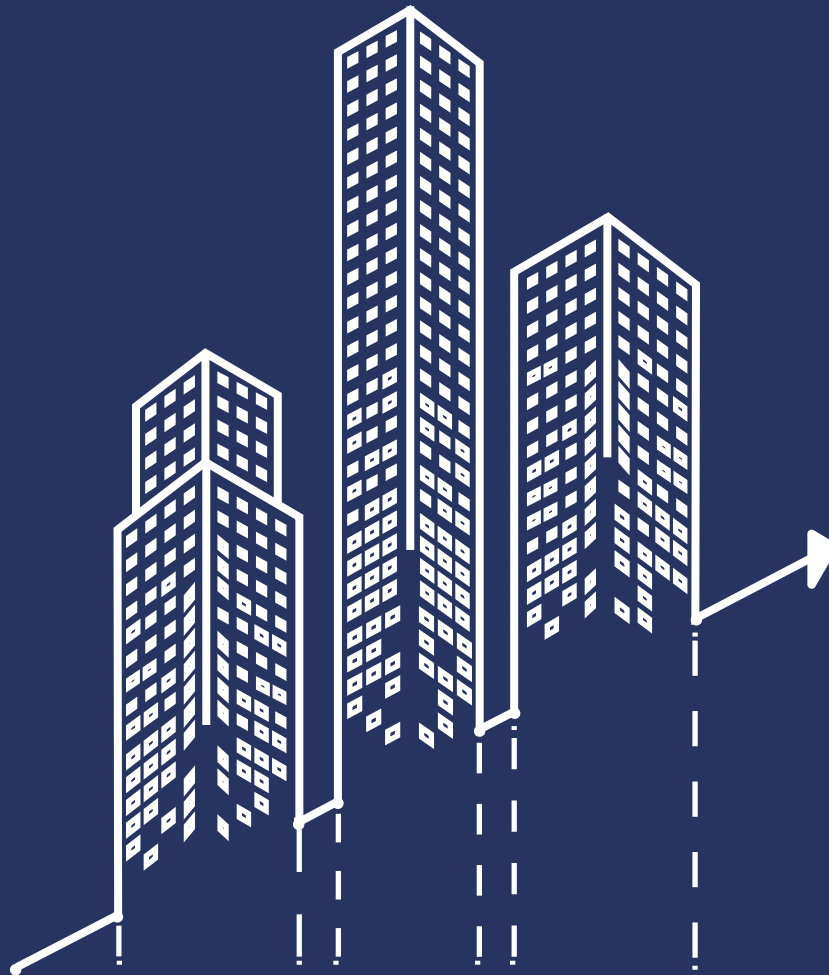




India

Real Estate

OFFICE & RESIDENTIAL MARKET

July - September 2022

OFFICE

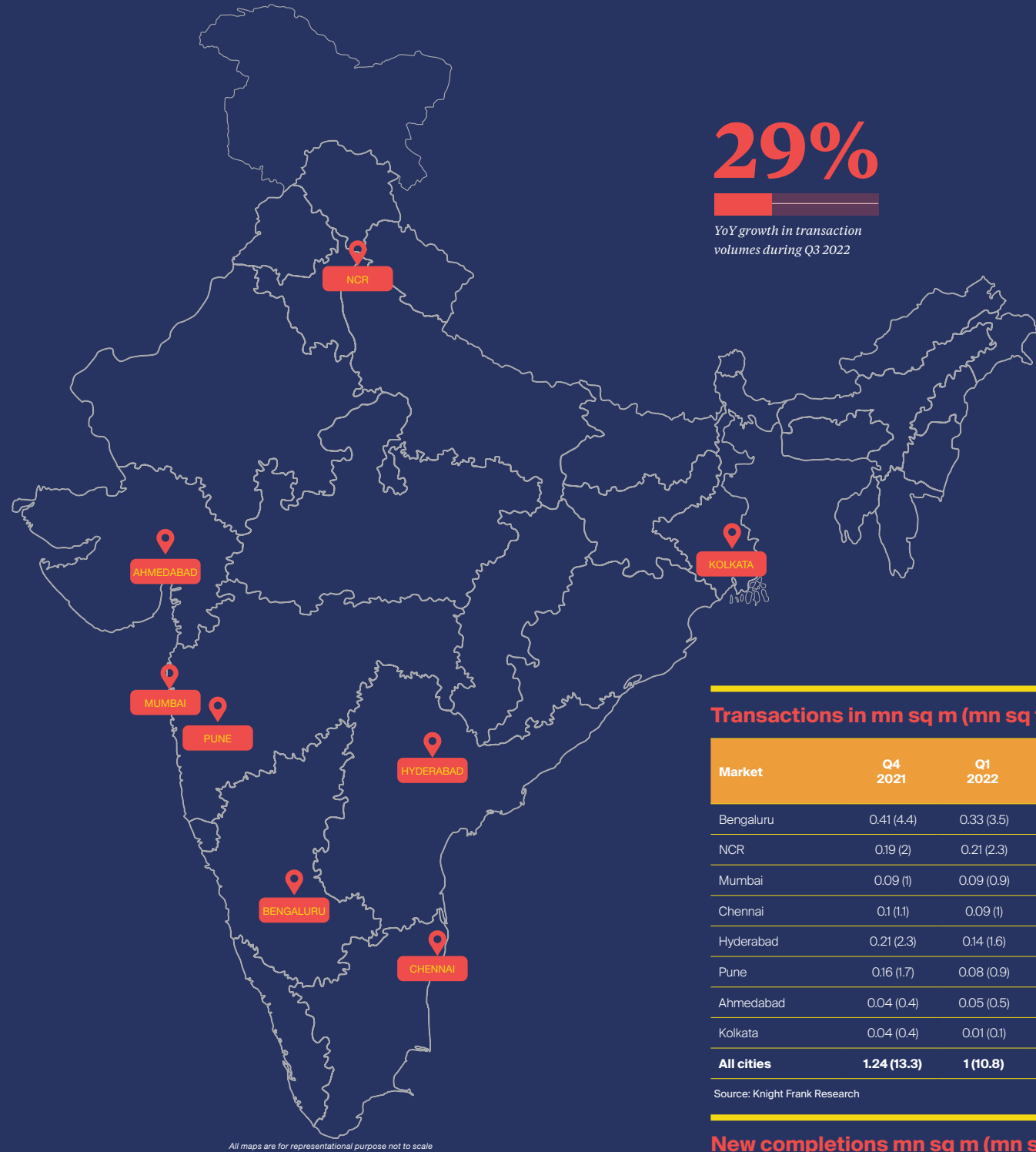
The Indian office space market volumes have rallied consistently since the second wave of the pandemic in Q2 2021. Barring the slight dip seen during Q1 2022 due to fears of the Omicron variant, market volumes have been on an upward trajectory that culminated in a post-pandemic high in Q3 2022. The market seems to have shrugged off the last vestiges of the pandemic and has gained momentum even as an increasingly inflationary scenario has weighed heavily on the global economic environment.

The 1.24 mn sq m (16.1 mn sq ft) transacted during Q3 2022 represents a healthy 29% YoY growth. Notably, all markets, besides Pune and Hyderabad, have seen a YoY growth in transaction volumes with Ahmedabad, Mumbai and Bengaluru growing 117%, 82% and 71% YoY respectively. We have been comparing quarterly transaction volumes with the quarterly average of 2019 to assess the extent of recovery that the market has reached since pre-pandemic levels. The space transacted during Q3 2022 exceeded the 2019 quarterly average by 6%. The only other time this threshold was crossed was when spillover demand caused occupier demand to spike in Q4 2020, but the second wave of the pandemic and its aftermath quelled the possibility of any significant recovery during 2021.

The co-working sector continued to find the occupier's favor and constituted 23% of the transacted space during the period. Co-working players were particularly active in Bengaluru as the city accounted for a substantial 52% of the total space transacted by the sector. The Other Services sector companies were the most active followed by those from the Information Technology (IT) sector accounting for 29% and 23% of the transacted space during Q3 2022 respectively. The IT sector's 'back to office' transition continues to be supported by the sector's leadership teams and progress, in terms of increase in actual physical occupancy, has been seen across markets. It is expected that the sector's share in transactions will approach its long-term quarterly average of 35-40% share, once return to office is complete.

While transaction volumes have grown, rental levels have also stabilized or grown in YoY and sequential terms across all markets. Bengaluru, the largest office market in India, saw rental levels grow by 13% YoY and stay steady compared to the preceding quarter.

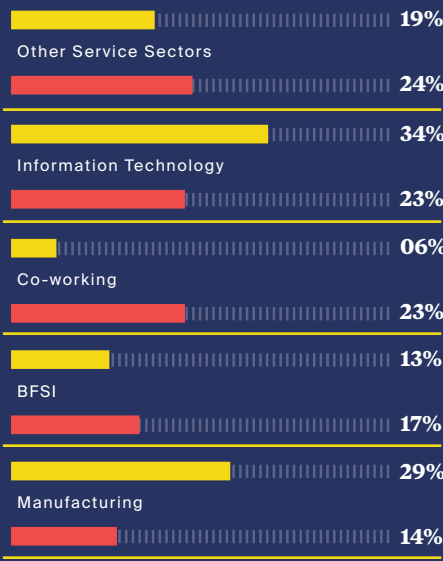
In line with occupier demand, office completions have also been increasing steadily over 2022 as developers have ramped up development activity cautiously. 1.2 mn sq m (13.0 mn sq ft) of office space was delivered in Q3 2022, constituting a 9% growth YoY. Bengaluru, with 0.5 mn sq m (4.9 mn sq ft), accounted for 37% of the space delivered during the quarter and along with Hyderabad, represented 63% of the total space delivered during the quarter.



29%

YoY growth in transaction volumes during Q3 2022

Sector-wise transactions split in Q3 2021 and Q3 2022



Note: BFSI includes BFSI support services | Source: Knight Frank Research

Transactions in mn sq m (mn sq ft)

Market	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q3 2022 YoY Growth %	Q3 2022 as % of 2019 Qtr Average
Bengaluru	0.41 (4.4)	0.33 (3.5)	0.39 (4.2)	0.68 (7.3)	71%	191%
NCR	0.19 (2)	0.21 (2.3)	0.17 (1.8)	0.23 (2.4)	23%	114%
Mumbai	0.09 (1)	0.09 (0.9)	0.19 (2)	0.2 (2.1)	82%	87%
Chennai	0.1 (1.1)	0.09 (1)	0.11 (1.2)	0.17 (1.8)	12%	138%
Hyderabad	0.21 (2.3)	0.14 (1.6)	0.15 (1.7)	0.08 (0.8)	-60%	26%
Pune	0.16 (1.7)	0.08 (0.9)	0.23 (2.4)	0.07 (0.7)	-27%	46%
Ahmedabad	0.04 (0.4)	0.05 (0.5)	0.07 (0.8)	0.06 (0.7)	117%	175%
Kolkata	0.04 (0.4)	0.01 (0.1)	0.04 (0.4)	0.02 (0.3)	105%	77%
All cities	1.24 (13.3)	1 (10.8)	1.35 (14.6)	1.5 (16.1)	29%	106%

Source: Knight Frank Research

New completions mn sq m (mn sq ft)

Market	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q3 2022 YoY Growth %	Q3 2022 as % of 2019 Qtr Average
Bengaluru	0.25 (2.7)	0.23 (2.5)	0.31 (3.3)	0.45 (4.9)	20%	121%
Hyderabad	0.15 (1.6)	0.13 (1.4)	0.36 (3.9)	0.31 (3.3)	51%	123%
NCR	0.1 (1.1)	0.1 (1)	0.14 (1.5)	0.16 (1.7)	63%	56%
Pune	0.17 (1.9)	0.33 (3.6)	0.13 (1.4)	0.13 (1.4)	-45%	132%
Chennai	0.07 (0.7)	0.21 (2.2)	0.07 (0.8)	0.1 (1.1)	374%	254%
Mumbai	0.33 (3.6)	0.05 (0.5)	0.05 (0.5)	0.05 (0.6)	273%	42%
Ahmedabad	0.03 (0.3)	0.05 (0.5)	0.08 (0.8)	0.01 (0.1)	-95%	5%
Kolkata	0 (0)	0.01 (0.1)	0.01 (0.1)	0 (0)	-100%	0%
All cities	1.1 (11.8)	1.1 (11.9)	1.14 (12.3)	1.21 (13)	9%	85%

Source: Knight Frank Research

Key Takeaways

Transaction volumes in Q3 2022, at a seven- quarter high, exceed pre-pandemic quarterly average of 2019.

At 0.7 mn sq m (7.3 mn sq ft), transaction volumes in Bengaluru accounted for 45% of the space taken up during Q3 2022.

Rents have stayed stable or grown in all markets in YoY terms. Bengaluru, the largest office market, saw rental levels grow by 13% YoY.

Rental levels have also stabilized or grown in sequential terms across all markets over the past two quarters.

380%

YoY growth in co-working transaction volumes during Q3 2022

The consistent growth in office market volumes over the past three quarters along with stable or growing rents across markets depicts the increasing strength of its recovery. The momentum seen in the year so far points at annual volumes that could match the record levels seen in 2019. Inflationary forces have pushed governments globally to pursue high interest rates detrimental to economic growth, and 7% inflation in India too is higher than the central bank's target rate of 4% (+/-2% band). However, the country still ranks amongst the relatively better performing large economies globally. With the pandemic no longer having a material impact on businesses, the evolving story of global economic growth could have a bearing on market traction going forward.

RESIDENTIAL

All real estate asset classes have been on the recovery path over the past few quarters, however the recovery in the residential segment was the swiftest and most substantial. While the need for security that was acutely felt during the pandemic triggered the demand for homes, the extremely low interest rates and comparatively low property prices made the case for homebuying even stronger. This momentum in demand helped quarterly sales volumes increase in every successive quarter since Q2 2021 and reach record levels in Q2 2022, despite the cumulative 90 bps hike in the Repo rate introduced by the RBI during this period.

The 73,691 units sold during Q3 2022 represent a healthy 15% YoY growth in volumes and are also 20% more than the quarterly average sales observed during pre-pandemic times of 2019. Notably, a similar pace in the final quarter of the year could bring annual sales volumes within striking distance of a decadal high. While the sales volumes remain robust, they have dipped by 8% compared to the preceding quarter. Considering the steady upward trajectory that sales have stayed on over the past four quarters, this modest dip is not a matter of concern. The third rate-hike of 50 bps imposed by the RBI in August 2022 implies a cumulative 140 bps increase in the REPO rate during the year. This has resulted in a 70 – 100 bps transmission or increase in the home loan rate so far in 2022 and has been a factor in tempering sales volumes to some extent in Q3 2022.

The demand momentum was strong in Q3 2022 with sales in all markets with the exception of Kolkata growing on a YoY basis. Among the larger markets, Mumbai saw the most sales growth at 35% YoY while Hyderabad and NCR grew at 32% and 21% YoY respectively. Ahmedabad grew the most overall at 142% YoY, a large part of which can be attributed to the low base in Q3 2021.

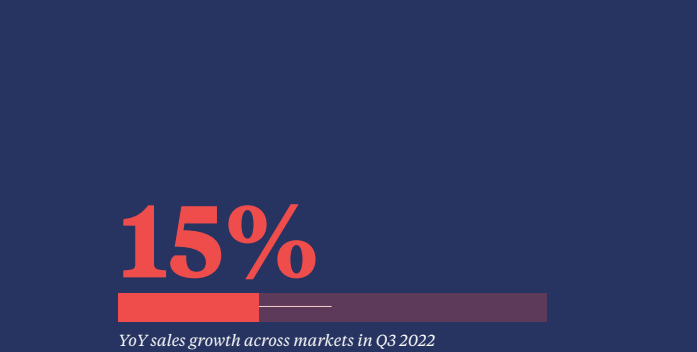
Consistent with the upward trend seen in the past three quarters, the share of sales in the INR 10 mn and above ticket-size grew significantly to 28% in Q3 2022 compared to 22% a year ago. This can be attributed to the homebuyers' need to upgrade to larger living spaces with better amenities. While the share of home sales in the INR 5-10 mn category stayed steady, the share of the INR 5 mn and below ticket-size which has deteriorated over time from 43% in Q3 2021 to 36% in Q3 2022.

Supply levels have been similarly robust, growing 15% YoY to 69,687 units in Q3 2022. Developers have responded well to the upswing in demand levels over the past year. They have consistently launched new projects matching the contemporary needs of the homebuyer. And as with sales, the units launched in Q3 2022 also exceeded the 2019 pre-pandemic quarterly average by 25%.

While sales volumes have been strong in Q3 2022, prices have also grown

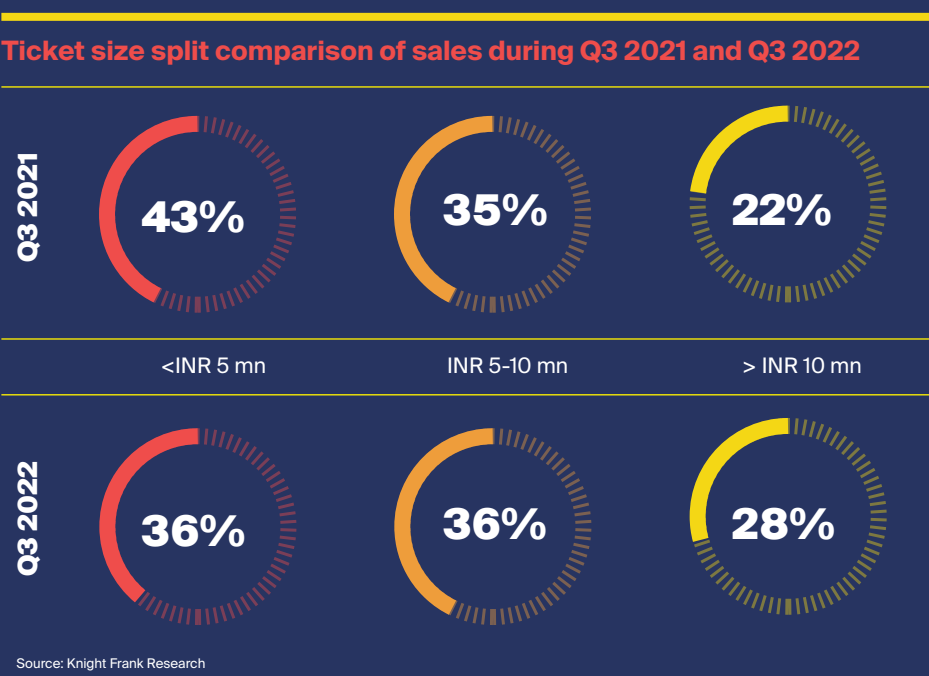
in the range of 3% to 10% across all markets with Bengaluru, NCR and Mumbai growing by 10%, 8% and 6% YoY respectively. This also marks the third consecutive quarter of YoY growth in prices across all markets. Even in sequential terms, prices have either stayed steady or grown across markets during the quarter.

Homebuyers have been more inclined to acquire ready or near-ready inventory to minimise completion risk during past periods. However, the acute need for a lifestyle upgrade has made homebuyers increasingly willing to acquire newly launched properties at relatively lower prices. This is reflected in the average age of inventory increasing to 17.6 quarters in Q3 2022 from 16.1 quarters in the year ago period. The unsold inventory level has stayed steady in YoY terms while the Quarters to Sell (QTS) level has dropped to 7.1 quarters in Q3 2022 compared to the 10.3 level a year ago. The QTS levels represents the number of quarters required for the existing unsold inventory to be consumed at the current rate of sales. A reducing QTS level depicts a market where demand is gathering momentum.



Average price change across markets during Q3 2022		
Market	YoY Change	QoQ Change
Bengaluru	10%	1%
NCR	8%	1%
Pune	6%	0%
Mumbai	6%	0%
Chennai	6%	1%
Hyderabad	6%	1%
Kolkata	4%	0%
Ahmedabad	3%	0%

Source: Knight Frank Research



Launches						
Market	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q3 2022 YoY Growth %	Q3 2022 as % of 2019 Qtr Average
Mumbai	22,015	23,558	23,908	18,079	49%	91%
Bengaluru	8421	10106	11117	11250	28%	133%
Hyderabad	9,768	10,256	11,100	11,000	19%	326%
NCR	8,659	12,883	15,843	10,265	14%	179%
Pune	11,397	9,220	8,173	7,463	-13%	67%
Ahmedabad	4,165	4,957	5,428	6,188	45%	215%
Chennai	3,565	3,720	3,850	3,912	3%	136%
Kolkata	2,187	3,473	3,213	1,531	-51%	108%
Total	70,177	78,174	82,632	69,687	18%	125%

Source: Knight Frank Research

Sales						
Market	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q3 2022 YoY Growth %	Q3 2022 as % of 2019 Qtr Average
Mumbai	18,440	21,548	22,652	21,450	35%	141%
Bengaluru	11,881	13,663	13014	13,013	15%	108%
NCR	14,498	15,019	14,082	11,014	21%	103%
Pune	10,179	10,305	11,492	10,899	14%	133%
Hyderabad	6,357	6,993	7,700	7,900	32%	194%
Ahmedabad	3,096	4,105	4,092	3,887	142%	93%
Chennai	2,597	3,376	3,575	3,685	2%	87%
Kolkata	2,429	3,619	3,471	1,843	-73%	65%
Total	69,477	78,627	80,078	73,691	15%	120%

Source: Knight Frank Research

Key Takeaways

Among the larger markets, Mumbai saw the most sales growth at 35% YoY while Hyderabad and NCR grew at 32% and 21% YoY respectively.

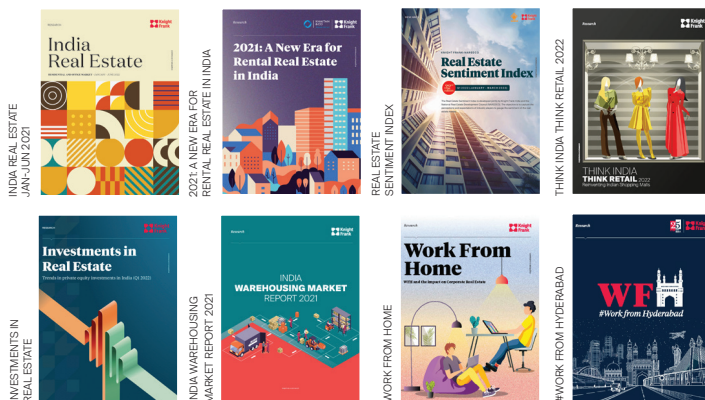
All markets saw average prices increase YoY during this period. This also marks the third quarterly period of consistent YoY growth in prices across all markets.

The unsold inventory level has stayed steady in YoY terms while the Quarters to Sell (QTS) level has down to 7.1 quarters in Q3 2022 compared to the 10.3 level a year ago.

The 140 bps Repo rate hike in this rate cycle until 29th September 2022 has caused banks to increase their home loan rates in the range of 70 – 100 bps. While significant, the prevailing median home loan rate of 8.05% as on 29th August 2022 is still lower than the 8.7% level in pre-pandemic 2019 . Further, these hikes are not a surprise to the market which is already bracing for further hikes as the RBI addresses inflation concerns. India's 7% inflation level in August 2022 is away from the RBI targeted 4% level, however, moderation in global crude and commodity prices from peak levels will lend some comfort on inflationary expectations.

We do not believe that home loan rates approaching 2019 levels will be enough to subdue market momentum significantly. The performance of the broader economy and homebuyer sentiment will have a greater bearing on market momentum for the remainder of the year as it dictates homebuyer income levels and demand much more directly.

Your partners in property .



We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

AUTHOR

YASHWIN BANGERA
Senior Vice President
yashwin.bangera@in.knightfrank.com

RESEARCH

VIVEK RATHI
Director - Research
vivek.rathi@in.knightfrank.com

CORPORATE - MARKETING & PUBLIC RELATIONS

PIYALI DASGUPTA
Director - Corporate - Marketing & Public Relations
piyali.dasgupta@in.knightfrank.com

Knight Frank Research Reports
are available to download at
knightfrank.com/research

The statements, information, data and opinions expressed or provided herein are provided on "as is, where is" basis and concerned parties clients are required to carry out their own due diligence as may be required before signing any binding document. Knight Frank (India) Private Limited (KFIPL) makes no warranties, expressed or implied, and hereby disclaims and negates all other warranties, including without limitation, implied warranties or conditions of merchantability, fitness for a particular purpose, or non-infringement of intellectual property or other violation of rights including any third party rights. Further, KFIPL does not warrant or make any representations concerning the accuracy, likely results, or reliability of the use of the statements, information and opinions as specified herein. The statements, information and opinions expressed or provided in this presentation / document by KFIPL are intended to be a guide with respect to the purpose for which they are intended, but in no way shall serve as a guide with regards to validating title, due diligence (technical and financial), or any other areas specifically not included in the presentation. Neither KFIPL nor any of its personnel involved accept any contractual, tortious or other form of liability for any consequences, loss or damages which may arise as a result of any person acting upon or using the statements, information, data or opinions in the publication, in part or full. The information herein shall be strictly confidential to the addressee, and is not to be the subject of communication or reproduction wholly or in part. The document / presentation is based on our understanding of the requirement, applicable current real estate market conditions and the regulatory environment that currently exists. Please note: Any change in any one of the parameter stated above could impact the information in the document/presentation. In case of any dispute, KFIPL shall have the right to clarify.