FICCI-NAREDCO-KNIGHT FRANK

# REAL ESTATE SENTIMENT INDEX

Q4 2017 (OCTOBER–DECEMBER 2017)

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.

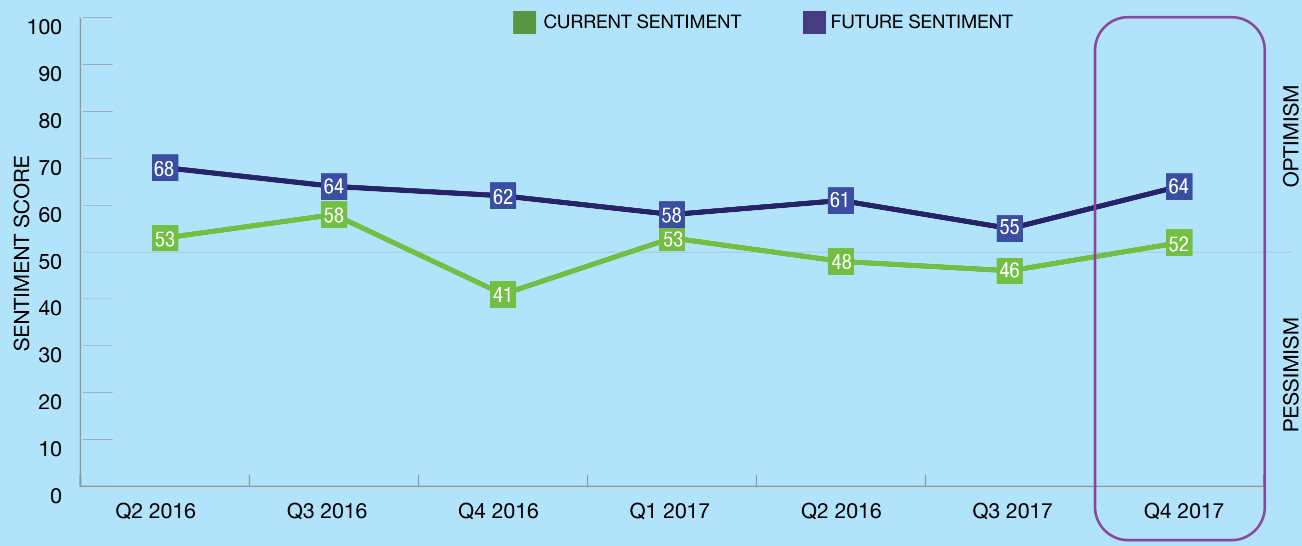
## APPROACH

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-bank 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 October–December 2017.

## SECTION A - OVERALL CURRENT AND FUTURE SENTIMENT

CURRENT SENTIMENT SCORE MOVES IN THE POSITIVE AFTER ADJUSTMENT TO REFORMS




## FINDINGS

- After six months of pessimism in Q2 and Q3 of 2017, the current sentiment score has bounced back in the positive zone.
- The sentiment score took a plunge in Q2 and Q3 (April–September 2017) due to implementation of various structural reforms such as the Real Estate (Regulation and Development) Act, 2016 (RERA) and Goods and Services Tax (GST) that were initiated by the government. The stakeholders took this time to recalibrate their business models and focus on compliance to these initiatives that are long term in nature.

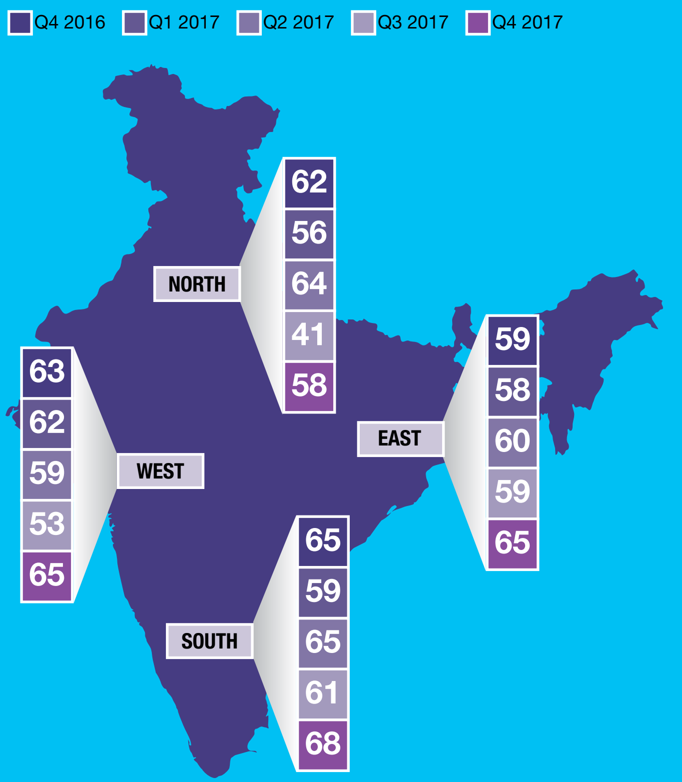
## SECTION B - FUTURE SENTIMENT SCORE

- The future sentiment score that had gone down in Q3 2017 (July–September) has picked up post the adjustments pertaining to the structural reforms like GST and RERA.
- The stakeholders are of the opinion that the much needed transparency brought in by the enormous structural reforms would fundamentally change the real estate sector dynamics for the better. Proper implementation of RERA and the GST rate rationalisation have boosted the stakeholder sentiments for the coming six months.

## ZONAL SENTIMENT SCORE

### NATIONAL CAPITAL REGION BOUNCES BACK IN THE POSITIVE

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



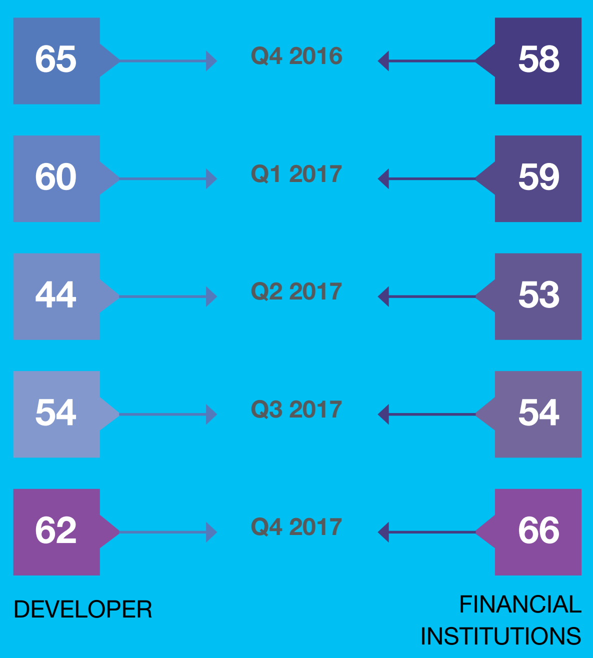

### FINDINGS

- South, east and west have always remained in the optimistic zone for many quarters in the past but north had slipped down to a dismal low in Q3 2017.
- The future sentiment score for north has come back in the positive zone following expectation of implementation of reforms such as RERA in full letter and spirit particularly by the states of Uttar Pradesh and Haryana. In a recent move, the newly formed Gurugram and Panchkula benches of RERA have stated that the on-going projects in the state will also be brought under the ambit of RERA - a move that will further instill confidence in the reeling sector.
- The stakeholders are of the opinion that these reforms coupled by price correction in the residential sector, which forms the major chunk of the real estate industry, will bring the much awaited traction in the northern market.

## STAKEHOLDER SENTIMENT SCORE

### FINANCIAL INSTITUTIONS AND DEVELOPERS GO GUNG-HO FOR FUTURE

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




### FINDINGS

- Future sentiments of both the developers and financial institutions that had taken a hit during Q2 and Q3 2017 have revived sharply in the last quarter of 2017. The score for financial institutions is in fact at an 18 month high.
- The dent in sentiments that came in the period between April to September due to the stir caused by the new policy initiatives like RERA and GST has now settled and developers and financial institutions alike are positive about the coming six months. This revival in sentiments can be attributed to the hope that more organised players will take the lead in the growth of the sector leading to more transparency and ease of doing business.

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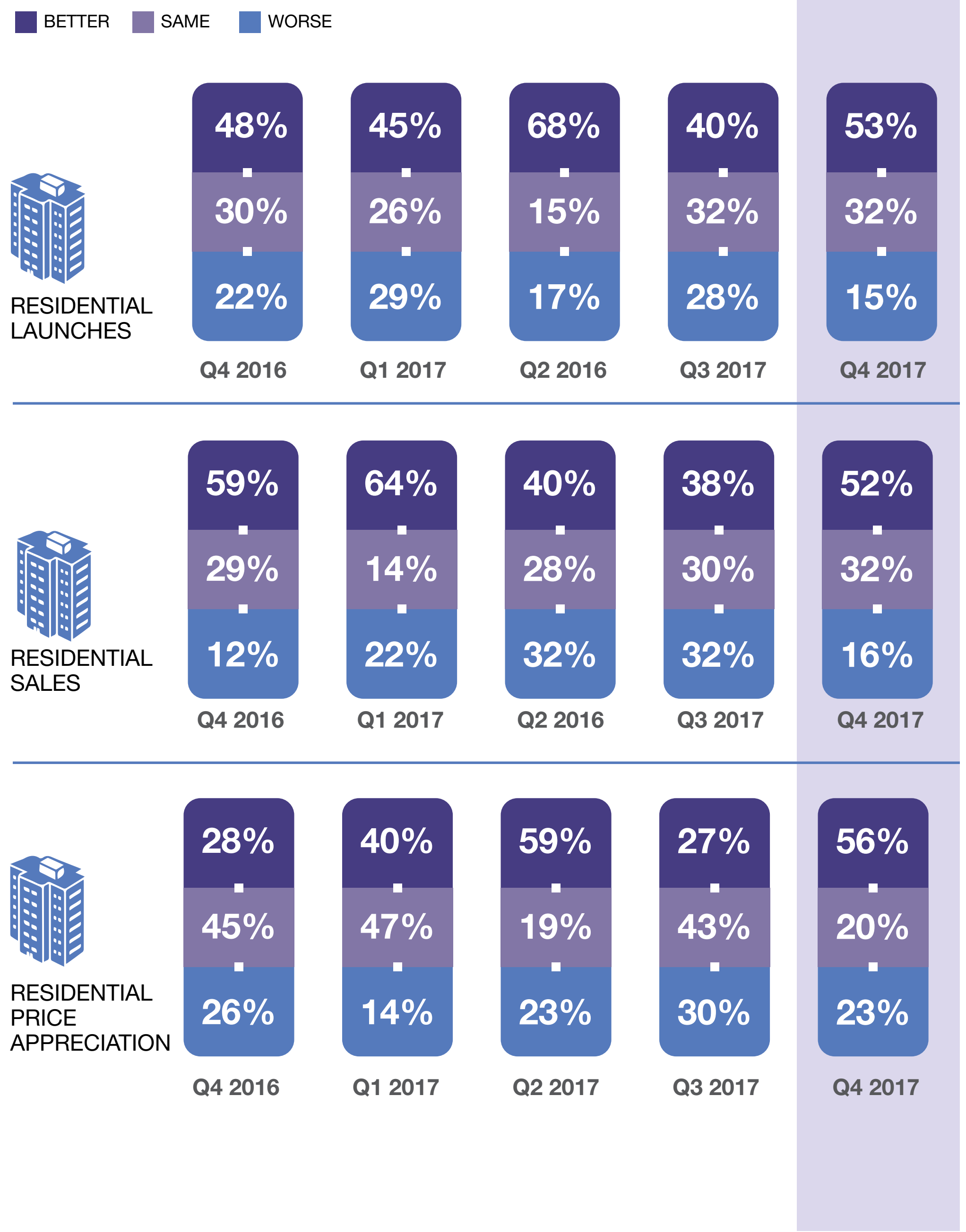
## RESIDENTIAL SECTOR IN THE ROUGH

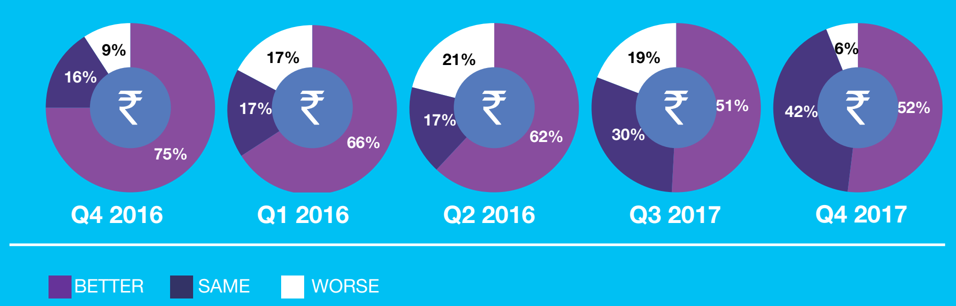



### FINDINGS

- Majority of the stakeholders have expressed optimism regards the new residential launches in the coming six months, mainly in the mid and affordable segment. This optimism can be corroborated with the government's impetus to the affordable housing segment in the last three budgets.
- Optimism regarding residential sales has come back in the market as against a dismal low in the preceding quarter. 52% of the stakeholders are of the opinion that the sales volume will come back post the dust around GST and RERA has settled down, which will bring transparency to the sector and thus attract the fence sitting buyer.
- In line with the improved sentiments regards residential new launches and sales, the stakeholders are expecting an increase in residential prices. However, given the current market conditions how far this expectation translates into realty will only unfold in the coming six months.

## REAL ESTATE INDUSTRY STAYS MUTED ON THE ECONOMIC FRONT

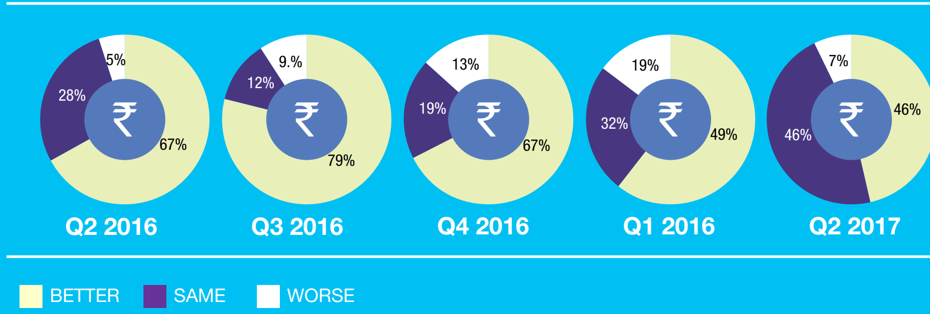
### ECONOMY



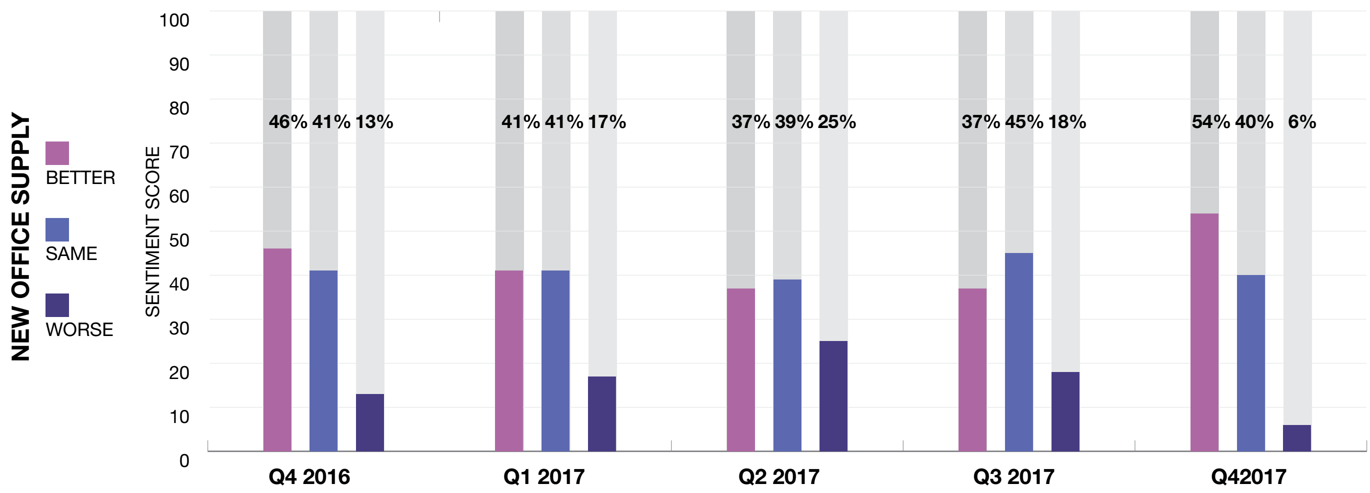

### FINDINGS

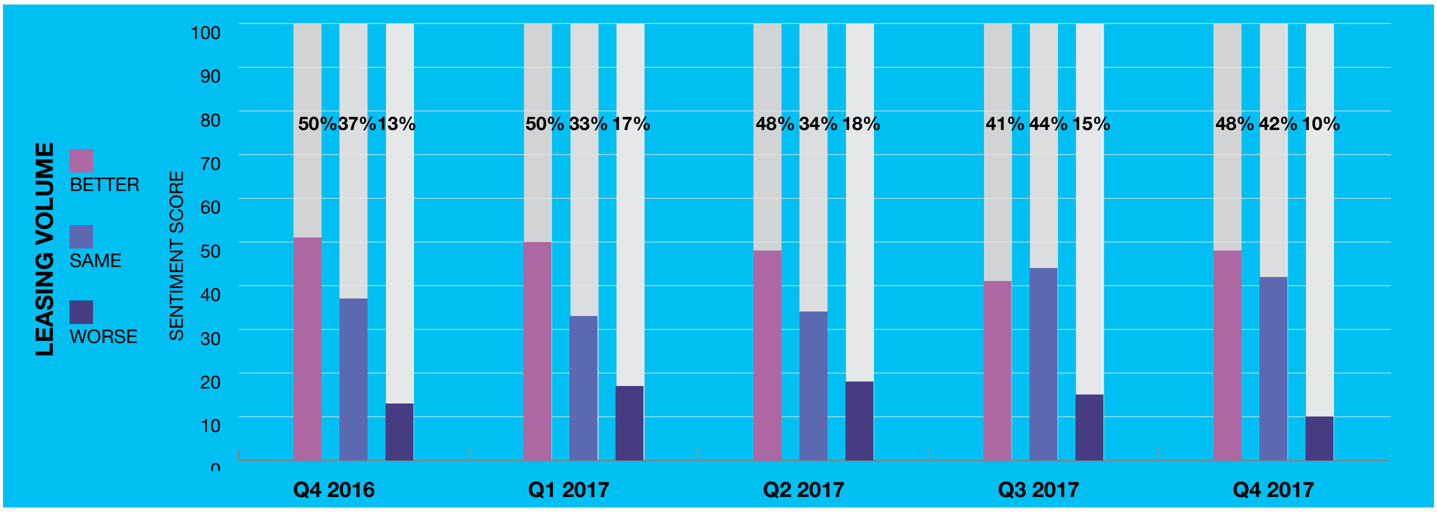
- The real estate industry's sentiments regards the economy does not show any substantial change from the preceding quarter. Only 52% of the stakeholders have opined that the economy will be better in the coming six months as against 51% in Q3 2017. Around a third of them feel that it will remain the same.
- This status quo can be attributed to the fact that that the stakeholders are in the wait and watch mode and are giving time for the new budget to take shape, which focusses on the rural economy and social sector. Coupled with this, the pressure on the fiscal deficit side and higher inflation expectation, along with a possibility of a halt in the softening of interest rates is holding back the stakeholders who are taking time to give a thumbs up to the economic performance of the country.
- Similarly, stakeholder sentiment regarding the funding scenario is also somewhat stagnant in Q4 2017. The stakeholders are holding onto their optimism and are keenly observing the panning out of reforms, which has not only increased transparency but has also attracted the participation of the organised players in the sector.

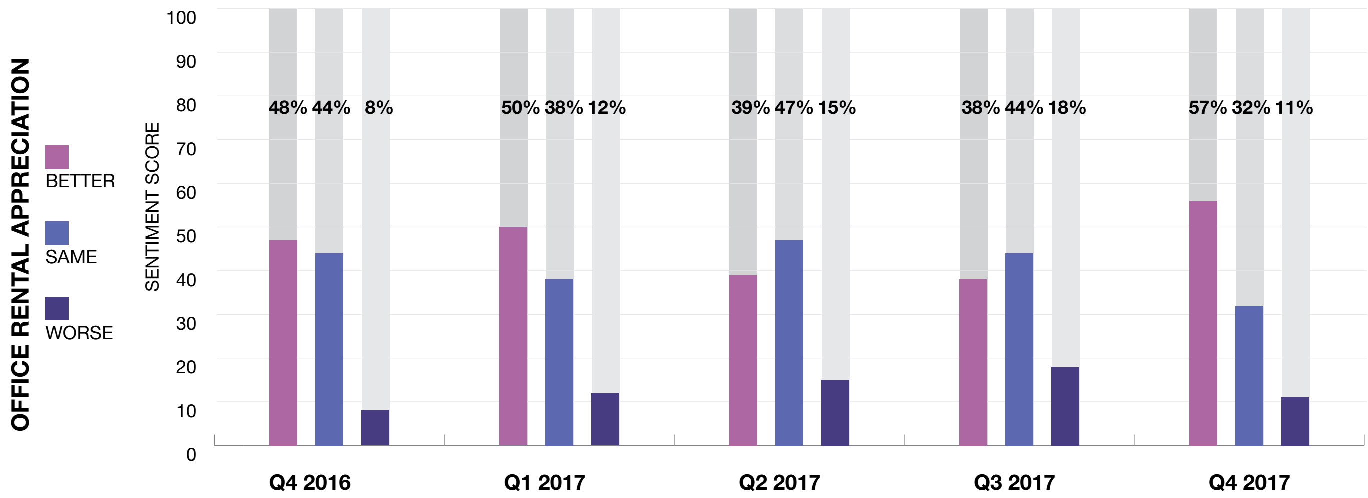
### FUNDING SCENARIO



## OFFICE MARKET HOLDS STEADY

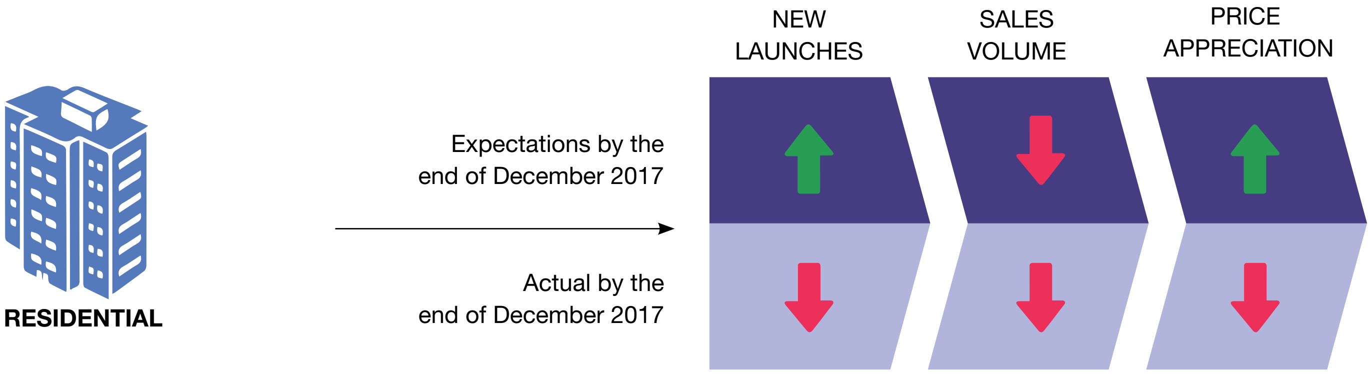


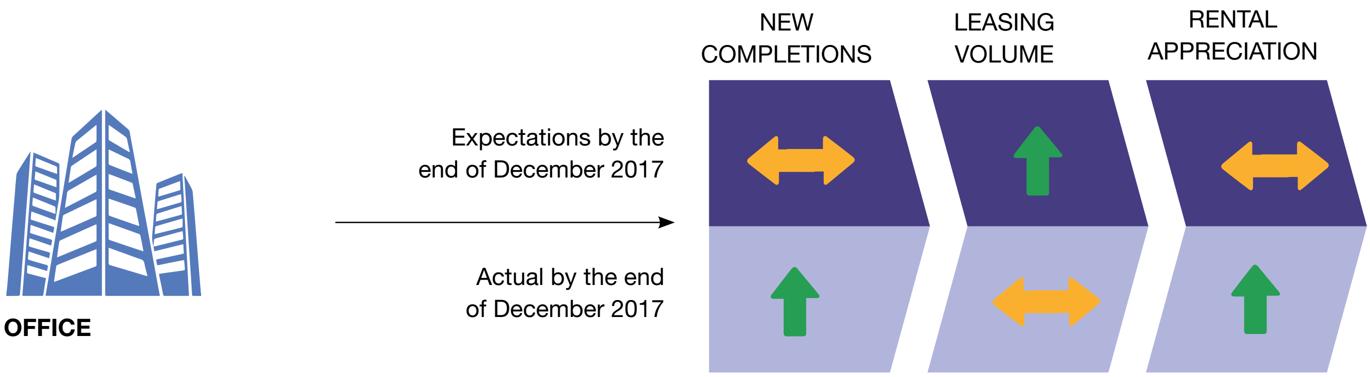




### FINDINGS

- The office market registers an improvement in future sentiments with majority of the stakeholders opining that the office market will either improve in the coming six months or will hold onto its current reins but will definitely not get depressed. 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 like NCR and Bangalore that has given the stakeholders some optimism.
- Majority of the stakeholders opine that leasing activity will remain steady in the coming six months. In line with the trends, lack of quality office supply and steady leasing will put an upward pressure on rentals. Nearly 56% of the respondents opine that office rental will move up in the coming six months.




## CONCLUDING REMARKS

The survey that was conducted in Q2 2017 (April–June 2017) painted a gloomy picture regarding the residential sales in the following six months (July–December 2017) which falls in sync with the ground reality. Homebuyers across major cities have stayed away from the market and have maintained their wait-and-watch mode except for Mumbai and Pune that saw marginal growth in sales volumes. The fact that Maharashtra is the only state that has implemented RERA in full letter and spirit has played a part in boosting consumer confidence in the state.

As regards the new residential launches, the current market reality is contrary to the optimistic stakeholder expectation in Q2 2017. The de-growth in residential supply has been progressively getting worse with the sector witnessing the largest percentage drop in supply volumes during this decade. With the reforms like RERA taking shape, developers are concentrating on completing and delivering projects instead of launching new ones.

The stakeholders expressed hope of residential price appreciation for the next six months in our survey conducted in Q2 2017, this however does not corroborate with the ground reality. Weighted average prices have fallen on an average by 3% across cities as opposed to stakeholder expectations Q2 2017. However, the effective price discounts offered by developers have been far higher. For example in NCR developers are offering deep discounts in the range of 10–15% in a bid to attract the fence-sitting buyers.

On the office front, the slide in office supply has slightly picked up in Q4 2017 as opposed to the stakeholder expectations six months ago. In terms of rentals, growth has been strong across markets with the average rental growth of 3% year-on-year (YoY) across the seven cities contrary to stakeholder expectations in Q2 2017.

Therefore, in a nutshell, our survey finding in Q4 2017 (October – December) suggests that the real estate sector is slowly coming out of the doldrums. The sector is gaining optimism on the back of reforms like RERA and GST. The residential segment is likely to witness increased transparency and see sporadic new launches by organised players and demand largely in the mid and affordable segment will dominate the market. Increase in residential prices will thoroughly be guided by market dynamics and buyer interest. Office supply will be under stress and leasing volumes will hold steady in the coming six months. Office rentals will inch up owing to supply constraints.

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