FICCI-NAREDCO-KNIGHT FRANK

REAL ESTATE SENTIMENT INDEX

Q4 2018 (OCTOBER–DECEMBER 2018)

The real estate sentiment index is developed jointly by Knight Frank (India), the Federation of Indian Chambers of Commerce and Industry (FICCI) and National Real Estate Development Council (NARDECO). The objective is to capture the perceptions and expectations of industry leaders in order to judge the sentiment of the real estate market.

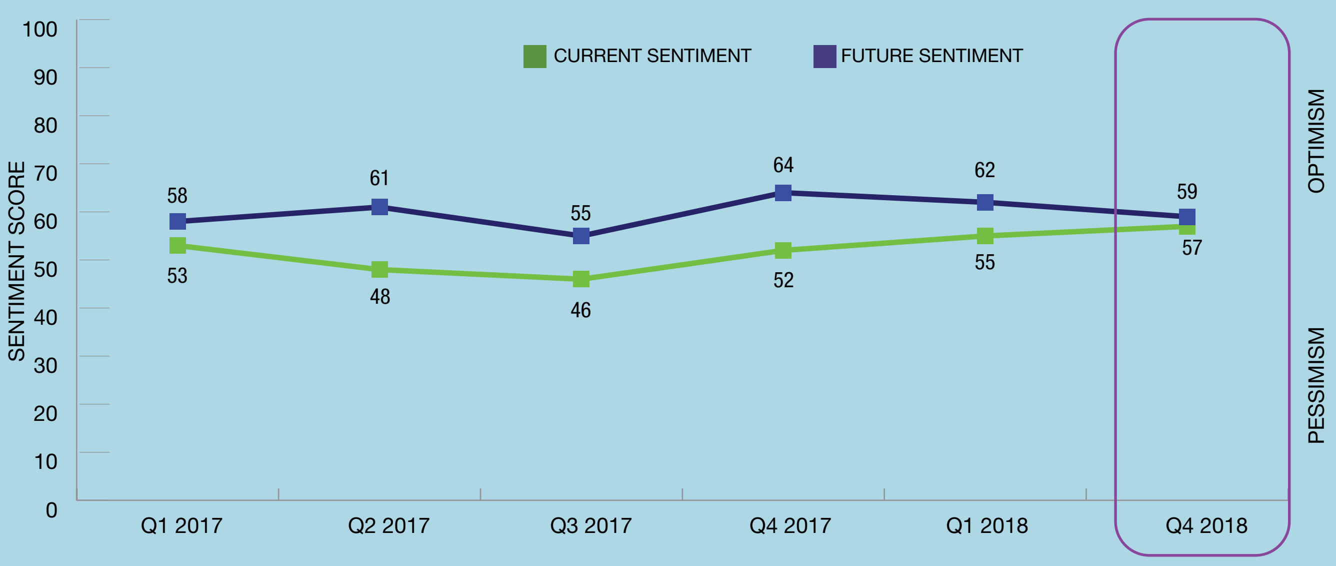
APPROACH

The real estate sentiment index is based on a quarterly survey of key supply-side stakeholders, which include developers, private equity funds, banks and non-banking financial companies (NBFCs). The survey comprises questions pertaining to the economy, project launches, sales volume, leasing volume, price appreciation and funding. Respondents choose from the following options, for which weights have been assigned: a) Better (100 points) b) Somewhat Better (75 points) c) Same (50 points) d) Somewhat Worse (25 points) and e) Worse (0 points). The index is determined by calculating the weighted average score of the percentage of responses in each of these categories. Hence, a score of 50 represents a neutral view; a score above 50 demonstrates a positive outlook; and a score below 50 indicates negative sentiment.

In order to present a holistic view of the real estate industry, the report is divided into two sections. Section A comprises two indices: the overall current sentiment index that indicates the respondents' assessment of the present scenario compared to six months prior, and the overall future sentiment index that represents their expectations for the next six months. Section B focuses only on the future sentiments of the stakeholders. This survey was conducted in January 2019.

SECTION A – OVERALL CURRENT AND FUTURE SENTIMENT SCORE

CURRENT SENTIMENT STEADY



FINDINGS

- The current sentiment score inched upwards and remains in the positive in last quarter of 2018. The slight improvement in the current score indicates that the dust has started to settle from the implementation of various structural reforms implemented in the second and third quarter of 2017. The score indicates that the stakeholders though positive but are in a wait and watch mode on the outcome of the long-term policy initiatives of the government.
- On the other hand, the optimism regards the future of the real estate sector has come down by three points. Factors such as the looming uncertainty over the upcoming elections has reflected in the future sentiment score.

SECTION B – FUTURE SENTIMENT SCORE

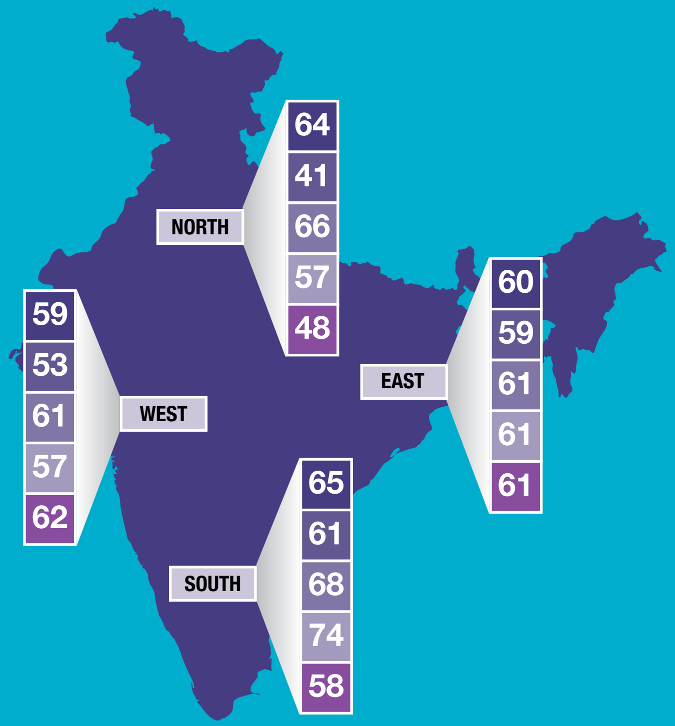
- Though transitory in nature, the stakeholder sentiments regards the coming six months has taken a slight dip in our survey findings of Q4 2018.
- The future scores across most of the regions indicate that the stakeholders are holding their ground and are not bullish over the outcome of the various structural reforms regards real estate. The uncertainty over the overall economic scenario, the upcoming general elections in India have failed to infuse any confidence in the stakeholders.

ZONAL SENTIMENT SCORE

NATIONAL CAPITAL REGION GOES IN THE RED

SCORE>50: Optimism SCORE=50: Same/Neutral
SCORE<50: Pessimism

Q2 2017 | Q3 2017 | Q4 2017 | Q1 2018 | Q4 2018



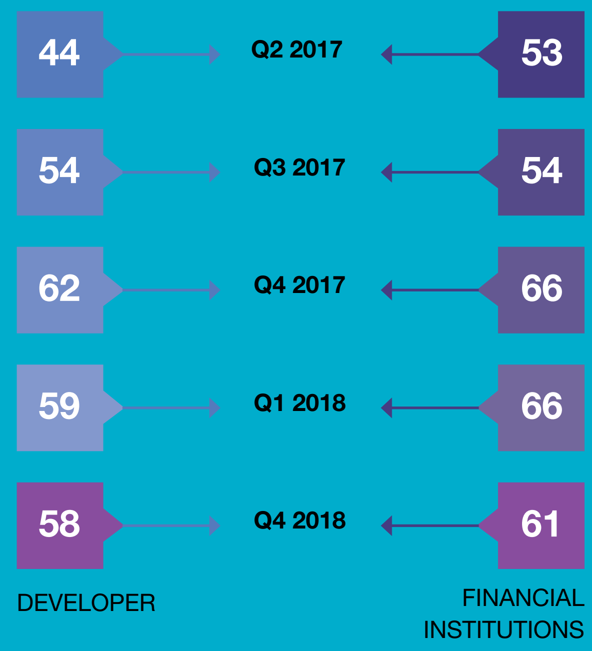
FINDINGS

- The future sentiment score for north has gone in the red in Q4 2018. This dip in sentiments for the coming six months stems from the lack of buyer confidence in the market. Accumulating inventory, stagnant prices and sluggish sales and default by reputed developers have contributed to the further dip in the national capital regions future sentiment score.
- On the other hand, the future sentiment score of the west has moved up significantly in Q4 2018 compared to the first half 2018. We believe that the way RERA has been has been implemented in the west zone particularly in Maharashtra, has infused confidence in the stakeholders and it is evident in the future score for the region.
- Though the future sentiment score of South has dipped in the last quarter of 2018, it still remains in the positive.

STAKEHOLDER SENTIMENT SCORE

FINANCIAL INSTITUTIONS AND DEVELOPER MAINTAIN CAUTION

SCORE>50: Optimism SCORE=50: Same/Neutral
SCORE<50: Pessimism

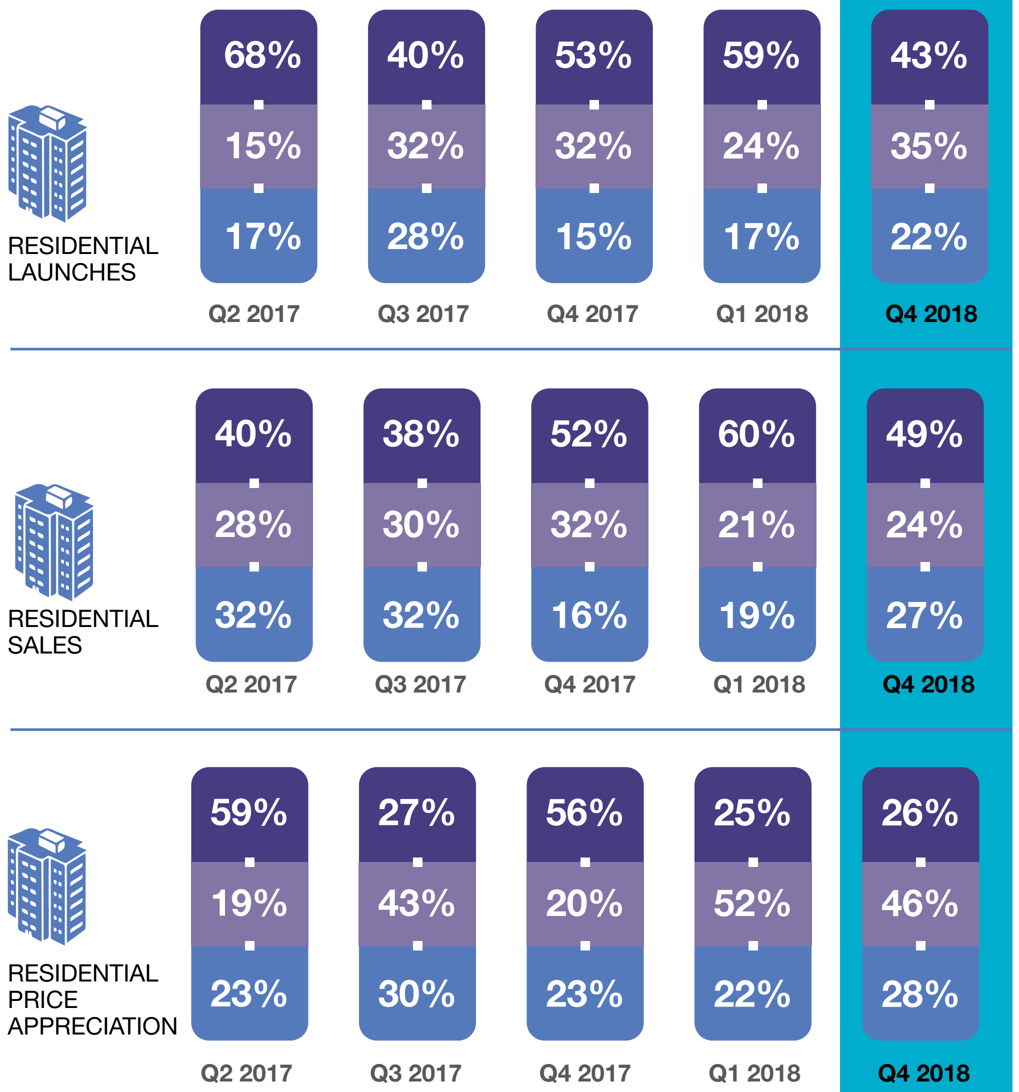


FINDINGS

- Sentiments of the financial institutions regards the future of the real estate in the coming six months has come down in Q4 2018 compared to the first half of 2018. However, on the developer side, even though the future score has waned marginally, it still remains in the optimistic zone.

RESIDENTIAL SECTOR LACKS CONFIDENCE

BETTER | SAME | WORSE

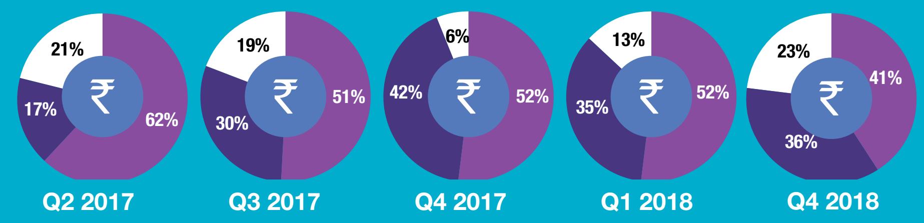


FINDINGS

- Majority of the stakeholders have expressed optimism regarding the new residential launches coming up in the next six months. 78% of the stakeholders have opined that, the sector will see new launches in the coming six months, mainly on the back of the mid and affordable segment. Insights suggest that with the clarity brought about by the structural reforms, notable developers are keen to bring fresh supply in the market.
- The optimism regarding residential sales has waned in Q4 2018 compared to the first half of 2018. Majority of the stakeholders believe that residential sales will remain somewhat muted in the coming six months.
- The future sentiments regards the price appreciation have remained stagnant in Q4 2018 as well. 74% of the stakeholders have opined that the prices will either remain stagnant or may even drop further to attract the fence-sitting buyer in the coming six months.

REAL ESTATE INDUSTRY HOLDS ON TO SENTIMENT ON THE ECONOMIC FRONT

ECONOMY

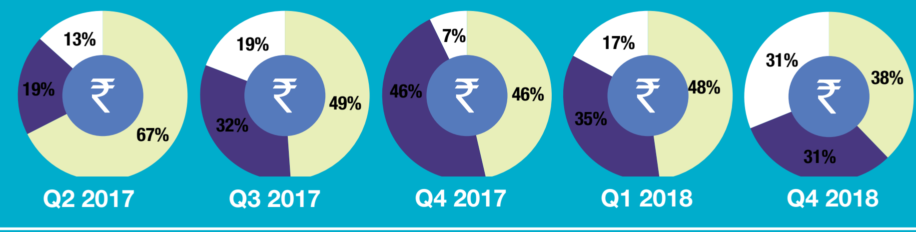


BETTER | SAME | WORSE

FINDINGS

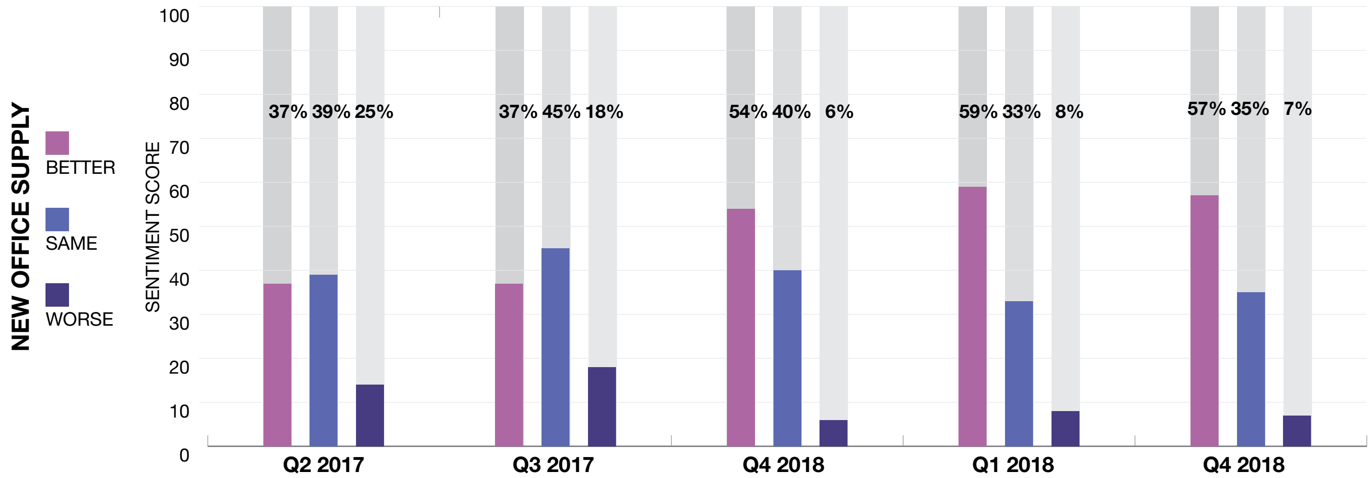
- The real estate industry's sentiments regards the economy does not show any substantial change in 2018. The stakeholders are taking time to give a thumbs up to the economic performance of the country given the current political scenario.
- On the other hand, the stakeholder sentiments regarding the funding scenario was noted to be in the positive in Q4 2018.

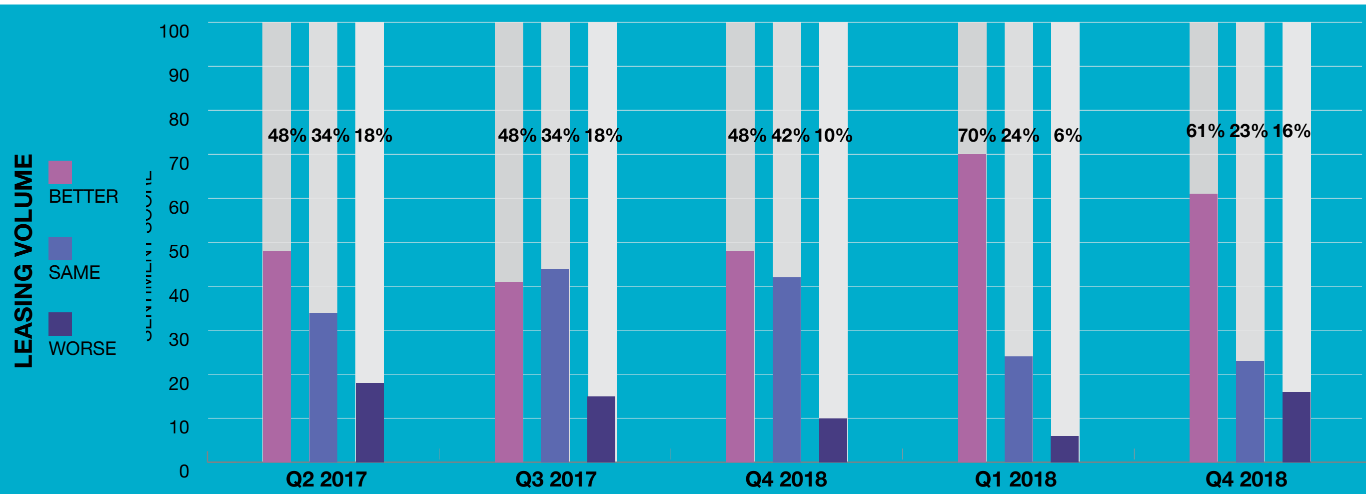
FUNDING SCENARIO

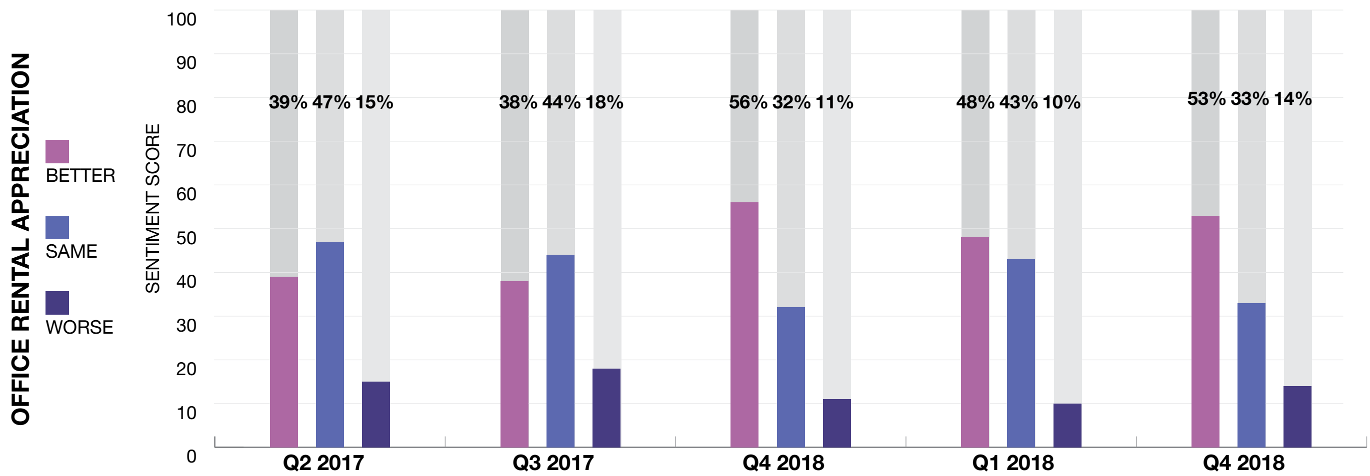


BETTER | SAME | WORSE

OFFICE MARKET LOOKS UP







FINDINGS

- New office supply is expected to largely remain the same but will definitely not get depressed in the coming six months. 57% of the respondents believe that the coming six months will see an improvement in the new office supply owing to a robust under-construction pipeline in key cities.
- While future sentiments as regards the leasing activity, still remains upbeat, there has been a dip in the sentiments, in Q4 2018, compared to Q1 2018. The dip in sentiments could largely be due to the supply being in the pipeline.
- Stakeholder sentiments with regards future rental appreciation has moved into the positive zone, in Q4 2018, after being in the red in Q1 2018. Paucity of quality supply in key markets has put an upward pressure on rentals across markets.

CONCLUDING REMARKS

In a nutshell, the survey findings for Q4 2018 (October–December) suggest that the stakeholders are positive with regards the residential new launches on the back of clarity and transparency induced by the policy initiatives in the coming six months. However, the stakeholders believe that the buyers are still in the wait and watch mode and given the market scenario they are not too optimistic about increase in prices in the coming six months. On the office front, stakeholders are positive as regards the fresh supply and leasing activity across regions. Rents to firm up in key business districts.

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