Equity Research

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Real Estate

Sector update

- **DLF** (BUY, TP Rs240)
- **Embassy Office Parks REIT** (BUY, TP Rs408)
- **Mindspace Business Parks REIT** (BUY, TP Rs358)
- **Oberoi Realty** (BUY, TP Rs457)
- **The Phoenix Mills** (BUY, TP Rs804)
- **Prestige Estates Projects** (ADD, TP Rs291)
- **Brigade Enterprises** (BUY, TP Rs272)
- **Godrej Properties** (SELL, TP Rs826)
- **Sunteck Realty** (BUY, TP Rs303)

Sobha Ltd (BUY, TP Rs382)

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INDIA

ICICI Securities

Real Estate

Outlook 2021: Consolidation to accelerate

While Covid-19 concerns may linger in CY21E, we expect the broader theme of consolidation in favour of large, organized developers to accelerate in CY21 as a number of unlisted developers continue to remain in financial trouble and grapple with stalled projects. Q2FY21 residential sales bookings for our coverage universe stood at 70-100% of Q2FY20 sales, which points to continued consolidation and market share gains. For CY21, all listed developers have a number of planned launches and continue to focus on monetisation of ready inventory. For office leasing, while CY20E may see a 50% YoY decline in demand, we expect leasing momentum to bounce back in CY21. With two REITs already listed in India (Embassy REIT and Mindspace REIT), this opens the door for more potential REIT listings by other large annuity asset developers. We reiterate our BUY rating on DLF, Brigade Enterprises, Phoenix Mills and the Embassy and Mindspace REITs.

- **Consolidation in residential space to accelerate in favour of listed players:** Based on our channel checks and management commentary from listed developers in our coverage universe, the momentum seen in Q2FY21 residential sales bookings has carried forward into the festive season in Oct-Nov 2020 as low mortgage rates, price discounts and stamp duty cuts continue to attract home buyers. We expect these players' H2FY21 sales bookings to be either flat YoY or marginally higher YoY with continued focus on monetising ready inventory with a few launches thrown in depending on project approvals coming through. With all listed developers having a strong pipeline of launches heading into FY22E, we believe a combination of waning Covid-19 impact and further industry consolidation may enable our coverage universe to achieve a double-digit residential volume growth in FY22E.
- **Office leasing to pick up in CY21:** While CY19 was a record year with 42msf of net absorption and another 40msf of net absorption was expected in CY20E prior to Covid, we have built in net absorption of 22msf in CY20E which is a 40-50% reduction in demand. While net absorption (incremental physical office space occupied) has taken a beating in Q2-Q3CY20 owing to lockdowns across India's Tier I cities, a number of pre-leasing deals being signed augurs well for a pick-up in occupancy levels from CY21. We expect office leasing to see a pick up from Q2CY21 (April 2021 onwards) and expect 28msf of net absorption in CY21E.
- **REITs have emerged as a potent asset monetisation tool:** With two REIT listings in India by Embassy Office Parks and Mindspace Business Parks, the door has opened for more potential REIT listings from CY21 onwards. With India having 479msf of occupied Grade A office stock as of September 2020 and global institutional investors continuing to invest in annuity assets, we expect more REIT listings over the next 2-3 years. Developers in our coverage universe such as DLF, Phoenix Mills and Oberoi Realty have already highlighted their medium-term plans to consider a REIT listing. Further, large annuity portfolio buyouts in CY20 such as Blackstone buying out Prestige Estates' office and mall assets and Brookfield's acquisition of RMZ's office portfolio points to consolidation in favour of institutional landlords for annuity assets.
- **Mall consumption showing green shoots in festive season:** While rental waivers may result in mall owners incurring an average 50% rental loss at the industry level in FY21E, consumption levels in Q3FY21 during the festive season range between 70-90% of pre-Covid levels. With increase in mall operating hours, resumption of Food and Beverage (F&B) and multiplexes, mall rentals may revert back to 90% minimum guarantee from Q1FY22 as consumption stabilises to pre-Covid levels in FY22E.

Indian office market: Leasing to pick up in CY21

The Indian Commercial Real Estate (CRE) office market saw record leasing in CY19 with 42msf of annual net absorption. The office market has been in a upcycle over CY14-19 with rising rentals, falling vacancies, consolidation among developers and emergence of REITs. At the beginning of CY20 (January 2020), the outlook was bright with healthy pre-leasing for upcoming supply. However, the evolving global situation owing to the Coronavirus (COVID-19) threatens to spoil the party. We look at the key areas of impact on demand and supply of offices in India:

- **Net absorption/demand to contract 40-50% in CY20E:** Until the global COVID-19 concerns reduce, corporates will relook at their space requirements in CY20E and expansion or consolidation plans will be put on the backburner. Given the fact that 30-40% of Indian office space demand originates from the USA, a prolonged economic slowdown in the USA will likely lead to reduced demand for offices in CY20E. While CY19 was a record year with 42msf of net absorption and another 40msf of net absorption was expected in CY20E prior to Covid, we have built in net absorption of 22msf in CY20E which is a 40-50% reduction in demand.
- **Expect leasing to bounce back in CY21E:** While net absorption (incremental physical office space occupied) has taken a beating in Q2-Q3CY20 owing to lockdowns across India's Tier I cities, a number of pre-leasing deals being signed augurs well for a pick-up in occupancy levels from CY21. We expect office leasing to see a pick up from Q2CY21 (April 2021 onwards) and expect 28msf of net absorption in CY21E.
- **Supply to also contract by 30-40% in CY20-21E:** As of March 2020, ~149msf of offices were under construction in India which was expected to hit the market over CY20-23E with over 45msf of supply each expected to be completed in CY20E and CY21E. However, the COVID impact will lead to supply also getting delayed as construction activities remain slow in CY20E, developers hold back supply and funding constraints in many cases force certain projects to get delayed. This number has already shrunk 30% to 102msf as of September 2020 with ~30msf expected to be completed in CY20E. Hence, we now expect ~30msf of completions each in CY20E and CY21E. With both demand and supply expected to fall 30-40% over CY20-21E, we believe that vacancies may not see a steep increase from current pan-India levels of 13%. However, in the case that corporates decide to let go of existing office space, vacancies may rise sharply.
- **Demand for flexible office places to rise:** The COVID impact has led to companies having to shift to the Work from Home (WFH) model. Commentary from corporates increasingly indicates that they would try to replicate the WFH model over the long term, especially in the case of IT/ITeS companies that account for 40-50% of overall Indian office demand. However, the efficacy of WFH over an extended period of time vs. a traditional full-service office model is yet to be proven.
- **Rentals may come under pressure**: While rental terms in existing leases may not see any immediate correction, any upcoming renewals and pre-leasing will see corporate occupiers looking to renegotiate rentals downwards. While the extent of correction is hard to ascertain, we believe that a 5-10% rental decline is possible in CY20E. The only silver lining is that rentals in India remain affordable at just under 1 USD/psf/month in suburban/peripheral markets of India.

What are the positives that remain?

- **Limited number of developers capable of building quality rental assets:** Unlike the residential market which has relatively lower entry barriers in India, the Indian office and mall market is a capital-intensive business requiring developers to have adequate balance sheet strength. Further, the trend has now shifted to office campuses with larger plot layouts which require adequate planning. The few notable names are DLF, Embassy Office Parks REIT, Mindspace Business Parks REIT, Prestige Estates, Brigade Enterprises, RMZ Corp and The Phoenix Mills.

- **High quality talent pool and affordable rentals in India:** India leads in STEM (Science, Technology, Engineering, Mathematics) talent for technology assignments with over 2 million students graduating each year. Further, employees' costs in India would not be more than 20-25% of comparable cost for employees in the occupier's country of origin. India remains one of the more affordable office markets in the world, with average rentals for Grade A office markets in peripheral/suburban micro-markets hovering around 1 USD/psf/month or Rs70-75/psf/month. Further, with rental costs for MNC occupiers being just 2-3% of their revenues, GICs may remain sticky tenants over the long term. Globally MNC occupiers typically enter into long-term tenancy contracts with office developers for 8-10-year periods with a contracted rental escalation of 15% every 36 months. They also invest at least Rs3,000-4,000/psf for fit-outs for their offices in addition to the contracted rentals keeping in mind the longer tenure of their leases.

- **REITs have emerged as a potent asset monetisation tool:** With two REIT listings in India by Embassy Office Parks and Mindspace Business Parks, the door has been opened for more potential REIT listings from CY21 onwards. With India having 479msf of occupied Grade A office stock as of September 2020 and global institutional investors continuing to invest in annuity assets, we expect more REIT listings over the next 2-3 years. Developers in our coverage universe such as DLF, Phoenix Mills and Oberoi Realty have already highlighted their medium-term plans to consider a REIT listing. Further, large annuity portfolio buyouts in CY20 such as Blackstone buying out Prestige Estates' office and mall assets and Brookfield's acquisition of RMZ's office portfolio points to consolidation in favour of institutional landlords for annuity assets.

- **DDT rollback a key positive:** In February 2020, the Government of India's (GoI) 2020 Union Budget had proposed to impose a Dividend Distribution tax (DDT) on REIT investors which had dampened sentiment for REIT investors. Although the proposed DDT had negligible near-term impact as the Embassy REIT has been paying out distributions mostly in the form of interest and capital return, numerous representations by industry stakeholders has prompted the GoI to rollback the proposed DDT on REITs in March 2020. However, this waiver is on the condition that REIT SPVs will not move to the new tax regime (of lower tax rate).

Implications for our coverage universe

Table 1: Key trends for our Real Estate coverage in office space

Company	Likely impact of COVID and risks to growth
DLF	Large portion of the company's commercial portfolio in CBD areas with low vacancy. Currently, DLF has over Rs30bn of annualised rental income across offices and malls and was targeting an exit rental income of over Rs40bn by FY22E. We now expect this exit rental to come in by FY23E. High quality tenant portfolio consisting largely of MNCs makes the portfolio resilient. **Company has collected over 95% of office rentals between April-September 2020 from tenants. As per DLF's management, it has initiated the process for getting the DCCDL portfolio REIT ready in the medium term in 15-18 months**
Embassy Office Parks REIT	While we acknowledge the risk to medium-term demand for office spaces in India, we believe that the office portfolio of the Embassy REIT is relatively resilient in these tough times. The REIT's current tenant portfolio has 50% of tenants in the technology domain with even smaller verticals such as financial services and research/consulting consisting of Global in-house captives. Currently, the REIT's top ten occupiers contribute ~42% of the gross overall rental income as of September 2020. **As per the Q2FY21 operations update of Embassy REIT, office rental collections for Q2FY21 have remained strong with 98.5% of rentals collected as of 30th September, 2020 (99.9% collected for Q1FY21)**. **The REIT portfolio has achieved contracted rental increases of 11% on 1.9msf of leasable area in Q2FY21 and 12% rental increases on 3.7msf of area in H1FY21**
Phoenix Mills	Limited exposure to offices with some operational area in High Street Phoenix and Kurla in Mumbai. Upcoming rental assets in Pune may see some deferment in leasing plans. Plans to add on offices in under-construction Hebbal, Bengaluru mall are flexible subject to demand environment. **Company has collected over 85% of office rentals from tenants post lockdown. Recent non-binding term sheet signed with GIC Private Equity for a retail-led mixed-use platform opens up acquisition opportunities for distressed/brownfield assets and a potential mall REIT listing in 3-5 years as per management commentary**
Prestige Estates	On November 9, 2020, Prestige Estates (PEPL) had informed the exchanges that it has signed a binding Term Sheet for sale of specific assets held in various SPVs of PEPL. As per company management, the Enterprise Value for PEPL's total share in the individual assets/SPVs to be purchased is Rs91.6bn. **Assuming the deal closure with Blackstone comes through, PEPL will be left with Rs2.7bn of annuity income stream post this transaction and the company may look to get back to its pre-Covid annual rental levels of ~Rs10bn in 4-5 years through build-out of new assets. The residual 13-15% stake which PEPL would retain in its malls may be monetised later on through a REIT listing in the medium term**
Oberoi Realty	Oberoi Realty (OBER) currently generates over Rs4bn of annual rental income across offices/malls/hotels and was on track to cross over Rs10bn of annual rentals by FY23E with Borivali Mall and Commerz III office becoming operational. Oberoi closed a large pre-lease deal with Morgan Stanley for 1.4msf of leasable area in Commerz III for 9.5 years with rentals to commence in FY23E. **OBER's management highlighted in its Q2FY21 results call that the company is in talks with strategic investors to dilute stake in its operational and under-construction/upcoming office and mall annuity assets. The funds would be infused at the SPV level which would be utilised for growth capital and may eventually lead to a REIT listing in the medium term**
Mindspace REIT	The REIT has reported resilient rental collections of 99% in H1FY21 (in line with other listed peers) and has achieved gross leasing of 1.0msf during the same period. The only dampener was early exits of 1.0msf across the REIT's portfolio (0.7msf for FY21E and 0.3msf for FY22E) which are over and above the expiries of 1.8msf each in FY21-22E. **We expect MREIT's Net Operating Income (NOI) to grow at a 16% CAGR over FY20-23E to Rs19.0bn based on the expected ramp up in occupancies in existing assets, ~3msf of under construction assets coming on stream and annual rental escalations (4-5% annual escalation in existing contracts) and mark-up of leases which are expiring**
Brigade Enterprises	**Brigade has been able to achieve office rental collections of over 98% in the April-September 2020 period.** In FY21, the focus will be on incremental office rentals from World Trade Centre, Chennai (2msf of which 85% is leased) where rentals are expected to commence from Q1FY22 and the Tech Gardens, Bengaluru (3msf of which ~40% is leased) which is already earning partial rentals. Management now expects Tech Gardens to be fully leased by FY22 vs. FY21 earlier as leasing enquiries pick up post lifting of lockdown. As per company, ~1msf of fresh leasing discussions are in the advanced stage along with 0.4msf of RFPs which the company is targeting to close by Q4FY21

Source: I-Sec research

Bengaluru and Hyderabad remain the key markets

- Pre-COVID, Bengaluru had low Grade A vacancy of 5% and accounted for ~22% of net absorption of office space in CY19. We expect Bengaluru market to retain more than 25% of net absorption over CY20-21E.
- Pre-COVID, the Hyderabad market clocked record annual absorption of 4.9msf in CY17 and 6.0msf in CY18. Vacancy levels for Hyderabad also fell to 7% in CY18 from 18% in CY14. In CY19, Hyderabad has seen record net absorption of 9.3msf and is now on par with leasing levels seen in Bengaluru. With the city continuing to offer affordable rentals, occupiers continue to flock to Hyderabad for expansion purposes. We expect net absorption to revert back to 5-6msf annually over CY20-21E. Kolkata and non-CBD regions of Gurugram continue to suffer from supply glut where current vacant office space is expected to take at least 24-36 months to be absorbed.

Table 2: India Grade A office stock vs. vacancy

City (Sep-20)	Stock (msf)	% share of stock	Vacancy (%)	Occupied space (msf)	% share of occupied stock
MMR	98.5	18%	20%	79.0	16%
NCR	116.2	21%	24%	88.3	18%
Bengaluru	152.2	27%	8%	140.0	29%
Chennai	51.0	9%	9%	46.3	10%
Hyderabad	62.6	11%	8%	57.4	12%
Pune	53.9	10%	6%	50.7	11%
Kolkata	26.0	5%	33%	17.5	4%
Overall	**560.3**	**100%**	**14%**	**479.3**	**100%**

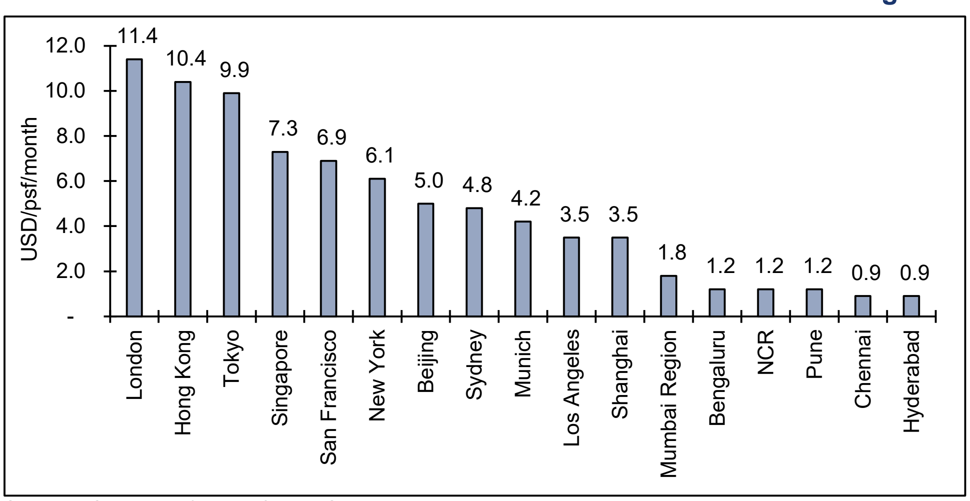
Source: Cushman & Wakefield, I-Sec Research

Table 3: India office absorption over CY14-CY21E

City	CY14	CY15	CY16	CY17	CY18	CY19	9MCY20*	CY20E	CY21E
MMR	3.9	2.9	3.0	2.4	2.9	5.2	2.2	3.0	3.5
NCR	6.2	3.8	4.3	3.7	4.8	10.0	1.4	3.2	4.0
Bengaluru	8.9	10.3	12.3	8.0	7.9	9.3	4.3	7.0	8.0
Chennai	2.6	2.8	2.9	2.2	1.7	1.8	0.7	1.5	1.8
Hyderabad	4.4	5.5	6.3	4.9	6.0	9.3	3.8	5.0	6.0
Pune	3.6	6.2	3.3	2.0	3.4	5.1	0.4	1.5	3.6
Kolkata	0.8	1.1	0.8	0.8	0.4	1.4	0.6	0.9	0.8
Overall	**30.3**	**32.6**	**32.9**	**24.1**	**27.1**	**42.0**	**13.4**	**22.1**	**27.7**

Source: Cushman & Wakefield, I-Sec Research, *For January to September 2020 period

Chart 1: Indian cities remain the most affordable for office rentals globally



Source: Cushman & Wakefield, I-Sec Research

Residential volumes have recovered to 65% of pre-Covid levels

Table 4: Tier-1 cities residential absorption (sales bookings)

(Units)

City	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)
Ahmedabad	7,620	7,656	7,876	7,540	2,959	4,856	(36.6)	64.1
Bengaluru	9,184	9,035	9,729	8,386	3,028	4,847	(46.4)	60.1
Chennai	3,597	2,993	2,689	2,757	1,445	2,341	(21.8)	62.0
Hyderabad	5,058	4,905	5,121	5,029	2,190	3,405	(30.6)	55.5
Kolkata	4,127	3,681	3,487	3,130	1,488	2,496	(32.2)	67.7
MMR	17,181	16,945	17,809	16,794	6,421	10,251	(39.5)	59.6
NCR	12,089	11,790	11,902	9,937	3,929	6,236	(47.1)	58.7
Pune	10,636	10,508	11,108	10,419	4,943	7,865	(25.2)	59.1
Overall	**69,492**	**67,513**	**69,721**	**63,992**	**26,403**	**42,297**	**(37.3)**	**60.2**

Source: Liases Foras, I-Sec Research

After a virtual washout in Q1FY21 owing to Covid-19 lockdown, residential sales volumes in Q2FY21 (July-September 2020 period) across India's top 8 cities have bounced back to ~65% of pre-Covid levels, as per Liases Foras. Overall sales in terms of units improved to ~42,300 units, which is up 60% QoQ. The QoQ rise in absorption was accompanied by rise in new launches which grew 68% QoQ to ~18,600 units as lockdowns were relaxed across cities.

Table 5: Tier-1 cities residential launches/supply

(Units)

City	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)
Ahmedabad	5,925	5,630	7,347	8,945	2,006	2,046	(63.7)	2.0
Bengaluru	7,969	7,526	7,393	10,339	2,320	1,542	(79.5)	(33.5)
Chennai	1,210	1,253	2,310	3,788	1,638	175	(86.0)	(89.3)
Hyderabad	3,166	6,863	5,545	4,649	200	1,515	(77.9)	657.5
Kolkata	2,562	4,025	2,403	1,598	179	762	(81.1)	325.7
MMR	20,108	16,075	17,558	21,947	1,998	6,760	(57.9)	238.3
NCR	9,555	7,049	8,317	4,497	1,499	2,624	(62.8)	75.1
Pune	14,616	13,328	16,634	17,105	1,200	3,167	(76.2)	163.9
Overall	**65,111**	**61,749**	**67,505**	**72,868**	**11,040**	**18,591**	**(69.9)**	**68.4**

Source: Liases Foras, I-Sec Research

With developers continuing to offer discounts of 5-10%, low mortgage rates of ~7-8% and pent-up demand along with Work from Home need for houses, large and organised developers have been able to effectively drive sales through digital channels by leveraging their brand strength even in a weak market. The focus in Q2FY21 remained on pushing ready-to-move inventory.

In terms of city-wise absorption, Mumbai Metropolitan Region (MMR) saw a QoQ increase of 60% to ~10,250 units as reduction in stamp duty to 2% from 5% led to significant bump up in conversions as developers offered to waive the balance 2% from their end along with discounts of ~5%. Developers have decided to extend the stamp duty waiver of 2% from their end up to December 2020 in Mumbai, which effectively brings down stamp duty costs for a customer to zero.

While majority absorption in Q2FY21 can be attributed to pent-up demand, as we enter into the festive season in Q3FY21, developers across the board have a number of launches in the pipeline. However, sustained improvement in sales volumes remains contingent on the trajectory of Covid-19 cases and consequent overall impact on the economy.

Price discounts continue across the board

Table 6: City-wise price movement

(Rs/psf)

City	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)
Ahmedabad	3,266	3,226	3,210	3,229	3,203	3,255	0.9	1.6
Bengaluru	5,469	5,500	5,485	5,481	5,462	5,497	(0.1)	0.6
Chennai	5,050	5,024	5,026	5,075	5,185	5,168	2.9	(0.3)
Hyderabad	5,371	5,638	5,625	5,639	5,681	5,777	2.5	1.7
Kolkata	4,274	4,318	4,251	4,206	4,191	4,192	(2.9)	0.0
MMR	12,754	12,453	12,286	12,112	12,147	12,057	(3.2)	(0.7)
NCR	4,578	4,628	4,607	4,605	4,598	4,620	(0.2)	0.5
Pune	5,246	5,262	5,219	5,231	5,229	5,234	(0.5)	0.1
Overall	**6,783**	**6,753**	**6,704**	**6,682**	**6,701**	**6,730**	**(0.3)**	**0.4**

Source: Liases Foras, I-Sec Research

Table 7: Number of projects offering discounts

(Rs/psf)

City	Total Projects	No. of Projects checked for offers & discounts	Projects offering discounts
Ahmedabad	1,302	1,098	673
Bengaluru	1,660	1,144	1,008
Chennai	1,818	1,125	973
Hyderabad	562	470	360
Kolkata	677	474	243
MMR	4,205	2,701	1,712
NCR	907	504	335
Pune	2,297	1,344	742
Overall	**13,428**	**8,860**	**6,046**

Source: Liases Foras, I-Sec Research

As per a study done by Liases Foras, weighted average transacted prices across tier-1 cities have reduced by 4-5% since March 2020. Of this, the maximum decrease in prices on YoY basis has been in the MMR and NCR markets, which declined 8% and 9%, respectively. Developers are offering a combined discount of 5-10% including stamp duty/registration fee waiver, cash discounts, online booking discounts, free domestic appliances and builder subvention/deferred payment schemes.

Around 68% of the projects surveyed by Liases Foras were offering some discount schemes to push the inventory. We expect these discounts of 5-10% to continue in H2FY21 as developers focus on cashflows.

Interestingly, the stressed micro-market of central Mumbai in the MMR, which has a significant unsold inventory, has seen a number of deal closures in H1FY21 as investors look to exit these projects which are now complete. As per our channel checks, units having a quoted price of Rs60-100mn before the lockdown are now seeing transactions happening at 20-30% discount to quoted prices vs 10-15% pre-Covid.

Residential unsold inventory remains high

Table 8: Tier-1 cities unsold inventory

(Units)

City	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)
Ahmedabad	68,955	68,402	69,812	71,217	69,653	66,797	(2.3)	(4.1)
Bengaluru	105,776	102,433	100,255	102,208	99,130	95,670	(6.6)	(3.5)
Chennai	77,972	76,141	76,747	77,778	78,053	75,529	(0.8)	(3.2)
Hyderabad	43,416	45,958	45,954	45,574	43,355	42,411	(7.7)	(2.2)
Kolkata	56,172	56,632	56,076	54,544	52,851	50,991	(10.0)	(3.5)
MMR	290,697	291,309	293,376	298,529	291,332	288,778	(0.9)	(0.9)
NCR	194,480	190,047	186,734	181,294	177,425	169,099	(11.0)	(4.7)
Pune	138,057	142,767	149,039	155,725	149,308	143,492	0.5	(3.9)
Overall	**975,525**	**973,689**	**977,993**	**986,869**	**961,107**	**932,767**	**(4.2)**	**(2.9)**

Source: Liases Foras, I-Sec Research

Table 9: City-wise months of unsold inventory

City	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)
Ahmedabad	27	27	27	28	71	41	54.0	(41.6)
Bengaluru	35	34	31	37	98	59	74.1	(39.7)
Chennai	65	76	86	85	162	97	26.8	(40.3)
Hyderabad	26	28	27	27	59	37	32.9	(37.1)
Kolkata	41	46	48	52	107	61	32.8	(42.5)
MMR	51	52	49	53	136	85	63.9	(37.9)
NCR	48	48	47	55	135	81	68.2	(40.0)
Pune	39	41	40	45	91	55	34.3	(39.6)
Overall	**42**	**43**	**42**	**46**	**109**	**66**	**52.9**	**(39.4)**

Source: Liases Foras, I-Sec Research

Unsold inventory, in terms of months, remains high at 66 months in Q2FY21 vs 43 months in Q2FY20. The MMR and NCR markets continue to have over 50 months of unsold inventory whereas Southern markets such as Bengaluru, Hyderabad as well as Pune have relatively lower inventory levels of ~40-50 months of inventory. However, as highlighted earlier, ~50% of the inventory in MMR and NCR consists of stuck projects and will not qualify as inventory for a prospective homebuyer who is concerned about project delivery. We expect inventory months level to gradually reduce back to 40-45 months by Q4FY21 as volumes improve further, unless there is continued impact of Covid-19 on sentiment.

We believe markets where residential prices hover between Rs5,000/psf and Rs6,000/psf will continue to see demand for properties as construction and land cost/approval costs for a standalone building is at least Rs4,000/psf, leaving an EBITDA margin of 20-25% for developers, which is reasonable considering the risks involved in land titles, obtaining approvals and the cyclical demand seen in the sector.

Hence, we believe, Southern markets of Bengaluru, Chennai and Hyderabad and Western city of Pune will continue to attract demand for units priced in the range of Rs2.5mn-Rs10mn, while sales in luxury projects may be strong in select projects depending on the developer's brand pull, location, pricing, size of the project and stage of execution.

Consolidation will accelerate in favour of organised players

While Q2FY21 continued to see Indian cities under lockdown, the listed, organised players clocked anywhere between 70-100% of Q2FY20 sales with a sharp QoQ bump up in sales for Mumbai developers such as Oberoi Realty and Sunteck Realty.

Godrej Properties (GPL) had a stellar Q1FY21 wherein its sales booking value grew 71% YoY owing to 50% sales from NRIs and the 10:90 “Hope Has a Plan” builder subvention scheme. With the builder subvention scheme having been phased out in Q2FY21 and no major launches during the quarter, GPL clocked sales bookings of Rs10.7bn in Q2FY21. For H1FY21, this implies sales value growth of 11% for GPL. For South India based players such as Sobha, Prestige Estates and Brigade Enterprises, sales bookings have recovered to 90-100% of pre-Covid levels. While Brigade and Sobha have been largely reliant on monetisation of launched inventory and activation schemes, Prestige Estates launched three new projects (one in Goa and two in Bengaluru) through digital channels during the quarter.

Based on our channel checks and management commentary from listed developers in our coverage universe, the momentum seen in Q2FY21 sales bookings has carried forward into the festive season in Oct-Nov 2020 as low mortgage rates, price discounts and stamp duty cuts continue to attract home buyers. We expect these players’ H2FY21 sales bookings to be either flat YoY or marginally higher YoY with continued focus on monetising ready inventory with a few launches thrown in depending on project approvals coming through. With all listed developers having a strong pipeline of launches heading into FY22E, we believe a combination of waning Covid-19 impact and further industry consolidation may enable our coverage universe to achieve a double-digit residential volume growth in FY22E.

Table 10: Quarterly sales volumes of major listed players

Company	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)
Godrej Properties:								
Sales Volumes (msf)	1.3	2.3	1.6	3.6	2.5	1.7	(23.4)	(31.2)
Sales Value (Rs mn)	8,970	14,460	11,890	23,830	15,310	10,740	(25.7)	(29.8)
DLF:								
Sales Volumes (msf)	NA	NA	NA	NA	NA	NA	NM	NM
Sales Value (Rs mn)	7,050	7,250	7,310	3,250	1,520	2,000	(35.2)	209.2
Prestige Estates:								
Sales Volumes (msf) – PEPL share	1.4	1.2	1.3	1.7	0.6	1.3	12.5	137.1
PEPL Sales Value (Rs mn)	8,614	8,382	10,932	9,963	3,982	8,381	(0.0)	110.5
Sobha:								
Sales Volumes (msf)	1.1	1.0	1.1	0.9	0.7	0.9	(14.0)	37.1
Sales Value (Rs mn)	7,777	6,823	7,261	6,945	4,877	6,899	1.1	41.4
Brigade Enterprises:								
Sales Volumes (msf)	1.1	1.0	1.1	1.1	0.4	1.0	(0.9)	134.7
Sales Value (Rs mn)	5,933	5,288	6,035	6,512	2,499	5,760	8.9	130.5
Oberoi Realty:								
Sales Volumes (msf)	0.2	0.1	0.2	0.1	0.0	0.1	(7.1)	NM
Sales Value (Rs mn)	4,011	3,228	3,033	2,303	242	3,273	1.4	NM
Sunteck Realty:								
Sales Volumes (msf)	0.2	0.1	0.2	1.4	0.1	0.2	144.0	38.6
Sales Value (Rs mn)	1,858	1,016	3,254	6,080	1,012	2,000	96.9	97.6

Source: Companies, I-Sec Research

Table 11: Q2FY21 performance and H2FY21 launch plans of listed developers

Company	Q2FY21 performance and H2FY21 launch/sales pipeline
DLF	DLF clocked Q2FY21 net sales bookings of Rs8.5bn which include Rs3.8bn of strata sales of Amex office tower in Gurugram. Ex-office strata sale, DLF clocked Q2FY21 sales bookings worth Rs4.7bn vs Q1FY21 bookings of just Rs1.5bn driven by sales of 11 units worth Rs3.0bn in the super luxury Camellias project. DLF has outlined a long-term plan to launch and develop ~35msf of projects having potential sale value of Rs360-400bn. Of this, DLF intends to launch ~12msf over the next 18 months (H2FY21-FY22E) across plots/mid-income housing/independent floors in Gurugram, Chandigarh and New Delhi in a phased manner. For H2FY21, DLF is targeting a quarterly booking run-rate of Rs7.5bn (pre-Covid levels) on the back of new launches. Initial response to independent floors launch in Gurugram in Q3FY21 priced at an average ticket size of Rs30mn has been encouraging as per the management commentary.
Godrej Properties	In Q2FY21, Godrej Properties (GPL) achieved gross sales bookings worth Rs10.7bn (decline of 26% YoY and 30% QoQ). This was along expected lines as the 10-90 builder subvention scheme was phased out by the end of July 2020 (contributed to 80% of Q1FY21 bookings) and absence of any major launches during the quarter. NRI share of sales stood at 25% in Q2FY21 vs 50% in Q1FY21. For H1FY21, GPL's gross sales bookings are up 11% YoY at Rs26.1bn, which we believe is commendable considering the Covid-19 impact on the realty industry in this period. With ~13msf of launches lined up in H2FY21 (excluding Bandra/Worli projects), GPL continues to target an overall YoY growth in FY21 sales bookings on a FY20 base of Rs59.2bn.
Oberoi Realty	After a washout quarter in Q1FY21 where Oberoi Realty (OBER) achieved just Rs0.2bn of new sales bookings, Q2FY21 saw sales bookings of Rs3.3bn (flat YoY) bouncing back to pre-Covid levels. This was driven by sales of 3 units in Worli worth Rs1.3bn and Rs1.0bn of sales in Exquisite/Esquire in Goregaon as buyer interest in completed properties see traction post lockdown. While OBER was all set to launch the Thane project during the festive season, the company has held back the launch pending clarity on FSI norms under the proposed Unified Development Plan for the Mumbai region. The company is also planning to launch new towers in Goregaon/Borivali projects depending on market sentiment. These upcoming launches along with the completion of 360 West Worli project and near completion inventory in Mulund and Borivali is expected to drive the sales momentum over the next 12-18 months.
Prestige Estates	Q2FY21 saw Prestige Estates Projects' (PEPL) gross residential bookings bouncing back to pre-Covid levels of over Rs10bn. With a strong pipeline of launches in H2FY21, this momentum in residential sales is expected to sustain. PEPL has had 3 large virtual launches including its maiden project in Goa christened "Ocean Crest", Primrose Hills in Banashankari, Bengaluru and Waterford in Whitefield, Bengaluru. The company continues to have a strong pipeline of launches but exact launch plans will hinge on approvals and sentiment in the market
Sobha Limited	Sobha achieved Q2FY21 gross sales bookings of 0.89msf worth Rs6.9bn, which were down 14% YoY in volume terms but up 1% YoY in value terms. On QoQ basis, gross sales volumes and value were up 37% and 41%, respectively, and as per the company, enquiry levels are almost at pre-Covid levels. The exit run-rate for monthly sales volumes in August-September 2020 would be 0.30-0.35msf, which is almost 90-100% of pre-Covid monthly run rate. Sobha's management has indicated that it is now targeting YoY growth in H2FY21 sales bookings on the back of improved demand in ongoing projects and a strong launch pipeline in Bengaluru/Chennai of 4-5msf. While the company remains optimistic about its upcoming launch pipeline of 14.5msf, the timing and area launched for sale remains dependent on the Covid-19 containment in India and project approvals in H2FY21E, especially in Bengaluru.
Brigade Enterprises	After seeing a significant drop in Q1FY21 sales volumes to 0.4msf vs pre-Covid quarterly run-rate of 1.0msf, Brigade clocked 1.0msf of sales volumes in Q2FY21 driven by activations at its Brigade Showcase event held in August 2020 and release of fresh inventory in its mid-income/affordable housing projects in Bengaluru. The company is targeting new launches in Bengaluru/Hyderabad/Chennai in H2FY21 and continues to also tap the NRI market and is looking to sustain the pre-Covid quarterly volume run-rate of 1msf in H2FY21.
Sunteck Realty	Sunteck reported Q2FY21 sales bookings of Rs2.0bn, which is up 2x YoY and QoQ. Sales were largely driven by monetisation of ready inventory at Signia High, Borivali with ~30 units sold for Rs1.1bn and Avenue 1 at ODC, Goregaon (26 units sold for Rs0.5bn). Going into the festive season, with the receipt of the occupation certificate for Avenue 1 at ODC, Goregaon and ready-to-move inventory of Rs22bn across projects, the company is targeting sustained momentum in sales bookings. Further launches in affordable housing project in Naigaon and possible launches in Vasai/ /Vasind are key monitorables.

Source: Companies, I-Sec research

Appendix: Real Estate Regulator: A game changer

H2FY17 saw a major disruption in the form of demonetisation, which led to a virtual washout in terms of new sales with buyers shying away from home purchases on expectations of prices dropping and developers holding back launches owing to weak market conditions and imminent introduction of the Real Estate Regulator (RERA) and the implementation of the Goods & Services Tax (GST) in H1FY18.

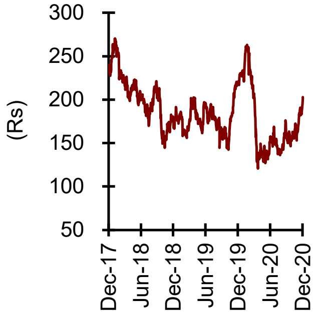
While the RERA implementation saw initial teething problems with various states amending the laws as per their preference and few states delaying the implementation, issues have gradually smoothened out from a procedural standpoint with most developers reporting a smooth transition under the RERA regime. However, while the organised and large developers will continue to function smoothly under the RERA, we believe smaller and unorganised developers will gradually weed out of the market owing to the following reasons:

- Developers can no longer launch projects without approvals and have to wait for a minimum of 6-12 months on an average to launch a project post purchasing a land parcel.
- Developers need to maintain an escrow account for each project (can be defined as an entire piece of land or a cluster of buildings) and cannot divert funds to other projects until the construction funding for the existing project has been met through customer collections.
- There are penalties levied for delay in execution and handover of units and developers cannot abandon/leave a project.

While there may still be many smaller developers who will eventually graduate to an organised way of working under RERA, large and organised developers will have a clear advantage owing to stronger balance sheets, higher customer confidence in delivery capabilities and transparency in pricing and absence of cash component in transactions post demonetisation.

Price chart

DLF



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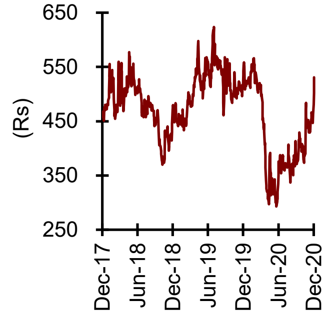

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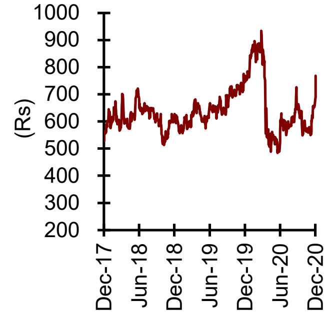

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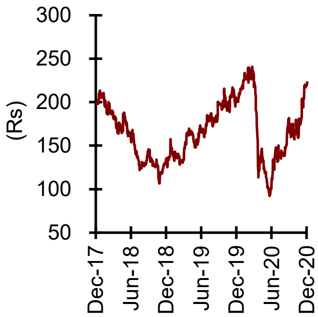
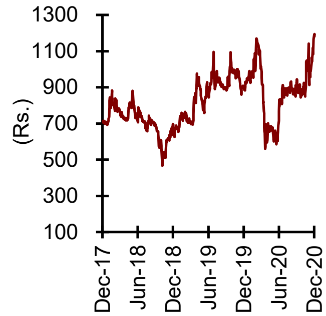


Godrej Properties



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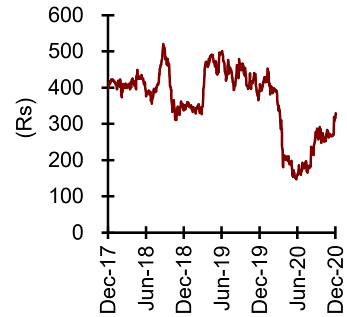
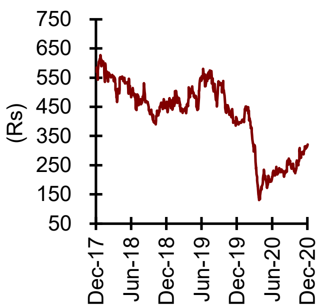
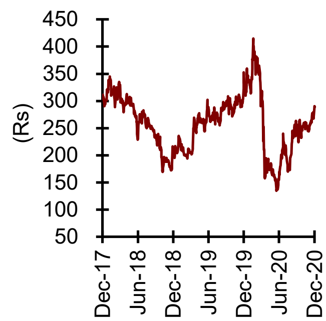


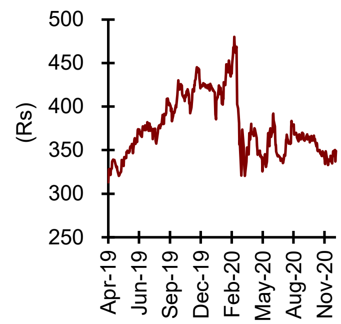
Sobha Ltd



Prestige Estates Projects



Embassy REIT



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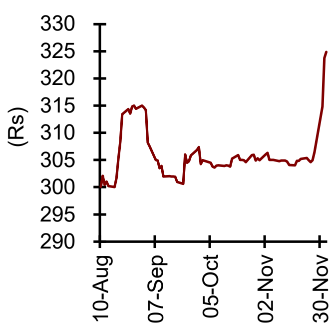

Source: Bloomberg

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