India Residential Property Market Overview

H1 2017

INDIA | RESIDENTIAL

H1 2017

08 August 2017

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RERA to revitalise market sentiment

Surabhi Arora Senior Associate Director | India

In H1 2017, the Indian residential market was riddled by the implementation of the Real Estate (Regulation and Development) Act in several states and the nationwide execution of the Goods and Services Tax (GST). We expect that RERA and GST compliance will remain a challenge for several developers for at least the next six months. After the recent bank rate cut by RBI in July 2017, we do not expect any further rate cut in H2 2017. Also, the prices have been stabilised in most markets, and any further reduction is unlikely. Thus, we advise buyers to expedite their buying decisions and take advantage of lower interest rate regime. The first-time homebuyers can also get benefit from the incentives under Pradhan Mantri Awas Yojna (PMAY).

Forecast at a glance

Demand
Sales likely to pick up during the festive season in September and October; popularity of affordable and mid segment units to persist

Supply
We are expecting a decline in new launches after RERA; affordable housing inventory set to rise

Capital Values
Capital values are likely to remain stable; muted sales in primary market should keep a check on prices

Rent
RENT
Average city-wide rents to remain stable, southern cities may witness a 5-10% rise in rents in H2 2017 near employment hubs due to high demand from Technology professionals

Construction
Although developers are likely to speed up the construction speed, uncertainty in construction material prices may affect the pace of construction in the short run

Muted launches, but improved buyer sentiment likely in H2 2017

Although the market has returned to normal after the demonetisation drive in November 2016, it was further impacted by RERA and GST. There was a 17% decline in the number of new launches since H2 2016 with 40,600 new units introduced in the first half of 2017 in prime cities. Mumbai and Bengaluru were at the forefront with 35% and 33% of total launches respectively, while Chennai, Pune and NCR accounted for the remaining 13%, 10% and 9% share. The luxury market has been affected the most, and the number of launches reduced considerably in this segment. We expect similar sentiments to prevail in the next six months with affordable housing grasping a major share in new launches.

In H1 2017, the RERA was implemented in states including Maharashtra, Madhya Pradesh and Tamil Nadu while other states including Uttar Pradesh, Karnataka and Haryana were also in advanced stages of RERA execution. Thus, developers in prime cities have been busy ensuring compliance with the rules on registration of their projects with the regulatory authority. We advise developers to plan their projects carefully and provide all the necessary approvals and documents to receive their registration number from the authority on time. They should mention the registration number while engaging in any form of advertisement of the project.

Although the GST was enacted in H1 2017, the actual impact on construction cost is yet to come. We expect affordable housing to benefit from the tax structure while luxury products may see an increase in construction cost as most of the luxury input materials are in higher tax brackets of 18 and 28%.

We are expecting a decline in the number of launches in the second half of 2017. However, the sales are likely to pick up during the festive season due to higher optimism among buyers after RERA. This will further address the issue of unsold inventory in the market. In our opinion, buyers who are looking to invest in the next three to four months should opt for RERA-registered and ready-for-possession projects. If they are looking for properties in the primary market, we advise them to go only for a RERA-registered project and carry out all transactions through a registered real estate agent.

Contents

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H1 2017

08 August 2017

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RERA registration to keep developers busy

Uttara Nilawar Manager | Mumbai

H1 2017 was marked by finalisation of the Real Estate (Regulation and Development) Act's norms and the website launch for registration of projects. Although developers were expecting it, the transition towards a RERA-compliant regime has been difficult for many. We recommend developers which need to register with RERA to have all the necessary documents and approvals in place for a smoother registration process. We also advise the buyers to invest only in RERA-compliant projects and buy any property through registered real estate agents.

Forecast at a glance

Demand
Demand to remain skewed towards projects registered with the regulatory authority; end-user preference for affordable and mid-end segment properties to continue

Supply
After RERA, new launches to reduce by 25-30% in H2 2017 owing to registration requirements

Capital Values
Prices set to stabilise after a reduction of 2-6% since demonetisation

Rent
Rents set to remain stable as no movement has taken place in the rental market

Construction
Slight delay in delivery expected as developers try to raise funds to complete their projects

New launches yet to pick up; post RERA scenario set to improve

Against the backdrop of the demonetisation drive and announcement of RERA implementation, market sentiment was suppressed and impacted the new project launches significantly during H2 2016. In H1 2017, we noticed a slight improvement in supply to 14,000 new launches (including 3,800 pre-launches) in the Mumbai Metropolitan Region (MMR) and its suburbs representing a 16% increase over H2 2016.

As buyers' preference was skewed towards ready-to-move-in properties in the luxury secondary market owing to uncertainity in the primary market due to RERA, developers refrained from launching luxury product in the market. During H1 2017, about 58% of the new launches were in the mid-end segment, whereas luxury and high end properties represented only 17% and 25% share in the total new launches. Although there were not many new launches in affordable housing, we witnessed increased interest among developers in entering this segment. A few notable developers announced their investment plans for the affordable housing sector in H1 2017. According to Moneycontrol, Sunteck Realty has planned a new affordable housing vertical with an investment of INR10 billion/USD 0.16 billion.

Capital Values

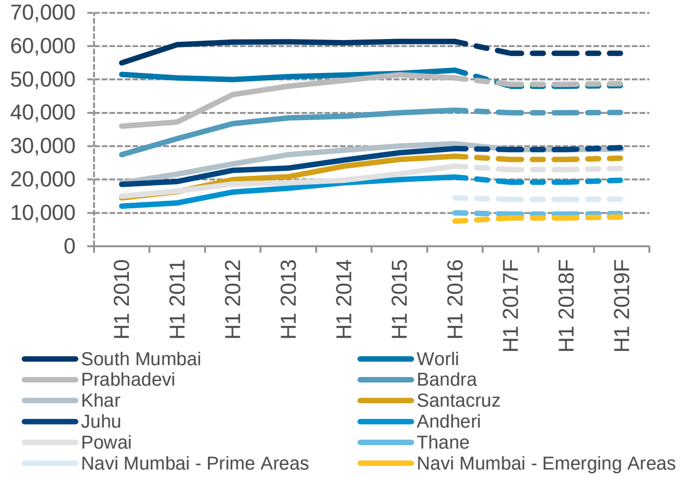
Micromarkets	Capital Values (INR per sq ft)	Half yearly change	Annual Change
South Mumbai	45,000 - 65,000	-3%	-6%
Worli	44,000 - 52,000	-6%	-9%
Prabhadevi	46,000 - 51,000	-3%	-4%
Bandra	29,000 - 51,000	-1%	-2%
Khar	25,000 - 33000	-3%	-6%
Santacruz	24,000 - 28,000	-2%	-4%
Juhu	27,500 - 30,500	0%	-1%
Andheri	18,000 - 20,500	-4%	-7%
Powai	19,500 - 26,500	-3%	-4%
Thane	7,000 - 12,200	1%	-4%
Navi Mumbai - Prime Areas	9,000 - 19,000	-3%	-3%
Navi Mumbai - Emerging Areas	7,000 - 10,000	3%	13%

Source Colliers International India Research

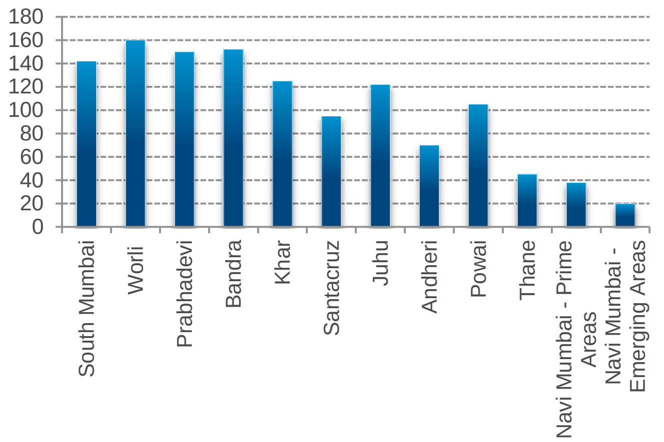
Note: Above values represent indicative base selling price for premium properties for secondary market products

HDIL (Housing Development and Infrastructure Ltd) is also planning affordable homes within ticket sizes of INR0.2-0.5 million/USD31,000-77,000 in the Vasai-Virar region. Another affordable housing developer, Xrbia Developers in partnership with Mumbai based Crystal Group, plans to develop a compact, affordable housing project at Chembur, one of the prime locations in MMR with ticket sizes ranging between INR4-8 million/ USD62,000 - 124,700.

Average Capital Value Trends (INR per sq ft)



Average Rental Values (INR per sq ft per month)



Source Colliers International India Research

Investor activity likely to continue in H2 2017

As sales started to pick up after demonetisation in the mid-end segment, many reputed developers like Puranik Builders and Sheth Corp were able to raise funds from non-banking financial institutions (NBFCs) in the form of structured debt. According to the Economic Times, the US private equity firm KKR Group invested INR3 billion/USD 0.05 billion in a premium residential project of Runwal Group at Kanjurmarg. The prices are stable and are not expected to rise for a short term due to a series of new policies and the current market scenario. Hence, we believe that private equity players should view this as an opportune moment to fund developers and receive attractive returns in the next 2-3 years when a transparent regime may lead to a hike in prices. As per the Economic Times, ASK Property Investment Advisors, the real estate private equity arm of ASK Group recently exited from three residential projects of Puranik Group, ATS Infrastructures and Shriram Properties with Internal Rate of Returns (IRR) ranging from 19% to 27%.
After a dip of 2-6% in the premium secondary market since last half-year capital values have stabilised, and we expect no significant correction in coming quarters. There has not been much movement in the rental market, so rents are likely to be stagnant.

Colliers' View

For the past six months, the primary market was in a pause mode with very few launches as developers were trying to complete registration formalities with the RERA regulatory authority. For the same reason, buyers are also in a wait-and-see mode, but once project registration is in full swing, buyer sentiment is likely to improve. In addition, developers may offer discounts in the upcoming festive season of Ganesh Chaturthi in the month of September, thus giving a further boost to the buyer sentiment. However, we advise buyers to invest only in RERA-compliant projects and carry out all their transactions through registered real estate agents. We also recommend developers to complete registration with all necessary documents and approvals prior to launching any new projects. They should also refrain from any form of advertising before they receive a registration number from the authority.

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Colliers | Research and Forecast Report

GURGAON | RESIDENTIAL

H1 2017
08 August 2017

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Wait-and-see sentiment likely to prevail

Surabhi Arora Senior Associate Director | India

In our opinion, the developers are likely to remain focused on clearing their unsold inventory in under-construction and ready-to-move-in projects in H2 during the festive season in the month of September and October with attractive payment plans. The recent approval of the Real Estate Regulation & Development Act (RERA) norms in Haryana is leading to a wait-and-see sentiment among developers as well as buyers. We recommend buyers to invest in ready-to-move-in properties in both the primary and secondary markets to benefit from plenty of options and lower prices especially in the luxury segment in emerging markets like Dwarka Expressway and New Gurgaon.

Forecast at a glance

Demand
End-user demand likely to pick up in upcoming festive season during September and October

Supply
New launches are likely to remain subdued in the luxury segment; affordable housing projects likely to dominate the market

Capital Values
Likely to remain stable in mature markets; 5-7% correction in emerging locations likely due to muted transaction volumes in the next six months

Rent
Likely to remain stable in most micromarkets

Construction
Construction in projects near completion should speed up after the monsoon; developers will focus on completions to avoid complications likely under RERA

New launches to remain subdued despite upcoming festive season

In line with our forecast, the new launches in the city fell to an all-time low of only 3000 new units in H1 2017. About 90% of the total unit launches were in the affordable category under the government initiative of Pradhan Mantri Awas Yojna which was specifically designed for the affordable housing segment. The majority of the units launched in H1 2017 were in the price band of INR2-2.5 million (USD31,000-38,800) that caters to the affordable segment in Gurgaon. Out of the total launches, about 90% of the new launches were concentrated in the sector adjacent to Dwarka Expressway and New Gurgaon area.

Although most of the local developers have completely suspended new launches in the mid and luxury segment in view of the upcoming RERA, national developers such as Godrej Properties remained bullish on the prospects of residential sector in the city.

In our opinion, registration under RERA should start in Q3 2017 and it is likely to take at least six months for developers to become accustomed to the new regulation. Thus we expect, new launches to remain subdued in H2 2017. However, we expect sales to revive during the festive season primarily in ready-to-move-in projects as most developers would provide discounts and attractive payment plan options. We advise buyers to explore the units available with developers in these projects as the arbitrage between the primary and secondary market is almost nil in the current market scenario. Developers are keen to sell their units at the prevailing secondary market prices with attractive payment plans.

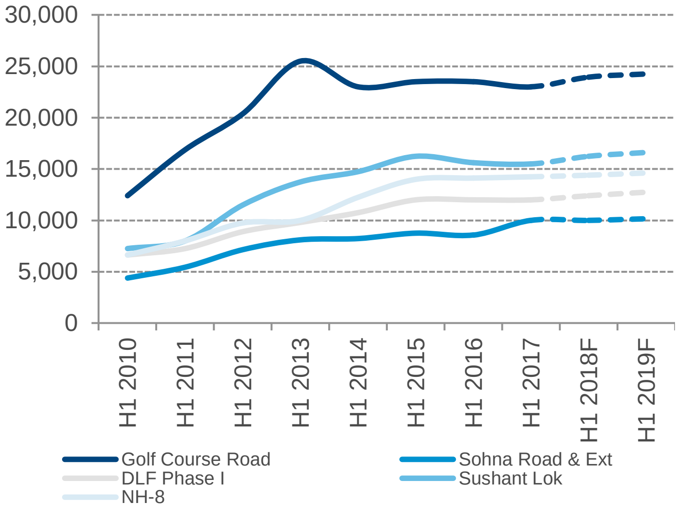
Capital Values

Micromarkets	Capital Values (INR per sq ft)	Half Yearly Change	Annual Change
Golf Course Road	11,000 - 35,000	-2%	-2%
Sohna Road & Extension	6,000 - 14,000	0%	2%
DLF Phase I	11,000 - 13,000	0%	0%
Sushant Lok	14,000 - 17,000	-3%	-1%
NH-8	10,500 - 18,000	0%	1%

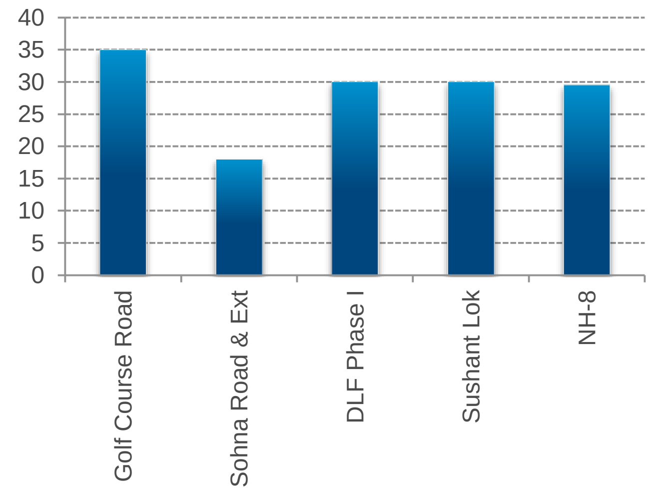
Source Colliers International India Research
Note: Above values represent indicative base selling price for premium properties for secondary market products

In H1 2017, the state government came with a land pooling policy which aims to eliminate the cumbersome process of existing land acquisition process. The land pooling policy should help to improve the supply of commercial and residential segment in the city and boost the development of infrastructure.

Average Capital Value Trends (INR per sq ft)



Average Rental Values (INR per sq ft per month)



Source Colliers International India Research

Price correction unlikely; market to pick up after RERA

The demonetisation effect has almost faded, and we have not witnessed any significant price correction during H1 2017. We anticipate that prices will largely remain stable in mature markets such as Golf Course Road, Sohna Road, DLF Phase I, II, III, IV and V. However, a 5-7% correction in H2 2017 is probable in emerging micromarkets such as Dwarka Expressway and Golf Course Extension Road due to the high inventory available in the secondary market. Despite the availability of affordable ready-to-move-in properties in emerging areas like Dwarka Expressway and New Gurgaon sector, the market is not picking up. The primary reason is the absence of infrastructure development and social amenities which make this area less preferable. End-users still prefer traditional markets with metro connectivity or sectors along National Highway-8 (NH-48).

In H1 2017, rents witnessed a marginal correction of 2-3% YoY in high inventory areas such Gold Course Road, Golf Course Extension Road and Sohna Road. The rental yields have contracted to as low as 1% primarily in luxury properties. Although we do not expect any further correction in rents, we advise landlords to remain flexible in lease terms to retain existing tenants.

Colliers' View

We expect the market to pick up after RERA in 2018. Although RERA has led residential developers to hold new launches, it is slowly addressing the issue of the high level of unsold inventory. The upbeat commercial market continues to indicate positive outlook in the Gurgaon real estate market.

The success of the land pooling policy requires active landowner participation, which will depend on fair and timely implementation and allotment of developed land. If the plan is approved and implemented at a good pace, it should take at least three to five years before the supply starts coming into the market. Thus, any short-term impact on prices is unlikely; however, it will help in a holistic development of the market in long term.

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NOIDA | RESIDENTIAL

H1 2017
08 August 2017

New launches likely to remain muted

Surabhi Arora Senior Associate Director | India

In NOIDA, registration under the Real Estate Regulation and Development Act (RERA) has started in July 2017. We expect new launches to remain subdued at least in H2 2017 as developers stay focused on registration of existing projects. While this is a good time to buy for end-users in the market which have plenty of ready properties to choose from, we advise investors to take a three to five-year view when they make purchases.

Forecast at a glance

Demand
End-user demand will continue to keep the market live; timely completions, brand and product quality will remain key demand drivers

Supply
Developers are on a project completion mission; new launches to remain limited

Capital Values
Prices to remain stagnant in medium term

Rent
No significant change expected, rents are likely to remain stable

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

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

The completion of projects and the end-user interest in the ready to move in projects kept the market alive in H1 2017. Most of this demand was concentrated in newly developing sectors such as 72 to 78, sector 100, 107, 137 and Greater Noida West. Developers refrained from launching new projects in H12017 and focused on completion of existing projects. About 3,000 units got completion certificates in the last six months while new launches hit bottom at under 1,000. So far, the Noida market has been dominated by local developers, but now the market is witnessing more traction from the national developers which are in the process of making strategic alliances with the local developers.

We expect new project launches to remain muted in H2 2017 as well, while certain national developers may launch a few projects in the newly developing sectors towards the end of NOIDA Expressway. Most existing developers are likely to remain busy in registering their projects with RERA. We expect developers to offer attractive payment plans to lure buyers during the festive season. Generally, developers offer attractive subvention schemes, discounts, payment plans such as no EMI until possession, free parking, and gold coins during the festive season in the NOIDA market. However, we advise buyers to remain cautious in their approach while selecting projects and consider developers with proven track record of timely project deliveries and quality.

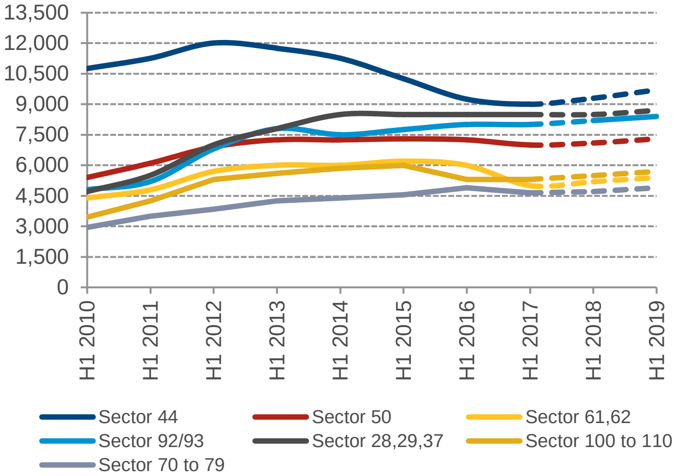
Capital Values

Micromarkets	Capital Values (INR per sq ft)	Half Yearly Change	Annual Change
Sector 44	7,000 - 11,000	0%	-3%
Sector 50	6,500 - 7,500	0%	-3%
Sector 61,62	4,500 - 5,500	0%	-15%
Sector 92/93	6,500 - 9,500	0%	- 5%
Sector 28, 29, 37	7,500 - 9,500	0%	- 4%
Sector 100 to 110	5,000 - 5,600	0%	- 5%
Sector 70 to 79	4,300 - 5,000	0%	-5%

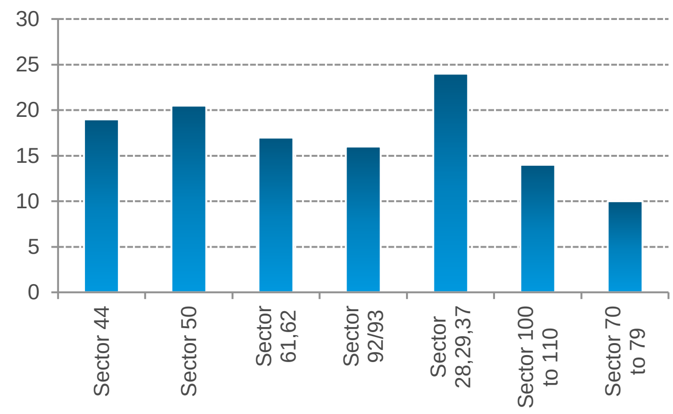
Source Colliers International India Research
Note: Above values represent indicative base selling price for premium properties for secondary market products

In 2016, the NOIDA authority introduced the Project Settlement Policy; accordingly, a house builder can exit a project in which the construction is yet to begin if it is facing a shortage of funds. In H1 2017, several cash-strapped developers applied for the exit. Although this has added to the woes of the homebuyers in the short term, it augurs well for the future evolution of the market.

Average Capital Value Trends (INR per sq ft)



Average Rental Values (INR per sq ft per month)



Source Colliers International India Research

Capital values to remain stagnant in medium term; landlords need to remain flexible

Over the last two years, Noida authority has issued completion certificates to more than 50,000 units in the Noida market. The addition of this new supply has put a temporary downward pressure on capital and rental values. Established sectors such as Sector 44, 28, 29, 37 and 62 witnessed corrections in both capital and rental values in the range of 3-15% in 2016. However, now the market seems to be stabilising and we have not recorded any further reduction in capital values or rental values in H1 2017. We expect the market to be stagnant in 2017 until higher sales momentum is registered.

The buyers' preference is likely to remain tilted towards newly developing areas along NOIDA Expressway and Sector 70 to 79 which ought to enjoy metro connectivity by the end of 2017. Sector 70-79 which recently saw the completion of many projects is witnessing increased end-user activity. The under-construction metro has further boosted the buyers' sentiment.

Colliers' View

There is huge untapped demand for quality products in NOIDA. The projects launched by national developers are witnessing a good response despite the subdued sentiments in the primary market. Implementation of the RERA and increasing interest from Grade A developers is likely to change the overall scenario of the residential sector in NOIDA market which has suffered from huge project delays and quality issues in the past. The enhanced upcoming metro connectivity, implementation of RERA and increased traction in commercial real estate are likely to boost demand in the residential sector in the long term. The sales in the secondary market are likely to pick up during the festive season; however, end-user demand will remain concentrated in ready to move in projects.

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BENGALURU | RESIDENTIAL
H1 2017
08 August 2017

Accelerating success.

Slow revival likely to take place

Surabhi Arora Senior Associate Director | India

Strong office sector performance indicates a healthy demand scenario for the residential sector in medium to long term. We are hopeful that the mid-range segment should continue to drive sales as the festive season approaches in September and October and developers offer various promotions and attractive payment plans amidst a soft home loan interest rates environment.

Forecast at a glance

Demand
Likely to remain focused on mid-segment projects especially along the metro corridor

Supply
Likely to see a further reduction in new launches in H2 due to RERA implications

Capital Values
Capital values to remain stable across all the micromarkets amid ample supply pipeline

Rent
To increase 5-10% over 2017 in central locations along the metro corridor as the road traffic issues continue to be a major problem in the city

Construction
Construction activities to pick up pace as the developers are focused in completing the ongoing projects

Number of launches in H1 2017 sets an optimistic outlook

With about 13,400 of new unit launches in H1 2017 the city ranks second in total residential launches in India, which is next to Mumbai. The residential market in Bengaluru faced a notable drop of 23% compared to H1 2016. Localities such as Yelahanka, Devanahalli, Ranchenahalli and Kogilu recorded the highest number of launches in the city. Most of the new launches were in the mid-segment category catering to the higher demand from information technology employees of the city.

Capital values in locations such as Central, Airport Road, Whitefield and Yelahanka recorded a 3-6% decline in H1 2017 while off-central locations such as Jayanagar, Sadashivanagar, Banerghatta and Koramangala witnessed a 1-4% increase. We expect capital values to largely remain stable in the short to medium term due to the ample supply pipeline.

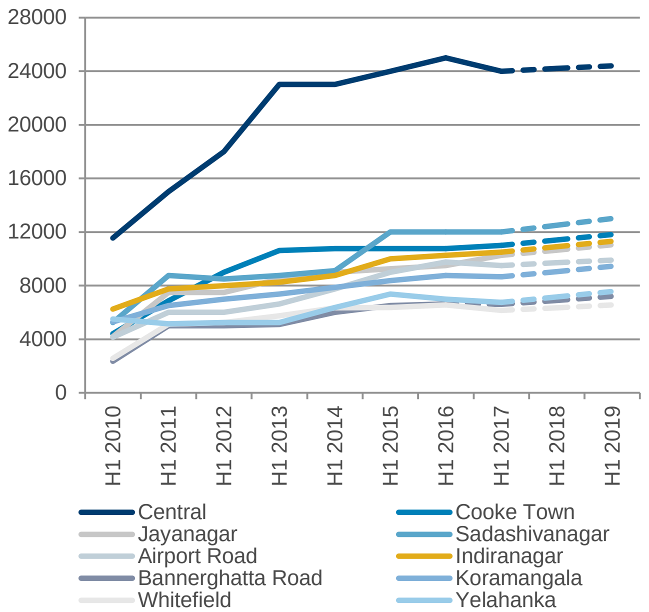
Private equity investment was sustained with notable investments by KKR India Asset Finance Management, Edelweiss Group and the HDFC Realty Fund.

Capital Values

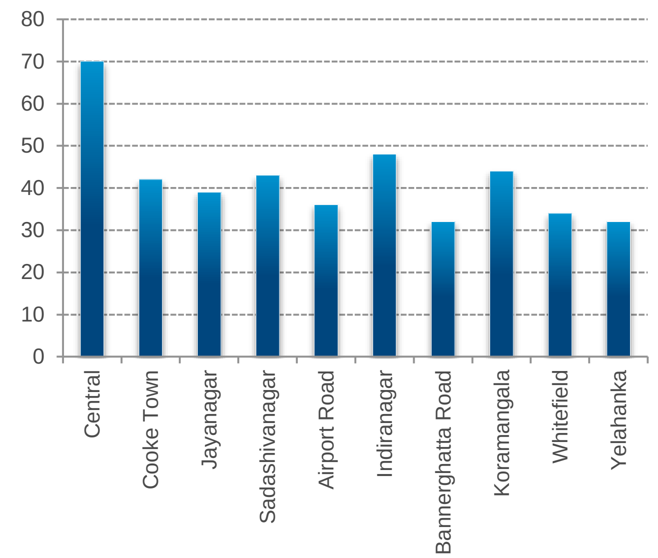
Micromarkets	Capital Values (INR per sq ft)	Half Yearly Change	Annual Change
Central	19,000 - 29,000	-4%	-4%
Cooke Town	8,000 - 14,000	0%	2%
Jayanagar	8,500 - 12,000	4%	8%
Sadashivanagar	9,000 - 15,000	1%	0%
Airport Road	8,500 - 10,500	-3%	-3%
Indiranagar	8,500 - 12,500	2%	2%
Bannerghatta Road	4,500 - 8,700	1%	0%
Kormangala	6,800 - 10500	1%	-1%
Whitefield	4,500 - 7,800	-6%	-6%
Yelahanka	4,500 - 9,000	-3%	-4%

Source Colliers International India Research
Note: Above values represent indicative base selling price for premium properties for secondary market products

Average Capital Value Trends (INR per sq ft)



Average Rental Values (INR per sq ft per month)



Source Colliers International India Research

Residential sales likely to pick up during festive season

Consistent high demand in the office sector and the upcoming festive season should keep the residential market active in terms of sales. However we expect the new launches to fall over the next two quarters due to the implications of RERA implementation. We advise developers to be more realistic in marketing their projects as they have to ensure no deviation in the final product from the approved layout and specifications that is mentioned on the website/product brochure in accordance with RERA guidelines.

Projects launched in proximity to employment hubs at the right price points should continue to attract buyers. However, RERA compliance will become a deciding factor in the coming months. Developers should therefore expedite their process to register their projects.

Colliers' View

The state government is working on an increased Floor Area Ratio (FAR) policy for commercial and residential buildings within 200 metres of metro stations and this could be beneficial for the sector. However, the current infrastructure is unable to keep pace with the high growth in residential and commercial real estate in the city. In our opinion, the infrastructure-related challenges will start impacting the city if they are not addressed well within time; thus we urge the state government to expedite the infrastructure projects.

Bengaluru was recently included in the list of the 100 Smart Cities mission of the government. We expect that in the long run the initiative will help revive congested localities, expand housing opportunities for Economically Weaker Section (EWS), improve neighbourhood safety, promote e-governance, rejuvenate economic centres, create best-in-class infrastructure facilities and provide integrated urban mobility options in the city.

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CHENNAI | RESIDENTIAL

H1 2017
08 Aug 2017

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Market to remain cautious

Karthiga Ravindran Analyst | Chennai

After all the instability in the market at the beginning of 2017 due to natural calamity, volatile political scene and demonetisation, the residential sector is now recuperating. With the notification of Tamil Nadu Real Estate Regulation Act (RERA), we advise developers to obtain all necessary approvals on time, pay attention to project planning, use modern construction technologies to speed up the development process and manage project funds efficiently to avoid delays and align for smoother transition towards RERA compliance.

Forecast at a glance

Demand
Affordable housing and mid-segment projects to drive demand primarily in south micromarkets; metro corridor to gain traction in long term

Supply
New launches to reduce towards year-end as the developers' attention is on completing the ongoing projects and registering with RERA on time

Capital Values
Prices to remain stable over 2017 as both buyers and developers are cautious in the post-RERA market scenario. Over three years, we expect improved metro connections to push prices up

Rent
Rents are set to increase in south micromarket by 5-10% in next one year owing to growing demand from the Information Technology (IT) sector population

Construction
Increased price of building materials such as sand and cement likely to delay the construction activities

South markets perform well with maximum new launches

Recovering from the demonetisation effect in H1 2017, Chennai's residential market witnessed the launch of nearly 5,300 residential units, representing a rise of 19% from H2 2016. Of the total launches, 33% were concentrated in peripheral locations of the city's south quadrant along Old Mahabalipuram Road (OMR), Grand Southern Trunk (GST) and East Coast Road (ECR). Reputed developers in the mid-market category accounted for about 70% of the total launches. Small developers were watchful in launching their projects in the city.

We also observed that the developers are being highly attentive in completing their existing projects and trying to clear available inventory. After RERA, we expect the market to witness the exit or consolidation of small builders and fly-by-night developers while the organised developers benefit from the improved buyer sentiment brought by RERA. Capital values were almost stable across the micromarkets except for a 3-4% dip in off central locations in H1 2017. We forecast that the stable price will continue in subsequent quarters.

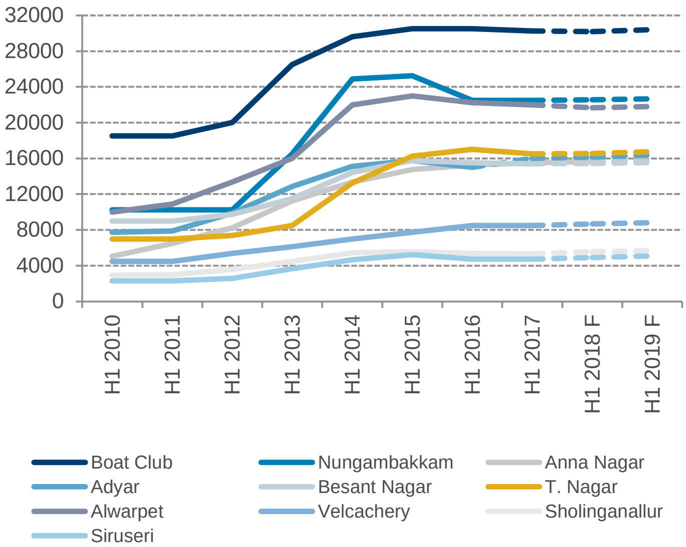
Capital Values

Micromarkets	Capital Values (INR per sq ft)	Half Yearly Change	Annual Change
Boat Club	25,000 - 35,000	1%	0%
Nungambakkam	19,000 - 26,000	0%	0%
Anna Nagar	13,000 - 18,000	-4%	-2%
Adyar	13,500 - 18,500	7%	7%
Besant Nagar	13,500 - 17,300	0%	-1%
T. Nagar	13,500 - 19,500	-3%	-3%
Alwarpet/R. A. Puram	18,000 - 26,000	1%	-1%
Velachery	7,000 - 10,000	0%	0%
Sholinganallur	4,600 - 6100	0%	0%
Siruseri	3,990 - 5,500	0%	0%

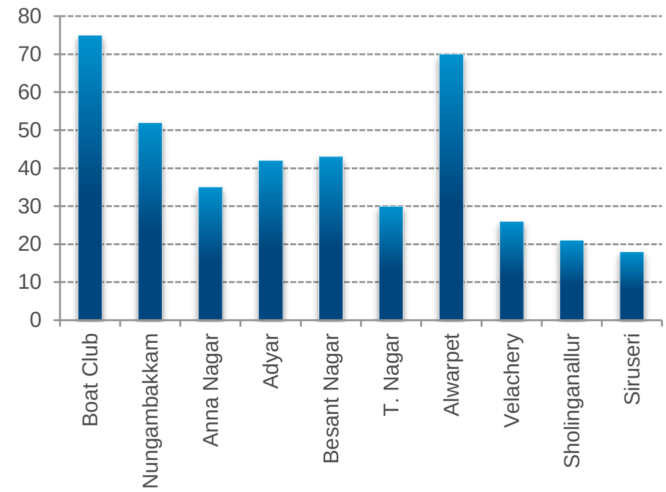
Source: Colliers International India Research
Note: Above values represent indicative selling price for premium properties in secondary market

Private equity investors were also active in H1 2017. One significant deal was an INR5 billion (USD78 million) investment from KKR & Co. LP in three residential projects in the city.

Average Capital Value Trends (INR per sq ft)



Average Rental Values (INR per sq ft per month)



Source Colliers International India Research

Affordable housing projects likely to gain traction

In support of the central government's 'Housing for All' vision, the state government of Tamil Nadu granted various incentives and announced development plans for affordable housing in H1 2017. One such significant incentive is a 15-50% higher Floor Space Index (FSI) for apartment projects in size ranging between 40 sq m and 70 sq m catering to the EWS, LIG and MIG segments.

The Tamil Nadu Housing and Urban Development Ministry has announced that the state will construct 0.3 million houses for the urban poor under the Pradhan Mantri Awas Yojana (PMAY) - Housing for All (Urban) in 2017-18. In our opinion, the state level incentives along with infrastructure status to affordable housing will attract more private participation in this sector.

Colliers' View

We recommend developers to be proactive in registering with RERA within the given timeline of three months to gain buyers' confidence. Better planning, use of alternative materials and modern construction technologies will be the key to overcoming the difficult situation of adhering to timelines with the current crisis related to building materials. In the affordable housing segment unit sizes of 430 sq ft (40 sq m) to 800 sq ft (75 sq m) with an average price of INR1.2-2.5 million (USD18,800-USD93,150) are gaining traction in Chennai.

With the operation of an additional 7 km stretch of metro line in the city and the construction progress in the remaining corridors as well, we expect residential localities along the metro line to become less congested and prices to increase in the next three years.

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PUNE | RESIDENTIAL

H1 2017

08 August 2017

Accelerating success.

Marginal decline in new launches

Akshay Jawale Analyst | Mumbai

Against the backdrop of RERA (Real Estate Regulation & Development Act) implementation, the Pune market observed a decline in new launches in H1 2017. We expect the market to pick up the pace in H2 2017; however, buyers' preference will remain skewed towards ready-to-move-in projects in the secondary market till the new projects are registered under RERA regulations. We expect developers to offer discounts in the upcoming festive season in September and October should shift buyers' focus from secondary market. We suggest that developers focus on completion of delayed projects to regain buyers' confidence.

Forecast at a glance

Demand

Demand likely to remain skewed towards ready-to-move-in properties. Sales are likely to revive in H2 2017 owing to the festive season in September and October.

Supply

We expect increased supply in the affordable segment due to government initiatives such as infrastructure status to affordable housing

Capital Values

Stable supply across all the micromarkets to keep prices in check but we expect an average correction of 2% y-o-y in H2 2017 and should remain stable in medium term

Rent

We expect rents to be stable in most micromarkets for long term due to its large unsold inventory.

Construction

Developers are expediting construction activity to finish delayed projects and step up for the RERA process

Residential market likely to witness improved demand in H2 2017

The Pune residential market observed sluggish launches and sales in H1 2017. The demonetisation drive in November 2016 led to a cash crunch in the market which affected the construction activity and new launches. In H1 2017, the Pune market witnessed about 4,034 new residential unit launches mostly in the mid-range segment. Although the government has granted infrastructure status and incentives to affordable housing, we have not observed much expansion in this sector from Pune developers. Developers are still exploring the feasibility of such projects in Pune. The average capital value of mid-range segment projects is already in an affordable range of INR4,000 - 5,000 per sq ft (USD 62 -77 per sq ft).

In H1 2017, residential micromarkets in the west of Pune accounted for 65% of the total new launches. Hinjewadi and Balewadi have remained popular micromarkets among big developers in the high-end and mid-range segments. In terms of new completions, micromarkets in the south (NIBM) and south-west of the city (Hadapsar) have seen maximum traction with the addition of approximately 650 units in mid-segment inventory. Proximity to commercial and IT/ITeS hubs, good rental yields and capital value appreciation are driving the residential market at these locations.

Capital Values

Micromarkets	Capital Values (INR Per Sq Ft)	Half yearly Change	Annual Change
East	4,120 - 7,350	-2%	-7%
Old Central	9,300 - 14,700	-2%	-4%
Central	6,860 - 13,720	-8%	-18%
South East	4,660 - 7,760	-3%	-1%
West	4,850 - 9,220	-3%	-2%
South West	6,790 - 11,640	-3%	1%
South	4,268 - 6,060	-3%	-3%
North	4,560 - 5,630	-3%	-3%

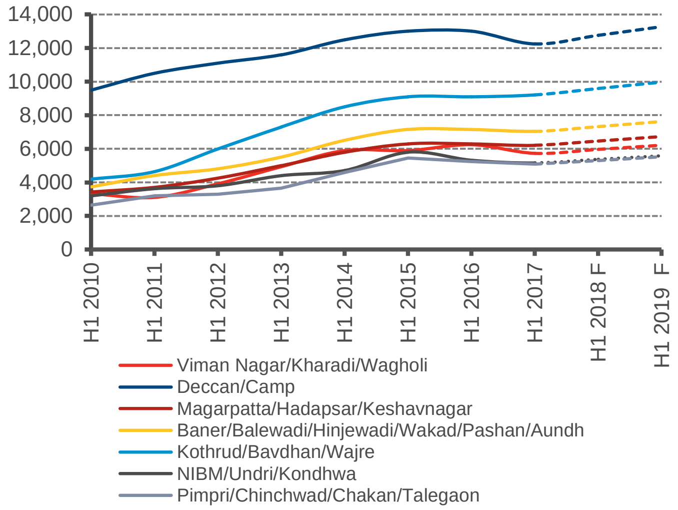
Source Colliers International India Research

Note: Above values represent indicative base selling price for premium properties for secondary market products

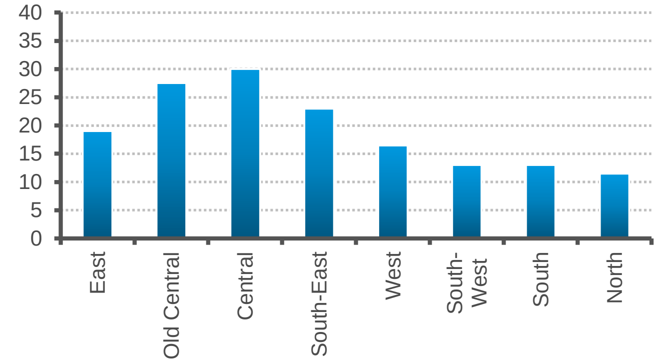
Central - Koregaon Park/ Kalyani Nagar/ Boat Club/ Sopan Baug;
Old Central - Camp/ Deccan
East - Viman Nagar/ Kharadi/ Wagholi;
South - NIBM/ Undri/ Kondhwa;
South East - Magarpatta/ Hadapsar/ Keshav Nagar;
West - Baner/ Balewadi/ Hinjewadi/ Wakad/ Pashan/ Aundh;
South West - Kothrud/ Bavdhan/ Warje;
North - Pimri/ Chinchwad/ Chakan/ Talegaon

After demonetisation and the implementation of RERA, buyer preference remains skewed towards ready possession projects and resale properties. Buyers are keen to opt for RERA registered projects. We expect the demand for affordable and mid segment projects that are registered under RERA to pick up in H2 2017. High end and luxury residential projects are witnessing healthy demand in Pune as capital values are comparatively lower than other cities.

Average Capital Value Trends (INR per sq ft)



Average Rental Values (INR per sq ft per month)



Source Colliers International India Research

Developers looking to raise private equity for affordable housing

Although the government initiative of affordable housing is witnessing a pale response in Pune, a few big developers such as Kolte-Patil, Xrbia have plans to enter the affordable segment. A few developers are also looking for equity investors to complete their ongoing projects as these projects are in mid-range segment and Pune market has demand for affordable and mid-range segment.

We have witnessed an average correction of about 3%in capital values in H1 2017. Central locations have seen the highest correction of 11% in the last six months. We expect the capital values to remain stable for rest of the year. Sufficient supply of units in most micromarkets across the mid, high and luxury segments should keep rents in check in the medium term.

Colliers' View

We expect developers to focus on registration of their existing under-construction projects under RERA regulations. This is likely to reduce the number of new launches further in upcoming months. Delayed projects and issues related to compliance with RERA have changed buyers' sentiment, hence the market is likely to see demand for ready projects.

On the infrastructure front, the Pune Metropolitan Region Development Authority (PMRDA) is planning to start work on the ring road from October 2017 to reduce traffic congestion in Pune. This plan will improve connectivity to important areas of the city. Construction of Metro Phase 1 has started in April 2017, and should improve the connectivity between the twin cities of Pune and Pimpri-Chinchwad. Plans are also underway to extend the line as far as Nigdi (peripheral area). These metro lines will connect commercial hubs and residential catchment areas in the city which should improve last mile connectivity and lesser congestion on roads.

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$2.6
billion in annual revenue

2
billion square feet under management

15,000
professionals and staff

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