



RESIDENTIAL REAL ESTATE

Replacement rate remains comfortable at below 1 time due to calibrated pace of launches by developers

DECEMBER 2022



Developers ramp-up project launches and execution given the reduced inventory overhang along with demand impetus; the extent of land investments, trajectory of interest rates, and trend in affordability metrics will be the key monitorables.



- The Residential Real Estate sector has maintained its growth trajectory in H1 FY2023 and reported highest H1 sales in over last ten years in H1 FY2023 supported by continued end-user demand and good affordability. The sale volumes in the top seven cities in India grew by 49% in H1 FY2023 on a YoY basis, whereas the supply increased by 23% in the same period.
- The developers have maintained a judicious launch pipeline as demonstrated through the low replacement rate (as measured by ratio of launches to sales) of less than 1 time as of September-2022.



- The unsold inventory level dipped to 823 million square feet (msf) as on Sep-22 from 914 msf as on Sep-21. Resultantly the Years-to-sell (YTS) for the unsold inventory is the lowest in the last one decade at 1.5 years supported by the uptick in sales.
- In H1 FY2023, for the listed companies in ICRA's sample set, the aggregate area launched stood at 39.3 msf which is almost 72% of the total area launched by them in FY2022. Going forward in FY2023, ICRA expects the total aggregate launches by the listed companies in ICRA's sample set to exceed more than 2 times of the area launched in FY2022 given the low inventory overhang.



- The average sale price (ASP) have risen by a robust 12% in H1 FY2023, displaying the buoyancy of the residential sector. The same was driven by pricing flexibility arising out of healthy sales and resultant lower inventory overhang, along with pass on of the higher commodity prices as well as change in product-mix with higher share of premium and luxury units.



- Even after the recent rate hike by the Reserve Bank of India (RBI), the interest rates would remain lower than the peak interest rates witnessed in the past, and ICRA expects the demand for residential real estate to remain firm, primarily driven by the aspiration for home ownership/upgrade and healthy affordability, which is expected to keep pace with the increase in the EMI burden. ICRA expects the value of area sold to grow by 8-12% in FY2023 and 11-14% in FY2024.
- Further, while the underlying sector fundamentals remain healthy, any deterioration in the affordability of the buyers can have an impact on the overall demand.

Source: Propequity and ICRA Research; EMI: Equated monthly instalment

Top Seven Cities: Mumbai Metropolitan Region (MMR), National Capital Region (NCR), Bengaluru, Hyderabad, Pune, Kolkata, Chennai

Listed companies in ICRA's sample set: Prestige Estate Projects Limited, Sobha Limited, Puravankara Limited, DLF Limited, Ashiana Housing Limited, Godrej Properties Limited, Mahindra Lifespaces Developers Limited, Brigade Enterprises Limited, Sunteck Realty Limited, Kolte-Patil Developers Limited, and Macrotech Developers Ltd

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