

THE HINDU Business Line

From tepid 2008, Chennai's property market turns red hot

Vidya Bala

NHB's Residex for city soars on limited supply of land, pent-up demand



BL Research Bureau:

If you had the patience and the means to buy residential property during the downturn of late 2008, especially in Chennai — congratulations! Your property value may well have doubled by now, if the National Housing Bank's property price index 'NHB Residex' is a fair indicator.

Among the 15 cities tracked by the NHB Residex, the Chennai index has seen the maximum gains, from 95 to 218, yielding a whopping 130 per cent over this two-year-plus period. Property prices in the Chennai residential market have rebounded the most from their lows of December 2008 (until March 2011, the latest available month for which data are available.)

The increase, though, may be true only of the Central Business District areas of Chennai as the index does not cover the peripheral areas of the city.

Residential property price indices in Lucknow, Kolkata, Mumbai, Pune and Ahmedabad did not do too badly either. They managed increases of 50-85 per cent from their lows in 2008. The big jump in prices explains why many large developers have been moving to these Tier-2 and -3 markets.

It is noteworthy that the even after this rise, the average property price in cities such as Ahmedabad, Chennai or Kolkata is significantly lower than in Mumbai or New Delhi. The meteoric rise may, therefore, be a low-base effect too.

Pent-up demand

What has helped the Chennai market beat the more glamorous Mumbai, New Delhi and even Bangalore in price gains? According to Mr K. S. Sudarshan, Chief Operating Officer of realty developer Ozonegroup, inadequate supply of land and pent-up demand are the key reasons for the property price rise in the city.

“Chennai, for long, had the least supply of land available for building property among the metros. It was also a ground/plot-oriented market and multi-apartment models are only now picking up pace,” he says.

Metrozone, the group's project in upmarket Anna Nagar has seen the price of an apartment go up from Rs 5,650 a sq.ft at the time of launch in June 2009 to Rs 8,250 a sq.ft now. The project is backed by realty funds HDFC India Real Estate Fund and Urban Infrastructure Opportunities Fund.

The NHB Residex also suggests that markets of Mumbai, Kolkata and Faridabad hardly witnessed any correction during the downturn. The Chennai market, too, fell only 8.3 per cent compared with the 24-29 per cent decline in Bangalore and Hyderabad.

While the demand-supply mismatch would have kept prices elevated in markets such as Mumbai, experts say that markets like Chennai were characterised by lower sales volumes rather than significant reduction in capital values.

According to Mr Anshuman Magazine, Chairman and Managing Director, CB Richard Ellis Asia, the real-estate activity in Chennai is significantly driven by end-users compared with other markets, and this is one reason why prices are not too volatile and are holding up well.

However, whether this kind of rally would continue remains in question, especially given the elevated interest rate scenario.

Ms Kalpana Murthy, Associate Director, Residential Services, South, Cushman & Wakefield, feels that most of the locations are already experiencing stable capital values now as markets driven by end-users are typically price sensitive and steep escalation can affect demand.

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