FICCI-NAREDCO-KNIGHT FRANK

REAL ESTATE SENTIMENT INDEX

Q1 2019 (JANUARY–MARCH 2019)

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

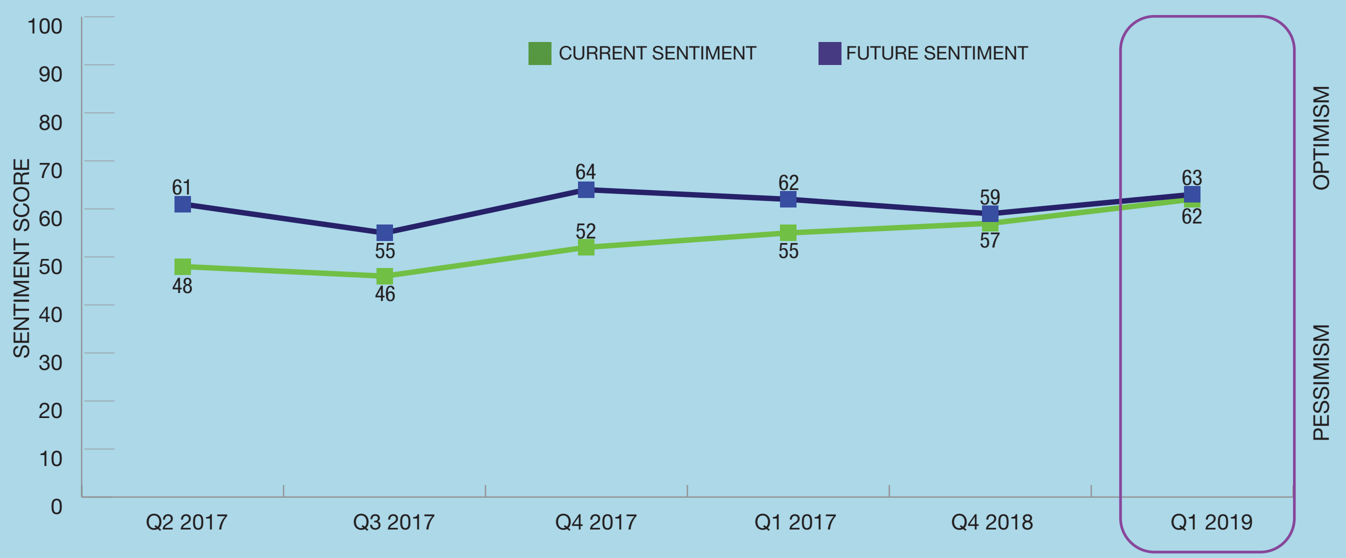
The real estate sentiment index is based on a quarterly survey of key supply-side stakeholders, which include developers, private equity funds, banks and non-banking financial companies (NBFCs). The survey comprises questions pertaining to the economy, project launches, sales volume, leasing volume, 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 between January–March 2019.

SECTION A – OVERALL CURRENT AND FUTURE SENTIMENT SCORE

GOVERNMENT INITIATIVES AND REGULATORY CHANGES GIVE A BOOST TO CURRENT AND FUTURE SENTIMENTS

CURRENT AND FUTURE SENTIMENT



FINDINGS

- The current sentiment score has inched 5 points upwards from the preceding quarter and remains in the positive in the first quarter of the new calendar year. The market sentiments that had waned during 2017 with the various structural changes in the real estate sector have bounced back and have been steadily improving.
- Stabilisation of the formation and implementation of the Real Estate (Regulation and Development) Act, 2016 (RERA), exemption of inventory tax from one to two years in the Annual Union Budget of 2019 and the Goods and Services Tax (GST) rate rationalisation have together contributed to boosting the current stakeholder sentiments.

SECTION B – FUTURE SENTIMENT SCORE

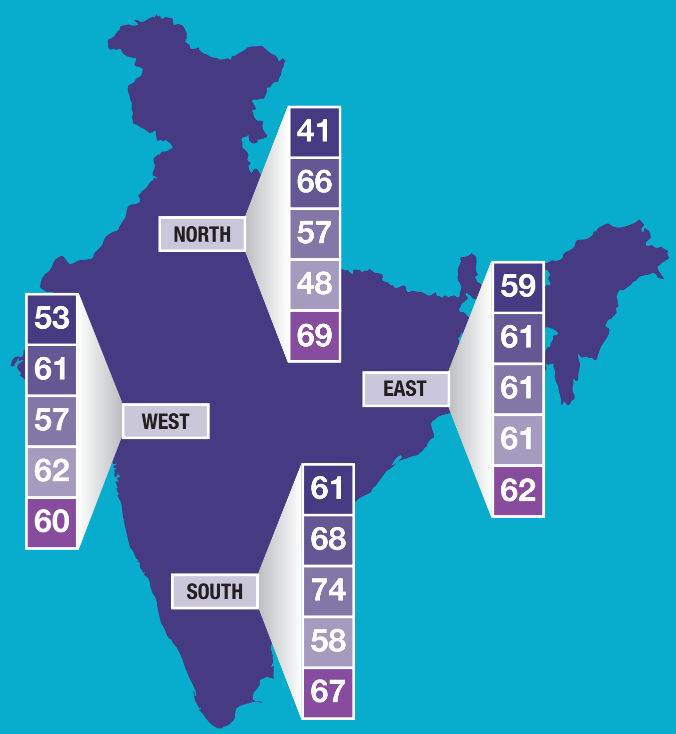
- The future sentiment score maintains its positive spell and has come back to 63 points in our survey findings of Q1 2019. The stakeholders are of the opinion that the transparency brought in by the enormous structural reforms have fundamentally changed the dynamics of the real estate sector for the better. The stakeholders are positive of the outcome of the governments' efforts to ease the burden of developers by acknowledging the slowdown in the sector. This has boosted the stakeholder sentiments for the coming six months.
- The rationalisation of the GST rate to 5% for under-construction flats and 1% for the affordable housing sector has also played a significant part in bolstering real estate sentiments for the coming six months.

ZONAL SENTIMENT SCORE

NORTH AND SOUTH REGAIN OPTIMISM

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

Q3 2017 Q4 2017 Q1 2018 Q4 2018 Q1 2019



FINDINGS

- The future sentiment score for north has regained optimisms and is in the positive in Q1 2019 after going in the red in the preceding quarter.
- The stakeholders opine that though the market is reeling under inventory pressures and low buyer confidence, what brings respite to the matter is that now all developers have aligned their business with RERA and GST, which is leading to the rapid consolidation and filtering of the market in Gurugram in Haryana and Noida and Greater Noida in Uttar Pradesh, which form the major portion of the real estate chunk of the National Capital Region.
- Stakeholders from south, east and west zones have always remained in the optimistic zone for the past many quarters and continue their momentum in the first quarter of 2019 as well.

STAKEHOLDER SENTIMENT SCORE

DEVELOPERS REGAIN CONFIDENCEIN THE MARKET

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

DEVELOPERS		FINANCIAL INSTITUTIONS
54	Q3 2017	54
62	Q4 2017	66
59	Q1 2018	66
58	Q4 2018	61
64	Q1 2019	64

FINDINGS

- The sentiment score of the developers regards the real estate scenario for the coming six months has significantly inched upwards in Q1 2019. Over the past quarter the real estate sector has witnessed changes like the implementation of the new GST structure, exemption from paying notional rent and the incentivised push to affordable housing that has helped in positively impacting the market sentiments.
- Coupled with this, the stakeholders see the reduced repo as a positive move by the banking regulator, which will provide the developers with the much-needed funds to execute their projects and give a boost to sales by attracting the fence sitting buyers.
- Sentiments of the financial institutions for the real estate scenario for the coming six months has remained somewhat steady in Q1 2019 and is in line with the preceding quarters.

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REAL ESTATE SENTIMENT INDEX | Q1-2019

RESIDENTIAL SECTOR SHOWS GREEN SHOOTS OF REVIVAL

BETTER SAME WORSE

RESIDENTIAL LAUNCHES

	Q3 2017	Q4 2017	Q1 2018	Q4 2018	Q1 2019
BETTER	40%	53%	59%	43%	59%
SAME	32%	32%	24%	35%	28%
WORSE	28%	15%	17%	22%	13%

RESIDENTIAL SALES

	Q3 2017	Q4 2017	Q1 2018	Q4 2018	Q1 2019
BETTER	38%	52%	60%	49%	60%
SAME	30%	32%	21%	24%	25%
WORSE	32%	16%	19%	27%	15%

RESIDENTIAL PRICE APPRECIATION

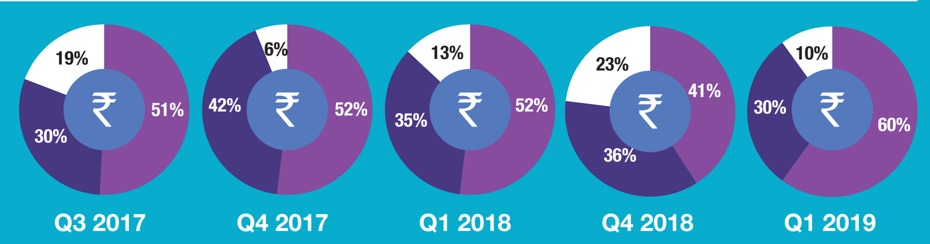
	Q3 2017	Q4 2017	Q1 2018	Q4 2018	Q1 2019
BETTER	27%	56%	25%	26%	36%
SAME	43%	20%	52%	46%	48%
WORSE	30%	23%	22%	28%	16%

FINDINGS

- With the various steps taken to boost the residential real estate by the government and the banking regulator, majority of the stakeholders have expressed optimism and expect the policy interventions to positively translate in the new residential launches and sales in the coming six months.
- While 87% of the stakeholders have opined that, the sector will see new launches in the coming six months, a substantial 85% of them have opined that the filtering in the sector with respect to the organised and unorganised developers will positively translate into demand in the coming six months.
- The recent reduction in repo rate by another 25 basis points by the Reserve Bank of India is seen as a welcome move in this regard. Stakeholders believe that the reduction in rate is a well awaited stimuli to boost sales and ease liquidity for the real estate sector. It needs to be noted that this recent reduction in policy rates is the second consecutive rate cut by the banking regulator and the repo rate now stands at 6%.
- Riding on the positive sentiments, the future sentiments regards the price appreciation have also showed some positivity in Q1 2019. Improving from the preceding quarter, majority of the stakeholders have opined that the residential prices will either remain in the current range or may even inch upwards in the coming six months.

REAL ESTATE INDUSTRY LOOKS POSITIVE ON THE ECONOMIC FRONT

ECONOMY

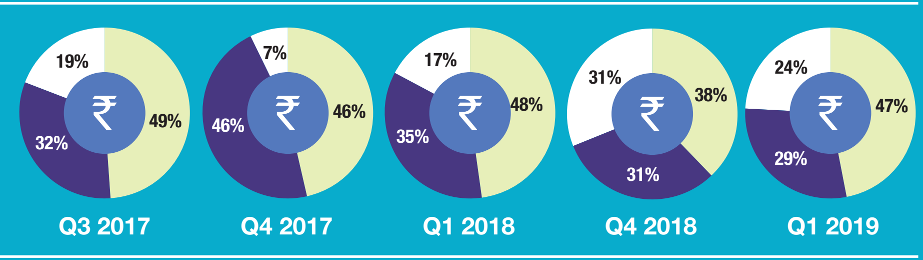


BETTER SAME WORSE

FINDINGS

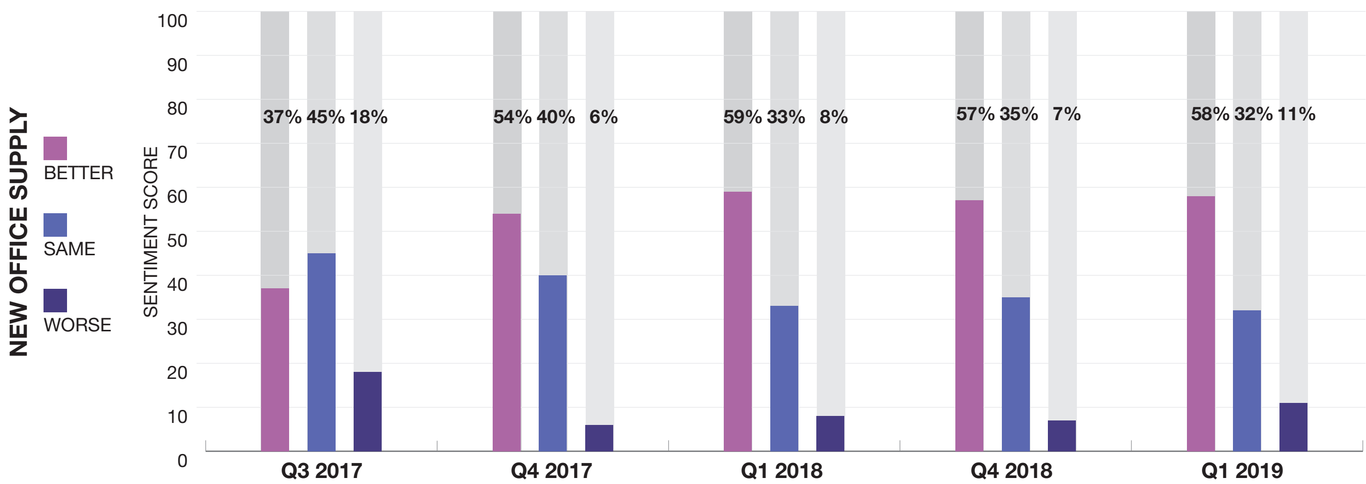
- The real estate industry's sentiments regarding the economy has moved up significantly in Q1 2019. 60% of the stakeholders are of the opinion that the overall economic scenario of the country will improve in the coming six months. Even though the RBI and other rating agencies have been conservative regarding India's GDP growth for the next fiscal, the market looks positive in the short term.
- The stakeholder sentiments regarding the funding scenario remains upbeat in Q1 2019. Though investors, private equity (PE) funds and housing finance companies (HFCs) today are exercising caution in lending to the real estate sector due to the NBFC crisis and developer defaults, majority of the stakeholders have maintained a positive outlook for the funding scenario in the coming six months.

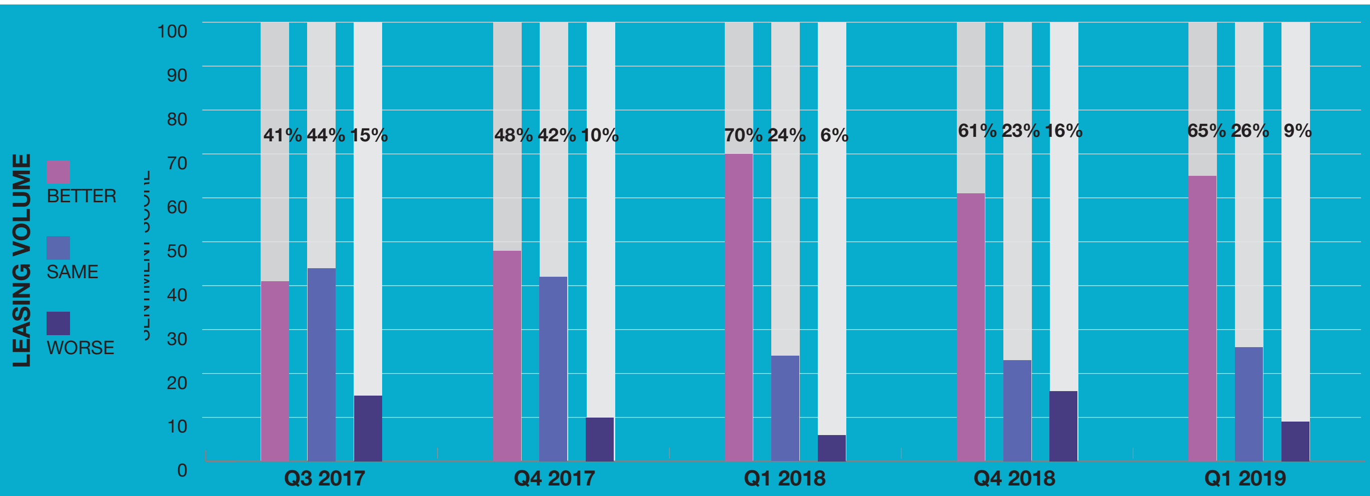
FUNDING SCENARIO

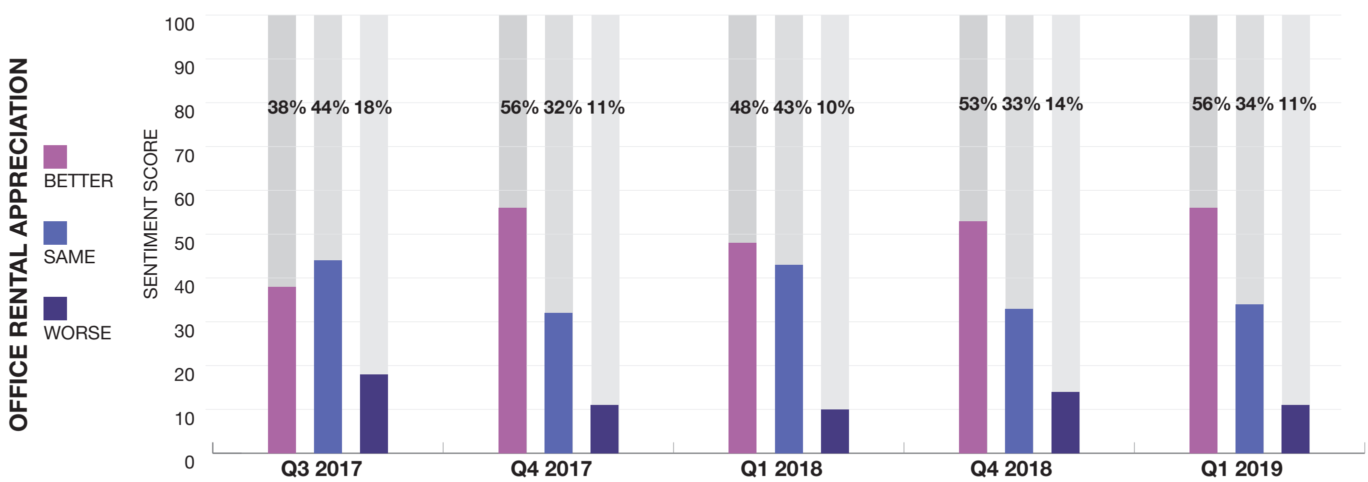


BETTER SAME WORSE

OFFICE MARKET HOLDS STEADY







FINDINGS

- New office supply is expected to largely remain the same but will not get depressed, in the coming six months. 58% of the respondents believe that the coming six months will see an improvement in the new office supply in key office markets.
- The future sentiment score regards the leasing activity, remains stable in Q1 2019. Majority of the stakeholders opine that leasing activity will remain steady in the coming six months with majority of the corporates deferring their expansion plans due to limited quality supply in the market.
- Stakeholder outlook with regards future rental appreciation remains upbeat in Q1 2019 with 56% of the stakeholders expecting rents to increase in quality office space in key locations due to limited options.

CONCLUDING REMARKS

In a nutshell, the survey findings for Q1 2019 (January–March) suggest that the stakeholders are positive regards the revival of the residential sector in the coming six months owing to the positive steps undertaken by the government and the banking regulator. The sentiments indicate that the stakeholders are looking forward for revival in the residential sales and expect buyers to slowly turn back to the market in the coming six months. On the office front, stakeholders remain positive but expect leasing to be steady in the coming six months due to paucity of quality supply, which will create an upward pressure on rental.

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