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RESIDENTIAL SECTOR OVERVIEW

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RESIDENTIAL LAUNCHES DECLINE AS MARKETS GEAR UP TO IMPLEMENT RERA

The top eight cities[1] witnessed residential launches of approximately 25,800 units in the first quarter of 2017, registering a 16% decline from the corresponding period last year. A closer look at the trend indicate that launches have seen a steady quarter – on – quarter (Q-o-Q) decline for the last 4 quarters, corresponding with the announcement of Real Estate Regulatory Act (RERA) 2016 in March last year and the demonetization exercise in November 2016. Launches in the residential sector have declined by about 8% during the period April 2016 to March 2017 compared to the same period in 2015-16.

Interestingly during the period (April 2016 to March 2017), the share of affordable segment in total launches has improved to 30% compared to 25% in the same period in 2015-16. The share of high-end and luxury segments reduced to 11% from 13% during the same period. While sales have been weak across segments, it has been prominent in the high-end and luxury segments over the last quarters owing to demand-supply mismatches.

Project launches down 8% since the announcement of RERA

Launches to remain restricted in the next 2-3 quarters

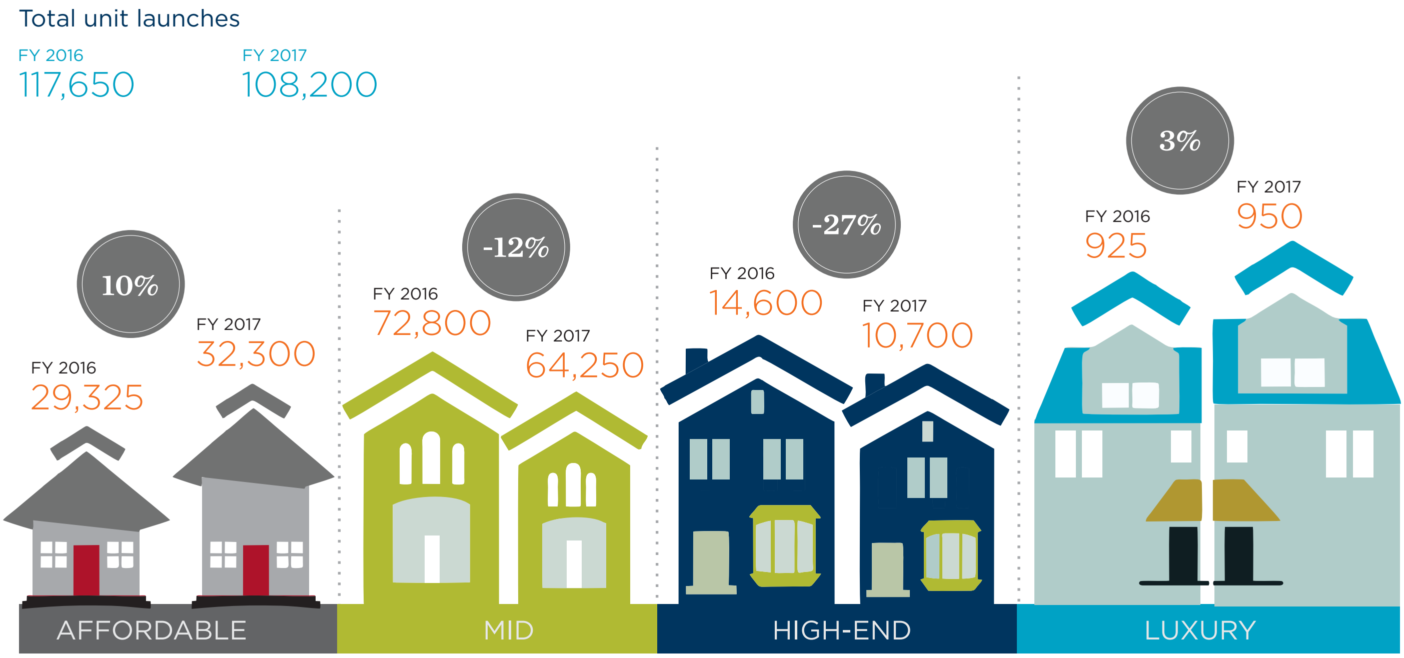
Price rise unlikely as unsold inventory continues to burden the market and GST also impacts costs

Developers realign their marketing strategies to boost sales

The combined impact of a prolonged slowdown in sales and the pressure of mounting inventory led to a price decline in cities such as Delhi-NCR, Bengaluru and select markets in Mumbai during the first quarter of 2017. In Delhi-NCR, quoted capital values softened by 1-3% in both the mid and high-end segments across most of the submarkets from the previous quarter. Bengaluru too witnessed rationalization of prices in most of the submarkets across mid and high-end segments. Developers have restricted new launches and are reducing the effective

1. Ahmedabad, Bengaluru, Chennai, Delhi-NCR, Hyderabad, Kolkata, Mumbai and Pune

SEGMENT WISE NEW UNIT LAUNCHES



Note: Figures have been rounded-off to nearest multiple of 25
Source: Cushman & Wakefield Research

cost of their offerings by bundling in incentives and add-ons to clear the inventory backlog. While the quoted capital values have largely remained range-bound in most of the other cities, developers are offering several lucrative packages and incentives to close deals for genuine buyers. They have launched higher number of subvention schemes such as paying 5% now, 95% on delivery and some developers are even offering assurances of compensation / refund of difference, if prices decline in the future.

It was also observed that the ticket size of new launches across top eight cities saw an average decline of 14% year – on – year (y-o-y) in 2016. At the same time, the residential unit launches have declined in 2016 by 12% to approximately 113,000 units and the unit launches continued to slide in the first quarter of 2017 as well. Developers are also focusing on completing their existing under-construction projects, especially the ones at an advanced stage, to avoid contravening RERA's rules and facing action. Currently, developers are mainly engaged in establishing systems and processes to register the ongoing projects.

Buyers' sentiment to improve in the post RERA regime; price increases unlikely in the short to medium term

There are mixed views in the market in terms of the impact of RERA on real estate prices. Developers cannot commence sales until all project approvals are obtained. However, it is pertinent to note that the sector continues to reel under the pressure of inventory backlog and slow sales in most of the cities. Thus, we do not anticipate a price rise for the next 2-3 quarters. A significant upward trend in prices can commence, only if the current stock gets cleared driven by revival in buyer sentiments.

Thus, we do not expect significant momentum in launches across most of the cities over the next 2-3 quarters as developers are realigning their marketing strategies to gear up for the implementation of RERA. They will focus mainly on registering the ongoing projects and establishing other internal processes to become RERA compliant. The expected transformation in the real estate market through RERA is expected to be well backed by other crucial reforms / measures such as Benami Transactions (Prohibition) Amendment Act, GST, REITs, etc. Affordable housing is likely to witness significant traction with growing interest from developers and PE investors. Large PE funds and NBFCs (like Xander Finance, Kotak Realty Fund, to name a few) are already eyeing investments in affordable housing projects.

CITY WISE NEW UNIT LAUNCHES

Total unit launches

FY 2016
117,650

FY 2017
108,200

	AHMEDABAD	BENGALURU	CHENNAI	DELHI-NCR	HYDERABAD	KOLKATA	MUMBAI	PUNE
FY 2016	8,625	20,500	6,800	20,425	10,125	16,400	17,125	17,675
FY 2017	9,750	15,600	6,375	10,300	9,775	11,600	26,375	18,450
	13%	-24%	-6%	-50%	-3%	-29%	54%	4%

Note: Figures have been rounded-off to nearest multiple of 25
Source: Cushman & Wakefield Research

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A recognized leader in local and global real estate research, the firm publishes its market information and studies online at www.cushmanwakefield.com/knowledge.

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