

INVENTORY ABSORPTION IN TOP FIVE CITIES LOWEST IN EIGHT YEARS

In Realty, Stocks Take the Elevator, Not So Home Sales

Although the real estate stocks have gained significantly with 60% jump in the Nifty Realty Index since the beginning of 2017, the physical real estate market has remained weak. In FY18, the absorption of the inventory in the top four cities was the lowest since FY10, according to Propequity Research data.

The top five cities – Mumbai (including Navi Mumbai), Bengaluru, NCR, Pune and Chennai – which account for more than 75% of the sales for the listed realty companies reported a 26-83% fall in the number of units sold from the peak. New project launches have also slowed down as these cities still continue to sit on high unsold inventories of 3 to 5 years.

In the March 2018 quarter, each of the four cities reported a year-on-year drop in property absorption. The sales have remained weak in the first three months of FY19 as well according to some real estate consultants who track the property markets closely, citing RERA implementation and lower affordability as the key reasons for weak demand.

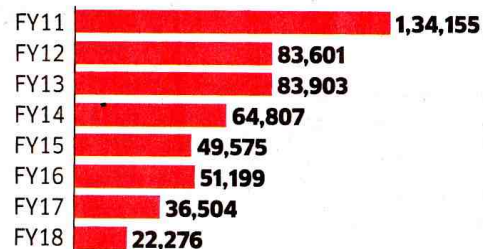
Real prices have risen at a slower pace of 3-4% annually in the past five years compared with the 6% inflation rate. Despite the rising affordability, recovery in absorption looks difficult in the near term unless there is a sharp drop in real estate prices.

Given the weak sales, investors should remain cautious, especially of the real estate companies with low cashflow visibility and high debt. DLF and Prestige Estates are among such companies going by their financial performance in FY18 and analysts estimates. On the other hand, Kolte-Patil Developers, Oberoi Realty and Sobha offer better cashflow visibility.

—Jwalit Vyas

TOTAL ABSORPTION UNITS

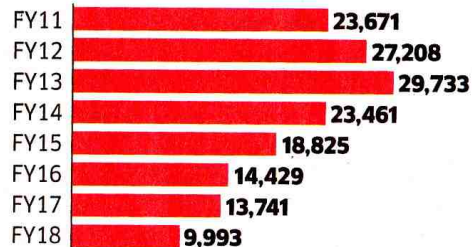
NCR



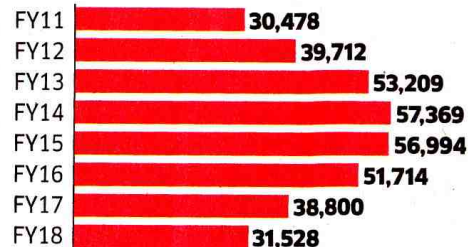
Mumbai (including Navi Mumbai)



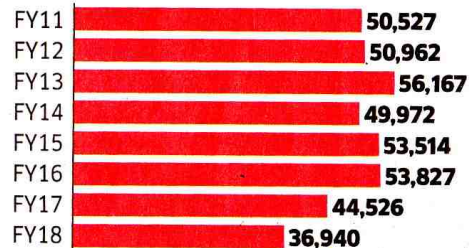
Chennai



Bengaluru



Pune



Source: Propequity

