

Research



# India Real Estate

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# RESIDENTIAL MARKET

The COVID-19 induced lockdowns across the country had caused sales and supply volumes to plummet in the second quarter of 2020. The beleaguered residential market, dogged by a liquidity crunch and weak demand, now also had to contend with extreme supply chain disruptions, spike in construction material costs and large scale labour shortage following an exodus of workers from cities to their home towns.

While the overall real estate sector dynamics continue to remain strained, there has been a meaningful improvement in sales and launches in Q3 2020. Home loan rates at a multi decade low of sub 7%, fall in residential prices, aggressive marketing of ready inventory and indirect discounts / freebies to the buyers - have helped move the demand needle in Q3 2020. There has been a leveraging of online channels and innovative financing options by developers to attract buyers. Limited period stamp duty cut by a significant 300 bps also helped buoy consumer sentiments and helped sales in markets like Mumbai and Pune. The extension of moratorium on loan installments and partial return of construction labourers to project sites have also helped developers progress on project completions. Market traction in the third quarter has been heartening as both sales and launches for the eight markets under review, rebounded sharply from their lockdown lows. In Q3 2020, for the eight cities under review, launches have grown by four and half times and sales by two and half times compared to the second quarter of 2020.

Assessing market performance over a single period could skew our understanding in such volatile times, so comparison over a longer period is warranted. A comparison with the quarterly average sales in 2019 shows that the total sales of the eight markets under review during Q3 2020 have reached 54% of 2019 quarterly average level.

Similarly, residential launches in Q3 2020 have improved to 56% of the 2019 quarterly average.

The reluctance of prospective homebuyers to make a long term financial commitment to a residential property in the current uncertain economic scenario has been the single largest factor affecting demand over the past few months. However, it has been observed that conversion rates across markets have improved as an increasing number of discerning buyers took advantage of low financing costs and a stronger bargaining position in current times. Weighted average prices have reduced in the range of 3-7% in six of the eight markets during Q3 2020 compared to a year ago. Bengaluru and Hyderabad are the only markets that saw prices grow on YoY basis as developers in these predominantly end-user markets sustained pricing power in a favourable demand-supply scenario.

Homebuyers are more inclined to acquire ready or near ready inventory to minimise completion risk. This is reflected in the average age of inventory staying at 16.9 quarters in Q3 2020 compared to 16.2 quarters in the year ago period. This is also in line with developers focusing on liquidating older inventory before launching new products which has helped marginally reduce unsold inventory levels to 0.44 mn units in Q3 2020, 1% less than a year ago.

Table 1:

**Average YoY Residential price change across markets during Q3 2020**

Hyderabad	4%	Kolkata	-3%
Bengaluru	3%	NCR	-5%
Mumbai	-2%	Pune	-5%
Ahmedabad	-3%	Chennai	-7%

Source: Knight Frank Research

**Key Takeaways**

**Chennai, Kolkata and NCR show substantial recovery after near negligible volumes seen in Q2 2020.**

**Sales in Mumbai, NCR, Pune, Chennai and Kolkata have reached or exceeded 50% of 2019 average.**

**Sales in Mumbai and Pune more than doubled in Q3 2020 buoyed by the stamp duty reduction**

**Second only to Mumbai in terms of average sales, Bengaluru sales in Q3 2020 is at 41% of 2019 average.**

**Mumbai, Bengaluru and NCR accounted for 56% of the quarterly sales volume during Q3 2020 compared to 62% in 2019, primarily due to a fall in Bengaluru's share in total sales for the period.**

Table 2:

**Launches (in housing units):**

Market	2019 quarterly average	Q1 2020	Q2 2020	Q3 2020	Q3 2020 as % of 2019 Qtr average
Kolkata	1,414	858	-	1,934	137%
Chennai	2,886	3,520	-	2,547	88%
NCR	5,726	1,422	-	4,110	72%
Pune	11,165	12,650	785	6,721	60%
Bengaluru	8,443	8,963	1,843	4,720	56%
Ahmedabad	2,872	2,102	525	1,451	51%
Mumbai	19,953	22,388	1,011	8,389	42%
Hyderabad	3,374	3,002	1,420	1,234	37%
<b>Total</b>	<b>55,831</b>	<b>54,905</b>	<b>5,584</b>	<b>31,106</b>	<b>56%</b>

Source: Knight Frank Research

Note: Blanks denote negligible numbers

Table 3:

**Sales (in housing units):**

<b>Market</b>	<b>2019 quarterly average</b>	<b>Q1 2020</b>	<b>Q2 2020</b>	<b>Q3 2020</b>	<b>Q3 2020 as % of 2019 Qtr average</b>
<b>Kolkata</b>	2,817	2,937	-	3,921	139%
<b>Chennai</b>	4,240	2,981	-	3,085	73%
<b>Pune</b>	8,202	7,813	2,235	4,918	60%
<b>NCR</b>	10,707	5,446	-	6,147	57%
<b>Mumbai</b>	15,236	15,959	2,687	7,635	50%
<b>Bengaluru</b>	12,019	8,693	3,484	4,912	41%
<b>Hyderabad</b>	4,067	3,808	974	1,609	40%
<b>Ahmedabad</b>	4,181	2,268	252	1,176	28%
<b>Total</b>	61,467	49,905	9,632	33,403	54%

Source: Knight Frank Research

Note: Blanks denote negligible numbers

We believe the residential market has displayed a better than expected recovery in Q3 2020, given the macro-economic challenges and resumption of lockdowns in July that have impacted every sector directly and indirectly. However, developers' cash flows remain under tremendous pressure despite the extension on loan moratoriums and RERA completion deadlines. The festival season in the next quarter will be crucial for developers and should provide some fillip to sales.

# OFFICE MARKET

The Indian office market had been largely unaffected by the economic slowdown until the end of 2019 and had been trending up in terms of market volumes and rent growth since 2014. However, the lockdowns enforced to contain the spread of the COVID-19 pandemic and its economic fallout have adversely impacted office market dynamics over the past six months. Q2 2020 felt the brunt of the pandemic with most of the top eight markets having enforced a strict lockdown for a large part of the quarter. This caused the volume of transactions and new completions to fall sharply. Extreme disruptions in the economic environment and an uncertain revenue outlook caused businesses to defer expansion plans and focus on controlling costs. While the lockdowns were eased by the end of Q2 2020, social distancing norms and remote working ensured that corporate offices were working at 30-50% capacity in most markets.

With the economy unlocking, market traction started to improve in tandem as total transactions and office completions recovered by 80% and 126% respectively in Q3 2020, when compared to the preceding quarter. Transactions exceeded new completions during this period and helped keep rental levels flat or positive in four of the eight markets under coverage, while rentals fell in the range of 1-6% in rest of the markets.

## Key Takeaways

**Markets of Chennai, Kolkata, NCR and Mumbai have recovered to more than 40% of pre-covid level (2019 quarterly average).**

**Transactions in Mumbai are marginally lower in Q3 2020 compared to Q2 2020 and that's mainly because of one large IT sector deal in Q2**

**While in Q3 2020, transactions in Bengaluru reached 30% of 2019 levels, the market still experienced the highest transaction at 1.1 mn sq ft and rent growth at 4% (YoY) during the period.**

**Ahmedabad was the only market to see office completions exceeding transactions during Q3 2020, causing rents to fall by a substantial 5% YoY**

Table 1:

### Average YoY Office rent growth across markets during Q3 2020

Bengaluru	4%	Mumbai	-1%
Hyderabad	2%	Ahmedabad	-5%
Chennai	0.5%	NCR	-5%
Pune	0%	Kolkata	-6%

Source: Knight Frank Research

Assessing market performance over a single period could skew our understanding in such volatile times, so comparison over a longer period is warranted. In Q3 2020, the total transactions in the eight markets under review have improved and reached 33% of 2019 quarterly average level. With construction labourers returning and construction activity gathering momentum, new completions have improved to 29% of the 2019 quarterly average. While this may seem like a modest recovery, it must be taken into consideration that the office market had spiked in 2019 with record high transactions.

Table 2:

**Transactions (in mn sq m):**

Market	2019 quarterly average	Q1 2020	Q2 2020	Q3 2020	Q3 2020 as % of 2019 Qtr average
Kolkata	0.03	0.04	-	0.02	62%
Chennai	0.12	0.12	0.01	0.07	57%
NCR	0.20	0.19	0.00	0.09	43%
Mumbai	0.23	0.23	0.12	0.10	42%
Bengaluru	0.35	0.39	0.05	0.11	30%
Ahmedabad	0.04	0.05	-	0.01	15%
Hyderabad	0.30	0.20	-	0.04	14%
Pune	0.14	0.13	0.06	0.01	10%
<b>Total</b>	<b>1.33</b>	<b>1.35</b>	<b>0.24</b>	<b>0.44</b>	<b>33%</b>

Source: Knight Frank Research Note: Blanks denote negligible numbers

Table 3:

**New Completions (in mn sq m):**

Market	2019 quarterly average	Q1 2020	Q2 2020	Q3 2020	Q3 2020 as % of 2019 Qtr average
Ahmedabad	0.11	0.24	-	0.14	125%
Bengaluru	0.37	0.37	-	0.10	27%
NCR	0.29	0.03	0.04	0.06	20%
Mumbai	0.18	0.24	0.10	0.03	15%
Chennai	0.04	0.30	-	0.01	15%
Pune	0.10	0.02	-	-	0%
Hyderabad	0.25	0.25	-	-	0%
Kolkata	0.14	0.01	-	-	0%
<b>Total</b>	<b>1.13</b>	<b>1.46</b>	<b>0.15</b>	<b>0.33</b>	<b>29%</b>

Source: Knight Frank Research Note: Blanks denote negligible numbers

In the wake of the COVID-19 pandemic, the uncertain business environment has caused occupiers to re-assess their office space expansion plans and adapt to a sub-optimal remote working environment until social distancing norms persist. However, as the economy limps back to recovery, the office market dynamics are also likely to improve in the subsequent quarters.

# CELEBRATING



## REPORT AUTHORS:

**Vivek Rathi**  
Director - Research  
vivek.rathi@in.knightfrank.com

**Yashwin Bangera**  
Vice President - Research  
yashwin.bangera@in.knightfrank.com

## RESEARCH

**Rajani Sinha**  
Chief Economist & National Director  
rajani.sinha@in.knightfrank.com

## CORPORATE - MARKETING & PUBLIC RELATIONS

**Girish Shah**  
Executive Director  
girish.shah@in.knightfrank.com

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