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India Property: Ears On The Ground | Asia Pacific

EOTG 63: 3Q18 Data – Strong Sales Momentum

The physical market remained strong for the fourth consecutive quarter. We expect this trend to continue. However, if the ongoing liquidity crisis for NBFCs worsens, it could have a transient adverse impact.

JLL released 3Q18 residential data for the top seven metro cities: In the quarter, new sales improved 11% qoq, to 37.4k units (six-quarter average of 26.8k units), led by improved demand across all markets. New launches, though down 9% qoq to 39.1k units, were still well above the six-quarter average of 31.1k units. The decline in new launches mainly reflected the NCR, Pune, and Hyderabad markets, whereas launches in Bangalore and Mumbai remained strong. Average consolidated absorption rate improved qoq to 7.3% (six-quarter average of 5.6%), which implies 13 quarters of unsold (but under construction) inventory.

Our view: 3Q18 continued to reflect the improvement in the physical market, led by pent-up demand after the slowdown in 2017, as well as improved affordability (muted property prices over 2-3 years, income growth, and lower mortgage rates). However, if the ongoing pressure on NBFC's continues, it could lead to transient market disruption – i.e., higher borrowing costs for both developers and home buyers, project delays, discount sales in certain pockets, etc. Yet grade A developers with strong balance sheets and projects in prime locations are likely to be insulated from this impact, thanks also to strong customer profiles.

Unsold (under construction) residential inventory: Noida 86.4k units, Bangalore 76.9k units, Greater Mumbai 51.7k units, Kolkata 36.3k units, Chennai 35.3k units, Pune 34.2k units, Hyderabad 29.7k units, and Gurgaon 24.2k units. This should be seen in the context of quarterly sales velocity to assess under/oversupply situations. Gurgaon, although not carrying high inventory, appears to have priced itself out for the next few quarters.

Commercial: Pre-leasing and new completions in the top three markets (Mumbai, Bangalore, and NCR) were down sequentially. Vacancy levels remained flat qoq across the three markets. Pre-leasing in Bangalore, Mumbai, and NCR was 1.13msf, 0.98msf, and 1.2msf (6Q averages of 2.4msf, 1.6msf, and 1.2msf respectively). Vacancy rate in Bangalore remained low at 3.6%. Mumbai and NCR had vacancies of 17.2% and 29.2%, respectively.

Please see inside for city-specific residential commentary.

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The Residential and Commercial data used in this report have been sourced from Jones

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City Commentary

Mumbai (including Greater Mumbai, Thane and Navi Mumbai): New launches at 9.1k units (+14% qoq) were higher than the 6Q average of 8.5k units. New sales of 6.5k units (+3 qoq) were broadly in line with the trailing 6Q average. New launches were highest in the Eastern suburbs (45% of total), followed by Western suburbs (21% of total) and Thane (19% of total). In Navi Mumbai, demand and launches were weaker sequentially on a strong base.

Noida: Improving new sales momentum continued at 3.5k units (+11% qoq) vs. the 6Q average of 2.3k units. New launches were lower at 745 units (6Q average of 1.7k units), thus reducing inventory to 86.4k units (89.8k units in Q2).

Gurgaon: Similar to the Noida market, new sales remained strong at 1.4k units (6Q average of 735 units) and new launches were lower at 312 units (6Q average of 915 units)

Bangalore: Both new launch and pre-sales momentum remained strong. New launches of 12.6k units were the highest in the past three years (6Q average of 6.2k units). The market had sales of 8.2k units (+10% qoq), highest in the past two years. New launches were high in Hosur road, Whitefield, and Bellary road.

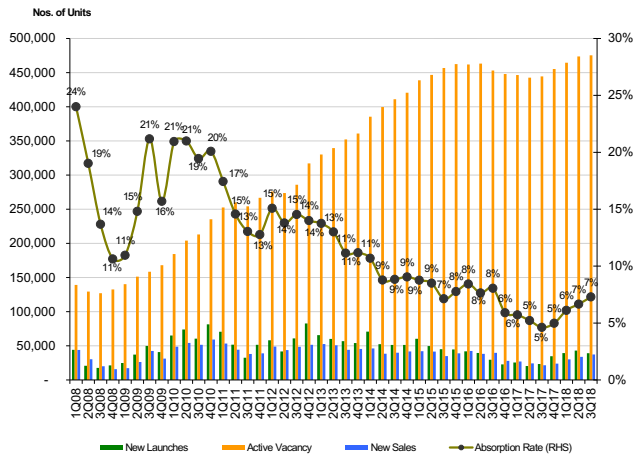
Chennai: Launches fell 5% qoq, to 3.2k units, while sales were up 15% qoq at 3.6k units. Both launches and new sales were still above the six-quarter averages of 2.9k units each.

Hyderabad: New sales remained strong at 3.9k units (6Q average of 1.5k units), and new launches were down 19% qoq at 4.0k units (still above the 6Q average of 3.3k units).

Pune: New launches (4.1k units) were down qoq, on a high base (Q2 6.9k units). New sales (6.5k units) improved 10% qoq (6Q average of 4.6k units).

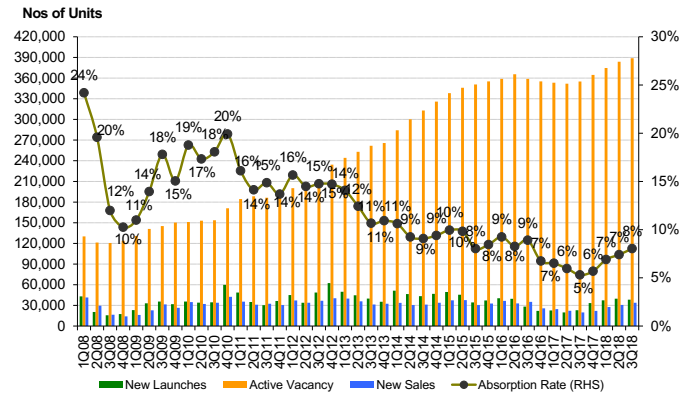
Charts

Exhibit 1: Pan India* Residential: Demand/Supply Trend



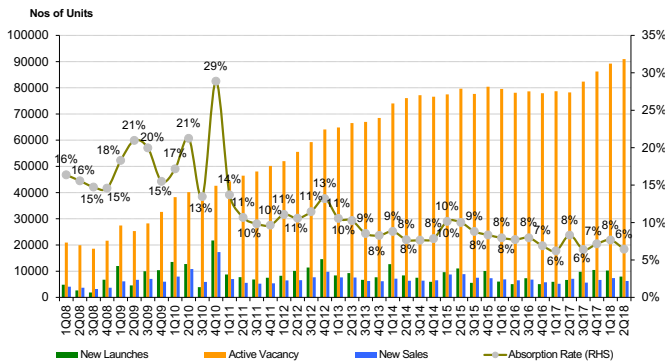
* Includes cities of Mumbai, NCR, Bangalore, Chennai, Pune, Hyderabad and Kolkata. Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research

Exhibit 2: Pan India (Ex-Noida) Residential: Demand/ Supply Trend



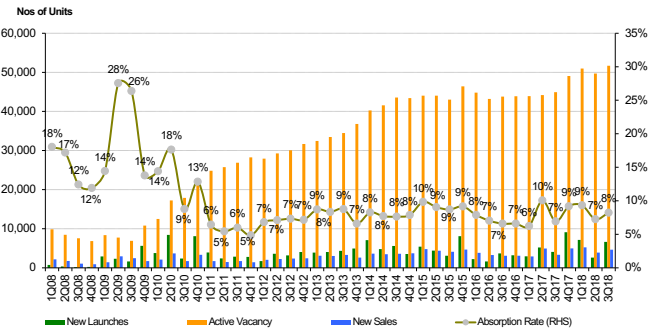
Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research

Exhibit 3: Mumbai* Residential: Demand/Supply Trend



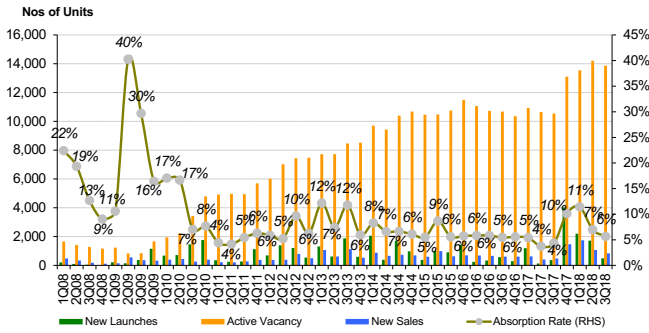
* Includes Greater Mumbai, Thane and Navi Mumbai. Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research

Exhibit 4: Greater Mumbai Residential: Demand/Supply Trend



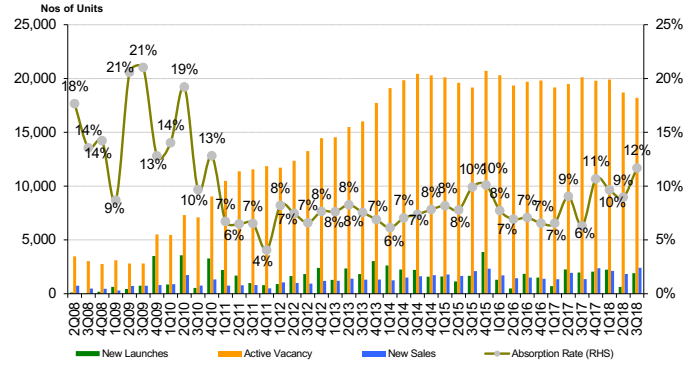
Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research

Exhibit 5: South/Central Mumbai Residential: Demand/Supply Trend



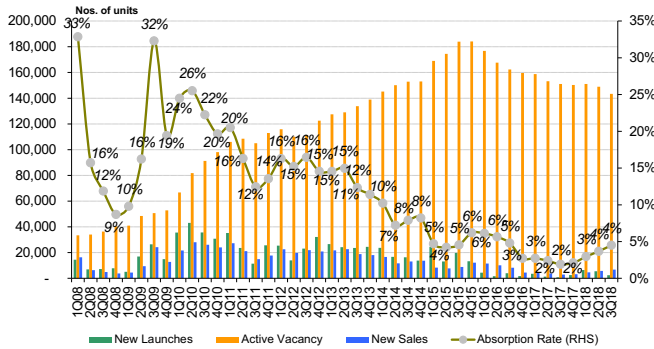
Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research

Exhibit 6: Mumbai – Western Suburbs Residential: Demand/Supply Trend



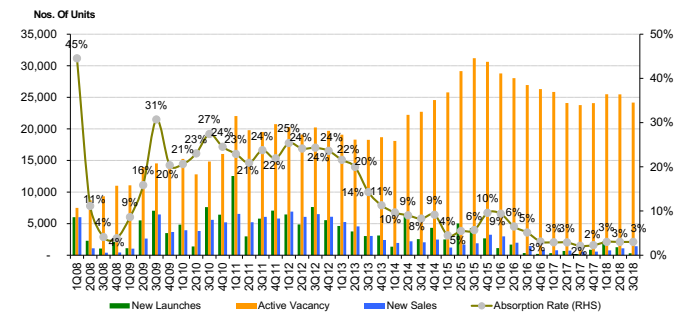
Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research

Exhibit 7: NCR Residential: Demand/Supply Trend



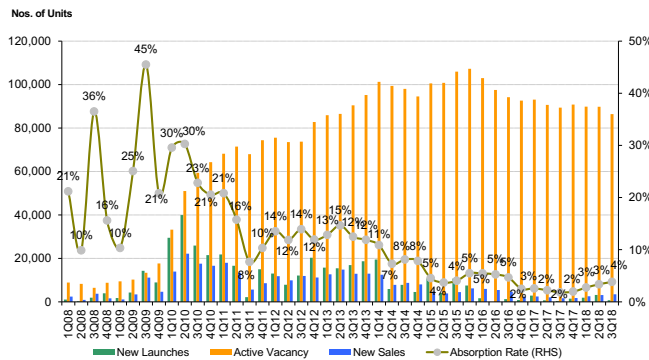
Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research

Exhibit 8: Gurgaon Residential: Demand/Supply Trend



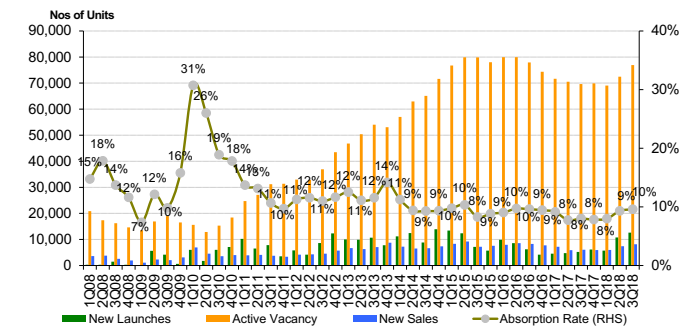
Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research

Exhibit 9: Noida Residential Demand/Supply Trend



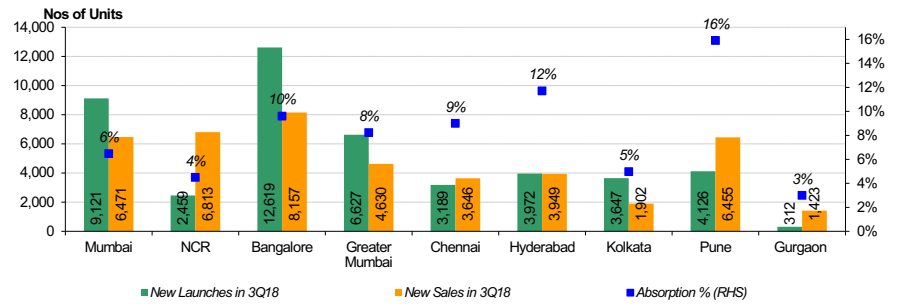
Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research

Exhibit 10: Bangalore Residential: Demand/Supply Trend



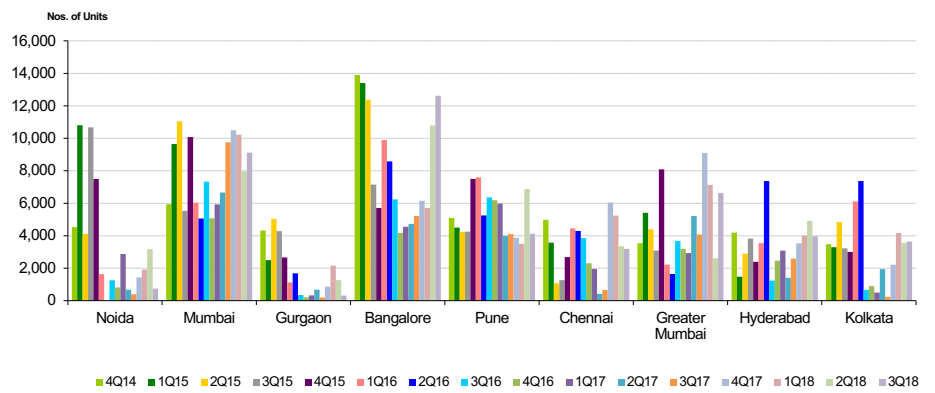
Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research

Exhibit 11: 3Q18 Residential: Demand/Supply in Major Cities



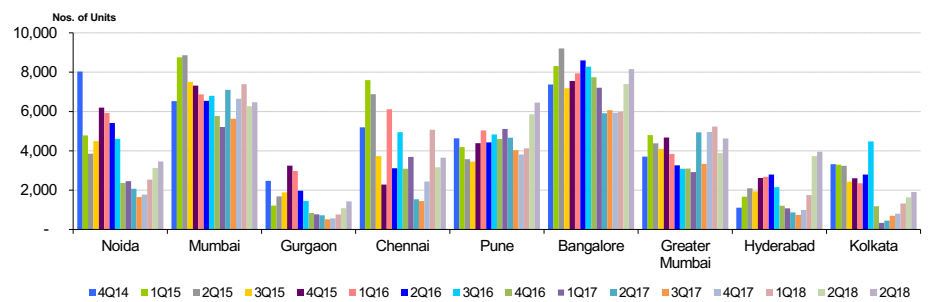
Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research

Exhibit 12: Residential New Launches Trend in Major Cities



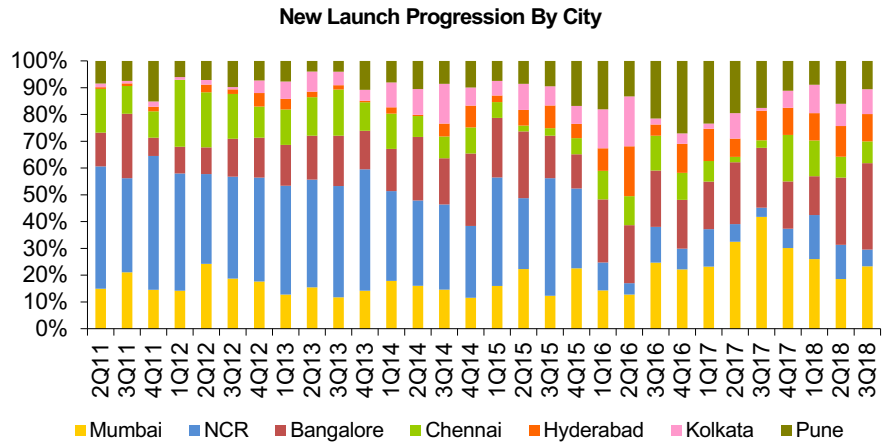
Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research

Exhibit 13: Residential New Sales Trend in Major Cities



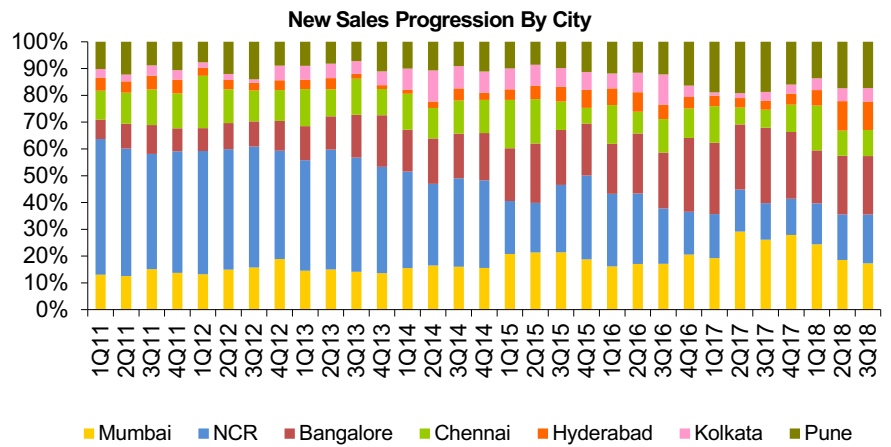
Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research

Exhibit 14: Residential New Launch Contribution by City



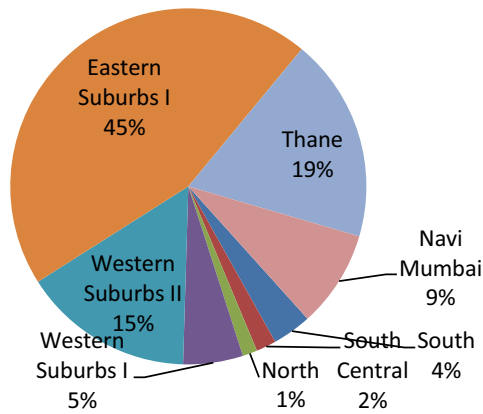
Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research

Exhibit 15: Residential New Sales Contribution by City



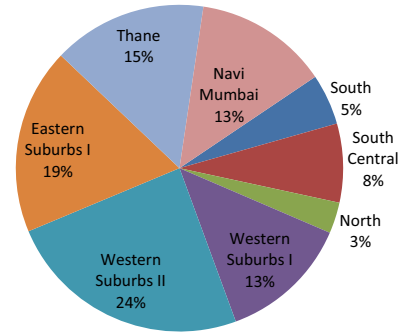
Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research

Exhibit 16: Mumbai Residential New Launches
3Q18 New Launches - 9,121units



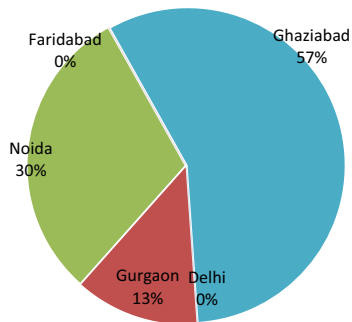
Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research

Exhibit 17: Mumbai Residential Net Sales
3Q18 Net Sales: 6,471units



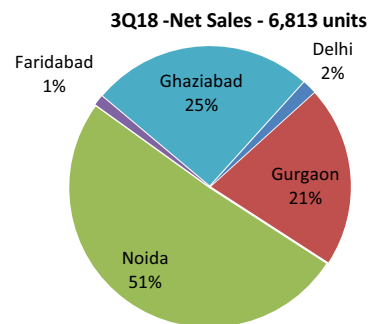
Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research

Exhibit 18: NCR Residential New Launches
3Q18 -New Launches- 2,459units



Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research

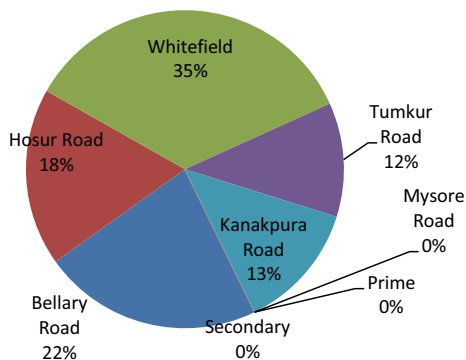
Exhibit 19: NCR Residential Net Sales



Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research

Exhibit 20: Bangalore Residential New Launches

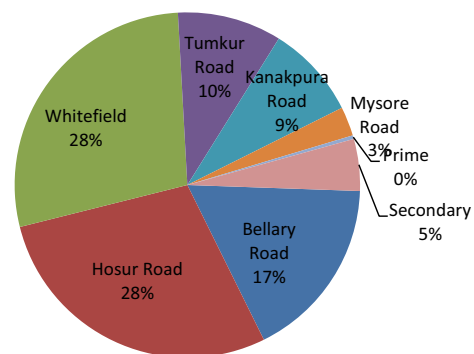
3Q18 - New Launches - 12,619units



Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research

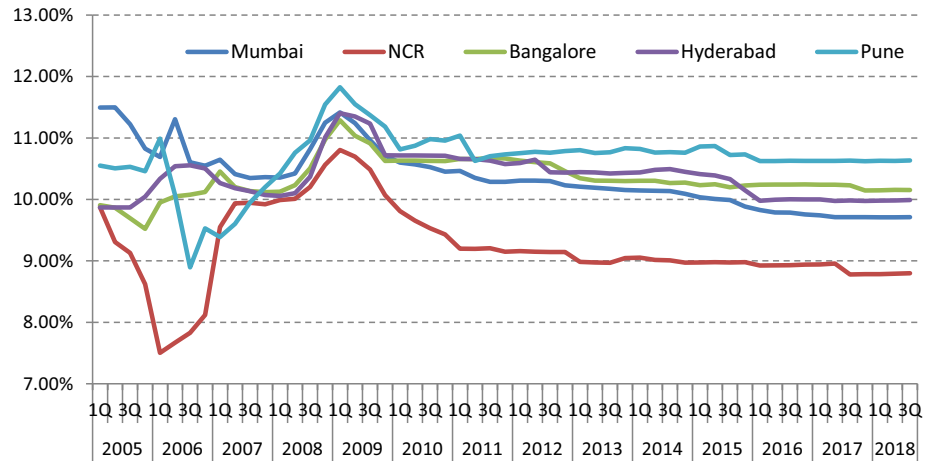
Exhibit 21: Bangalore Residential Net Sales

3Q18 - Net Sales - 8,157units



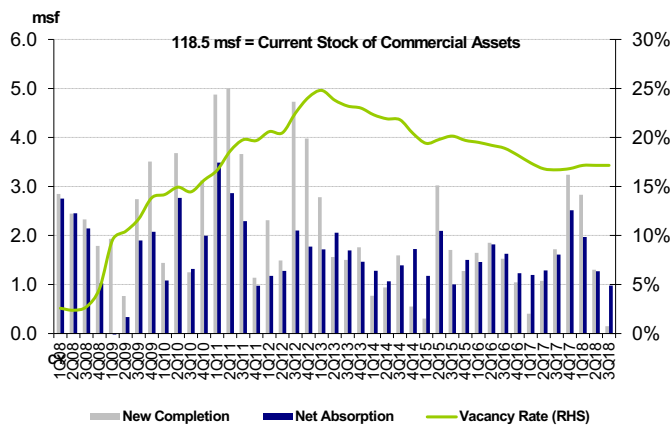
Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research

Exhibit 22: Commercial Rental Yield



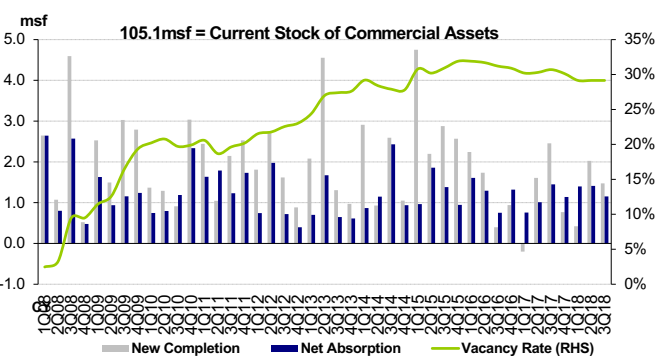
Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research

Exhibit 23: Mumbai Commercial: Demand/Supply Trend



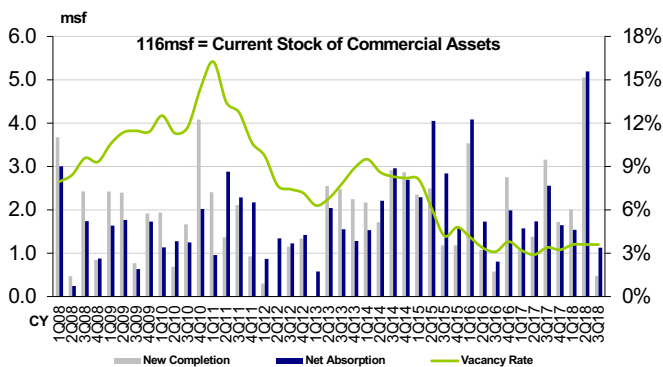
Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research.

Exhibit 24: NCR Commercial: Demand/Supply Trend



Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research

Exhibit 25: Bangalore Commercial: Demand/Supply Trend



Source: Real Estate Intelligence Service – Jones Lang LaSalle Research, Morgan Stanley Research.

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|--------------------------|-------------------|---------------|----------------------------------|-------------------|----------------------------|---|-------------------------------|
| | COUNT | % OF TOTAL | COUNT | % OF TOTAL IBC | % OF RATING CATEGORY | COUNT | % OF TOTAL OTHER MSC |
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| Equal-weight/Hold | 1378 | 44% | 343 | 46% | 25% | 625 | 44% |
| Not-Rated/Hold | 49 | 2% | 5 | 1% | 10% | 7 | 0% |
| Underweight/Sell | 554 | 18% | 83 | 11% | 15% | 224 | 16% |
| TOTAL | 3,159 | | 739 | | | 1418 | |

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INDUSTRY COVERAGE: India Property

| COMPANY (TICKER) | RATING (AS OF) | PRICE* (10/23/2018) |
|---|----------------|---------------------|
| Sameer Baisiwala, CFA | | |
| DLF Limited (DLF.NS) | E (04/07/2018) | Rs153.45 |
| Godrej Properties Limited (GODR.NS) | E (07/03/2017) | Rs521.50 |
| Oberoi Realty Limited (OEBO.NS) | O (06/19/2018) | Rs394.55 |
| Prestige Estates Projects Ltd (PREG.NS) | O (05/17/2012) | Rs192.80 |
| Sobha Developers Ltd. (SOBH.NS) | O (05/25/2010) | Rs420.50 |

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.