

Covid¹⁹ corollaries

November 19, 2020

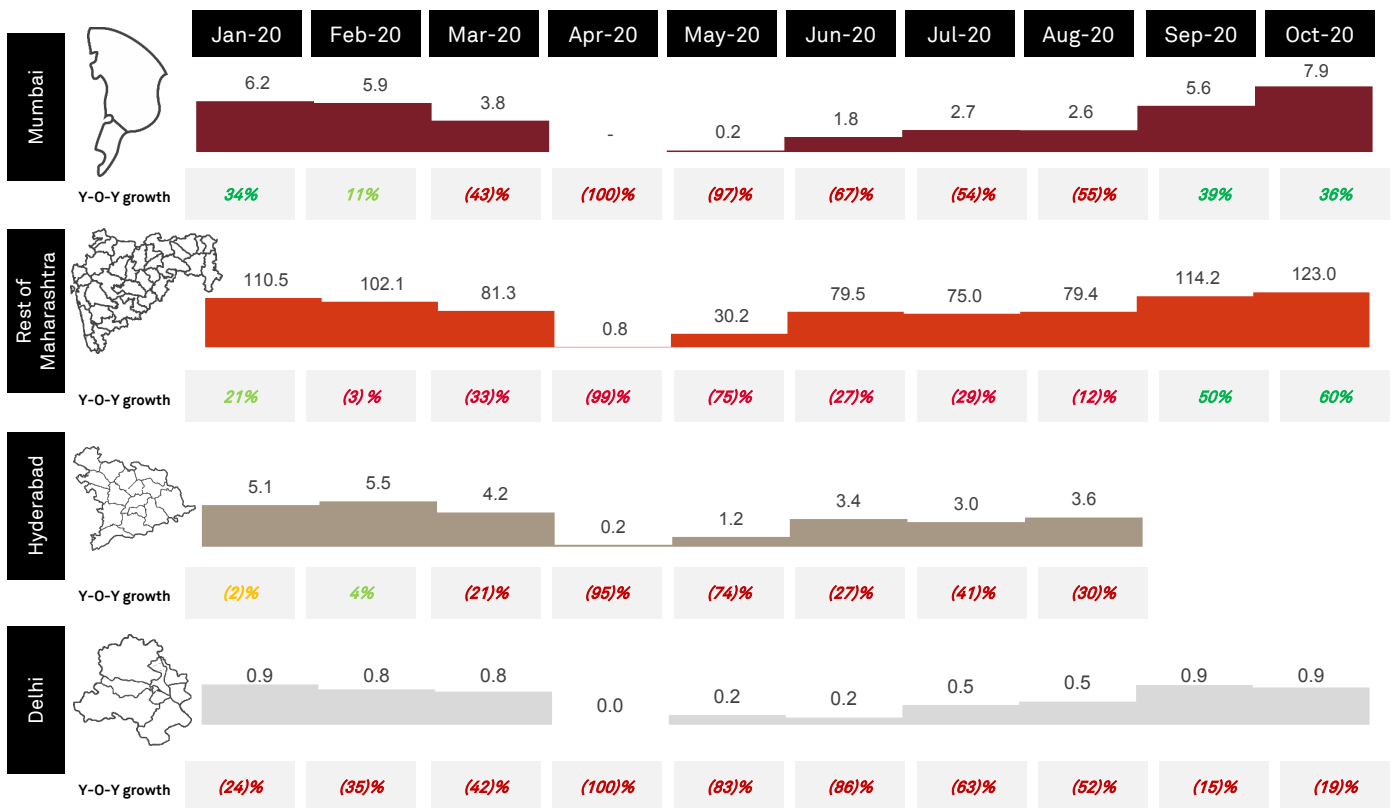
Rebounding realty

Registrations spring back to pre-pandemic levels in key markets, but will it sustain?

New home sales have seen a surprise surge in the last couple of months, making the pandemic-led disruption look like a mere blip. Indeed, units sold in Mumbai and the rest of Maharashtra are 1.1 - 1.3 times higher compared with January this year.

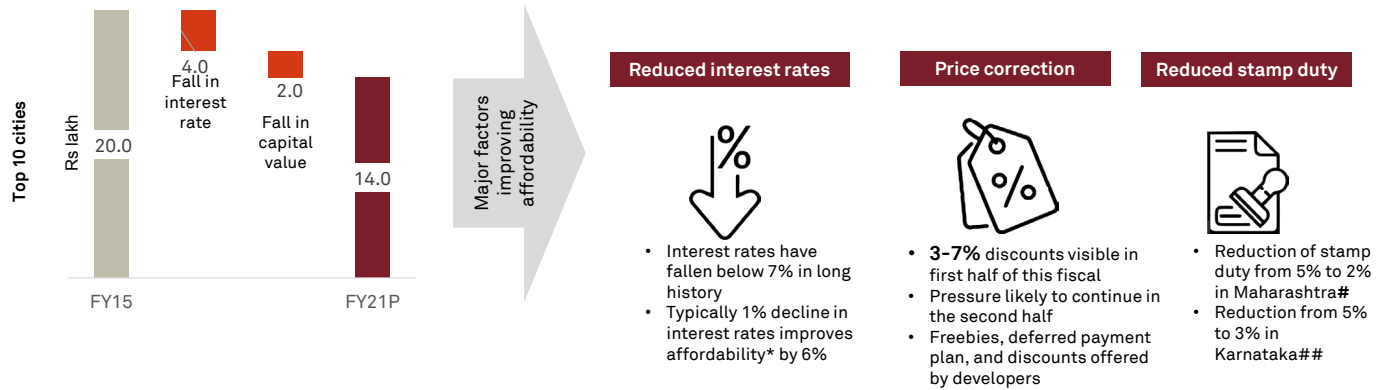
The spurt rides on supportive measures from governments of key states. Maharashtra, for instance, has reduced stamp duty from 5% to 2% up to December 2020 and to 3% for January-March 2021. Karnataka, too, has reduced stamp duty from 5% to 3% for properties priced between Rs 21 lakh and Rs 35 lakh.

October sales spawns hope



Note: Number of documents registered in thousands; data not published for Hyderabad after August 2020
 Source: CRISIL Research, Respective state revenue portals

Readings from MAHTI, our proprietary affordability index



MAHTI - CRISIL's proprietary index to assess minimum household income level to buy a house in a city
 *Basis house value, home loan rate, loan to value and tenure, income to instalment ratio
 ##Stamp duty 2% till December 2020 and 3% from January to March 2020, ## Only for properties costing between Rs 21 lakh and Rs 35 lakh
 Source: Company reports, CRISIL Research

Affordability across India's Top-10 cities has improved by up to 35% over the past five years, given favourable interest rates and reduction in property prices. In addition, reduction in stamp duty has supported affordability improvement this fiscal.

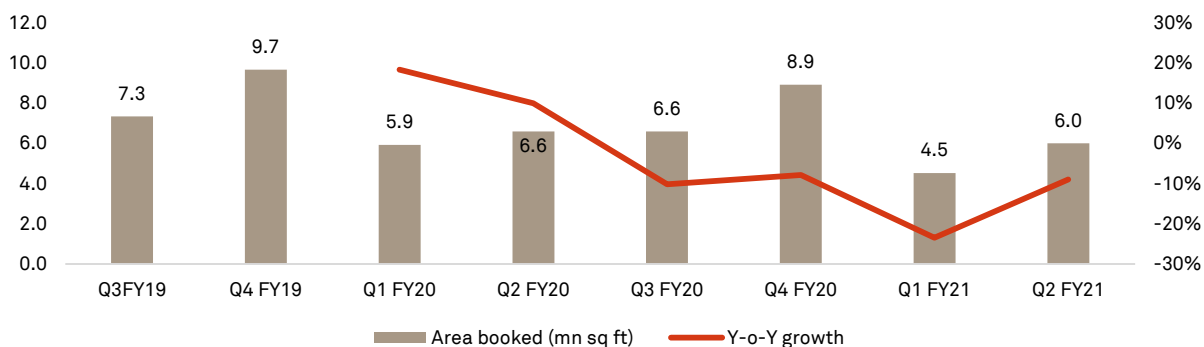
Among major cities, affordability improvement in MMR, NCR and Pune is higher than in comparable metros such as Bengaluru and Hyderabad because of pricing pressure.

A favourable, buyer-centric market has created an opportunity for first-time homebuyers and fence-sitters as well as resale flat buyers. Renewed interest of non-resident Indians in sales is also being observed.

Quarterly results of key listed players indicate that the fiscal second quarter saw better-than-envisaged growth. And in most cases, bookings for these players touched pre-Covid levels.

The momentum is expected to continue in the second half of this fiscal.

Listed players show steady improvement in sales



Note: Data for Top-7 players (Sobha Developers, Prestige Estate, Mahindra Lifespaces, Godrej Properties, Brigade, Oberoi Realty, Kolte Patil Developers)
 Source: CRISIL Research; Company reports

Developers in southern India have performed better than the rest of the country as these have a larger share of branded developers.

The decline in the fiscal first half for the top 7 listed developers has been in the range of 10-20% compared with a decline of 50-60% in top 10 cities, indicating a shift towards key developers. This trend was visible before the pandemic struck and is estimated to continue over the second half.

That said, while the overall rebound in real estate demand in October was faster than envisaged earlier, its sustenance post the festive season will be a monitorable.

On full-year basis, we estimate overall primary sales to witness a **decline of 40-50%** in top 10 cities. With 'ready to move' inventory constituting 10-20% of the total inventory in key cities and upcoming supply this fiscal at similar levels, capital values are likely to remain under pressure at least for the rest of this fiscal.