INDIAN REAL ESTATE OUTLOOK FY 2019-20

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A 360 Realtors' Report

FOREWORD

This is the onset of a new financial year and many buyers and investors will be contemplating purchasing properties. Hence, we have compiled the FY 2019-20 market outlook with the intent to offer valuable advisory to buyers. In this report we have covered city wise trends along with how market forces will unravel. We have also provided commentary on how the transaction space is evolving along with the transformations brought by technologies.

FY 2018-19 has been a year marked by increased real estate growth. Post the slowdown during FY 2016-18, the housing industry in some of the major markets finally started to recover. The downtrend in prices was arrested with some individual micro-markets even witnessing a positive movement in prices on the back of increased demand. Apart from a pickup in the job market, policy changes such as RERA and GST played an instrumental role in boosting end user confidence. In addition to end users, investors have also started to re-enter Indian realty backed up by recovery in most of the markets.

FY 2020 will be an extension of the previous year with increased vigor stemming from policy overhauls, stabilization of prices and rising demand. Housing demand in India will also get a shot in the arm on account of groth in infrastructure investment and a positive economic outlook. However, a sudden spurt in property prices is still expected to take some time.

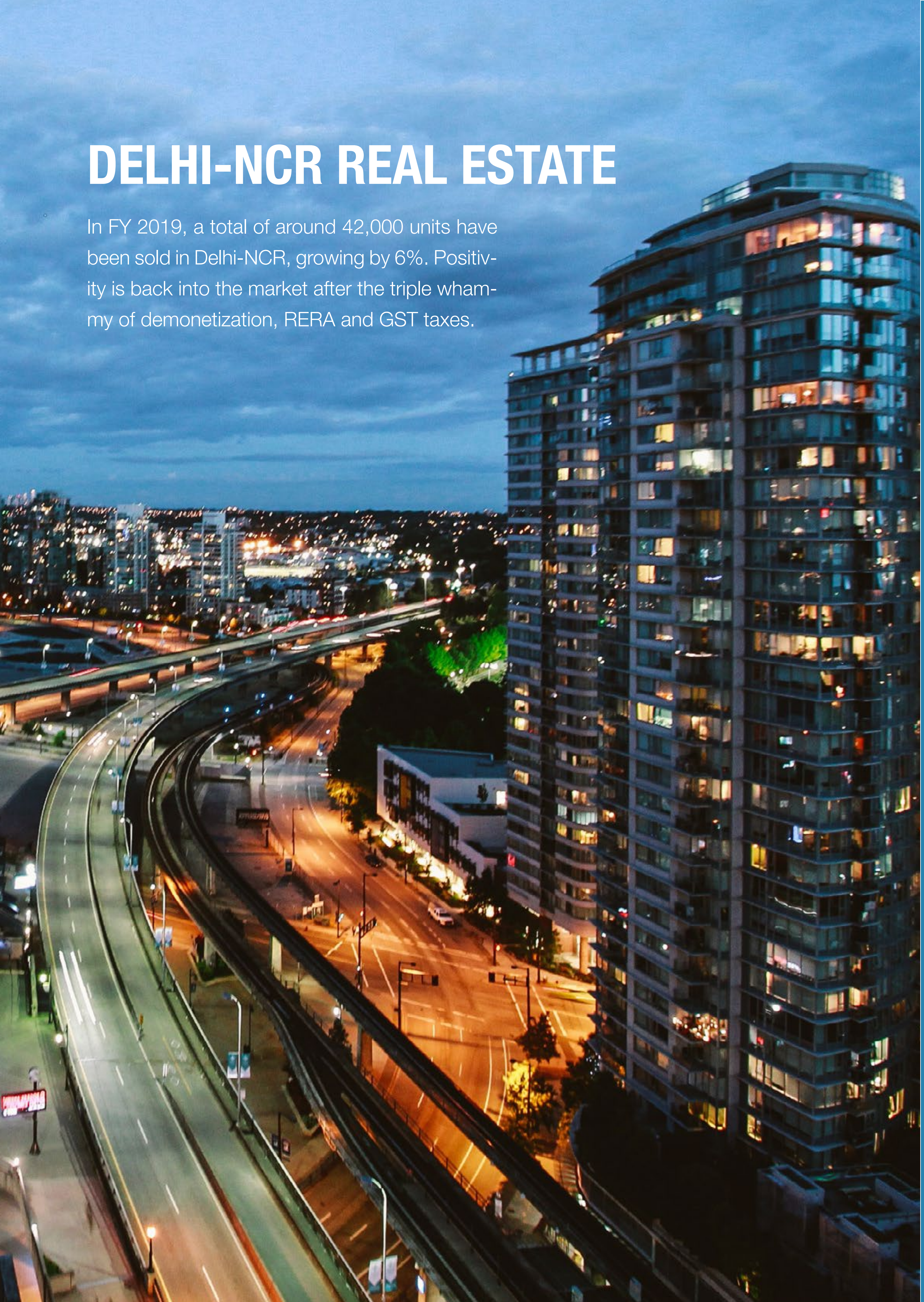
Ankit Kansal
Founder and MD, 360 Realtors

As elections are due in India in the months of April and May, some buyers will defer their buying decisions. Although, it should also be noted that this time elections are not going to cause any major impact on the real estate markets. Generally, as new governments sometimes make big changes pertaining to real estate laws and regulations, buyers avoid taking any decisions till the results are out. However, with the unraveling of GST, demonetization and RERA, Indian real estate has seen a tectonic shift in the recent times. Amidst such high level changes and increased transparency, any shock emanating from the elections will be greatly absorbed.

By the middle of FY 2020, market sentiments are expected to further change with acceleration in price growth. As demand will spiral upwards, prices will rise. The prevailing bearish sentiments will turn more bullish.

DELHI-NCR REAL ESTATE

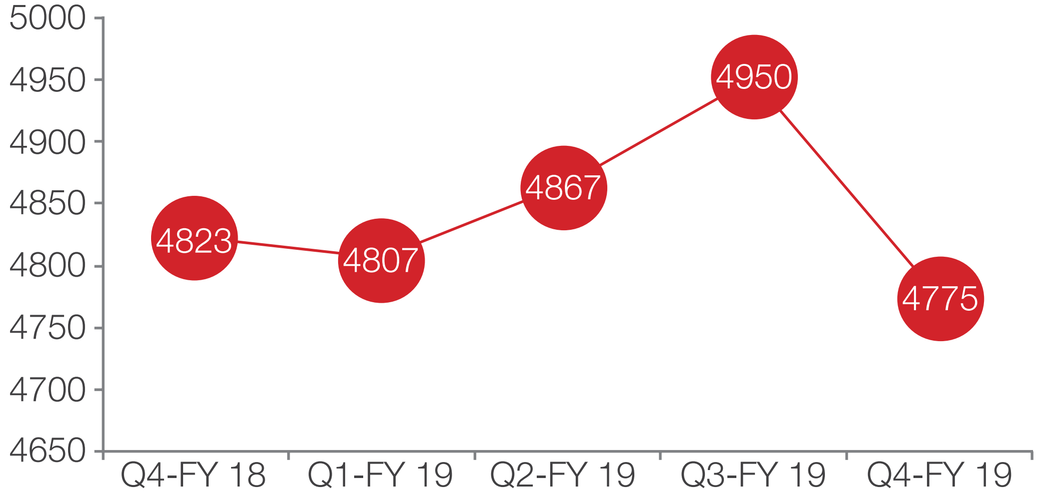
In FY 2019, a total of around 42,000 units have been sold in Delhi-NCR, growing by 6%. Positivity is back into the market after the triple whammy of demonetization, RERA and GST taxes.



- *Existing Inventory- ~ 200,000*
- *Inventory turnaround time- 45 months*
- *Current Quarterly Uptake - ~ 13,270*
- *Quarterly transaction growth - 3.5%*

However, Delhi-NCR continues to suffer from high inventory overhang as the current inventory is north of 200,000 units. Due to this, the property prices are still not seeing substantial growth. On a Y-o-Y basis, property prices have dipped by over 1%. On a Q-o-Q basis, the downtrend is even steeper. Despite high inventory, subdued prices are giving impetus to the sales volume. On a quarterly basis, the uptake is over 13,270 units. At this velocity, it will take another 45 months to completely turn around the inventory.

Average Property Price Trends in Delhi-NCR



Despite regional aggregate that is indicative of a downtrend, there are many individual markets that are gaining momentum. In developed parts of Gurugram, average property prices are roughly around INR 14, 630/ sq. ft., moving up by around 7% Y-o-Y. On a Q-o-Q basis, average prices have moved up by 0.5%.

In central parts of Noida, average property prices have reached INR 4,960/ sq. ft., easing out by 1.5% on a quarterly basis. The overall inventory is slightly over 10,000 units, which will take another 43 months to turn around at the current rate.

In FY 2020, the real estate industry in Delhi NCR will continue to be a beneficiary of vast policy changes. The developers' fraternity will focus more on reducing the existing stocks rather than coming up with new launches in the market.

In Gurugram upcoming markets such as Sohna, Dwarka Expressway and New Gurugram will be at the forefront of traction. Increased real estate investment in these markets will be facilitated by affordable price and infrastructure upgrades. As these upcoming locations have grown in significance over the years, many major developers are setting up their foothold in these micro-markets and lure in more customers.

Dwarka Expressway, which is an 28-km stretch connecting New Delhi with NH-8 in Gurugram, is marked by hyper optimism after the clearance of litigation over a 150-meter-long patch. As the litigation has been cleared, Dwarka Expressway or DXP will soon be fully operational in another 18 months tentatively. This will give a major push to growth in prices in the micro-market. The ascending tendencies are already visible, as prices have started to move upwards. Data revealed by 360 Realtors' business intelligence showcases that average property prices have grown by over 2% on a quarterly basis.

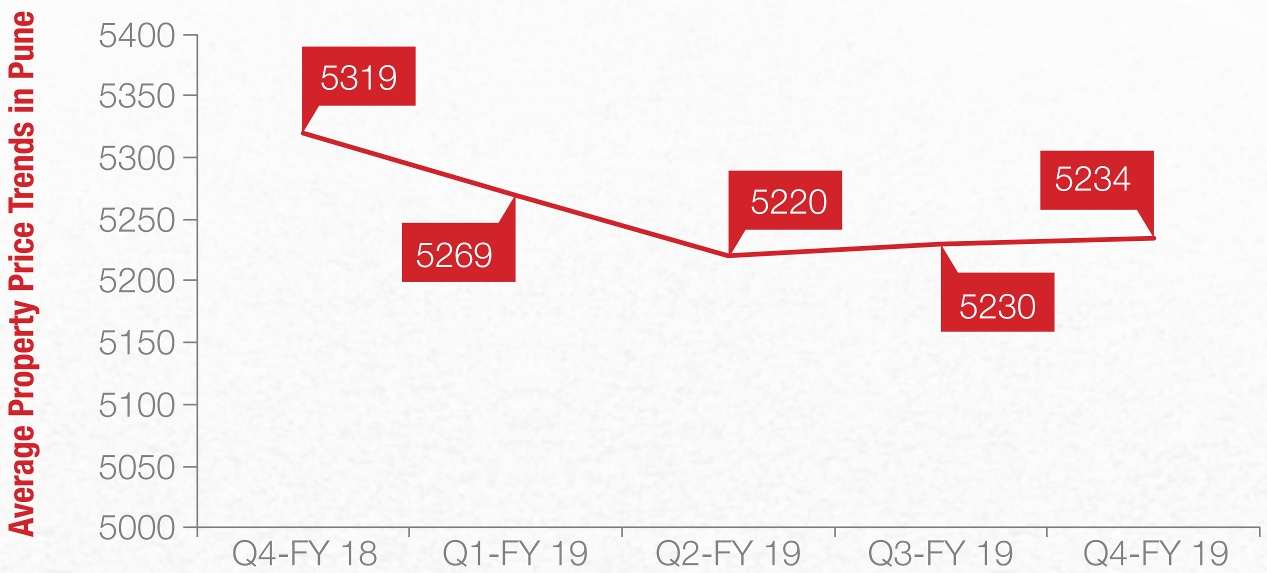
Numerous big developers such as M3M, Vatika, Adani, Godrej and Sobha have launched high-profile projects in DXP. Sectors 89, 113 and 114 have been earmarked for commercial activities. As numerous IT/ ITeS companies will come up in these sectors, residential demand will further gain momentum. A second diplomatic enclave after Chanakyapuri has been proposed in DXP. Once actualized, this will further transform the overall region as more consulates and international trade offices will come to DXP.

Currently, average prices are around INR 7,000/ sq. ft. in DXP. However, since developments are gaining pace, the prices can reach around INR 9,000/sq. ft. in the next 24 months. As the potential rise in property prices is so attractive, it is natural that investors from the region are gradually gravitating towards the new micro-market.

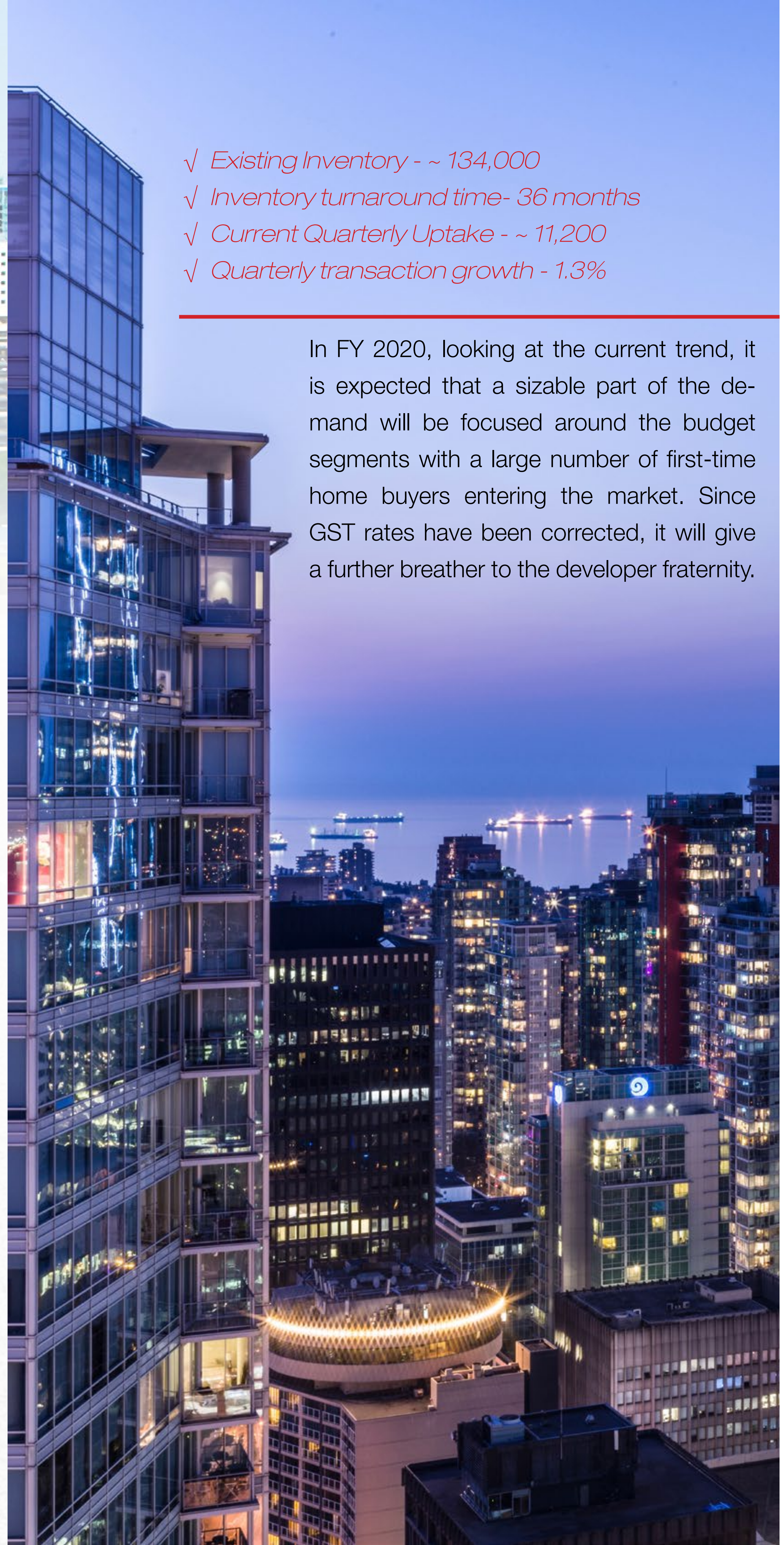
In Southern Gurugram, Sohna Road, which is part of the connectivity between Haryana and Rajasthan will also draw major attention in FY 2020. Property prices have been nearly stable in FY 2019. However, Sohna has now been designated as the National Highway (NH-248A), which will further transform the region into a high growth residential, commercial and industrial hub. Many reputed developers such as Supertech, Godrej and Central Park are coming up with new launches in Sohna. It is also a thriving commercial segment. Maruti is seeking 1400 acres of land to shift its manufacturing unit to Sohna Road. Once the plan by Maruti actualizes, a double digit growth in property prices is not far-fetched.

PUNE REAL ESTATE

There is renewed optimism visible in the Pune market. In the first half total number new launches in the Pune was over 42,000, rising by around 70% on a Y-o-Y basis. However, there has not been any significant change in terms of the average property prices, they further corrected by around 1.6% on a Y-o-Y basis during the same period. Partly the demand growth has not translated into price surge because of affordable properties as well. Around 46% of the new launches during the previous year have been in the affordable segment whereas one-sixth have been in the premium and luxury segment.



2019 will continue to witness upbeat sentiments unravel in Pune. Currently, the total inventory is around 134,000. The current quarterly uptake is slightly over 11,000 units.



- √ *Existing Inventory - ~ 134,000*
- √ *Inventory turnaround time- 36 months*
- √ *Current Quarterly Uptake - ~ 11,200*
- √ *Quarterly transaction growth - 1.3%*

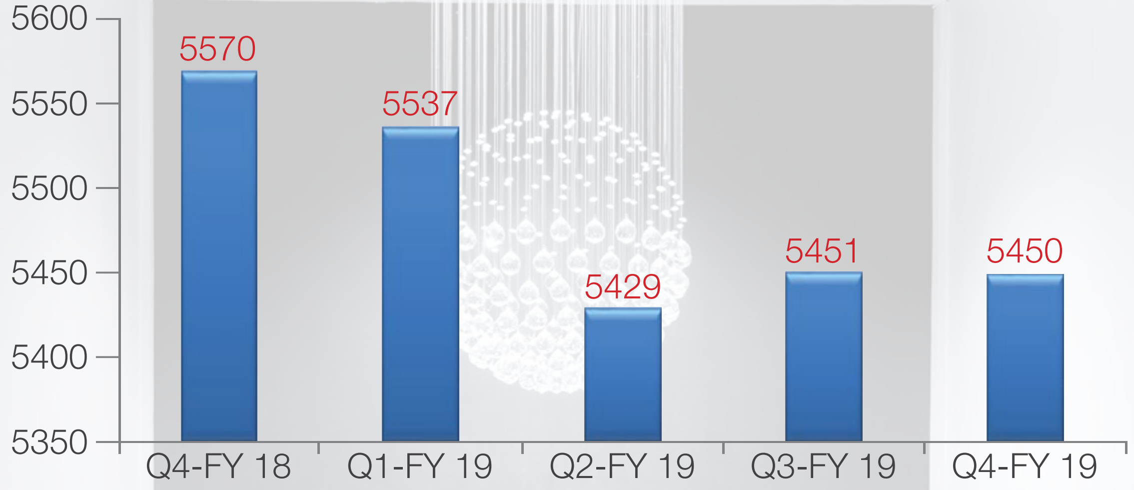
In FY 2020, looking at the current trend, it is expected that a sizable part of the demand will be focused around the budget segments with a large number of first-time home buyers entering the market. Since GST rates have been corrected, it will give a further breather to the developer fraternity.

BENGALURU REAL ESTATE

Sentiments will gain steam in Bengaluru as the overall market will be marked by a rise in new launches and property prices. Improvement in employment backed by growth in the IT/ ITeS industries and deepening of the entrepreneurial ecosystem will be the major catalyst. In addition, the sentiments will also capitalize on infrastructure upgrades, upcoming healthcare and educational facilities and rise in business tourism. The city's cosmopolitan appeal will be a major pull for the NRI clients who will raise their stakes.

The average property prices in the city is around INR 5,450/ sq. ft., staying stable on a Q-o-Q basis. On a Y-o-Y basis, prices have dipped as a year earlier the average prices were around INR 5,570/ sq. ft.

Average Property Price Trends in Bengaluru



The overall inventory is around 100,000 units and if the current trend continues, it will require another 34 months for it to turn around. In Q4 FY 2019, the uptake was around 8,800 units marginally inching up roughly 4%. In a Y-o-Y basis, the inventory turnaround has moved up by 28%.

- √ *Existing Inventory - ~ 100,000*
- √ *Inventory turnaround time- 34 months*
- √ *Current Quarterly Uptake - ~ 8800*
- √ *Quarterly transaction growth - 4%*

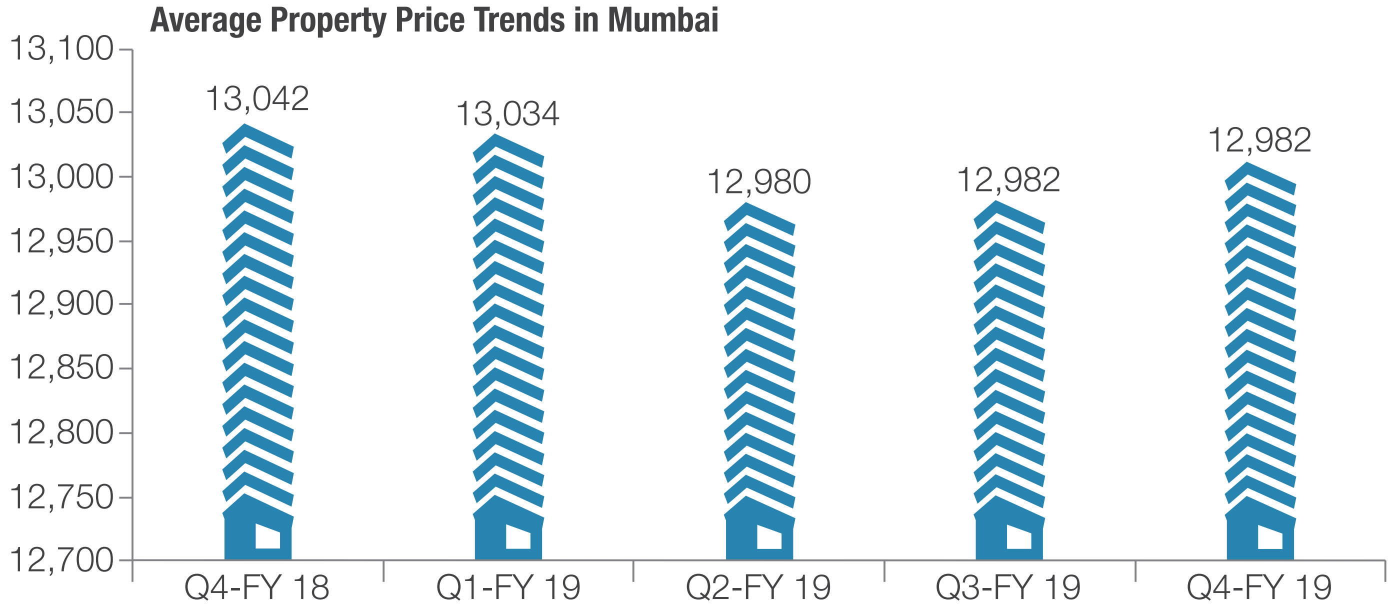
In North Bengaluru, Yeshwantpura, Yelahanka and Hennur will attract traction in the times ahead. In Hennur, property prices have moved up by 2% on a Q-o-Q basis.

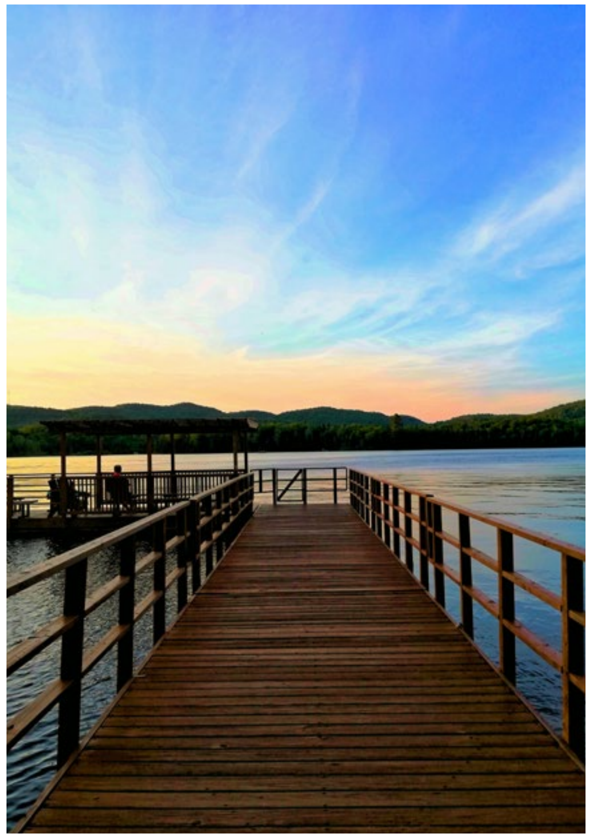
As a thriving IT/ ITeS locality, electronic city will continue to feature very strongly both amongst end users as well as investors. Higher demand has been leading to growth in property prices. In Q4 2019, property prices reached INR 4,700/ sq. ft. growing by over 2% on a Q-o-Q basis. On a Y-o-Y basis, property prices have been stable.

MUMBAI
REAL ESTATE

- √ *Existing Inventory - ~ 250,000*
- √ *Inventory turnaround time - 42 months*
- √ *Current Quarterly Uptake - ~ 18000*
- √ *Quarterly transaction growth - 0.1%*

In mainland Mumbai, the total inventory will be around 250,000 units from over 4,000 projects. However, on a brighter note, sales volume is also rising with current turnaround roughly to the tune of over 18,000 units, growing by over 14% Y-o-Y. At the current rate, it will take around 42 months for the inventory to turn around. Average property prices are roughly around INR 13,000/ sq. ft. staying stable over the past 12 months.





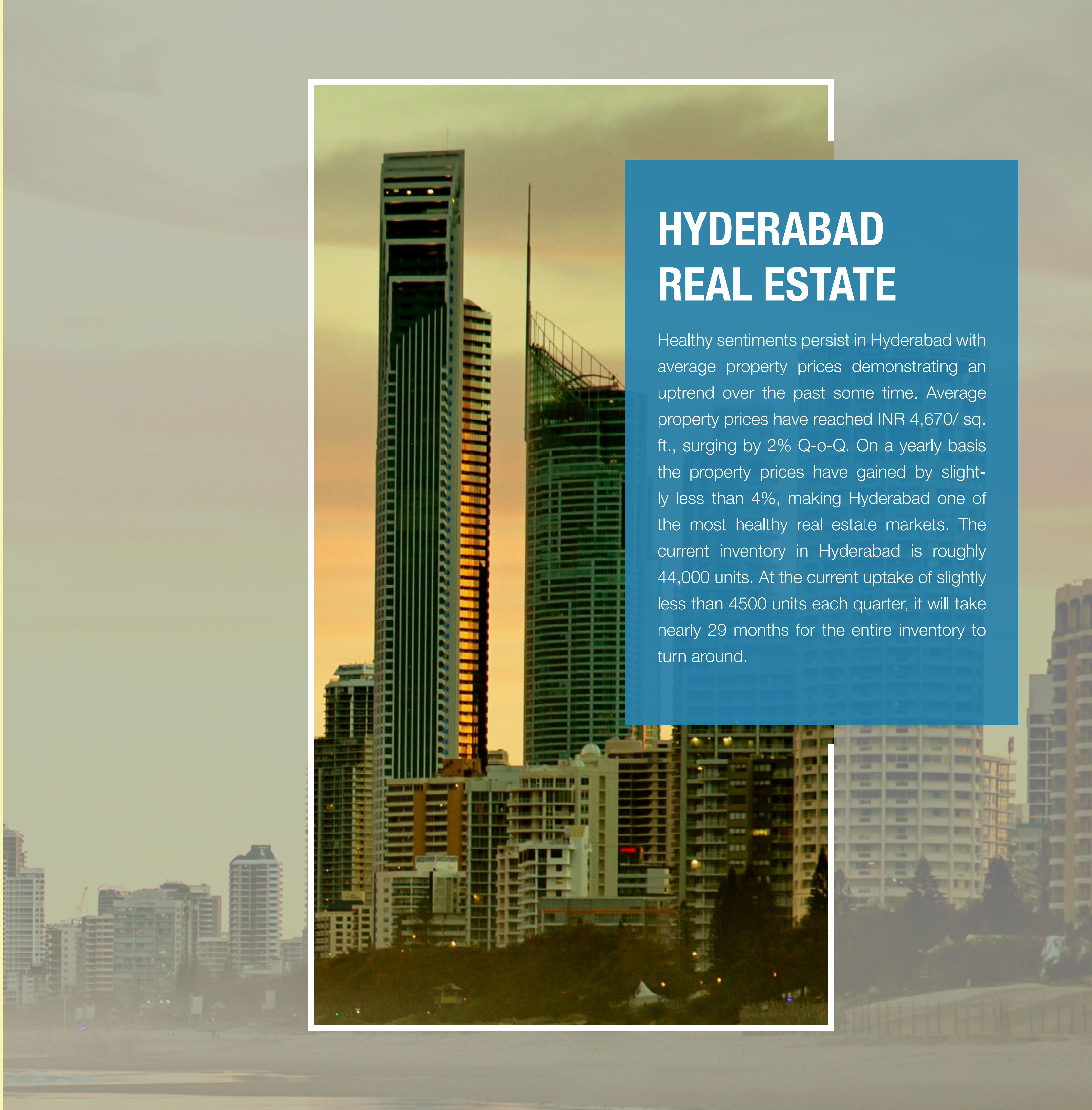
In the outer MMR, which includes upcoming markets such as Thane, Navi Mumbai and Kalyan, the total inventory is slightly over 50,000 units. The quarterly uptake in outer Mumbai is 3,700 units every month, growing by around 8% on a Y-o-Y basis. At this pace, it will take around 40 months for the entire inventory to turn around.

In Mumbai, Thane will be at the front of a lot of action in FY 2020. However, any substantial change in property prices in Thane is not possible as there are over 25,000 units in the market from 200+ developers. Currently, the prices are roughly around INR 9,500/ sq. ft. Over the previous one year, prices in Thane have eased out by slightly over 3% after accelerating by around 2.1% in the previous FY.

The current slowdown in prices is rooted to high inventory overhang. However, transaction volumes have remained unperturbed as attractive prices coupled with notable growth in inventory has helped Thane to continuously attract end –users and investors in big volume. Going forward, the turnaround in inventory will continue to move upwards in FY 2020. The faster turnaround will also be supported by attractive discounts by the developer fraternity. Besides regular hits such as subvention, developers are coming up with other attractive schemes such as cars and foreign trips to the buyers thereby pushing sentiments ahead.

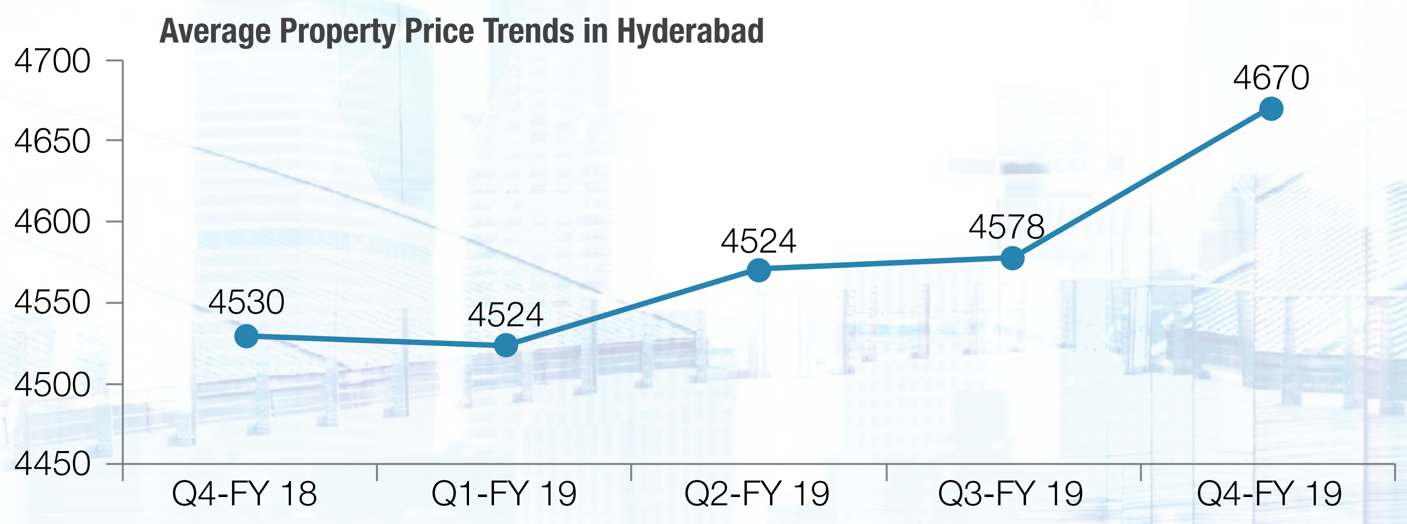
In the central and western parts, suburbs such as Powai, Mulund and Dahisar are expected to gain steam. Mulund will continue to be the prince of suburbs, a reputation that the market has gained over the past few years due to its attractiveness as a residential locality. Prices have surged ahead by around 2.3% Y-o-Y. The rate of transaction has doubled over the past one year. However, due to a rise in supply, the overall unsold inventories have gained by around 15%. There are around 100 marketable units with a total inventory of close to 10,000 units.

Dahisar will also be a major attraction in the Mumbai Metropolitan Region (MMR). Currently, the average prices are slightly less than INR 9,900/ sq. ft., rising by around 4.2% Y-o-Y. The property market in Dahisar is fuelled by economical prices, growing employment opportunities and abundance of natural beauty.



HYDERABAD REAL ESTATE

Healthy sentiments persist in Hyderabad with average property prices demonstrating an uptrend over the past some time. Average property prices have reached INR 4,670/ sq. ft., surging by 2% Q-o-Q. On a yearly basis the property prices have gained by slightly less than 4%, making Hyderabad one of the most healthy real estate markets. The current inventory in Hyderabad is roughly 44,000 units. At the current uptake of slightly less than 4500 units each quarter, it will take nearly 29 months for the entire inventory to turn around.



Even during the time of FY 2014-18, when most of the major real estate markets in the country were reeling under the pressure of slow growth, Hyderabad real estate sentiments continued to soar high with an average annual rise of 31% in real estate transactions.

Hyderabad, which is also called the "City of Pearls", has been a beneficiary of proactive steps taken by the government. After becoming the capital of Telangana, the state government has been taking steps to simplify the overall business environment in the city. Apart from major Indian IT companies, international heavyweights such as Microsoft, Apple, Google, Capgemini and Amazon have been aggressively expanding their base in the city thereby fuelling residential demand.

- √ *Existing Inventory - 44,000*
- √ *Current Quarterly Uptake - ~ 4500*
- √ *Inventory turnaround time - 29 months*
- √ *Quarterly transaction growth - 1.9%*

In tandem with the expansion in the job market, the infrastructure in Hyderabad is also gaining pace. An outer ring road has been proposed, which once actualized will give a major facelift to the connectivity within the city. Likewise, the metro line is connecting the eastern and western parts. The metro line will add numerous SEZs, IT parks and business hubs across the logistic lines thereby easing out the overall transportation.

Apart from major sought-after locations in the central parts such as Jubilee Hills, Banjara Hills and CBD, numerous other locations are emerging fast such as Gachibowli, Miyapur and HITEC City. Property prices in Gachibowli are slightly less than INR 5,400/ sq. ft., growing at a pace of around 7.5% Q-o-Q. Y-o-Y property prices have moved up by around 13.5%, making Gachibowli probably one of the very few micro-markets across India showcasing double-digit growth. A plethora of IT/ITeS companies in and around Gachibowli is feeding into demand.

Miyapur is also enjoying strong end user interest with property prices appreciating by around 1.9% on a quarterly basis. On a yearly basis, property prices have grown by around 13%, thereby giving an elevated yield to investors who have bet big on the market.

In FY 2020 as well, the Pearl City will continue to be one of the brightest spots in the Indian residential landscape backed by a rise in job opportunities and upgrades in the infrastructure. Many upcoming locations in the western and eastern corridor will witness a steep rise in property prices, thereby further drawing end user and investor interest.

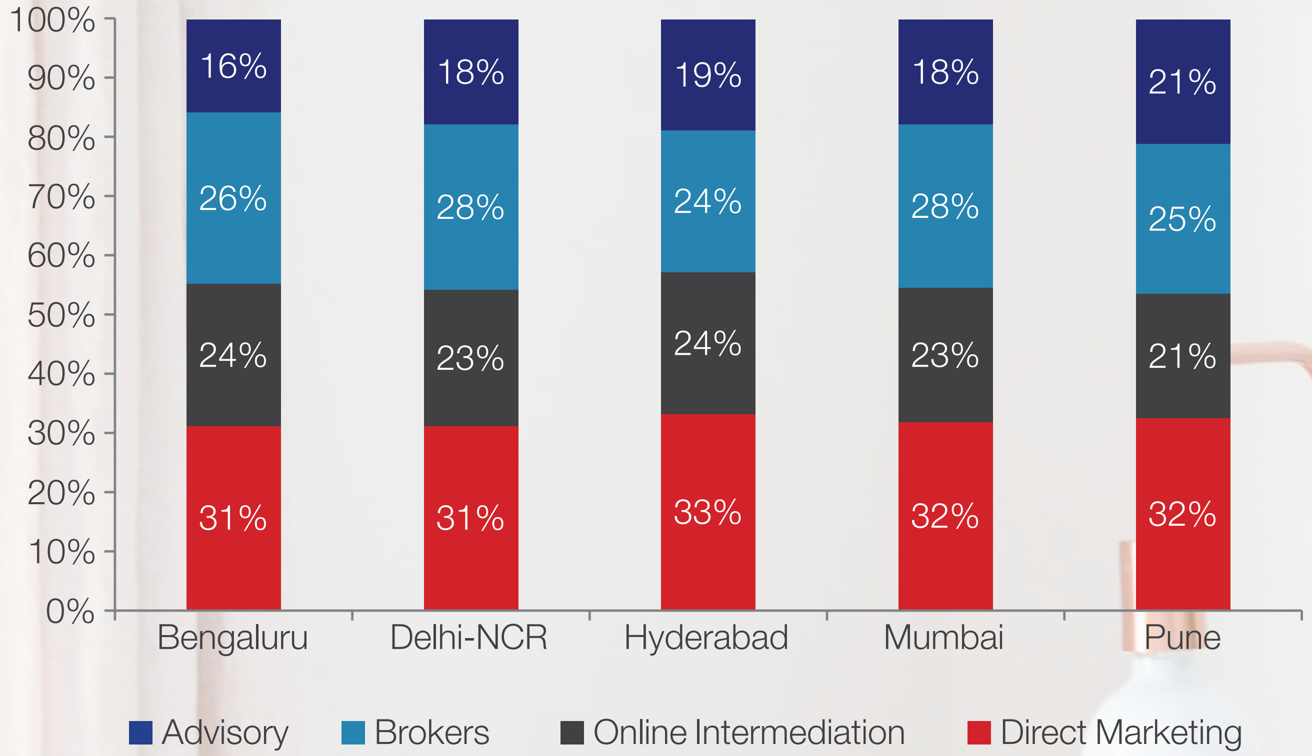
THE RISE OF MODERN REAL ESTATE ADVISORY

The recent times have seen much advancement in the advisory space, as new consulting houses such as Anarock, 360 Realtors, Prop Tiger and Square Yards now account for a sizable chunk of the market. Increasingly, modern real estate is becoming more organized, as bigger consulting companies are enjoying a dominant position. In fact amidst increased transparency in the sector, more brokers are empanelling themselves with bigger consulting houses. The mandatory requirement of running a RERA-certified brokerage is furthering the cause.

The relationship between big advisories and individual brokers can be best described as symbiotic. Bigger advisories can greatly benefit from brokers who have strong local contacts and can help them delve deeper into new markets cutting across geographies and market segments.

Likewise, such organized advisories can be of great help to individual brokers as they can multiply their business. Brokers can benefit from the much larger marketing, operational, training, technology and analytics facilities that bigger advisories often have.

Channel wise split of transaction



Apart from existing players, numerous new advisories are also expected to emerge. However, the majority of the market will be dominated by existing players as new entities will take some time to deepen their roots.

These established players will further expand their businesses through entering new markets, deploying new product categories and strengthening the value chain, via a multitude of ancillary services. In FY 2020, the advisory space in residential real estate will continue to grow, both through organic as well as inorganic means. As many small advisories (30-50 people) have also popped up in the recent times, they will be acquired by larger players.

TECHNOLOGY IN FY 2019

Over the past few years, with the advent of increased organization in the real estate industry, there has been massive transformation in the property search, evaluation and transaction space. The rapid use of technologies in real estate further got a shot in the arm due to changing demographics of buyers. Earlier, mostly buyers were of retirement age. Currently, many buyers are in their late 20s and early 30s.

Modern advisories have fed massive information on their central repository thereby enabling consumers to fetch relevant data with just a few clicks. This has reduced the footwork by around 70% and streamlined the overall process. Likewise, the use of data and analytics has further simplified home buying. Today valuable information on construction progress, regulatory compliance, developers' profiles and much more are easily available on websites.

However, the role of technologies is not just limited to searches and transactions. It has made inroads into numerous other domains such as location-based services, advanced multi-variants search algorithms, digital walkthroughs, online booking engines, drone views and much more. Going forward, such technologies will find profound usage in FY 2020.

As the organized space will expand, there will be a pressing need for more innovations in technology. Both in advisory and the online intermediary space, new innovations will emerge throughout the value chain with prime focus on adding value to the end users.

Disruptive technologies such as machine learning, which were just part of the lexicon will start seeing real world applications in FY 2020. Machine learning can unleash a new wave of automation in the overall transaction process. Likewise, it will be instrumental in predictive analytics with the help of large chunk of data. Through the help of machine leaning, we will observe new products pertaining to future market value predictions of properties, market forecast, customer lifetime value, investor analysis and much more.

AN EVENTFUL YEAR IN TERMS OF POLICY CHANGES

In the recent times, Indian government and regulatory authorities have announced a host of proactive policy changes and reforms. The interim budget presented by Union Minister Piyush Goyal on February 1st was something that the industry was awaiting for a long time.

The government has introduced numerous financial benefits, incentives and schemes which are expected to score a point among homebuyers, investors and developers alike. These steps will play a very proactive role towards reducing overall unsold inventory, incentivizing real estate investment and supporting the burgeoning affordable housing sector in India. For instance, the extension of the benefits applicable under the provisions of Section 80-IBA till 2020 will push affordable housing projects. Likewise, the developers who are currently struggling with clearing their unsold inventory will also get a significant boost from the extension of tax relief on notional rent from unsold stock for a period of two years. Homebuyers have also been given tax exemptions on the notional rent of a second self-occupied home along with the waiver of TDS on rental income up to 2.4 lacs. Income tax exemptions for those earning up to 5 lacs will also help end users generate more disposable income, thereby enabling them to buy homes.

A healthy budget was soon followed by unexpected repo rate cut. On February 7th, RBI decided to cut the repo rate by 25 basis points to 6.25%. A correction of the repo rate will be followed by softer credits to the home buyers, thereby enabling more transactions. This positive move by the RBI will also result in better credit disbursement for the developers, helping them to launch new projects and finish off the existing ones.

Recently in another turn of events, the government has reduced GST to 5% from 12% on under-construction properties. Special rates have been introduced on new affordable projects (less than 45 lacs), where GST hase been slashed to 1% from the existing 8%. The new rates will be implemented from April 1st. Both the center and state government will outline a detailed plan.

CONCLUSIONS

The market will continue to improve in the FY 2019-2020 as more end users and investors will put their monies into real estate. The first half might not see any sizable growth in property prices. However, going forward the price growth will start accelerating. The market will be mostly buyer-driven in the times ahead. Market forces will continue to gain momentum as underlying positivity will give a push to wider private equity participation. The market will also get a shot in the arm by the slew of regulatory policy changes. More domestic and global players will raise their stake in the Indian market to leverage long-term growth potential. The industry will continue to witness major changes as advanced technologies and innovations will expand its foothold. Increased organization will continue to unravel. A symbiotic relationship between brokers and advisories will further spur the market dynamics.

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