

# Business Line

## Steady demand buoys prices in Chennai

R. Balaji

Locality	2010		2011
	July-Sept	Oct-Dec	Jan-March
	Dr Radhakrishnan Nagar	135	116
Tondiarpet, Narayanapa Garden	203	238	207
Perambur, Choozi, Edapalayam	268	296	267
Ayanavaram, Purasawalkam, Kolathur	530	593	568
Virugambakkam, Anna Nagar, Kilpauk, Nungambakkam	378	390	391
Nehru Nagar, Cheppak, Marina	161	166	134
Chelipet, Egmore	130	124	170
Ashok Nagar, T.Nagar, Suligramam	284	248	275
Kodambakkam, Guindy, Chromepet	185	197	210
Mylapore, Adyar, Velachery, Thiruvanniyur	221	217	205
City Index	210	214	218

Note: Base year 2007 with index - 100

Ask a selection of developers, representatives in housing finance institutions and real estate agents on the factors contributing to the residential prices remaining relatively buoyant in Chennai while larger cities seem to be headed for a slump – among the reasons commonly cited are a short supply of quality stock within the city.

When Mr Adi Godrej, President Designate, Confederation of Indian Industry and Chairman, Godrej Group, requested the Chief Minister of Tamil Nadu, Ms J. Jayalalithaa, to take steps to expedite building plan approvals at the national council meeting of the Confederation of Indian Industry held recently in Chennai, he touched up on a concern that has been on the top of the minds of developers.

For nearly six months building plan approvals 'have come to a standstill' he said.

According to the representatives of the Confederation of Real Estate Developers Associations of India (Credai), it has been over nine months since large projects have been approved in Chennai including the months prior to the elections in April. So new project launches have remained on paper. But there is a sustained demand for quality housing across various locations in the city which has contributed to shoring up prices.

The other reasons for the stability are that prices have not spiralled as much as in Mumbai or Delhi which has led to a definite market resistance, they say.

### The Trend

In Chennai, a continued demand for middle and high-end housing has helped stabilise prices in the suburbs while low supply in the city combined with high land costs is pushing up prices. But there are indications of a slowdown in the price increase in the main city areas as indicated by figures published in the latest property price index by the National Housing Bank.

Mr Chitty Babu, Secretary, Credai, points out that in the three major pockets of growth in Chennai – the Old Mahabalipuram Road and the Grand Southern Trunk Road both to the south of Chennai and the industrial belt of Orgadam and Sriperumbudur – prices have predominantly stayed around Rs 3,000-3,500 in the suburbs.

Suburbs to the west and south of the city are among the active markets, say representatives of housing finance institutions.

A report by the ICICI Mortgage Valuation Group of the April-June quarterly published by Credai, says "the market has seen a meaningful price appreciation to the tune of 5-10 per cent." The residential market remains attractive with healthy absorption levels in the first quarter of the current year.

Within the city, large projects that have been announced are between Rs 12,500 and 13,500 a square feet. A few projects may be higher depending on specific locations or brands. To a large extent land values dictate the prices of built-up space, says Mr Chitty Babu. In most residential localities within the city a 2,400 sq.ft plot costs anywhere between Rs 3-5 crore.

Another contributory factor to low volumes is the restrictions placed on the Floor Space Index – the area of built-up space allowed in relation to the total plot area.

In most cities, the FSI restrictions have been lifted but not in Chennai. This precludes full exploitation and limits supply. This translates to a land cost of Rs 8,300 to about Rs 14,500 a sq.ft for built-up space.

### Price peak in city

According to an official in a housing finance institution, in new project launches there is a definite resistance to price points beyond Rs 13,500 a sq.ft – typically this represents an apartment of around Rs 3 crore. More expensive projects are definitely seeing a slowdown in sales. Buyers may pay more for ready built houses, but these are scarce on the ground.

The latest residential property index by the National Housing Bank, the NHB Residex for the January-March 2011 quarter shows the increase slowing across the 10 zones studied in Chennai. Though the index has more than doubled to

218 when compared with that of the base year 2007, the index between July and December 2010 in most of the zones in the city shows signs of flattening, if not a drop in the latest quarter.

### Supply in suburbs

Industry representatives point out that the rapid growth in most of the centres mentioned in the NHB Residex are city locations whereas the bulk of supply is in the suburbs. Projects in the city are few and naturally there is a huge premium buyers are willing to pay.

Mr S. Ramasamy, Regional Manager, LIC Housing Finance Ltd, says going by home loan disbursements, the demand from the end-user segment in Chennai is strong.

Disbursements have touched over Rs 270-300 crore in June, normally considered a slow period. These numbers are comparable to the peak in March when disbursements touched about Rs 400 crore. The home loan portfolio has grown 26 per cent in the first quarter of the current year as compared with that of last year.

The prices are stable because the buyers are driving a hard bargain and in the general environment, including increasing interest rates, the builders are also keen to sell. So though the end-user is active in the market, there is no euphoria as is seen in a typical boom period. But market is healthy and prices relative stable, he said.

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