India Residential
Property Market Overview
Realistic pricing key to revival in 2017

27 January 2017
Realistic pricing key to revival

Surabhi Arora | Senior Associate Director | India

While buyers’ sentiment stayed cautious over 2016, mid-segment projects with realistic pricing enjoyed fair success in both the primary and the secondary market. Despite the adverse impact of recent demonetisation, this trend should persist in 2017. Developers will probably resist cutting prices but continue to offer subsidised payment plans and price guarantees. We think prospective buyers should not delay their decision unduly, since they can negotiate realistic prices in both the primary and secondary markets. In addition, while Indian interest rates are at an all-time low, they may soon fall further. We thus expect sentiment in the residential market to pick up steadily over 2017.

Forecast at a glance

**Demand**
Mid-segment projects with realistic pricing should gain traction in both the primary and secondary markets

**Supply**
Developers should remain focused on completion of projects; we expect only limited new launches in H1 2017

**Capital Value**
Should remain stable in primary market; secondary market may see a correction of 5-7% as distressed deals appear

**Rents**
New supply due to completion of under-construction projects is likely to keep rents unchanged

**Construction**
Government initiatives should start taking effect and speed up the delayed projects

**Demand likely to remain focused in affordable mid-segment housing**

In 2016, about 89,000 units were launched across six major cities in India, which is about 34% less than the units launched in 2015. Out of the total new launches, Bengaluru (Bangalore) accounted for 28%, Mumbai for 25%, Pune for 23%, the National Capital Region (NCR) for 15% and Chennai for 9%. The decrease in the number of new launches indicates the waning interest of buyers in the primary market.

The certainty of implementation of RERA and consumer activism in the form of various protests over timely completion of projects have pushed developers to focus on completion of existing projects. Institutional investors maintained a strong interest over 2016 in financing of Grade A residential projects under-construction, helping developers to complete their existing projects. We expect a similar trend at least in H1 2017.

Although many forecasters predict a decrease in capital values, we maintain our earlier prediction that capital values will remain stable in the primary market while due to a few distressed deals the secondary market may see a correction of 5-7% in 2017. We advise buyers intending to purchase for self-use to look out for options as they can obtain attractive discounts and feasible payment plans.

In the wake of demonetisation in November 2016, many banks have cut home loan rates to 8.25-9.00%, i.e. the lowest level in the last eight years. The government has also announced an interest subsidy of 3-4% for first-time affordable housing homebuyers in 2017. In our view, the 2017 Union Budget should bring more incentives for homebuyers in the form of tax cuts and interest subsidies. In addition, while Indian interest rates are at an all-time low, various economists predict another modest cut over Q1 2017, which will further reduce home loan rates and hence the cost of buying. All these initiatives should help entice buyers back into the residential market. We expect demand for quality stock in areas with good connectivity and social infrastructure to revive in the near term, especially in mid-segment housing. However, realistic pricing will be the key to an early revival as right now both buyers and sellers are hanging on in the hope of achieving optimum prices.
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2017 outlook: dull H1, brighter H2

Uttara Nilawar | Manager | Mumbai

While the Mumbai residential market started 2016 on a promising note, by Q4 it had been rocked by the demonetisation drive. In the wake of demonetisation the gap between buyers’ and sellers’ expectations has widened, and so we expect market activity to slow for a time. We anticipate a more active H2 2017 as the gap between buyers’ and sellers’ expectations narrows again. The market should also be stimulated by a probable further cut in Indian interest rates and the implementation of the RERA reforms.

Forecast at a glance

**Demand**
Demand will focus on properties ready for immediate occupation in the affordable and mid end segment

**Supply**
New launches are likely to stay on hold in Q1 2017 until the demand improves resulting in lower supply, especially in the luxury segment

**Capital Values**
Set to decrease by 2-3% in Q1 2017 for high end markets like South Mumbai and Worli as sales have slowed down in these markets

**Rental Rate**
Rents are likely to remain stable in South Mumbai; but may rise by 2-5% in high-demand affordable locations like Navi Mumbai and Thane

**Construction**
Construction activity is set to pick up in H1 2017 as developers are targeting completions prior to the Real Estate Act notification

Suppressed market sentiments put a downward pressure on launches

The year 2016 was tumultuous for the Mumbai residential market given the approval of the Real Estate (Regulation and Development) Act (RERA) by the central government, the new Maharashtra Housing Policy and the demonetisation drive. Developers and buyers alike adopted a wait-and-see approach and the number of launches reduced considerably.

In 2016, there were about 29,000 new launches in the Mumbai Metropolitan Region (MMR) and its suburbs, a decline of 18.8% over 2015. About 51% of the new launches were in Thane. The remaining share was concentrated in other locations, namely Central suburbs (23%), Navi Mumbai (15%), Central Mumbai (9%) and South Mumbai (2%). As land is scarce in Mumbai, we expect new unit launches to be concentrated in Thane and Navi Mumbai in 2017 due to the available land reserve at these locations.

**Market Trends**

<table>
<thead>
<tr>
<th>Micromarkets</th>
<th>Capital Values (INR Per Sq Ft)</th>
<th>QOQ% Change</th>
<th>YOY% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Mumbai</td>
<td>45,125 - 65,075</td>
<td>-5%</td>
<td>-6%</td>
</tr>
<tr>
<td>Worli</td>
<td>46,000 - 54,000</td>
<td>-4%</td>
<td>-6%</td>
</tr>
<tr>
<td>Prabhadevi</td>
<td>46,000 - 52,000</td>
<td>-3%</td>
<td>-4%</td>
</tr>
<tr>
<td>Bandra</td>
<td>29,000 – 51,000</td>
<td>-2%</td>
<td>0%</td>
</tr>
<tr>
<td>Khar</td>
<td>25,500 – 33,020</td>
<td>-5%</td>
<td>-2%</td>
</tr>
<tr>
<td>Santacruz</td>
<td>24,000 – 28,000</td>
<td>-4%</td>
<td>-2%</td>
</tr>
<tr>
<td>Juhu</td>
<td>27,000 – 30,000</td>
<td>-3%</td>
<td>-2%</td>
</tr>
<tr>
<td>Andheri</td>
<td>18,050 – 20,900</td>
<td>-5%</td>
<td>-7%</td>
</tr>
<tr>
<td>Powai</td>
<td>20,000 - 27,000</td>
<td>-2%</td>
<td>0%</td>
</tr>
<tr>
<td>Thane</td>
<td>7,000 - 12,000</td>
<td>0%</td>
<td>-</td>
</tr>
<tr>
<td>Navi Mumbai – Prime Areas</td>
<td>9,000 - 20,000</td>
<td>0%</td>
<td>-</td>
</tr>
<tr>
<td>Navi Mumbai – Emerging Areas</td>
<td>6,000 - 10,500</td>
<td>0%</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research
Note: Above values represent indicative base selling price for premium properties for secondary market products
Structured debt was a preferred option among developers for completion of their ongoing projects. In the largest deal of 2016, Piramal Fund Management committed INR 2,320 crore (USD340 million) across multiple projects of Lodha Group in South and Central Mumbai. Similarly, IIFL Holdings Ltd. extended INR500 crore (USD75 million) to Ariisto Realtors.

### Average Capital Value Trends (INR per sq ft)

![Average Capital Value Trends](chart)

Source: Colliers International India Research

Note: Dotted lines in the chart above represent forecasted values

### Average Rental Values (INR per sq ft per month)

![Average Rental Values](chart)

Source: Colliers International India Research

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**Colliers View**

In tune with the central government's aim of boosting affordable housing, the Maharashtra government approved a new housing policy in 2016. Increased floor space index (FSI) - ratio of a building’s total floor area to the size of the piece of land upon which it is built) and the development of lots instead of individual buildings are some of the initiatives offered to encourage redevelopment and affordable housing projects among developers. Hence, we expect a marked increase in affordable segment inventory in 2017.

Developers are keen to offer discounts; hence it is a good time to buy property for the buyers. Some builders are offering ‘purchase price assurance’ whereby the buyer will be compensated in case the home price comes down within the next three months. As the market is buyer friendly, we should witness an improvement in the primary as well as secondary sales. Overall, we expect a slower start to 2017 but a stronger H2.

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**Prices to remain under pressure; rental inventory set to rise**

Capital values were stable in H1 2016; however, asking price in most micromarkets came down in H2 2016 with an average y-o-y decrease of 4%. Luxury markets such as South Mumbai and Worli experienced a y-o-y decrease of 6%. In Q4 2016, a few major builders launched new towers at the same pre-launch rate that was the prevalent launch rate 1.5 - 3 years back. In the current market scenario, most of the landlords have refrained from selling and are looking to rent out their apartments instead. Hence, rental inventory looks set to increase in 2017 keeping rents stable in expensive markets of South Mumbai.

Rents are likely to increase by 2-5% in high-demand affordable locations like Navi Mumbai and Thane. The primary market sales were picking up in H2 2016, but as soon as the demonetisation drive began, buyers became apprehensive. Consequently, residential sales were noticeably hit towards the end of 2016. Several banks dropped their interest rates after demonetisation and rates may well decrease further in 2017. Hence, buyers will probably wait for the prices and interest rates to come down before becoming active again. We expect primary market to pick up in H2 2017.

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Dull demand to persist

Parul Bhargava | Senior Analyst | Gurgaon

We expect dull demand and a limited number of new launches in H1 2017 as market weakness persist after the demonetisation move. Contrary to the general perception of a significant price correction, we do not believe that prices will crash. We anticipate that prices will largely remain stable, although a more noticeable correction of 5-7% in emerging micromarkets such as Dwarka Expressway and Golf Course Extension Road looks probable due to the high inventory available in the secondary market.

Forecast at a glance

**Demand**
End-users likely to keep market alive; demand will remain skewed towards near completion projects

**Supply**
New launches will remain restricted in the short term owing to lack of interest from buyers and investors

**Capital Values**
Correction of 5-7% in the secondary market is likely due to muted transaction volumes

**Rents**
Likely to remain stable in most micromarkets with a minor correction of about 2% in certain micromarkets

**Construction**
Developers likely to speed up the constructions inprojects near completion to avoid complications expected due to the Real Estate Regulation and Development Act (RERA) 2016

Demand to remain skewed towards near completion and well-located properties

In 2016, the residential market in Gurgaon remained subdued. Delays in completion of projects under construction and a lack of infrastructure development in emerging corridors such as the Dwarka Expressway adversely impacted demand. Sales volumes plunged to nearly half of the peak absorption numbers as speculators who had fuelled the demand during peak times disappeared from the residential market. New launches in 2016 were around 6700 units, or about one-third of the 2015 numbers. We expect new supply to be very limited in the short term as developers adopt a wait-and-see approach in the wake of the ongoing slump in the market, which took a further hit after the demonetisation drive.

About 40% of the new launches were concentrated in newly developing sectors 66 and 68 located adjacent to Sohna and Golf Course Extension Road. A few projects were also launched on Dwarka Expressway constituting another 40% of total new launches. The majority of the units launched in 2016 were in a price band of INR 6,000-7,000 per sqft (USD88-103 per sqft, USD947-1,109 per sq metre) that caters to mid-segment in Gurgaon. While the base selling price has not come down, developers reduced the size of the units to bring affordability. We expect a similar trend in 2017 as developers continue to focus on affordable products.

**Market Trends**

<table>
<thead>
<tr>
<th>Micromarkets</th>
<th>Capital Values (INR Per Sq Ft)</th>
<th>QoQ% Change</th>
<th>YOY% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Golf Course Rd</td>
<td>11,000–36,000</td>
<td>0%</td>
<td>-4%</td>
</tr>
<tr>
<td>Sohna Road &amp; Golf Course Ex.</td>
<td>6,000–14,000</td>
<td>0%</td>
<td>19%</td>
</tr>
<tr>
<td>DLF Phase 1</td>
<td>11,000–13,000</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Sushant Lok</td>
<td>14,000–18,000</td>
<td>0%</td>
<td>7%</td>
</tr>
<tr>
<td>NH-8</td>
<td>10,500–18,000</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research

Note: Above values represent indicative base selling price for premium properties in secondary market.
While demand is likely to remain subdued in the primary market, the secondary market is likely to see traction in the projects that are in advanced stages of construction. Developers are also likely to speed up the completion of projects to avoid complications that may arise after the implementation of RERA.

### Average Capital Value Trends (INR per sqft)

![Average Capital Value Trends Graph](image)

Source: Colliers International India Research

Note: Dotted lines in the chart above represent forecasted values

### Institutional investors to remain active in 2017

As buyers in Gurgaon continued to put great high store on the brand of the developer, many private equity players and Non Banking Financial Companies (NBFC) showed high interest in mid-segment projects by reputed developers that had a greater chance of selling. In 2016, developers such as Vatika Sare Homes, Lotus Greens, and M3Ms were able to raise funds mostly in the form of structured debt to complete existing projects. In our opinion, the institutional interest will remain strong in well-located grade A projects in 2017 as well.

Contrary to the popular belief that the demonetisation drive that started in November 2016 heralds a major price decline, we have not seen a significant price correction so far. We anticipate that prices will largely remain stable, although a more noticeable correction of 5-7% in emerging micromarkets such as Dwarka Expressway and Golf Course Extension Road looks probable due to the high inventory available in the secondary market.

### Colliers View

The robust commercial market indicates the strong fundamentals of the Gurgaon real estate market. New regulations will inevitably lead residential developers to hold new launches to see how the authorities enforce the new rules. This in turn will slowly address the issue of high level of unsold inventory. However, to revive demand fully, the government must deliver all promised infrastructure.

In 2016, the state government initiated a few infrastructure projects and also introduced the Transit Oriented Development (TOD) Policy which aims to bring the Floor Area Ratio (FAR) up to 3.5 along the metro corridor. Projects along the Southern Peripheral Road, Northern Peripheral Road and Golf Course Road stand to benefit from this policy in the long run. The metro link from Dwarka Sector 21 to IFFCO Chowk connecting Bijwasan and Palam Vihar should benefit the residential and commercial localities in adjacent areas.

### Average Rental Values (INR per sqft per month)

![Average Rental Values Graph](image)
Entry of reputed developers likely to boost sentiment

Parul Bhargava | Senior Analyst | NOIDA

The entry of reputed developers is likely to boost market sentiment in the short term. With land prices escalating, we will see more strategic partnerships between developers and private equity players. We anticipate that the equity infusion will revive stalled projects and NOIDA will continue to see significant completions in 2017.

Forecast at a glance

**Demand**
Demand will continue to be driven by end users; brand and product quality will be the key to success

**Supply**
New launches should remain limited in 2017; significant completions will increase supply in secondary market

**Capital Values**
Set to remain stagnant across micro markets

**Rents**
May see further correction of up to 5% Landlords will need to remain flexible in their rental expectations

**Construction**
Construction activity may pick up in delayed projects as developers focus on completion

Launches to remain limited in 2017; more completions expected

Against a backdrop of muted sales in the primary market and heightened consumer activism on the issue of delay in completion of projects, developers remained focused on execution of projects in 2016. Builders opted for alternative sources of funds and raised money from Non-Banking Finance Companies (NBFCs). A number of private equity players also entered into strategic alliances with developers. In 2016, a few national level developers such as Tata and Godrej signed joint development agreements with local developers to enter into the NOIDA market. This is a positive sign for NOIDA which so far has been dependent on local developers for residential development. In 2016, about 6,500 new units were launched which is almost equal to the 2015 figure. Most of the projects were launched in sectors located towards the end of NOIDA Expressway and Greater NOIDA.

Despite subdued sentiments in the primary market, the projects launched by national level developers were able to sell their product in the market. This clearly indicates that there is untapped demand for quality product in NOIDA market. In line with the demand, most of the projects were launched in a range of INR4,500-5,000 per sq ft (USD 68.2-75.8 per sq ft, USD 734-816 per sq metre).

**Market Trends**

<table>
<thead>
<tr>
<th>Micromarkets</th>
<th>Capital Values (INR Per Sq Ft)</th>
<th>QOQ% Change</th>
<th>YOY% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector 44</td>
<td>7000 – 11,500</td>
<td>0%</td>
<td>-5%</td>
</tr>
<tr>
<td>Sector 92,93</td>
<td>6500 – 9500</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Sector 50</td>
<td>6500 - 8000</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Sector 61,62</td>
<td>5800 – 6200</td>
<td>0%</td>
<td>-2%</td>
</tr>
<tr>
<td>Sector 28,29,37</td>
<td>7500–9500</td>
<td>0%</td>
<td>3%</td>
</tr>
<tr>
<td>Sector 70 to 79</td>
<td>4300-5500</td>
<td>0%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research
Note: Above values represent indicative base selling price for premium properties in secondary market
The market is likely to regain momentum only if it sees completion of projects as expected; falling interest rates coupled with an upbeat economic backdrop will support the overall sentiments.

Landlords need to remain flexible in their rental expectations

Capital values remained largely stagnant in 2016 in most of the micromarkets. Established sectors such as Sector 44, 28, 29 and 37 witnessed corrections of 2-5% y-o-y as buyers preferred the newly developing areas along NOIDA Expressway and Sector 70 to 79 which are expected to have metro connectivity in 2017. Sector 70-79 which recently saw the completion of a number of projects are witnessing high end-user activity. The under-construction metro has further boosted the buyers’ sentiment. Capital values look set to remain stagnant in 2017 until higher sales momentum is registered.

We expect significant project completions in 2017 which may put downward pressure on rental values across NOIDA.

In an attempt to provide an exit to cash-strapped developers facing a liquidity crunch, the NOIDA authority introduced the Project Settlement Policy. According to terms of the policy, a builder can exit a project in which the construction is yet to begin if he is facing a shortage of funds. In an attempt to address the woes of the homebuyers, the state government notified the Real Estate Regulation and Development Act, 2016 (RERA). All these changes augur well for the future evolution of the market.

Colliers View

Due to liquidity constraints, more joint development agreements between developers and private equity players are likely in 2017. We expect the bulk of new launches to remain concentrated in the newly developing sectors along NOIDA-Greater NOIDA Expressway. A revived commercial market should further help to boost residential market sentiment in 2017.

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Policy changes to revive residential segment in 2017

Divya Grover | Senior Manager | Bengaluru

With the state government gearing up to implement the Real Estate (Regulation & Development) (RERA) Act, end-user confidence is strengthening. Although sales volume has come down moderately, Bengaluru was one of the major cities to be least impacted by the recent demonetisation move of the central government. Buyers are likely to delay their purchase decisions for a time, but we predict a revival in demand shortly.

Forecast at a glance

**Demand**
- Likely to improve for properties ready for occupation in the mid-term

**Supply**
- Pipeline of new units in pre-launch stage in primary market should continue to increase

**Capital Values**
- Likely to fall by 2-5% in secondary market across the city; primary market likely to remain stable

**Rental Rate**
- Should witness 7-10% upturn in southern and eastern micromarkets located adjacent to commercial hubs

**Construction**
- A lull is likely in the short term, but construction should start gathering pace later in 2017

New unit launches remain muted in 2016

In 2016, nearly 24,800 new residential units were launched in Bengaluru. While this reflects a 35% year on year (y-o-y) decrease over 2015, the pipeline of new units in pre-launch stage in primary market should increase setting an optimistic outlook for 2017.

The slow pace of new launch activity can be attributed to multiple events that unfolded during 2016. The impending finalisation of the RERA Act and delays in obtaining approvals due to the local municipal body's citywide drive to tackle encroachment of storm water drains kept developers cautious. The momentary civil unrest over the Kavery water issue between the states of Karnataka and Tamil Nadu also hampered new launches in H2 2016. In comparison to Mumbai and the NCR, Bengaluru was less impacted by recent demonetisation as the city’s residential market is primarily driven by the end-user demand comprising a white-collar population employed in the IT-ITeS sector. In 2017, buyers’ interest is likely to remain focused on quality mid-segment projects located in the vicinity of commercial hubs. We also anticipate ready for occupancy projects will increase in popularity in 2017.

### Market Trends

<table>
<thead>
<tr>
<th>Micromarkets</th>
<th>Capital Values (INR Per Sq Ft)</th>
<th>QOQ% Change</th>
<th>YOY% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>19,000-27,000</td>
<td>-9%</td>
<td>-5%</td>
</tr>
<tr>
<td>Cooke Town</td>
<td>8,000-13,500</td>
<td>-5%</td>
<td>0%</td>
</tr>
<tr>
<td>Jayanagar</td>
<td>9,000-11,000</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>Sadashivanagar</td>
<td>9,000-14,000</td>
<td>-6%</td>
<td>-4%</td>
</tr>
<tr>
<td>Airport Road</td>
<td>8,500-10,500</td>
<td>-5%</td>
<td>-3%</td>
</tr>
<tr>
<td>Indiranagar</td>
<td>8,000-12,000</td>
<td>-6%</td>
<td>0%</td>
</tr>
<tr>
<td>Bannekerghatta Road</td>
<td>4,700-8,700</td>
<td>-5%</td>
<td>-2%</td>
</tr>
<tr>
<td>Kormangala</td>
<td>6,800-10,000</td>
<td>-4%</td>
<td>-1%</td>
</tr>
<tr>
<td>Whitefield</td>
<td>4,500-8,500</td>
<td>-1%</td>
<td>2%</td>
</tr>
<tr>
<td>Yelahanka</td>
<td>4,500-9,000</td>
<td>-6%</td>
<td>-4%</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research

Note: Above values represents indicative of selling price for premium properties in secondary market.
Average Capital Value Trends (INR per sq ft)

Source: Colliers International India Research
Note: Dotted lines in the chart above represent forecasted values

Average Rental Values (INR per sq ft per month)

Source: Colliers International India Research
Note: Rental Values in INR per sq ft per month

In the secondary market, end-user demand was affected in late 2016 as the surprise announcement of demonetisation impacted property transactions underway. In Jayanagar and Whitefield, capital values moved upwards due to continual demand while micromarkets such as Kormangala, Yelahanka and Airport Road saw capital values drop by 1-4%. On an overall basis, demonetisation did not have an adverse impact on capital values so far. However, we cannot rule out the possibility of a 2-5% correction in capital values in the secondary market as the slowdown in transaction volume may force some distressed sales at slightly lower prices.

Most micro markets in 2016 noted modest rental upturn of 1-4% y-o-y as the robust performance of the commercial property segment (which saw 12.8 million sq ft gross absorption) contributed to creating demand for rental housing in many precincts. Also, the lull in property purchasing decisions positively impacted the rental trends. Going forward, we anticipate that properties in central residential locations near commercial hubs may see rents increase by 7-10%.

Bengaluru’s residential market remained a preferred choice amongst institutional investors in 2016 as several developers such as Mantri Developers and Sobha Ltd. attracted private equity funding for their upcoming projects. Key players such as KKR India Advisors and Piramal Fund Management pumped in funding for construction finance and servicing debt obligations. A similar trend is likely to follow in 2017.

Colliers View

We expect policy-related reforms to bode well for the Bengaluru residential sector in the long term. We anticipate an increase in new launches in the affordable housing segment as many developers have received funding in 2016 which is yet to be channelled towards new projects.
Slow recovery on the cards in 2017

Divya Grover | Senior Manager | Chennai

Chennai’s residential market remained subdued in terms of both new launches and sales as buyers’ sentiment remained weak due to a series of events in 2016. However, with cheaper home loan interest rates and increased developer focus on completion of projects, buyers’ confidence should perk up.

Forecast at a glance

**Demand**
Mid-segment in southern peripheral districts and centrally located high-end products should steer end-user demand in 2017

**Supply**
New launches should remain low as developers focus on reducing unsold inventory

**Capital Values**
Should remain stable in the short to medium term as we anticipate a new state-level regulatory framework is anticipated

**Rental Rate**
We expect an increase of 5-10% in southern peripheral districts near IT corridors in the medium term

**Construction**
Shortage of cash may worsen labour woes in short term. However, by H2 2017, construction should gather pace

Timely deliveries take centre stage; new launches to remain subdued

During 2016, Chennai’s primary residential market witnessed the launch of nearly 7,750 residential units, a 35% year-on-year (y-o-y) decline over 2015. Of the total launches, 94% were concentrated in suburban and peripheral quadrants while only 6% were seen in the central and off-central locations. North (25%), South-west (19%), South (17%), West (17%) and North-west (16%) comprised the maximum number of launches.

As Chennai’s residential segment was returning to normalcy in H1 2016 after 2015’s floods, multiple factors such as uncertainty in state-level political leadership and demonetisation of higher denomination notes weakened developers’ confidence over undertake new projects. Moreover, the Madras High Court’s judgement imposing a blanket ban on registration of unapproved plots on agricultural lands deterred buyers from investing in new launches. Looking ahead, we expect extension of the Metro Rail and the improving performance of commercial real estate agents in distant northern and southern belts to act as a catalyst for future housing development.

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<tr>
<th>Micromarkets</th>
<th>Capital Values (INR Per Sq Ft)</th>
<th>QoQ% Change</th>
<th>YOY% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boat Club</td>
<td>25,000-35,000</td>
<td>-2%</td>
<td>-2%</td>
</tr>
<tr>
<td>Nungambakkam</td>
<td>19,000-26,000</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Anna Nagar</td>
<td>14,000-18,000</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Adyar</td>
<td>13,000-17,000</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Besant Nagar</td>
<td>13,500-17,000</td>
<td>-2%</td>
<td>-2%</td>
</tr>
<tr>
<td>T. Nagar</td>
<td>13,500-20,500</td>
<td>0%</td>
<td>5%</td>
</tr>
<tr>
<td>Alwarpet/R. A. Puram</td>
<td>18,000-25,000</td>
<td>-3%</td>
<td>-3%</td>
</tr>
<tr>
<td>Velachery</td>
<td>7,000-10,000</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Sholinganallur</td>
<td>4,800-5,950</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Siruseri</td>
<td>3,990-5,500</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research
Note: Above values represent indicative selling price for premium properties in secondary market
Throughout 2016, developers remained focused on marketing of unsold inventory and in order to do so, provided many lucrative payment plans, freebies such as overseas vacations and gifts to end-users. A few developers have also launched Managed Residences Investment Plans (MRIPs), which are rental assurance schemes for seven years with no hassles of maintenance for properties ready for occupation.

**Average Capital Value Trends (INR per sq ft)**

We expect the state-level macro economic and political scenario to stabilise in 2017. The revived commercial market and reduced home loan interest rates should support the residential market in the medium term. IN addition, a few developers have received funding from private equity firms for refinancing existing debt and construction finance which we expect to be deployed in the residential sector.

**Slight dip in capital values in 2016**

In the secondary market, high-end segment capital values dipped by 2-3% y-o-y in micromarkets such as Boat Club, Alwarpet and Besant Nagar. This is mainly due to a dip in capital values brought about in Q4 2016 as a result of slight fluctuations in the prices of resale properties after demonetisation. Rents largely remained stable in 2016. Looking ahead, we expect capital values to remain steady while rental values may appreciate by 5-10% in 2017, mainly near the micromarkets in southern peripheral districts closer to the IT corridor. We expect the extension work of Metro Phase I over a 9km stretch from Wimco Nagar to Washermanpet in 2017 to enhance connectivity to far-flung northern peripheral districts and Ennore Port. This is likely to boost residential capital values and rental rates in the northern belt in locations such as Tiruvooliyur, Madhavaram and Perambur and attract large-scale development along the metro corridor.

**Colliers View**

In our opinion, as an end-user-driven market, Chennai should benefit from the events of 2016. With expected changes in the offing such as a plausible move towards a cashless real estate market after demonetisation and the awaited implementation of the Real Estate Regulation and Development Act (RERA), enhanced transparency should start bringing buyers off the fence and back into the market H1 2017. With the government taking steps to encourage affordable housing, we expect a spur to the development of affordable housing projects along the northern and south-western suburbs. Besides, home buyers’ confidence should return if interest rates fall further.
Residential market set to hold its ground in 2017

Uttara Nilawar | Manager | Mumbai

Despite being one of the most active residential markets in 2016, the Pune market slowed down towards the end of the year. We expect residential sales to pick up in 2017 and reputed developers to launch more affordable projects. Buyers should be vigilant and carefully scrutinise developers’ plans before selecting a project.

Forecast at a glance

Demand
Properties or projects ready for occupation should see increased demand

Supply
We expect increased supply in the mid and affordable segments, whereas we expect reduced supply in the luxury segment

Capital Values
We do not expect any drop in the affordable segment, but luxury markets like Koregaon Park and Kalyani Nagar may see a 2-5% drop in the short term

Rental Rate
Rents should rise by 2-3% in preferred micromarkets as secondary sales have slowed down

Construction
As the onsite activity slowed down in Q4 2016 due to issues related to cash payments, we expect delays in construction completions in Q1 2017

Launch activity slowed down in 2016

Low enquiry levels in the high-end and luxury segments reflected prevailing subdued market sentiment in Pune. Developers took a cautious approach, and activity slowed in 2016 with launches totalling 20,400, a 36% decrease from 2015. Despite this significant decrease, Pune was one of the most active markets for new launches in India. Most launches in 2016 were focused on the budget or mid-end segment. Buyers should continue to favour budget and mid-end housing in 2017 as well.

Localities adjacent to the commercial hubs of Pune in the West (Baner, Hinjewadi), South (Undri, Handewadi), South East (Keshavnagar, Hadapsar) and East (Kharadi) constituted an 80% share of the new launches. Central Pune, catering to the luxury segment, accounted for only 2% and the remaining 18% share of launches were focused in distant locations like Pimpri and Chinchwad.

Micromarkets like Baner, Undri, Keshavnagar, Hadapsar, and Kharadi should continue to be popular residential catchments in 2017 with maximum completions and launches due to ample availability of land bank and their proximity to employment centres.

Market Trends

<table>
<thead>
<tr>
<th>Micromarkets</th>
<th>Capital Values (INR Per Sq Ft)</th>
<th>QOQ% Change</th>
<th>YOY% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>East</td>
<td>4,200 – 7,500</td>
<td>0%</td>
<td>-5%</td>
</tr>
<tr>
<td>Old Central</td>
<td>10,000 – 15,000</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Central</td>
<td>7,000 – 16,000</td>
<td>0%</td>
<td>-8%</td>
</tr>
<tr>
<td>South East</td>
<td>4,800 – 8,000</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>West</td>
<td>5,000 – 9,500</td>
<td>0%</td>
<td>1%</td>
</tr>
<tr>
<td>South West</td>
<td>7,000 – 12,000</td>
<td>0%</td>
<td>4%</td>
</tr>
<tr>
<td>South</td>
<td>4,400 – 6,250</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>North</td>
<td>4,700 – 5,800</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research

The above values represent indicative base selling price for premium properties for secondary market products

Micromarket classification
Central - Koregaon Park/ Kalyani Nagar / Boat Club/ Sopan Baug;
Old Central - Camp/Deccan;
East - Viman Nagar/Kharadi/ Wagholi;
South - NIBM/Udri/Kondhwa;
South East - Magarpatta/ Hadapsar/ Keshav Nagar;
West - Baner/ Balewadi/ Hinjewadi/ Wakadi/ Pashan/ Aundh;
South West - Kolhurd/Saydhani/ Warje;
North - Pimpri/Chinchwad/Chakan/ Talegaon
In 2016, the funding landscape in Pune was dominated by debt, mostly for completion of ongoing projects. Kumar Urban Ltd (KUL) raised INR3 billion (USD44 million) from Altico Capital for their township ‘KUL Ecoloch.’ Similarly, KKR India Assets Pvt. Ltd. also invested INR3 billion in two projects by Puranik Builders at Bavdhan and Baner. The debt trend is set to continue in H1 2017 as developers will aim for construction completions.

Average Capital Value Trends (INR per sq ft)

Source: Colliers International India Research
Note: Dotted lines in the chart above represent forecasted values

Average Rental Values (INR per sq ft per month)

Source: Colliers International India Research

Rents rising in luxury markets

High-end markets like Koregaon Park, Kalyani Nagar and Boat Club saw a y-o-y drop of 5% in capital values. However, rents remained robust and rose by 5% y-o-y as sales slowed down and demand for rental apartments increased. There were also some outliers with respect to rents. For example, Trump Towers by Panchshil Realty at Kalyani Nagar fetched a rent of INR80 per sq ft per month (USD1.2) due to an association with the brand Trump while the prevailing rents are INR30 per sq ft per month (USD0.4) in the project’s vicinity. In Q1 2017, the affordable segment should witness stable prices while high-end products may fall by 2-5%. Rents look set to remain stable in 2017 with the exception of a 2-3% increase at central locations.

Apart from being ready for the implementation of the Real Estate (Regulation and Development) Act, several local developers are taking measures to expedite their sales and construction completions. For example, owing to the popularity of the budget segment, several luxury developers resized their apartments to suit the Pune buyers’ needs and boost affordability. Besides, a few developers offered all-inclusive packages with statutory costs like Value Added Tax (VAT), stamp duty and registration fees. To ensure completion of the road network along with their projects, notable Pune developers also ventured into a public-private partnership (PPP) to enhance the sale of their apartments. In 2017, we expect that such initiatives will enable prompt completion of ongoing projects and improve sales.

Colliers View

Although Pune has been affected by demonetisation, the current political climate in Maharashtra, proposed infrastructure developments including the Pune Metro and initiatives taken by local developers to gain buyers’ trust should usher in a favourable time for buyers and developers alike. Hence, we expect the market to bounce back by H2 2017 and Pune should retain its status as the most dependable and reasonably priced residential market in India.

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