

## Property - India

**Residential: CY23 ends on a high; Office: pickup in leasing activity is comforting**

Industry Overview

**Residential: No wrinkles on demand as C23 ends on a high**

Per data from property consultant Anarock, strong housing demand persisted in the December quarter as residential unit sales for the top 7 cities grew 6%qoq and 38%yoy (vs. 36%yoy in Sep. quarter). The strong finish resulted in a 30%yoy volume growth for the full-year. The key driver of the sustained growth levels is likely to be an accelerating housing demand in the premium housing segment, where volume share recently exceeded that of affordable and mid-segments, towards end CY23. On pricing, Anarock reported a 15%yoy average increase in pricing across the top 7 cities in CY23 with pace picking up in H2. For 2024, we expect developer commentaries to indicate continuation of the measured approach on pricing & could target increases of 7-8%yoy to begin with.

**City-wise trends indicate broad-based strength**

Unit sales in MMR, Pune & Bengaluru grew 40%+ yoy suggesting a broad-based demand strength across cities. Delhi NCR also accelerated from 6%yoy to 11%yoy with Gurgaon likely growing a lot faster than the region as visible in the response to recent premium launches from Godrej (Sector 49, where it sold INR 26bn from launch of a single project) & DLF (Sector 77). Developers have been disciplined on supply in this upcycle as demand (30%yoy) marginally outpaced new unit launches (25%yoy) in CY23. As a result, average inventory of 16 months for top 7 cities is at historical lows and remains favorable.

**Office: Pickup in leasing activity is comforting**

As per data from CBRE, gross leasing in the December quarter witnessed a healthy uptick & grew 20%QoQ / 24%YoY to 18.8msf for the top 7 cities. Data from Knight Frank also indicates that leasing sentiment has improved over the last 2 quarters. The demand is likely driven by GCCs where hiring projections for next few years remain healthy. We think Embassy could be a bigger beneficiary of the GCC demand given its presence in Bengaluru, the city with the highest GCC exposure. Embassy REIT currently trades at an attractive discount of 17% to NAV.

**Strong qtr for DLF, GPL; Macrotech to retain FY24 guide**

**DLF:** Expect a good quarter of bookings worth INR 80bn on back of strong response to Sec-77 launch. **GPL:** Expect INR 50bn of bookings in the quarter on back of Gurgaon project launch. Expect company to indicate comfort on beating FY24 guidance of INR 140bn. **Macrotech:** Bookings were slightly below expectations given launches are concentrated in Q4. A healthy launch pipeline keeps the company on track to meet the 20%yoy growth guidance for FY24. **Obero Realty:** Thane launch to help post better than recent trend bookings. **Prestige:** Bookings expected to normalize after a record last quarter but expect company to remain on track for their FY24 bookings target of INR 200bn (H1 at INR 110bn). More details on page 3.

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Equity  
India  
Real Estate/Property

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MMR: Mumbai Metropolitan Region

NCR: National Capital Region

BLR: Bengaluru

GCC: Global Capability Centers

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**Refer to important disclosures on page 13 to 15.**

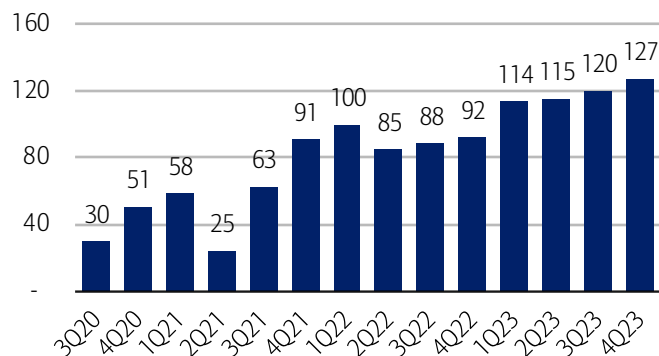
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## Q4CY23 update in charts

### Exhibit 1: Residential unit sales (in 1000s) – top 7 cities – qtrly trend

Unit sales in top 7 cities grew 38%yoy

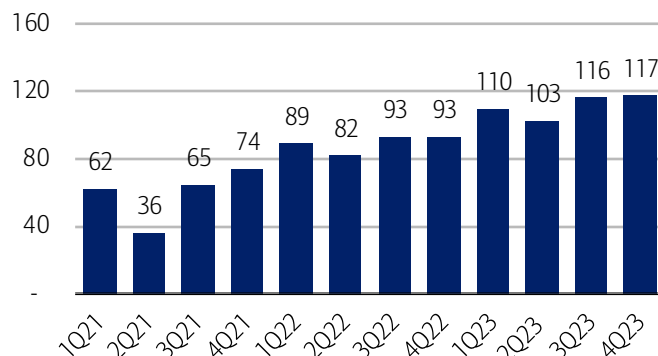


Source: Anarock, BofA Global Research. Note: Calendar quarters

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### Exhibit 2: Residential launches (in 1000s) – top 7 cities – qtrly trend

Unit launches in top 7 cities grew 26%yoy

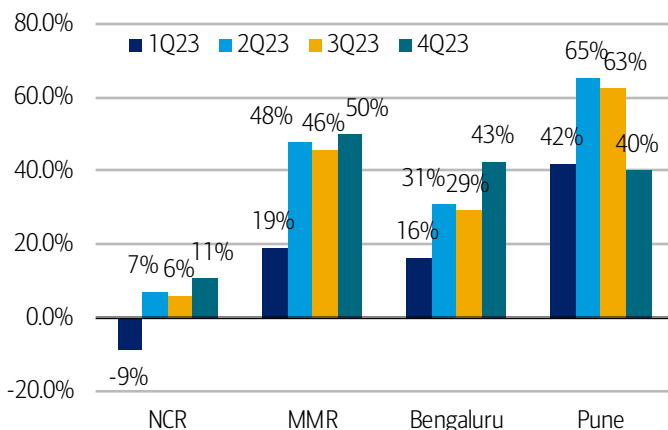


Source: Anarock, BofA Global Research. Note: Calendar quarters

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### Exhibit 3: YoY growth in unit sales for top cities

MMR and Pune led the residential unit sales growth in CY23

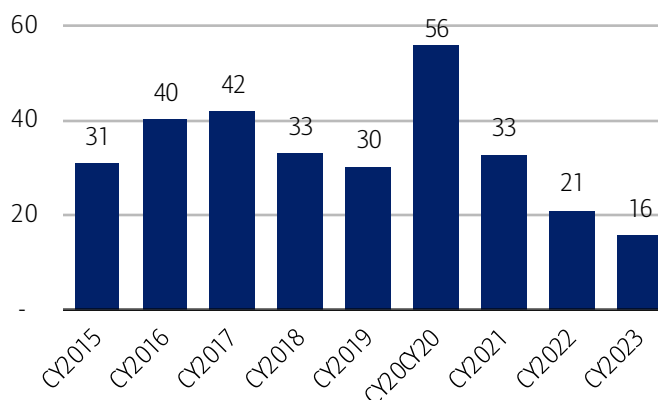


Source: Anarock, BofA Global Research. Note: Calendar quarters

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### Exhibit 4: Inventory months – top 7 cities

With absolute inventory being largely flattish over the residential upcycle seen over last 2 years, inventory months have corrected to 16 months

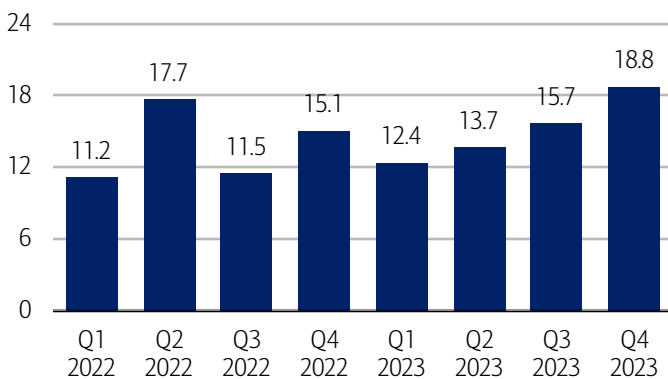


Source: Anarock, BofA Global Research

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### Exhibit 5: India office gross leasing (top 7 cities in msf)

Gross leasing up 20%QoQ / 24%YoY for the top 7 cities

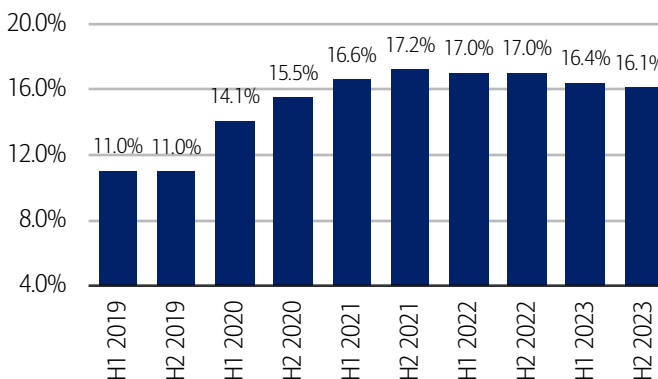


Source: CBRE

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### Exhibit 6: India office vacancy trends – top 7 cities

Marginal dip in vacancy in the quarter



Source: CBRE

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## Company wise preview

**DLF:** Q3FY24 saw its 1<sup>st</sup> major launch of the year, which was along expected timelines. Our checks suggest that response to this new launch in Sector 77 in Gurgaon has been as good as its Sector 63 (Arbor) launch earlier this year. Expect bookings of INR 80bn for the quarter which would take 9MFY24 bookings to INR 120bn vs. its full year guidance of INR 130bn.

**Godrej Properties:** Expect another strong quarter with bookings of INR50bn i.e. similar to last quarter as strong response to Gurgaon Sector 49 (Bookings worth INR 26bn) fills in for last quarter's Noida and Kurukshetra bookings (INR 26bn combined). Expect steady momentum in sustenance sales. Expect company to indicate comfort on beating their initial FY24 bookings guidance on back of this.

**Macrotech:** Macrotech reported a slower than expected growth in bookings in the December quarter. Bookings grew 12%yoy to INR 34bn, likely as a result of new launches being concentrated in Q4. On back of a healthy launch pipeline for the next quarter, expect company to indicate comfort on achieving their full-year guidance of 20%yoy growth despite 9M at 14%.

**Oberoi Realty:** Company launched their smaller project in Thane (Kolshet) in the quarter on back of which we expect bookings of INR 13bn for the quarter.

**Prestige Estates:** Bookings expected to normalize after a record last quarter but expect company to remain on track for their FY24 bookings target of INR 200bn (H1 at INR 110bn)

### Exhibit 7: Preview– Pre-sales / Bookings (INR mn)

We expect companies to indicate comfort on meeting / exceeding their bookings guidance.

	Dec22A	Sep23A	Dec23E	YoY	QoQ
DLF	25,070	22,280	80,000	219%	259%
Godrej Properties	32,520	50,340	50,000	54%	-1%
Macrotech	30,300	35,300	34,100	12%	-4%
Oberoi Realty	6,307	9,650	13,000	106%	35%
Prestige Estates	25,190	70,920	40,000	59%	-44%

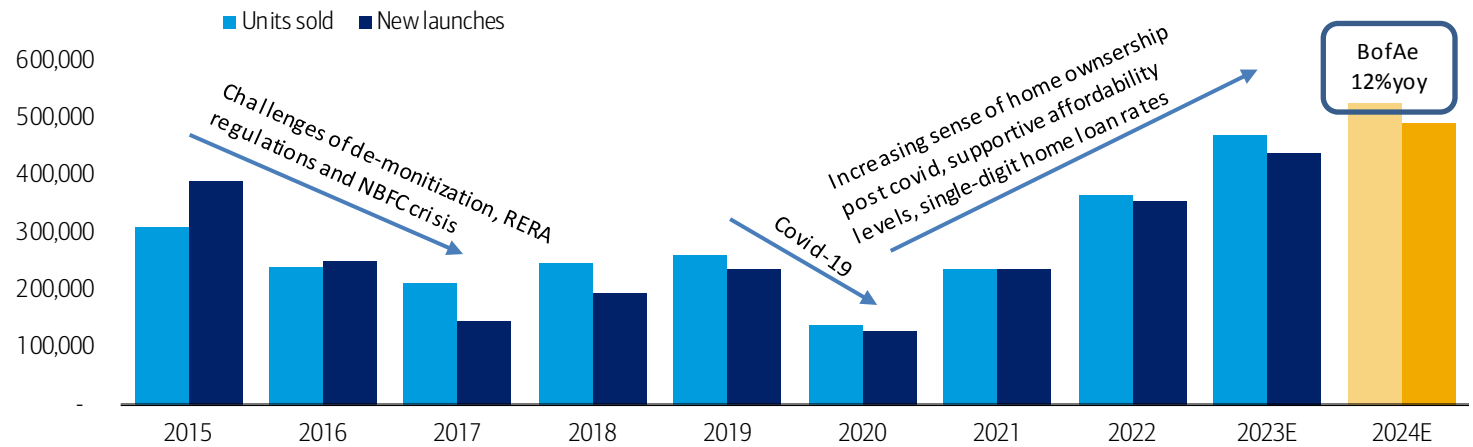
Source: BofA Global Research estimates

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## Sectoral trends: Residential

**Exhibit 8: We expect residential unit sales to stay strong going into the fourth year of the upcycle and expect a 12% volume growth**

Residential unit sales & new launches trend for top 7 cities of India

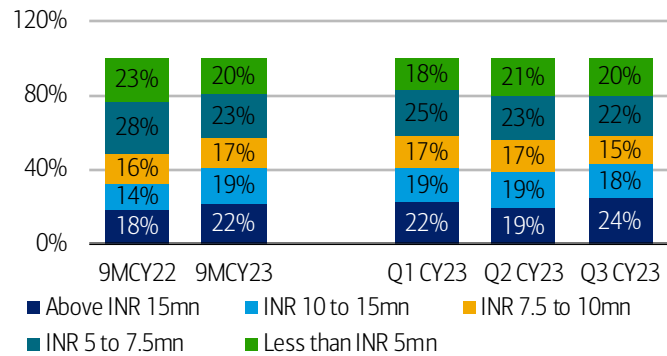


Source: Anarock, BofA Global Research

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**Exhibit 9: Share of unit sales above ticket size of INR15mn at 22% in 9MCY23 vs. 18% in 9MCY22**

Unit sales split by ticket size

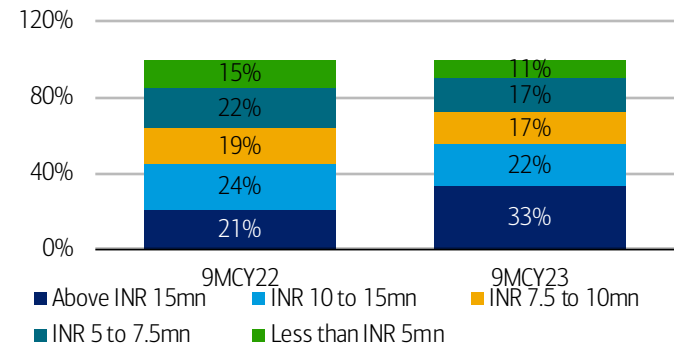


Source: JLL

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**Exhibit 10: Share of launches above ticket size of INR15mn even higher at 33% as developers plan for a continued momentum in this category**

Unit launches split by ticket size

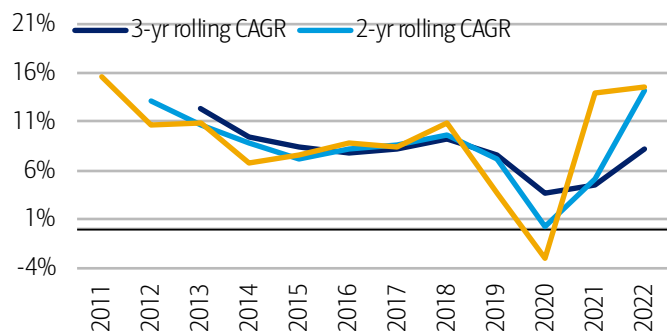


Source: JLL

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**Exhibit 11: Healthy disposable income growth coupled with measured price hikes from developers, is aiding the shift towards higher ticket size houses**

Urban disposable income per capita YoY growth

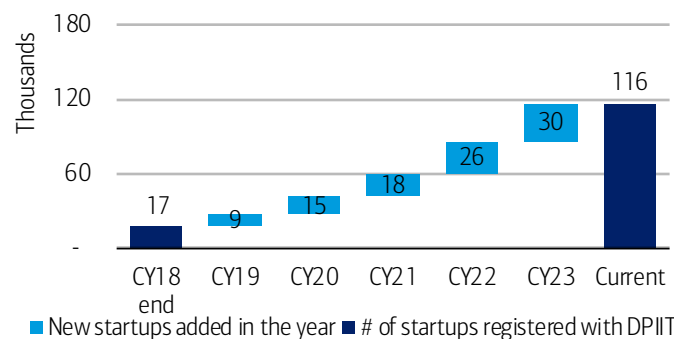


Source: Euromonitor, BofA Global Research

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**Exhibit 12: Startup data from DPIIT suggests that new business incubation trend is strong & aiding job growth outlook**

Number of startups being added every year in India

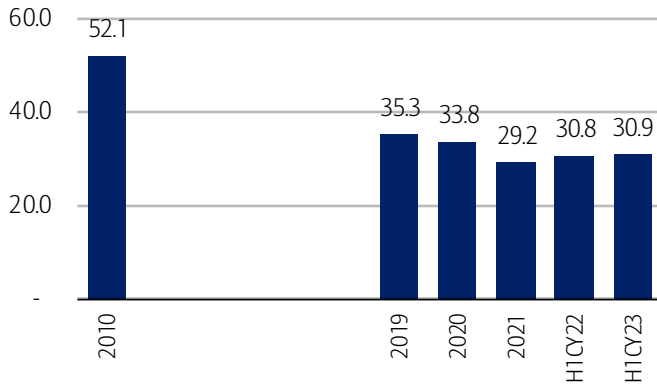


Source: DPIIT, BofA Global Research

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**Exhibit 13: Affordability levels remain better than pre-covid levels...**

EMI to Income ratio – average for top 7 cities

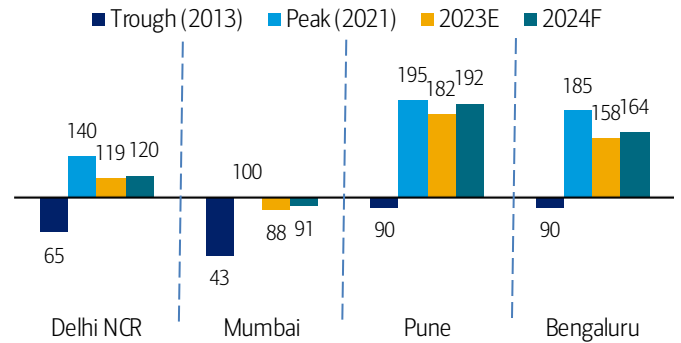


Source: Knight Frank

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**Exhibit 14: ... and expected to remain at similar levels in 2024**

Home Purchase Affordability Index. A value of 100 means that an average household has exactly enough income to qualify for the home loan

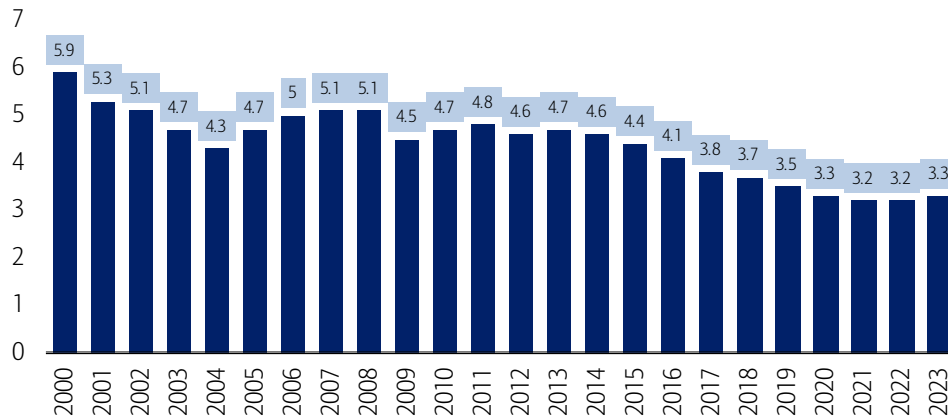


Source: JLL

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**Exhibit 15: Affordability remains near all-time supportive levels in India**

Affordability in terms of years taken to earn money worth average property value

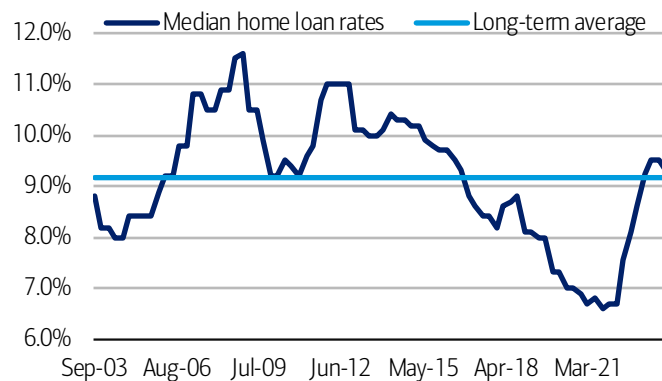


Source: HDFC Ltd, BofA Global Research

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**Exhibit 16: Home loan rates in India have peaked around their long-term average**

Median home loan rates in India

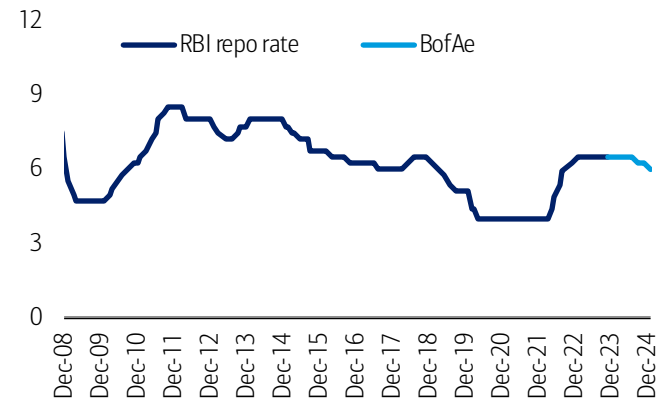


Source: BofA Global Research

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**Exhibit 17: Our economist sees no more hikes in the rate cycle and expects rate cuts to start in later part of CY24**

RBI policy repo rate: Path ahead

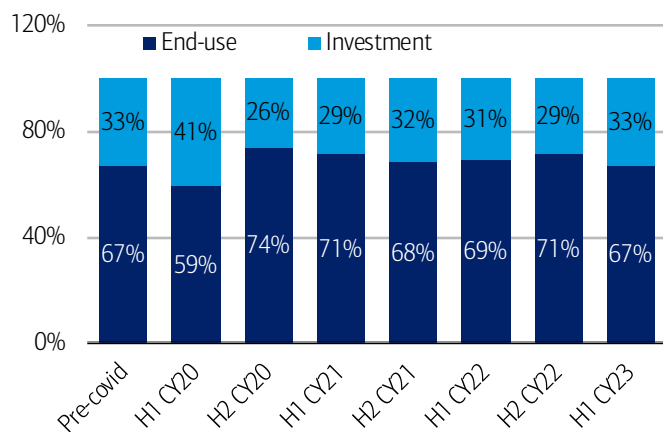


Source - RBI

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**Exhibit 18: Consumption share in total demand still healthy at 65-70%**

Consumer motivation behind a real estate purchase

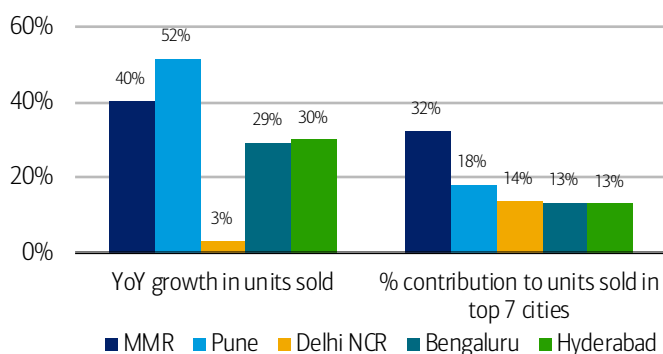


Source: Anarock

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**Exhibit 20: Pune & MMR recorded the fastest growth in CY23; Pune is now the 2<sup>nd</sup> biggest residential market by volumes in India**

9MCY23 unit sales trend – City wise YoY growth and contribution to unit sold



Source: Anarock, BofA Global Research

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**Exhibit 19: Pricing strategies suggest discipline likely to be maintained**

Commentary on pricing from listed companies

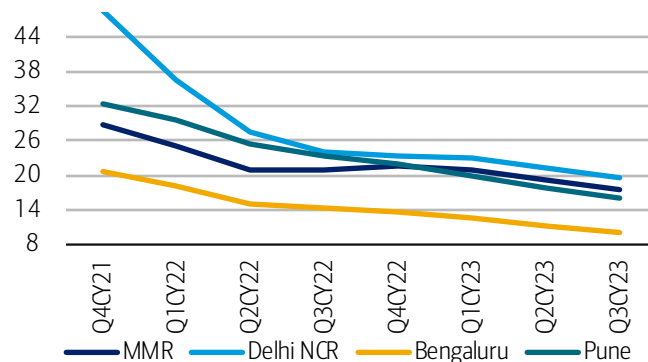
Lodha	Maintaining the stance of keeping annual price hikes in the 7-8% range which is 1-2% below wage growth levels of target home buyers.
Oberoi Realty	Favoring gradual price increase in pricing vs. value maximization.
Godrej Properties	Pricing has to be a mix of adequate and logical jump, unlike very high hikes in previous cycle. Looking at pricing decisions from a quarter-on-quarter view and remain flexible. In Delhi NCR, seems that there is opportunity to continue with some amount of price hikes in the near-term.
Sobha	Annual price increases in new projects have been 2-3% above inflation.

Source: Company transcripts, BofA Global Research

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**Exhibit 21: Favorable inventory months across top cities**

Inventory months (on LTM units sales)



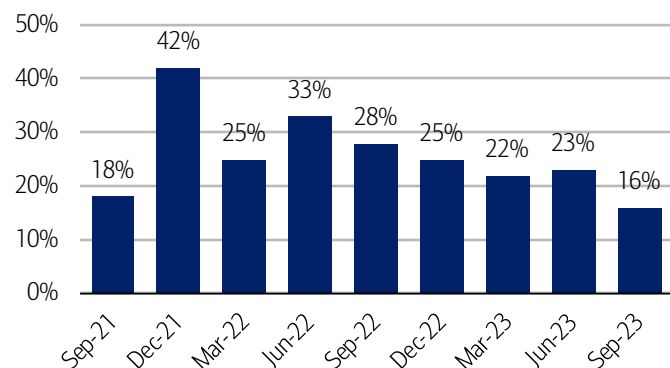
Source: Anarock, BofA Global Research

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## Sectoral trends: Office

### Exhibit 22: IT Service contribution to overall leasing is on a declining trajectory

IT Services share in overall leasing in top 7 cities

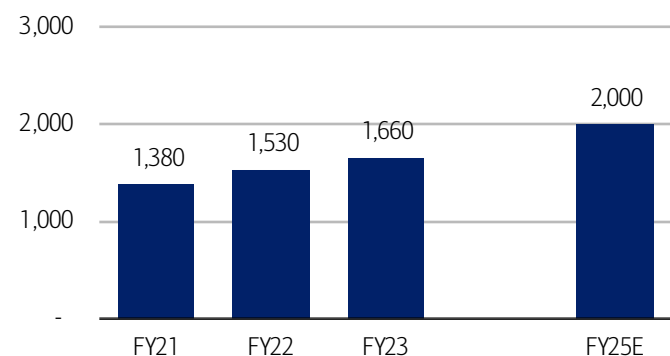


Source: JLL

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### Exhibit 24: Headcount at Indian GCCs expected to grow at a 10% CAGR b/w FY23-25

India GCC headcount (in 1000s)

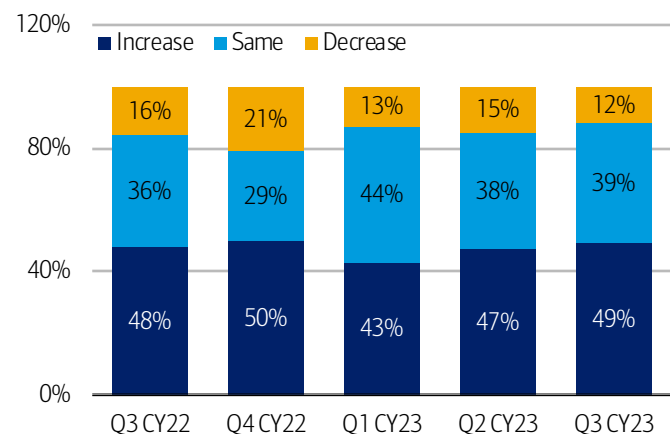


Source: NASSCOM, CBRE

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### Exhibit 26: Sentiment around office leasing has picked up

% of stakeholders expecting increase / decrease in leasing

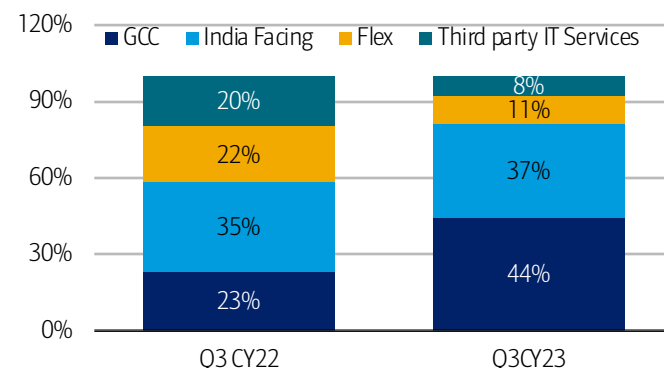


Source: Knight Frank

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### Exhibit 23: Leasing activity dominated by GCCs whereas share of 3<sup>rd</sup> party IT services has materially come down

Share of leasing transactions

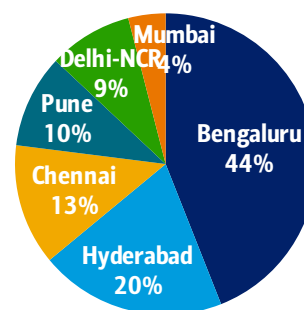


Source: Knight Frank

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### Exhibit 25: 2/3<sup>rd</sup> of the GCC leasing was done in Bengaluru & Hyderabad

Share of GCC leasing by cities (CY22-H1 CY23)

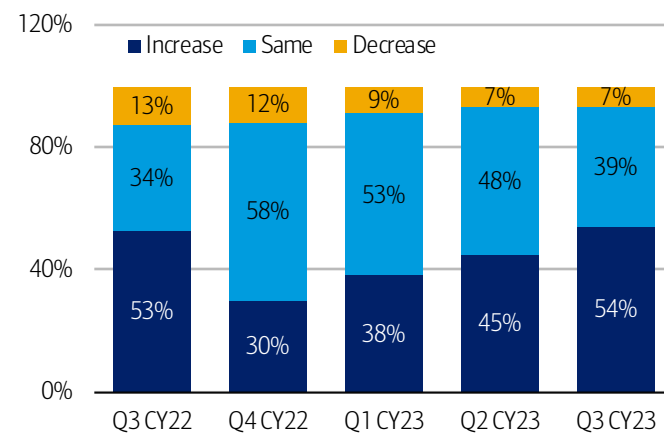


Source: CBRE

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### Exhibit 27: Sentiment around rentals has also improved

% of stakeholders expecting increase / decrease in office rents

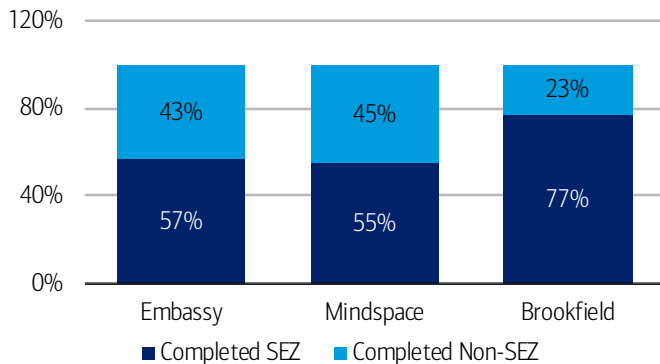


Source: Knight Frank

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**Exhibit 28: Split of completed leasable area into SEZ and non-SEZ**

Embassy & Mindspace have comparable share of SEZ area in their portfolio whereas Brookfield has a higher share of SEZ

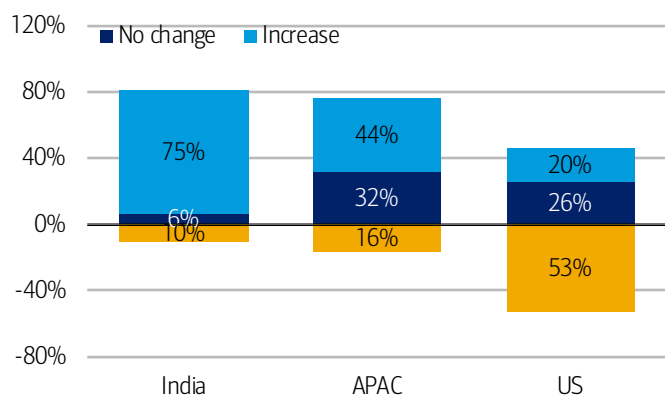


Source: Company presentations and transcripts, BofA Global Research

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**Exhibit 30: Medium-term expectations (over next 2-3 years) of total office portfolio by region**

Occupiers remain most bullish on their India office footprint compared to other regions

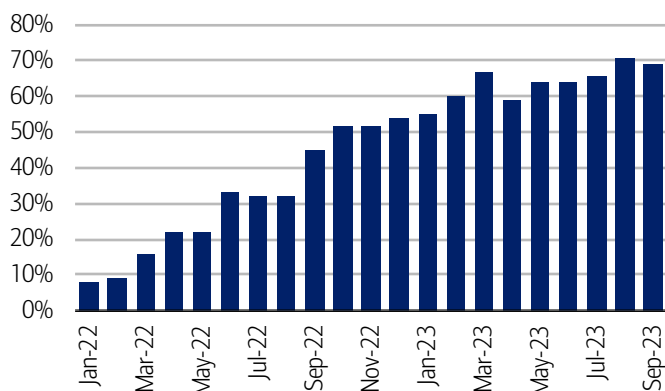


Source: CBRE. Over the next 2 years for India and 3 years for APAC/US

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**Exhibit 32: Month on month uptick in physical occupancies**

Physical occupancy – Brookfield India REIT

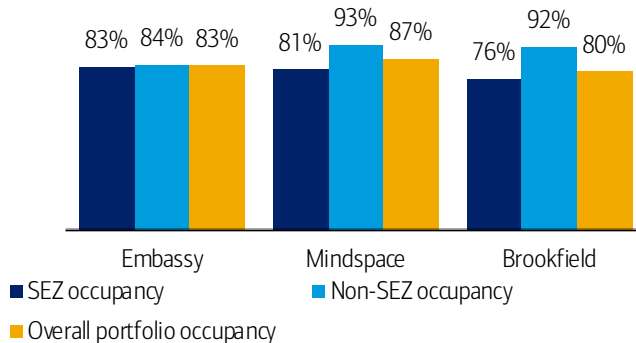


Source: Brookfield India REIT

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**Exhibit 29: Committed occupancy – SEZ, non-SEZ and overall**

Non-SEZ portfolio of REITs operating at a higher occupancy

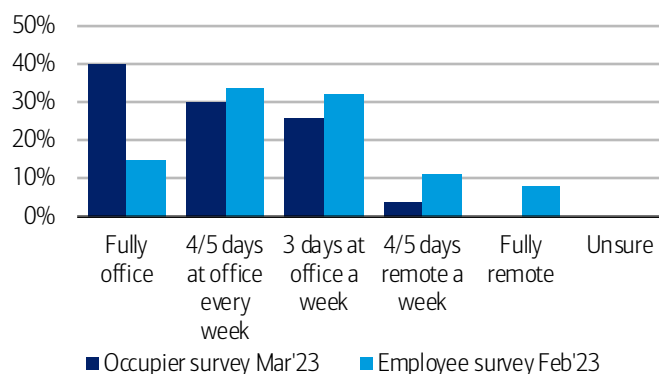


Source: Company presentations and transcripts, BofA Global Research

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**Exhibit 31: Occupier & employee preferences around number of days to work in office**

Only a fraction of occupiers plan to go ahead with a full remote or 1/2 days in office model.



Source: CBRE India Office Occupier survey 2023

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**Exhibit 33: GCCs are inching fast towards pre-covid levels of physical occupancies (80%-85%)**

Physical occupancy as of Sep'23 for Embassy & Mindspace REIT

Embassy (Tenant wise)	
GCCs	65-75%
IT / ITES	30-35%
Mindspace (Citywise)	
Hyderabad	55%
Mumbai	80-90%
Pune	c.70%
Portfolio average	59%

Source: Company transcripts, BofA Global Research

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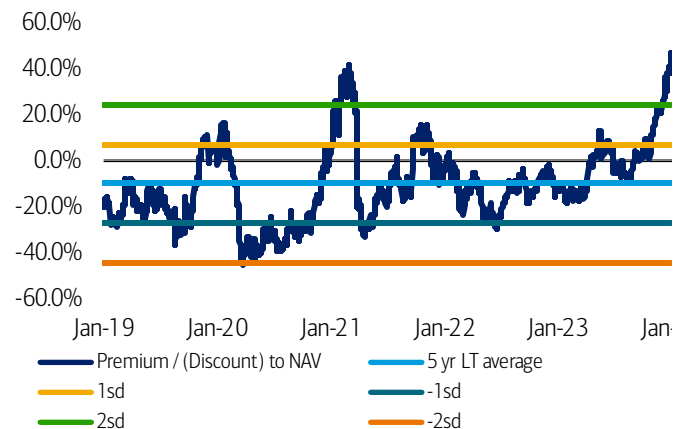


# What do residential valuations look like on P/NAV and P/E?

## P/NAV bands

### Exhibit 34: DLF – Premium / (Discount) to NAV

DLF is trading at 45% to NAV



Source: BofA Global Research estimates, Bloomberg

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### Exhibit 35: Macrotech – Premium / (Discount) to NAV

Macrotech is trading at 50% premium to NAV

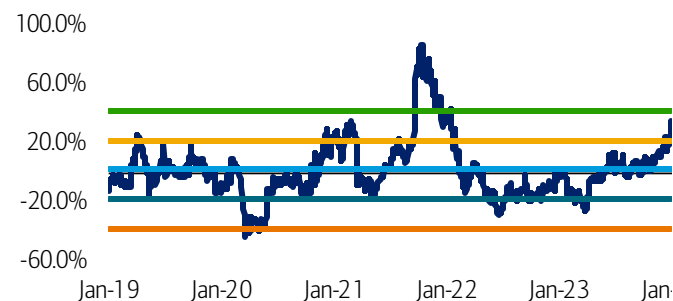


Source: BofA Global Research estimates, Bloomberg

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### Exhibit 36: Godrej Properties – Premium / (Discount) to NAV

GPL is trading at 35% premium to NAV

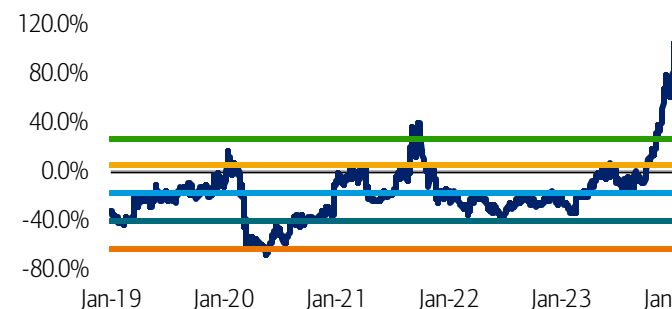


Source: BofA Global Research estimates, Bloomberg

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### Exhibit 37: Prestige Estates – Premium / (Discount) to NAV

Prestige Estates is trading at 100% premium to NAV



Source: BofA Global Research estimates, Bloomberg

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### Exhibit 38: Oberoi Realty – Premium / (Discount) to NAV

Oberoi is trading at 100% premium to NAV



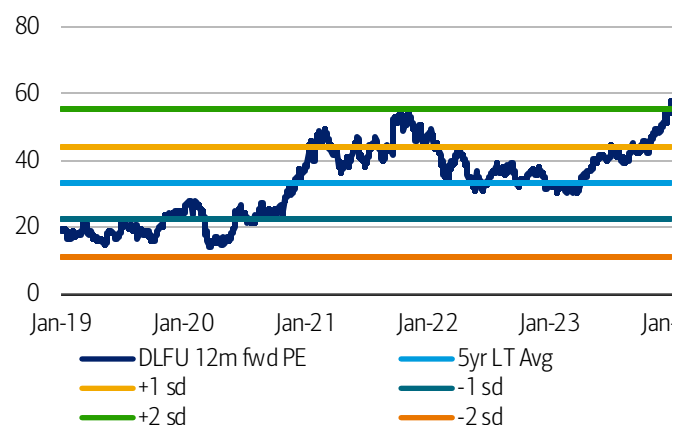
Source: BofA Global Research estimates, Bloomberg

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## P/E bands

### Exhibit 39: DLF – 12m fwd PE

DLF is trading at 57x on 12m fwd PE



Source: Bloomberg

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### Exhibit 40: Macrotech – 12m fwd PE

Macrotech is trading at 50x on 12m fwd PE

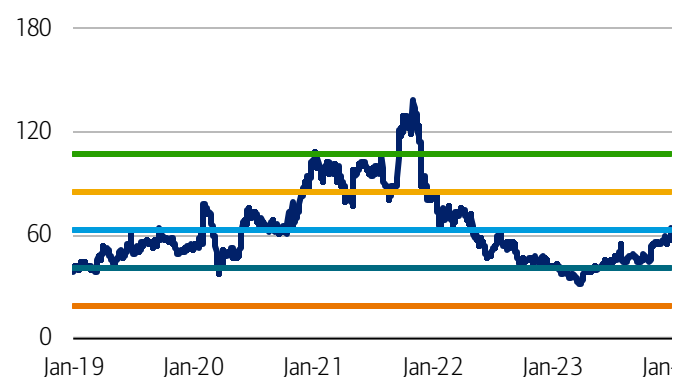


Source: Bloomberg

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### Exhibit 41: Godrej Properties – 12m fwd PE

GPL is trading at 63x on 12m fwd PE

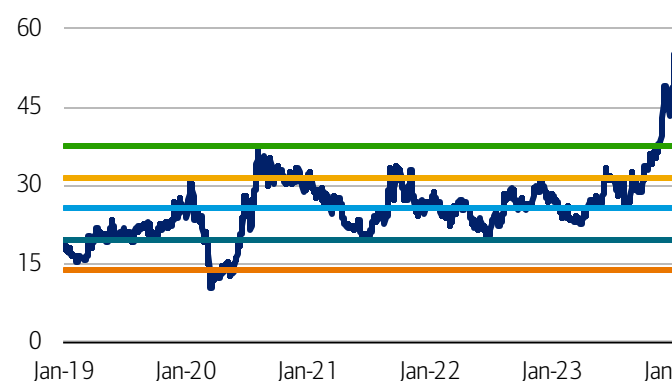


Source: Bloomberg

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### Exhibit 42: Prestige Estates – 12m fwd PE

Prestige is trading at 55x on 12m fwd PE



Source: Bloomberg

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### Exhibit 43: Oberoi Realty – 12m fwd PE

Oberoi is trading at 25x on 12m fwd PE



Source: Bloomberg

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# Valuations: Office REITs

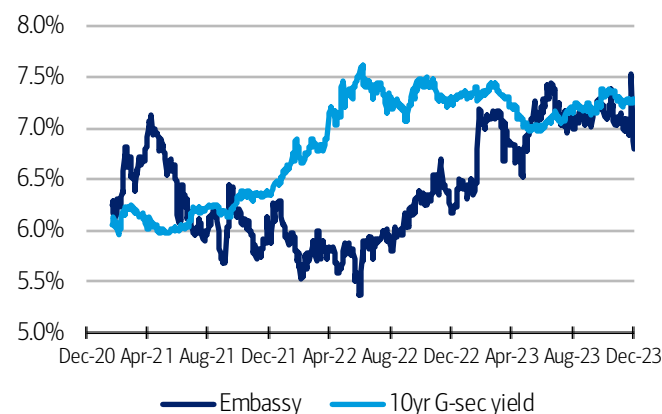
## Exhibit 44: Yield gap with G-sec has largely narrowed post underperformance in CY23

G-sec delta over REIT's NTM dividend yield i.e. G-sec minus REIT's NTM yield



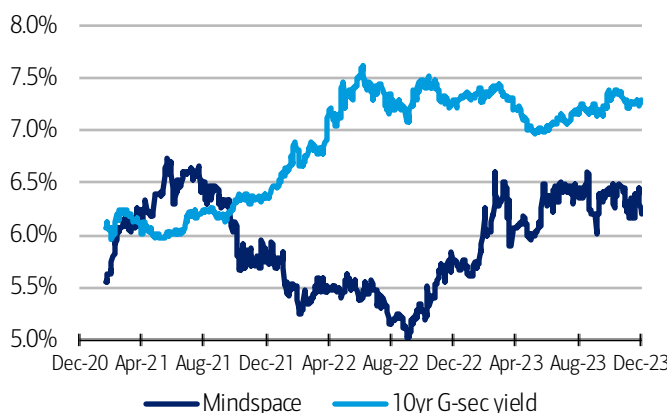
Source: Bloomberg, BofA Global Research estimates, NTM: Next 12 months  
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## Exhibit 45: Embassy REIT is offering 6.8% NTM dividend yield on current price. Current non-taxable component of dividend is c.80% NTM dividend yield - Embassy



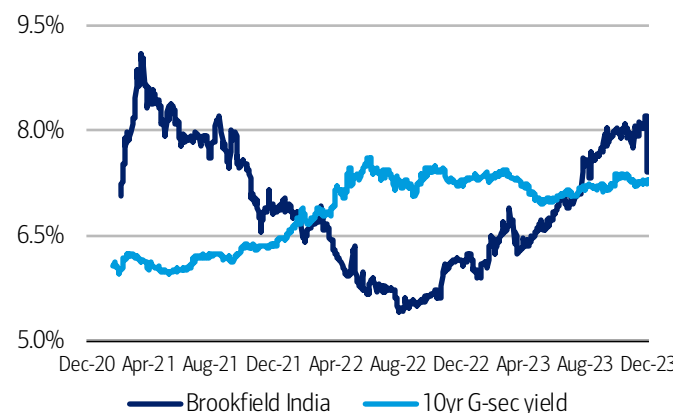
Source: Bloomberg, BofA Global Research estimates, NTM: Next 12 months. Note: Yields above are on a pre-tax basis  
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## Exhibit 46: Mindspace REIT is offering 6.2% NTM dividend yield on current price. Current non-taxable component of dividend is c.90% NTM dividend yield - Mindspace



Source: Bloomberg, BofA Global Research estimates, NTM: Next 12 months. Note: Yields above are on a pre-tax basis  
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## Exhibit 47: Brookfield India REIT is offering 7.6% NTM dividend yield on current price. Current non-taxable component of dividend is c.80% NTM dividend yield - Brookfield India



Source: Bloomberg, BofA Global Research estimates, NTM: Next 12 months. Note: Yields above are on a pre-tax basis  
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