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Glossary

- **Absorption**

Area transacted during the period (in this case, it is monthly). This includes properties launched earlier and during the period.

- **New launches**

Aggregate of area launched during the period and offered for sale. This does not include projects where work has commenced, but not offered for sale.

- **Inventory**

Total supply available for sale at the end of the period, which includes supply from existing and newer launches.

Inventory in months of sales is calculated by dividing inventory by average absorption during the past three months. While others take absorption for the respective month as the denominator; we considered the average of the past three months to avoid monthly cyclicity. Thus, if we assume that the absorption will continue as per the current trend, how many months will it take to absorb the current supply? The answer is lower the better for price sustainability or rise; however, one needs to read it in conjunction with the history.

$$\text{Inventory in months of sales} = \frac{\text{Inventory at the end of the period}}{\text{Average of three months absorption including the month under observation}}$$

Note:

1. The data collection and filtration in real estate takes 1 ½ - 2 months. The current period mentioned in the report is October 2011.
2. Mumbai includes MMR, Navi Mumbai and Thane
3. NCR includes New Delhi, Gurgaon, Noida and Greater Noida

Summary

- High level of absorption witnessed in Bengaluru; unlike other cities where it is seeing downtrend
- Mumbai with the danger of sharp increase in inventory on the back of several new launches is poised for property price correction
- In NCR, Gurgaon and Noida are stronger markets compared to Greater Noida which has high level of inventory and slow pace of absorption
- Bengaluru continues to be the strongest property market in India; high level of absorption is the key to avoid price correction
- New Delhi has very low inventory; marginally above 2msf, no price correction expected
- New launches have declined across the markets excluding Bengaluru
- Absorption in Pune is following Mumbai property market trend; price correction expected unless the pace of new launches remain slow
- Reasonable absorption level and the slower pace of new launches will help Chennai property prices to stabilise at the current levels

City-wise analysis

NCR

Absorption in NCR at 10msf has reduced considerably from 15-20msf witnessed six months back. However, it is significantly higher than the lows of 3-5msf attained in 2008-09.

The dearth of investor demand has pushed **new launches** to as low as 8msf, compared to 20-25msf a year back. We do not see any possibilities of this demand coming back in the next six months, primarily owing to high property prices and the uncertain economic scenario which will in turn keep a check on new launches.

The **inventory** level at 132msf is higher than other cities; however, it has come down from the peak of 150msf in 2010, due to the slower pace of newer launches. Inventory in months of sales at 12 is higher than the two years average of 9, which is a concern.

In nutshell, inventory level at 132msf is high and in months of sales. It is at 12, higher than the two years average of 9 months. However, a micro analysis suggests that the Gurgaon and Noida markets are well placed with just seven months of sales each. New Delhi has an inventory as low as 2.3msf and being land scarce region, doesn't have pressure on price. Greater Noida has seen new launches at an aggressive pace, but without adequate absorption. We believe Greater Noida is set to witness sharp price correction, which is unlikely for Gurgaon, Noida and New Delhi.

Mumbai

Absorption has been declining since November 2010; absorption at 6msf is at its 25-month low.

New launches at 4.5msf less than half on YoY basis; however, launches can jump up sharply, if the approvals are back on track.

Even though new launches have reduced considerably, the reducing absorption level has kept **inventory** levels at 99msf. The inventory in months of sales is 16 doubled from 8 in September 2010. Though the inventory level has not increased since the past 20 months, considering large number of projects awaiting approvals, this figure can go up sharply. This is not a good sign for Mumbai property prices.

In nutshell, inventory level is currently at a manageable level; however, several projects are awaiting approvals for launch. In case the approval process fastens, there will be a sudden rise in the inventory, which will push the developers to reduce the property prices. The saviour is considerable improvement in absorption, which seems unlikely at the current property price levels.

Bengaluru

Absorption in Bengaluru remains healthy; average for the past one-year is more than 6msf per month.

New launches were the least in past one-year. 4msf of new launches compared to monthly average of 7msf for the past one-year.

Inventory level maintained at 80msf, high but not alarming. Inventory level in months of sales is at 15, within the range of 13-15 for past 12 months.

In nutshell, even after series of launches, high absorption has helped inventory level to keep in check. While absorption at ongoing rate and slower pace of new launches can keep the prices stable or help them to rise, a weak quarter in terms of absorption can push the inventory level higher and result in price correction.

Pune

Absorption in Pune seems to follow absorption trend in Mumbai. Absorption in October 2011 is 3msf; at 23 months low.

New launches have declined considerably since beginning of the current calendar year. From the peak of 8msf in January, it has come down to as low as 2msf.

Inventory level declined from 61msf in January 2011 to 48msf in October 2011. This is not due to high demand but due of lack of new launches. The inventory in months of sales has started rising back. From the low of 11 in June, it has risen to 15.

In nutshell, Pune seems to follow Mumbai real estate market and we believe it is facing the same problem of possibility of sharp jump in new launches. The market may witness property price correction unless developers time their launches in such a manner that not many properties hit the market at the same time (this is unlikely scenario, as most of the developers are keen to monetise their assets at the earliest).

Chennai

Absorption in Chennai has come down to 3msf from 5msf six months back; however, it is still much above the level of 1-1.5msf it witnessed two years ago. Absorption in October was at a respectable level of 3msf, considering the city's appetite.

New launches have reduced considerably due to lack of approvals from government authorities. Launches in the past three months together were as low as 5msf, which is lower than the average monthly launch a few months back.

The slower pace of new launches and reasonable absorption levels have reduced the inventory level to 32msf from 41msf six months back. Inventory in months of sales is also at a manageable level of 12.

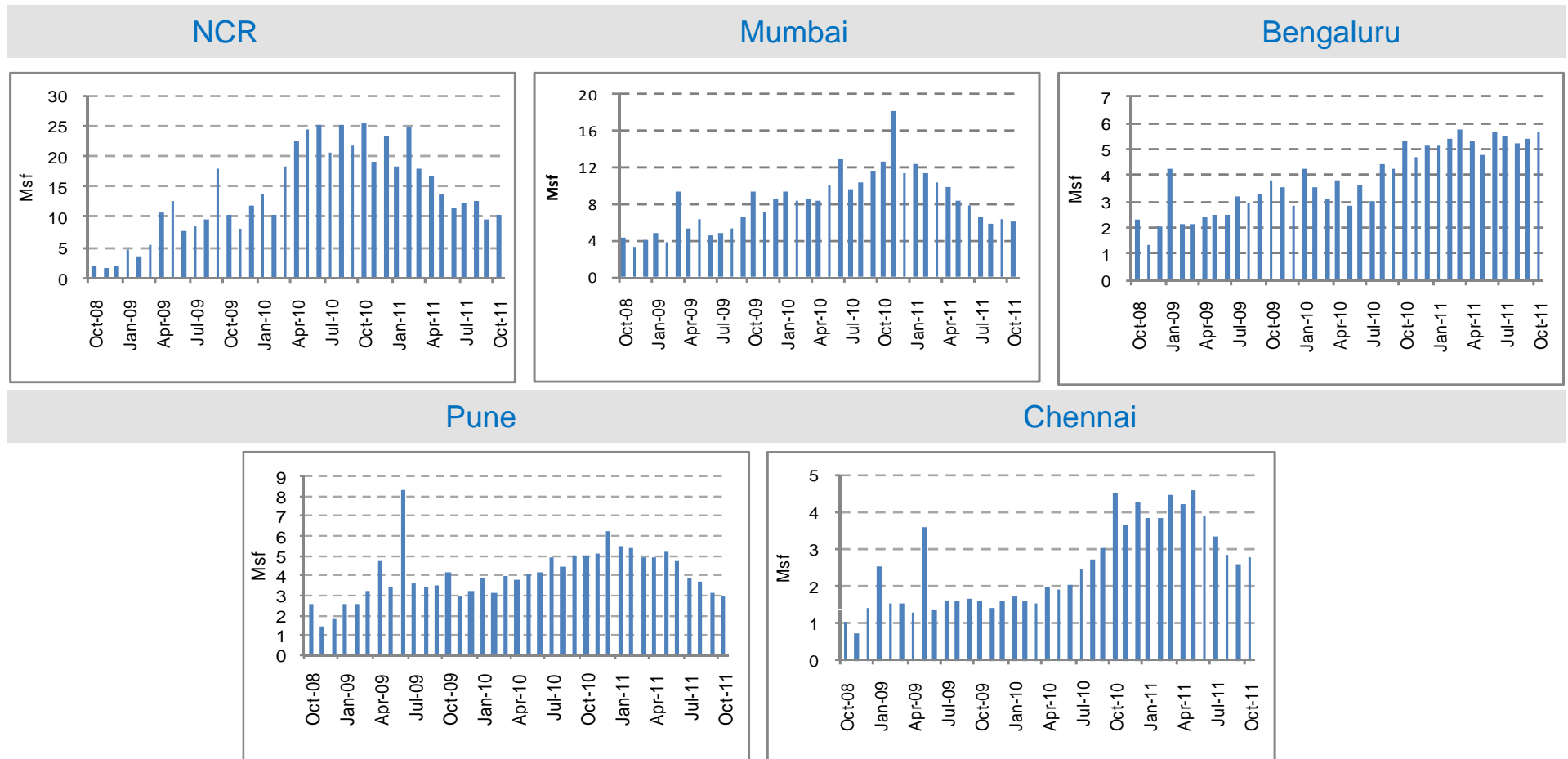
In nutshell, the city is well placed compared to most other metros in the country. Slower pace of new launches combined with reasonable demand has managed the property prices to stabilise at current levels and we don't see possibilities of significant property price correction here.

	Absorption (msf)	New launches (msf)	Inventory (msf)	Inventory in months of sales	Our view
NCR	10	8	132	12	Gurgaon and Noida better placed than Greater Noida
Mumbai	6	5	99	16	High possibilities of price correction if approval process for new launches fastens
Bengaluru	6	4	80	15	High inventory; prices can correct if absorption drops
Pune	3	2	48	15	High possibilities of price correction if pace of new launches increase
Chennai	3	1	32	12	Stable market with low volumes and least possibilities of price correction

Source : PropEquity, SSL

City-wise comparison

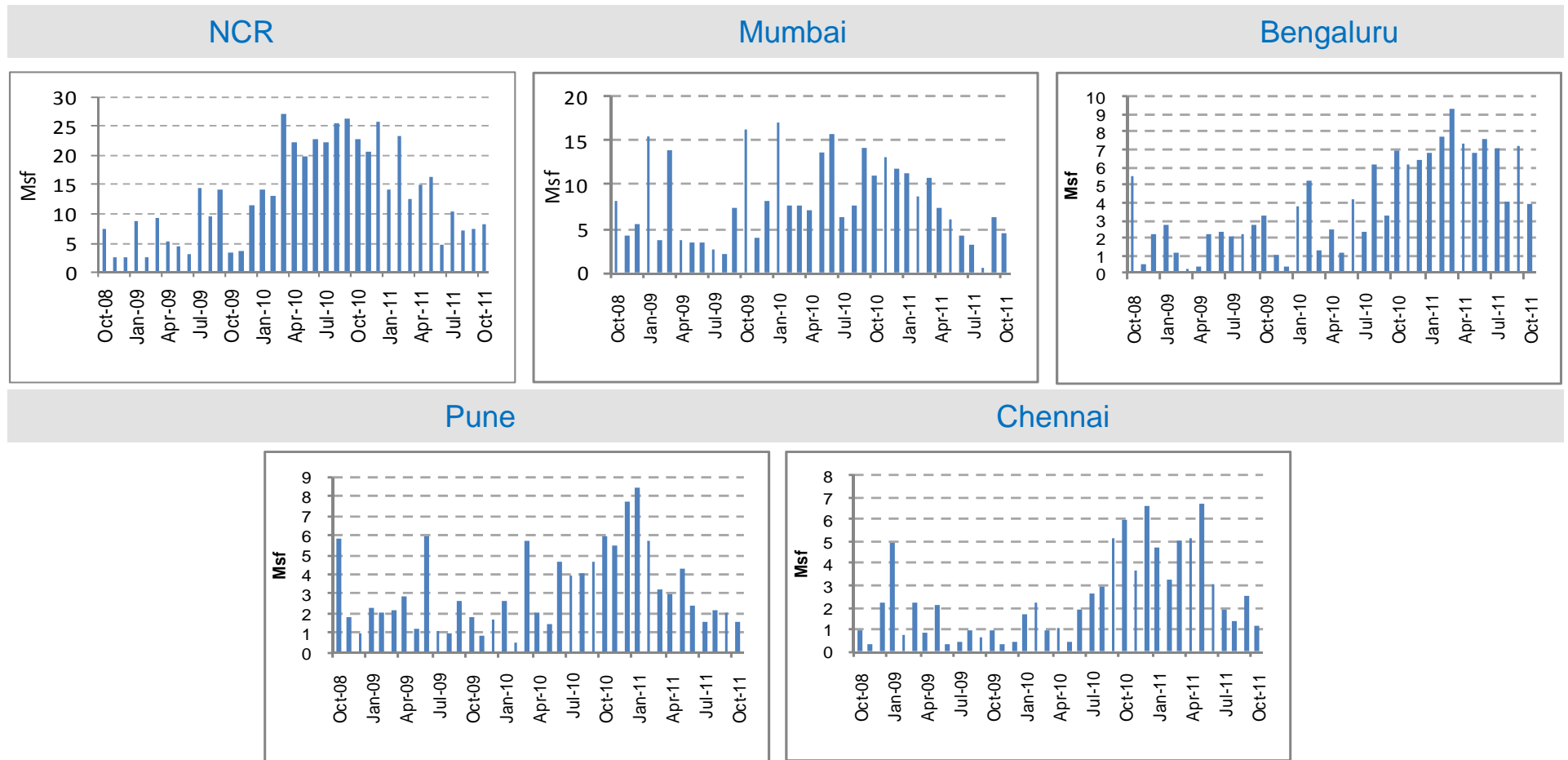
Absorption



Source : PropEquity, SSL

- Except Bengaluru, all other markets have seen sharp decline in absorption.
- Bengaluru maintained high level of absorption on the back new launches.
- Mumbai has seen the worst reduction in absorption; from 18msf in November 2010 to 6msf in October 2011, registering a 25 months low.
- Absorption trend in Pune is following Mumbai, though with a marginal lag.

New Launches

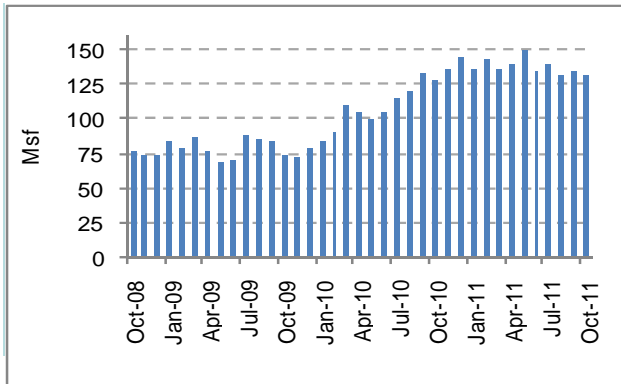


Source : PropEquity SSL

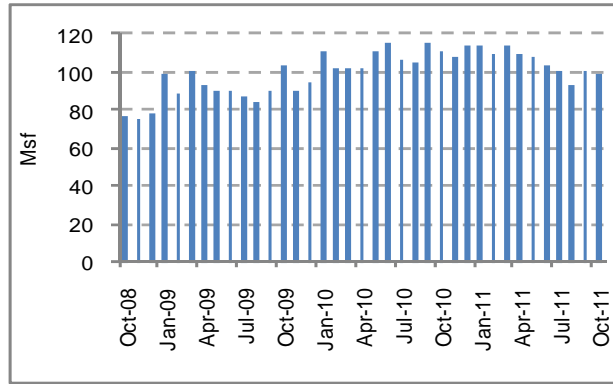
- Except Bengaluru, all other markets have seen drastic reduction in new launches.
- Series of new launches in Bengaluru witnessed due to strong and sustained demand from IT industry and reasonable festive demand.
- Pace of new launches in Mumbai and Chennai is low primarily due to the lack of regulatory approvals.
- Lack of investor demand has pushed back new launches in NCR.

Inventory

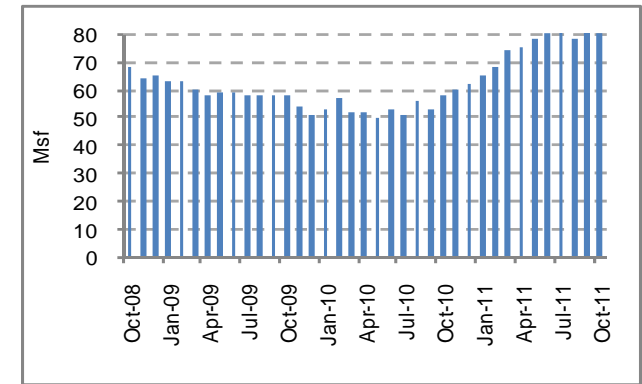
NCR



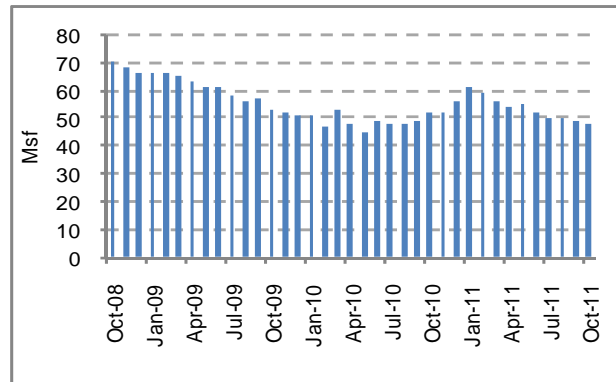
Mumbai



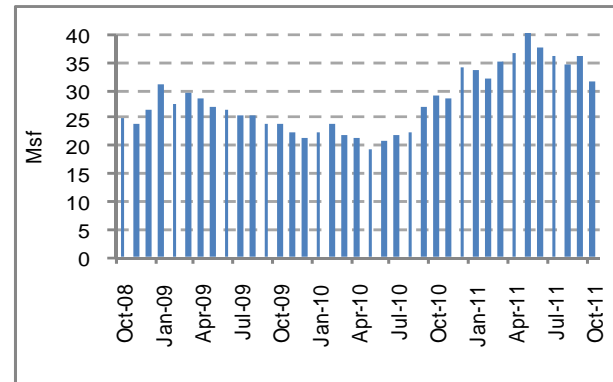
Bengaluru



Pune



Chennai

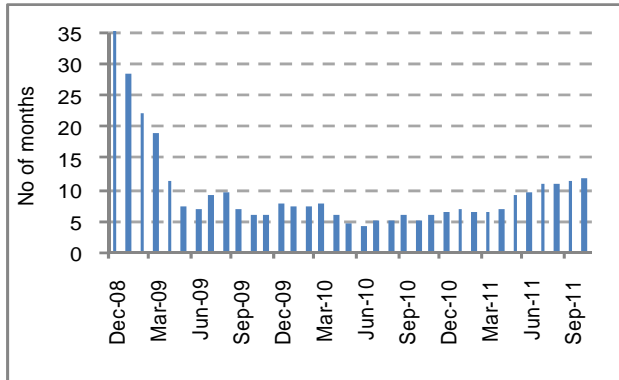


Source : PropEquity, SSL

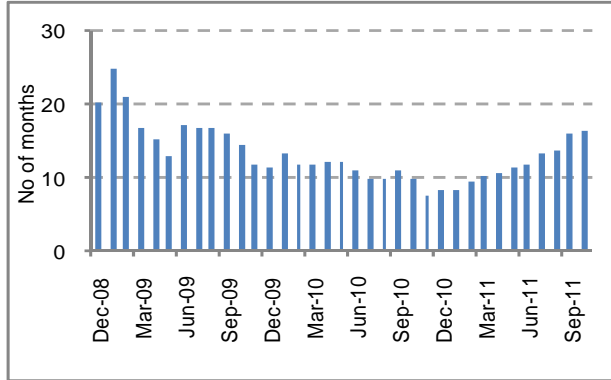
- Inventory in Bengaluru has risen sharply due to series of new launches.
- The dearth of new launches helped Pune and Chennai to reduce high inventory levels.
- Inventory level in Mumbai still at high levels; can be much higher once regulatory approval process fastens.
- NCR witnessing high inventory level, due to aggressive launches in Greater Noida.

Inventory in Months of Sales

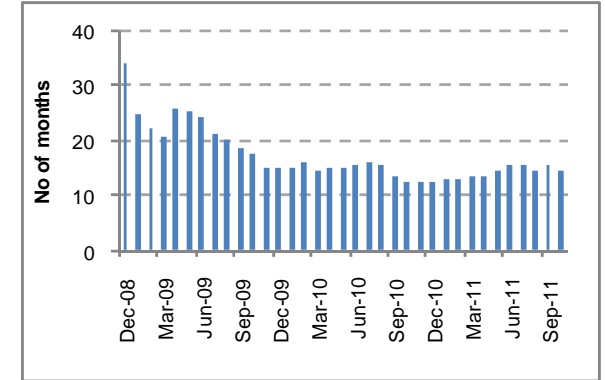
NCR



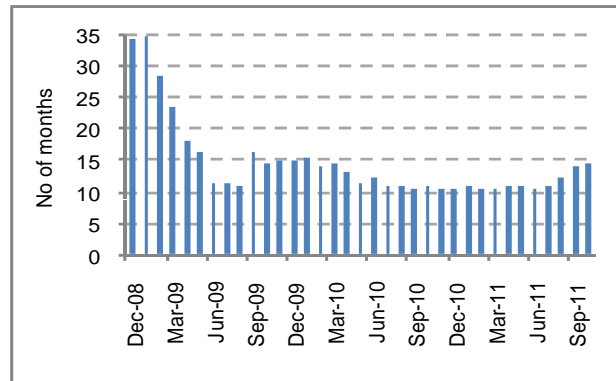
Mumbai



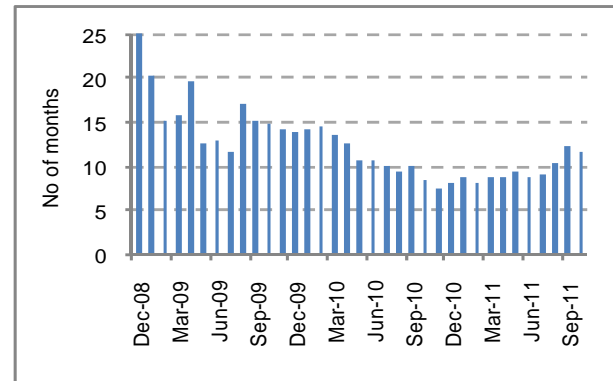
Bengaluru



Pune



Chennai



Source : PropEquity, SSL

- Mumbai with inventory of 15 months of sales is at the worst position among all; price correction is expected.
- Despite higher inventory levels at Bengaluru, inventory in months of sales is at a stable level of 15; thanks to healthy absorptions.
- Gurgaon and Noida are at comfortable level with seven months of inventory; Greater Noida with 64 months of sales is in dangerous position

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