Research

FICCI | NAREDCO | Knight Frank

23 *rd edition*

Knight Frank –FICCI– NAREDCO

Real Estate Sentiment Index

Q4 2019 (October – December 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 (NAREDCO). The objective is to capture the perceptions and expectations of industry leaders in order to gauge the sentiment of the real estate market.

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India is now in the midst of a sharp economic slowdown

The year 2019 has been a challenging year and we are going through delicate times. The September quarter GDP growth nosedived to 4.5%, primarily due to a sharp deceleration in investment growth, even as consumption growth remained weak. The slew of corrective measures by the Government to boost demand and infuse liquidity such as the creation of INR 250 billion Alternative Investment Fund (AIF), GST rationalisation, partial credit guarantee scheme for NBFCs, are all steps in the right direction. However, the industry is in serious need for more targeted steps to revive confidence in the sector. The upcoming Union budget scheduled for February 2020 will be keenly watched by India Inc to invigorate demand and ease the credit crunch for the real estate sector. With this background, in the 23rd edition of the Knight Frank FICCI NAREDCO Sentiment Index, we attempt to slice the current market sentiments for the real estate sector and gauge the industry movement in the coming six months.

Approach

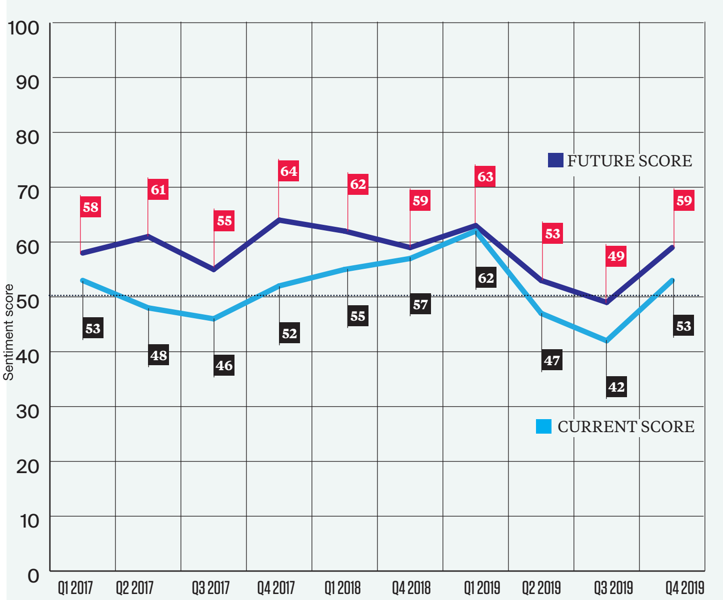
The Real Estate Sentiment Index is based on a quarterly survey of key supply-side stakeholders which include developers, private equity funds, banks and Non-Banking Financial Companies (NBFCs). The survey comprises questions pertaining to the economy, project launches, sales volume, leasing volume, price appreciation and funding. Respondents choose from the following options for which weightage has 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 sentiment; and a score below 50 indicates a 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 2019.

SECTION A – CURRENT SENTIMENT SCORE

- The current sentiment score has revived in the fourth quarter of 2019. Inching to 53 and getting back in the optimistic zone after two consecutive quarters in the pessimistic zone (below 50 mark), the score is a welcome revival.
- It is worth mentioning that the mood of the market was in the red in the preceding two quarters as the sector struggled with credit squeeze and overall economic slowdown. As per the advance estimate of NSO, India's GDP growth for FY20 is estimated at 5%, lowest in 11 years.
- A recovery in the current sentiment score hints that the stake-holders are cautiously optimistic as they keep a close watch over the implementation of the slew of measures undertaken by the government to revive the sector. The creation of a stressed asset fund (AIF) of INR 250 billion has been a welcome step in provid-ing the last mile funding to stalled affordable housing projects.
- Improvement in the current sentiment for the sector is also in line with recent improvement in some macro-economic indicators. For instance, Purchasing Manager Index (PMI) for the services and manufacturing sector improved meaningfully in December 2019. Cement sector growth improved to 4.1% in November 2019 after contracting in the previous 3 months.

CURRENT SENTIMENTS INCH UP; INDIA INC HOPEFUL FOR THE COMING SIX MONTHS



Source Knight Frank Research

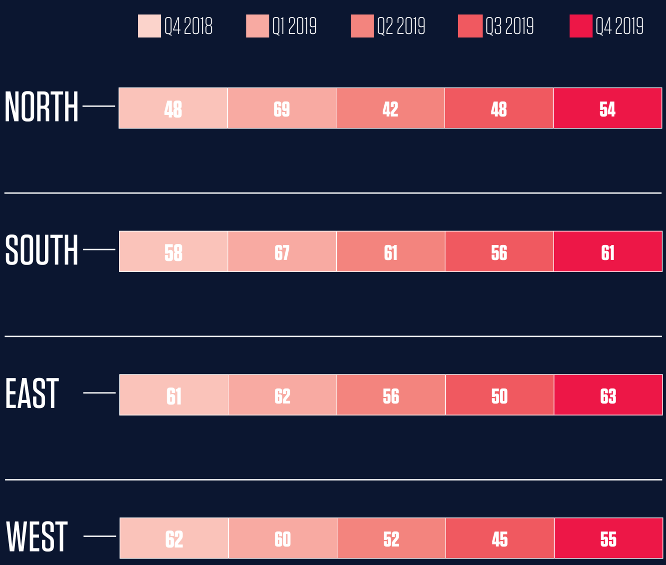
SECTION B – FUTURE SENTIMENT SCORE

- The future sentiment score that had gone in the red for the first time in the preceding quarter of Q3 2019 has bounced back to 59 in Q4 2019. Though in the optimistic zone now, we believe the outlook of stakeholders remains cautious with a majority of them opining that the market will remain at the same levels and not go down further in the coming six months.
- The real estate sector has been under pressure for over three years now. Weak demand, inventory overhang, developer defaults coupled with the worsening of the NBFC crisis has dried up funding for the sector, which in turn has increased the borrowing cost and impacted finances for the already strained sector.

B.1 ZONAL FUTURE SENTIMENT SCORE

NORTH AND WEST MAINTAIN CAUTION

SCORE>50: OPTIMISM | SCORE=50: SAME/NEUTRAL | SCORE<50: PESSIMISM



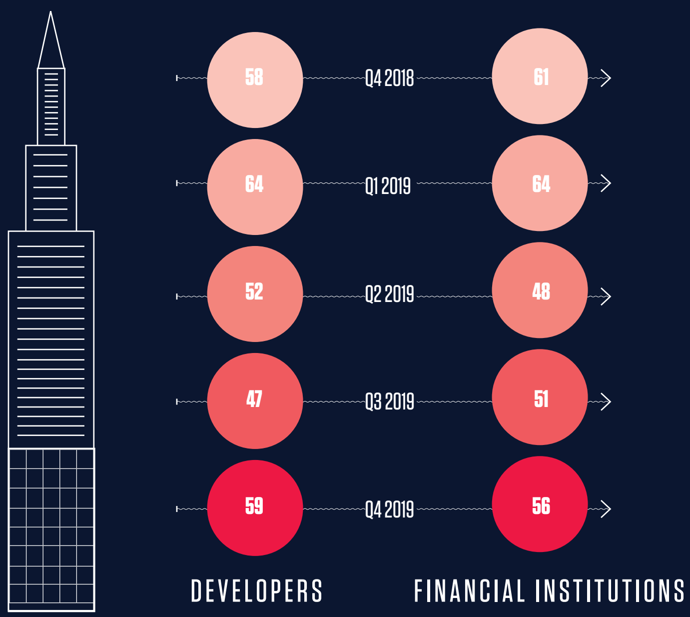
FINDINGS

- The future sentiment score for North moves to optimism after two consecutive quarters of pessimism. Inching to 54 in Q4 2019 from 48 in Q3 2019, the stakeholders in the region are somewhat positive as regards the coming six months.
- The stakeholders opine that though the market is reeling under inventory pressure and low buyer confidence, what brings respite is that now all developers have aligned their business with RERA and GST. This is leading to the rapid consolidation and filtering of the market in Gurugram in Haryana, Noida and Greater Noida in Uttar Pradesh, which forms the major portion of the real estate chunk of the National Capital Region.
- Along with this, the creation of the INR 250 billion stressed asset fund (AIF), has brought back some confidence in the stakeholders of the region, as it would help provide the last mile funding to various stuck projects in NCR.
- However, the stress fund set up by the government to complete stalled projects will exclude Jaypee Infratech, Unitech and Amrapali Developers as the matter is sub judice. Aimed to complete projects in the affordable and mid segment, we see projects in Ghaziabad, Noida and Greater Noida taking the benefit of this outlay.
- Sentiment score for West which had gone in the red for the first time in the preceding quarter has moved up to 55 in Q4 2019. Stakeholders in the West are also in a wait and watch mode and are awaiting the implementation of the AIF that will boost market sentiments in the current credit crunch.

B.2 STAKEHOLDER FUTURE SENTIMENT SCORE

DEVELOPERS WELCOME GOVERNMENT INTERVENTION, LENDERS VIGILANT

SCORE>50: OPTIMISM | SCORE=50: SAME/NEUTRAL | SCORE<50: PESSIMISM



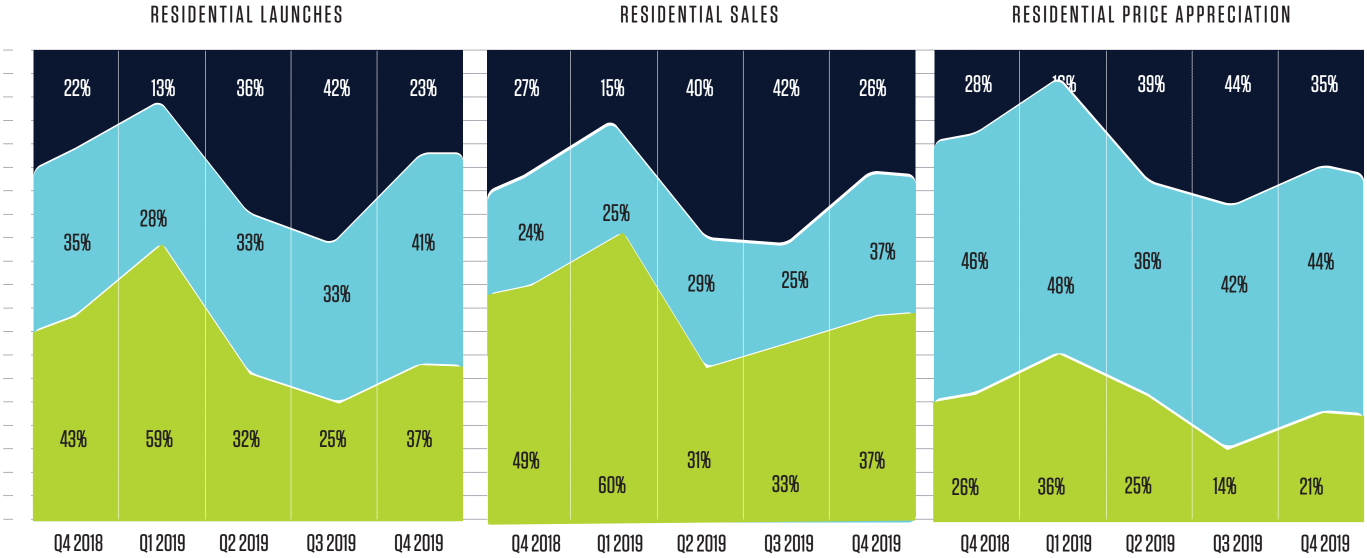
FINDINGS

- Confidence of the developers has somewhat revived in the last quarter of 2019. The sentiment score that had gone in the red in Q3 2019 has boisterously come back to 59 in Q4 2019 on the back of government interventions. This means the stakeholders are optimistic regarding the stimulation of the sector in the coming six months.
- Over the past two years the real estate sector has witnessed structural changes that have transformed the dynamics of the sector. Starting with demonetisation in the latter half of 2016, and the implementation of Real Estate Regulatory Authority Act (RERA) and Good and Services Tax (GST) in 2017, the real estate sector is undergoing a phase of catharsis.
- The Reserve Bank of India (RBI) has reduced the repo rate cumulatively by 135-basis points so far. With the linking of the bank lending rate to an external benchmark, bank's transmission of lower policy interest rate is expected to gather pace. SBI has recently cut its home loan rate to 7.90% from 8.15%.
- Though the sentiments of financial institutions has revived from the preceding quarter; the stakeholders remain cautious.

B.4 RESIDENTIAL SECTOR OUTLOCK

BETTER SAME WORSE

RESIDENTIAL REALTY SEES GREEN SHOOTS OF RECOVERY



Source Knight Frank Research

FINDINGS

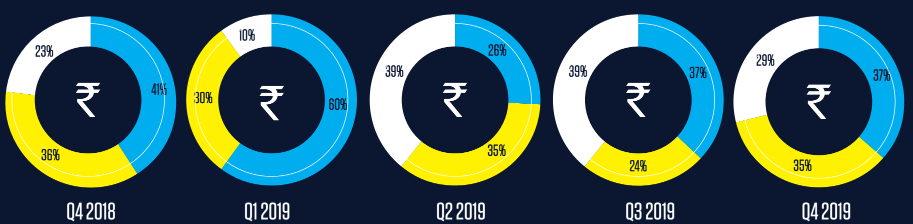
- As far as residential sales is concerned, 74% of the stakeholders have shown a positive outlook for the coming six months maintaining that residential sales will either improve or remain the same but will not go down further.
- The sector has seen muted prices across cities due to slow demand and inventory overhang. Developers facing the credit freeze are keeping a lid on any upwards increase in prices with 79% of the stakeholders opining that residential prices will remain at the same levels or drop further in the coming six months.
- Slew of measures announced by the government like AIF for last mile funding of affordable housing, rationalisation of GST rates, along with liquidity support to HFCs and NBFCs have acted as a shot in the arm for the sector, but the survey suggests that more targeted solutions are required to further revive the sentiments and invigorate demand.

B.3 ECONOMIC OUTLOOK AND FUNDING SCENARIO

URGENT POLICY ACTIONS REQUIRED TO REVIVE ECONOMY;
AND CAUTIOUS FUNDING ON THE CARDS

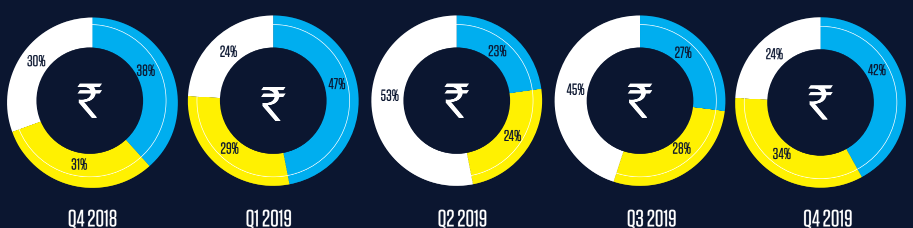
ECONOMY

BETTER SAME WORSE



FUNDING SCENARIO

BETTER SAME WORSE



Source Knight Frank Research

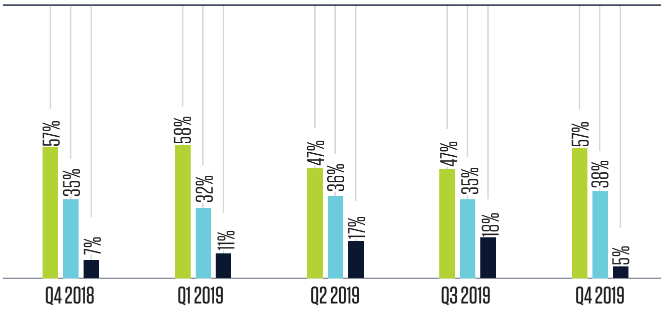
FINDINGS

- The real estate industry's sentiments regarding the economy has remained cautious in the fourth quarter of 2019. While 35% of the stakeholders opine that that the overall economic situation will be the same in the coming six months, 37% are of the opinion that the trends will get better.
- The cautious outlook comes on the back of the overall economic slump. Private final consumption expenditure in the economy has fallen to 4% in H1 FY20 from 8% average in previous three years, while investment growth has fallen to a 19-quarter low of 1% in Q2 FY20 .
- As far as funding is concerned, stakeholders have taken a positive stance for the coming six months. The survey findings suggest that the stakeholders feel that the flow of funds to the sector will improve in the coming six months.

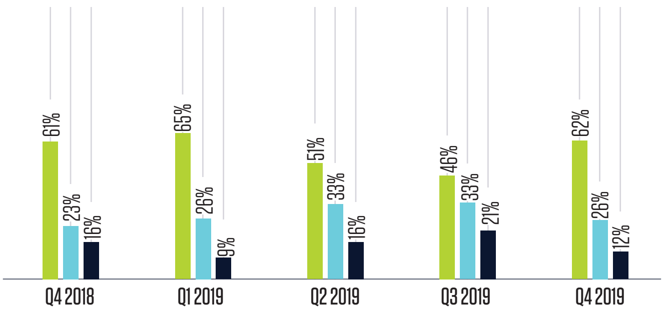
B.5 OFFICE MARKET OUTLOOK

OFFICE MARKET - THE BRIGHT SPOT

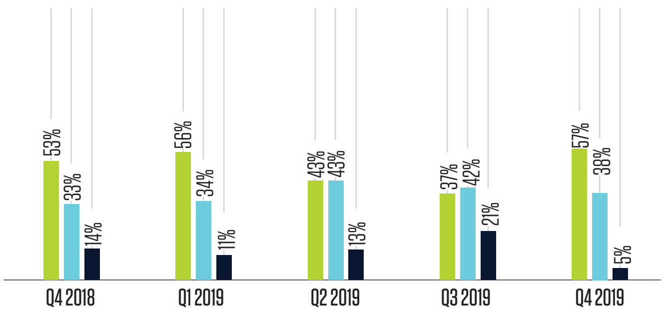
NEW OFFICE SUPPLY



LEASING VOLUME



OFFICE RENT APPRECIATION



Source Knight Frank Research

FINDINGS

- Outlook regards the office market for the coming six months is on a positive side, which also corroborates the current market trends. The office market clocked an all-time high transaction of 5.6 mn sq m (60.6 mn sq ft) in 2019, signalling the robustness of the market. The future sentiment score regarding the leasing activity is strong with 88% of the stakeholders opining that leasing activity will either improve or remain the same.

- Maintaining the positive momentum, a majority of the stakeholders have opined that new supply will enter markets across geographies. According to Knight Frank Research the supply momentum stayed strong in 2019 as close to 5.7 mn sq m (61.3 mn sq ft) of office space was delivered during the year. 91% of the stakeholders expect rents to either remain at the current levels or firm up in key office markets.

CONCLUDING REMARKS

In a nutshell, the survey findings for Q4 2019 (October – December) suggest that stakeholder sentiments for the real estate sector are in the optimistic zone regarding the current situation and expectations for the next six months. The Sentiment Index has shown an improvement owing to the positive steps undertaken by the government and the banking regulator. The slew of measures announced by the Government over the past few months have been steps in the right direction, but the grappling sector needs more directed reforms and measures for revival.

The stakeholders are keenly awaiting quick and effective implementation of the INR 250 billion stress fund for the stalled projects which will help lift the market sentiments. Along with this, the transmission by banks of the 135-basis point policy interest rate cut by RBI, is a key aspect to convince the fence sitting buyers. There is also a need to revive buyer confidence and demand in the economy. The upcoming Union Budget scheduled for February 2020 will be keenly watched by India Inc for steps to invigorate demand and ease the current liquidity crunch.

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