

# THE SOUTHERN STATE OF AFFAIRS

A Snapshot of the 3 Metro Cities of South India



Hyderabad

Bengaluru

Chennai

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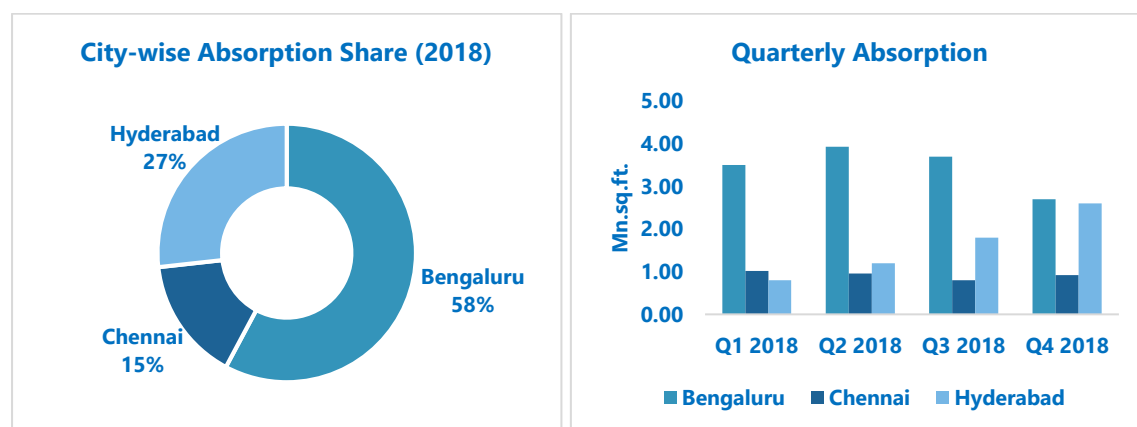
The real estate market of the country, till a decade and half back, was centred around only a few major cities, primarily led by Mumbai in the west and followed by the National Capital Region (NCR) towards the north. These markets, while being put forth as what India had to offer in terms of real estate, were largely unorganised and fragmented with limited data available about their demand-supply scenario. The southern region of the country, for the most part, remained overlooked and hardly found any mention on the real estate map. Till the big bang entry of the IT/ITeS sector in Bengaluru changed the entire real estate set-up of the country.

A decade later, the focus has deservedly shifted to the southern cities. Today, the key southern real estate markets of the country - Bengaluru, Hyderabad and Chennai are robust, independent markets with their own strengths to reckon with. These markets strove to keep afloat even when the other major real estate markets across the country were suffering drastic setbacks during periodic adverse economic conditions, thereby gaining respect and admiration from the industry. Pertinent factors such as improving infrastructure and a strong talent pool led to the advent of newer services sectors into the office market, thus resulting in increased job opportunities in these key southern cities. A burgeoning population influx in these cities, as a consequence of enhanced employment, opened up significant real estate opportunities and soon, a large number of national level developers were making a bee-line for them. Today, all the three cities are hotbeds of real estate activity, their growth primarily led by the IT/ITeS sector and predominant end-user demand owing to relatively conservative price appreciation. This growth is expected to become firmer in the forthcoming years.

At present, let us review how they fared during the year 2018 on the office market and residential fronts.

## 2018 – The Year Gone by in the South

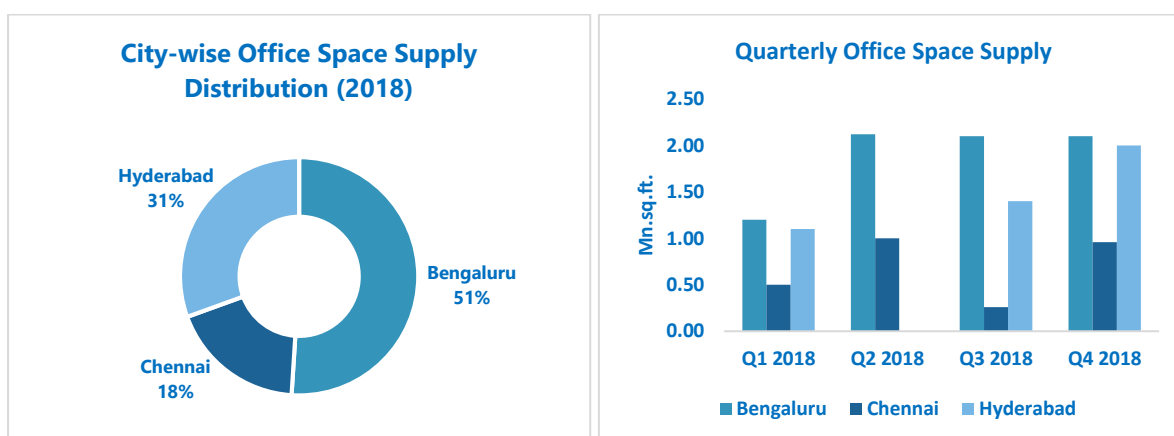
Office sector:



Source: Vestian Research

## The three major cities of the south - Bengaluru, Chennai and Hyderabad, altogether saw absorption of approximately 23.93 million sqft of office space during the year 2018.

- With 13.83 million sqft of office space transacted during the year, Bengaluru accounted for the highest absorption of 58% share in 2018 amongst the three cities, followed by Hyderabad and Chennai with shares of 27% and 15% respectively.
- As evident from the chart above, Bengaluru remained the foremost office destination in the south with several technology occupiers continuing to expand in the city, thus recording consistent levels of absorption quarter-on-quarter.
- While Bengaluru surpassed Chennai and Hyderabad by a long way off in the first three quarters of the year, Hyderabad saw a gradual increasing trend in absorption through the year, finally catching up with Bengaluru in the last quarter. With Bengaluru observing a slightly lower absorption of 2.7 million sqft in Q4 2018, Hyderabad office market came a close second, recording a robust leasing activity of approximately 2.6 million sqft - an increase of more than 40% over the absorption in the previous quarter Q3 2018.
- In contrast, Chennai struggled to hold its place in the face of fierce competition from the other two southern states. The city began well in the first quarter of 2018, surpassing Hyderabad, but was unable to accelerate its pace of absorption in the later quarters, thus ending with a total absorption of 3.7 million sqft during the year.
- A major trend witnessed in the transactions was that while IT/ITeS sector continued to be the key demand driver for office space in these southern cities, the demand for office space was progressively accounted for by other sectors, too. This primarily includes transactions by co-working operators that continued to scale up their space requirements in order to capture market share and cater to the growing demand from corporates.

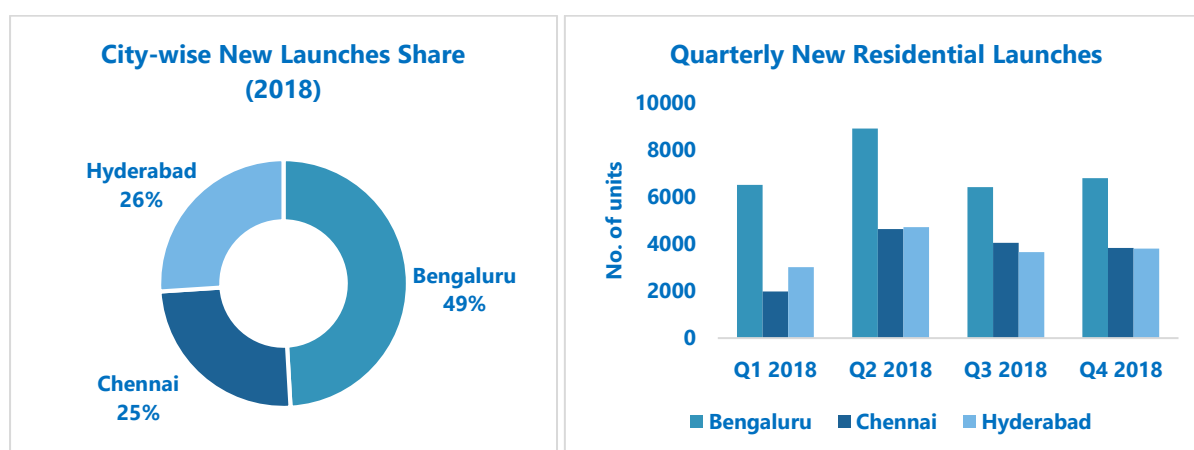


Source: Vestian Research

## Altogether, the year 2018 saw a total of approximately 14.74 million sqft of new supply enter the office markets of the three major southern cities.

- Of the total new office space that entered the markets, Bengaluru accounted for a lion's share of 51% with new office space completion of 7.52 million sqft, followed by Hyderabad with 31% share and Chennai bringing up the rear with 18% share.
- On a quarterly basis, Bengaluru kept up a consistent level of new supply additions through the year, while Chennai struggled on the supply front evidently.
- Hyderabad, that did not witness any new completions during Q2 2018 with majority of them getting deferred to the second half of the year, observed a significant improvement in the fourth quarter of the year. It saw an infusion of 2 million sqft of new office space in Q4 2018, just behind Bengaluru's supply figure of 2.1 million sqft during the same period.
- In Bengaluru, majority of the supply during 2018 came up in the Outer Ring Road office market, while in Chennai, the peripheral office markets in the south comprising locations such as Singaperumalkoil, Guduvanchery, Pallavaram and Perungalathur, accounted for the largest quantum of supply. Meanwhile, in Hyderabad, the peripheral office markets towards the west, mainly Madhapur and Gachibowli, observed the major share of new office space completions in 2018.

## Residential sector



Source: Vestian Research

## **The year 2018 inclusively witnessed the new launch of approximately 58,402 residential units across the three southern cities.**

- Bengaluru led the way with the maximum number, to the tune of 28,676 units, its share recorded at 49% of the total new launches in 2018. Chennai accounted for 25% share while Hyderabad accounted for 26% of the total new residential launches in the three cities.
- Residential properties in these cities witnessed a resurgence in new launches in Q2 2018 post a lackluster period in 2017, with both buyers and developers steadily returning to the market during the quarter.
- While Q2 2018 witnessed rejuvenated market sentiments, the third quarter saw a dip in new launches in the southern cities. However, the decline in new launches was not construed to be a long-term negative state as the third quarter of the year generally sees a lull owing to the 15-day shraddh period - considered inauspicious for buying properties.
- The last quarter of the year strove to pick up pace and accounted for the launch of approximately 14,463 new residential units– depicting a nominal increase of 2% over the number of units launched in the previous quarter Q3 2018.
- Overall, during the year 2018, the new launches were largely dominated by the affordable and mid-segment budget category of INR 35-80 lakh, particularly in Bengaluru, while premium housing observed comparatively lesser share of launches.

