projects located near economic zones found more buyers.

While cities like Ahmedabad, Hyderabad, Kolkata with affordable prices and lower inventory overhang are expected to provide opportunity for price appreciation in select pockets, the bigger cities are expected to see range bound movement in prices.



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Analysis includes apartments and villas across the regions.

Locations that are buzzing with activity

While India's residential real estate market was witnessing a slowdown in FY'16, with muted demand, declining launches and price corrections, there were some locations, across price segments, that were buzzing with activity in top cities.

The promise that these locations hold can be attributed to infrastructure development, proximity to workplaces and the availability of a wide range of products in different product segments and at various price points. These factors are encouraging developers to set up their projects here in anticipation of demand growth.

Even as residential property prices were heading southwards in most parts of the country during the year, cities like Ahmedabad, Bengaluru, Hyderabad and Kolkata, with their lower inventory levels, drove price appreciation in select precincts and segments.

Affordable segment (units with < 50 lacs range)

In the affordable segment, the micro-markets of Hyderabad, Ahmedabad and Bengaluru witnessed a significant annual price appreciation in FY'16, in the range of two per cent to 17 per cent over a year earlier. The prices in Gandhinagar and the Central micro-markets of Ahmedabad increased by 17 per cent and 12 per cent, respectively, and the Hyderabad South micro-market saw price growth of 16 per cent.

The micro-markets of Bengaluru also performed well, with property prices rising by nine per cent in Old Airport Road, eight per cent in Bengaluru South and six per cent in Bengaluru North. Residential fundamentals in the city remained healthy, especially with increased demand from employees working in information technology hubs.

Mid segment (units within 50-75 lacs budget range)

In the mid segment, Chennai's ECR saw an annual price rise of six per cent, indicating improved demand due to the locality's proximity to key IT hubs like Tidel IT SEZ and Siruseri IT SEZ, besides the upcoming Chennai Metro, which will offer ECR easy connectivity to the international airport via the inner ring road.

The residential prices in Hyderabad's Secunderabad micro-market rose moderately by four per cent. This increase might have been driven by improved connectivity and upcoming Information Technology Investment Region (ITIR) along ORR. The proposed Hyderabad-Nagpur Industrial Corridor is expected to further boost the prospects.

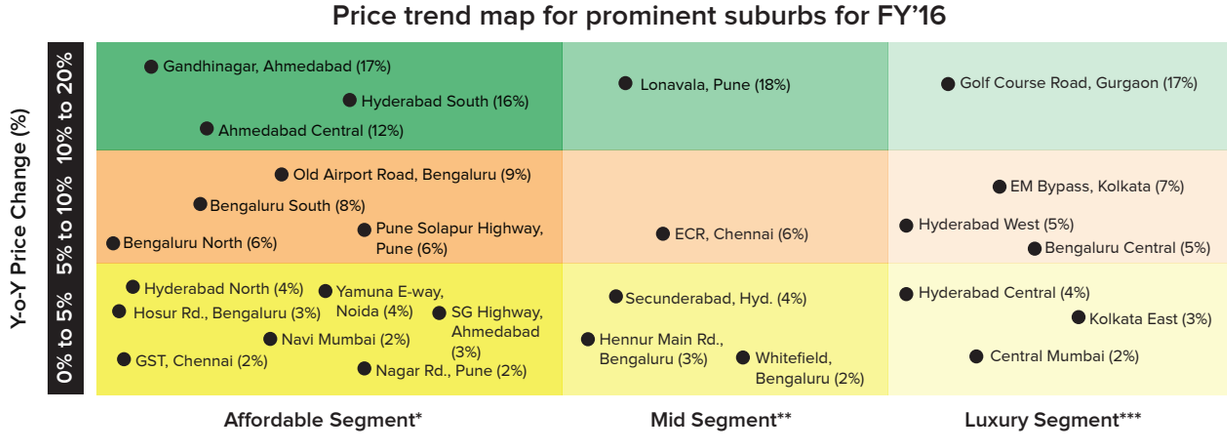
Luxury segment (units in >75 lacs budget range)

In the luxury segment, the Hyderabad West micro-market saw a price appreciation of five per cent due to the city's expanding IT/ITeS sector and infrastructure initiatives. The luxury segment saw a surge especially in the areas close to the IT hubs of Raidurg, Gachibowli and HiTech city, and manufacturing hubs of Kukatpally and Manikonda. The demand was mainly among the white-collar professionals working in the industries here.

In the Golf Course Road micro-market of Gurgaon, prices increased at a healthy pace of 17 per cent annually. The residential demand is poised to remain robust in this micro-market, thanks to the presence of several commercial establishments, social infrastructure, metro connectivity & the upcoming commercial developments.

In Kolkata, the EM Bypass micro-market saw an annual price rise of seven per cent, owing to the presence of an excellent Metro rail network and the newly developed social infrastructure. Further, EM Bypass acts as a connecting link between northern and southern regions of Kolkata which adds to the location's attractiveness.

Price trend map for prominent suburbs for FY'16



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End User Ruling the Roost

Investors in India's real estate, not able to reap the desired benefits due to a demand slowdown amid policy bottlenecks and liquidity crunch, seem to have taken the backseat for now. However, this is a good time for end users to cash in on falling property prices.

In FY'16, end users accounted for around 97 per cent of the total demand in nine major cities. The segment being discerning has led to realignment of the supply side, with focus on innovative products and promotions. All the dominant section of demand from this segment, indicated any downsides for sales or prices could be very limited from here on. Speculations could thaw in coming months, and transactions at the ground level are likely to define the real estate game.

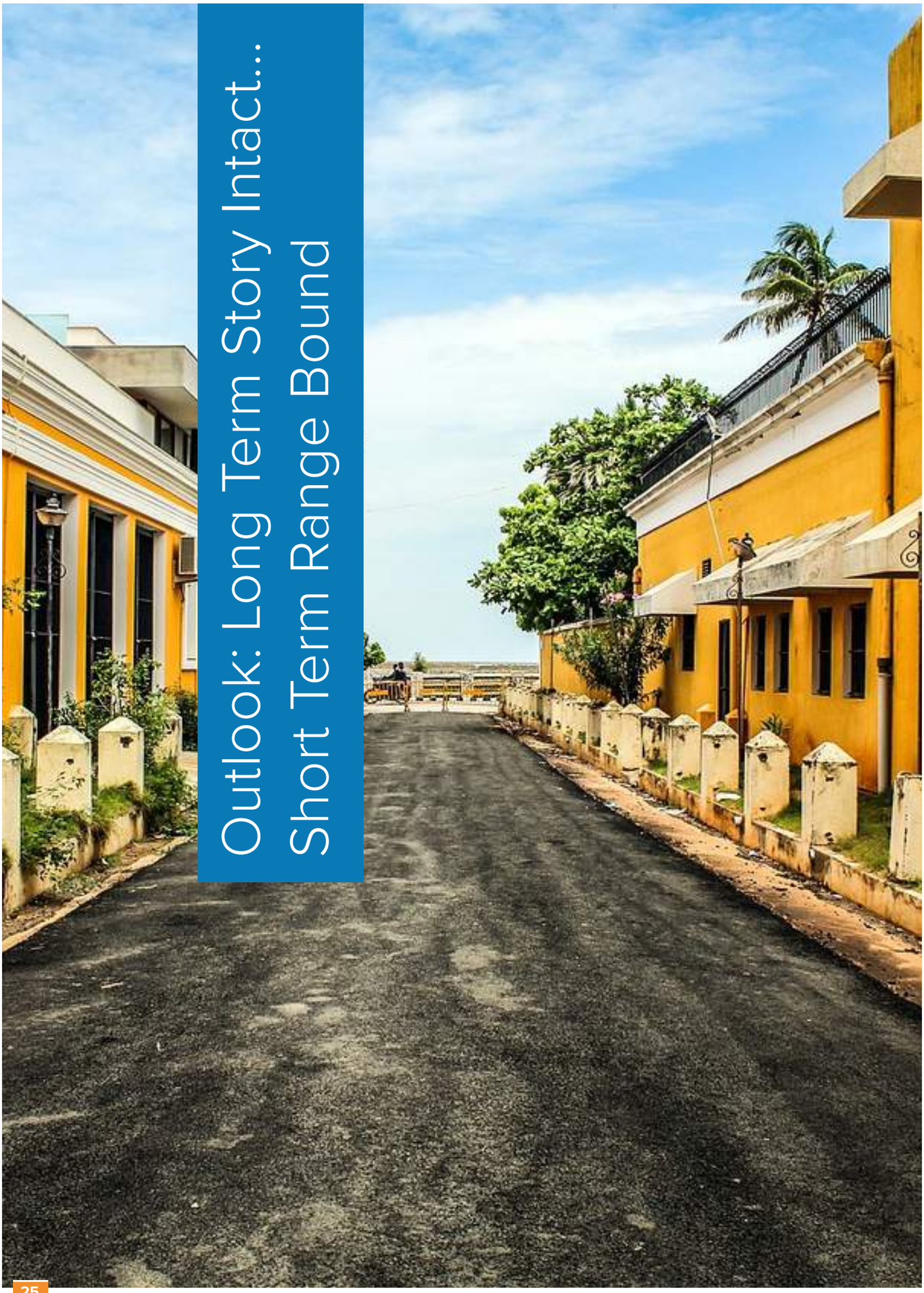
In terms of price range, properties in the affordable segment (Rs.25 lac to Rs.50 lac) are among the most sold, while the 2 BHK remains the most preferred configuration of residential units. While 2 BHK units accounted for 45 per cent of all launches across the top nine cities in FY'16, they also accounted for 45 per cent of total sales during the year. By comparison, 1 BHK homes accounted for 22 per cent of total sales, and 24 per cent of all launches during the year. This also indicates that buyers are ready to go for smaller unit sizes and configurations while negotiating for attractive price bargains – a major reason why 1 BHK units are seeing better sales.

The implementation of the measures announced in the Union Budget 2016-17 for first-time home buyers, as well as increased income levels of the middle class, is expected to trigger more sales in the sector, especially of 1 and 2 BHK units.

The demand for units in 4 BHK configurations, however, has been limited. These units accounted for only four per cent of total property sales in FY'16. In Millennium City Gurgaon, well-known for its large houses and villa-based projects, the share of 4 BHK units was about eight per cent of total sales. Among other areas in the National Capital Region (NCR), those like Dwarka Expressway and Sohna saw several new launches in the 4 BHK configuration segment. The prices of these units, however, remained much below the city average, especially because these areas fall in the periphery.

The end user will continue to lead the demand in short term and hence it would be critical for the supply side to realign their product and promotion strategy.

Outlook: Long Term Story Intact... Short Term Range Bound



Residential Sector: The way forward in FY'17

India's real estate markets seem to be finding their base, after witnessing significant fall over the last 2 years. At a time when the global economy is going through a difficult phase, the Indian economy seems to be insulated from some of the problems. Interest rates are declining, and the rate of inflation has nearly halved in the past two and a half years.

In the recent past, the pace of decline of the real estate market has become moderate. In the months to come, real estate developers are likely to focus on selling off the existing inventory. Strapped for cash, the developers are more likely to focus on liquidating the existing unsold inventory before they launch new products.

In the past three years, sales have consistently declined in major Indian cities. However, there will be greater demand for affordable houses in the coming months and years. Many real estate developers have started selling smaller residential units with fewer amenities to cater to home buyers in the middle and low-income segments. Such moves are likely to lower the acquisition price of a typical residential unit in the market.

The past few years have not been difficult for all Indian cities. Some like Hyderabad and Ahmedabad saw real estate prices rising in FY'16. In Hyderabad, this was partly because of political stability and improvement in infrastructure. Major infrastructure projects are also coming up in areas like Navi Mumbai, North and West Hyderabad and the peripheral areas of Bengaluru. This will lead to greater demand for housing in these areas. As these are areas where information-age workers are clustered, real estate prices may rise in the times to come.

The Indian real estate market is likely to pick further from the trends seen in 2016. While the launches and demand are going to be range bound, the product and positioning will be aligned to end users segment. The average sizes of units are going to reduce further; though marginally. The developers will focus more towards bringing back the confidence of the consumer by being more transparent and focusing on constructing as per the commitments. While the long term story for residential market remain strong the short term turbulence is expected to remain.

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ANURAG JHANWAR, MRICS
Head - Consulting and Data Insights
anurag.jhanwar@proptiger.com
+91 - 99678 49666

SUNIL MISHRA
Chief Business Officer - Primary Business & Developer Solutions
sunil.mishra@proptiger.com
+91 - 90044 40011