

A detailed isometric line drawing of a city skyline. It features several tall buildings of varying heights and widths, some with multiple windows. There are also smaller structures, trees, a bench, and a car with traffic signs in the foreground, all rendered in a clean, minimalist line-art style.

FICCI-KNIGHT FRANK REAL ESTATE SENTIMENT INDEX

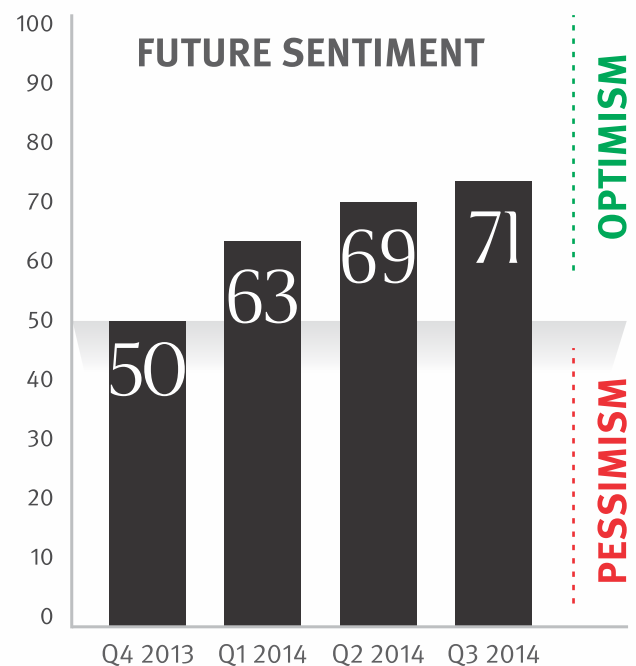
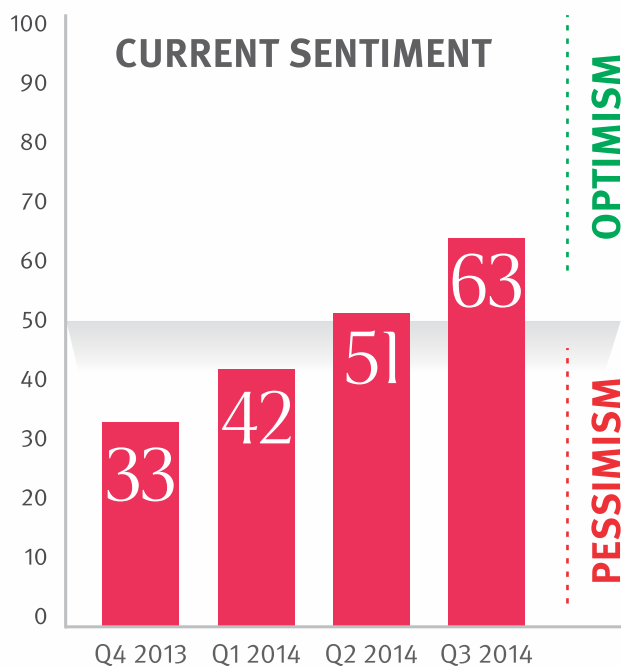
Q3 2014

The real estate sentiment index is jointly developed by Knight Frank India and the Federation of Indian Chambers of Commerce and Industry (FICCI). 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 index is based on a quarterly survey of key supply-side stakeholders, including 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 options. Hence, a score of 50 represents a neutral view; a score above 50 demonstrates a positive outlook, and a score below 50 indicates a negative sentiment. In order to present a holistic view of the real estate industry, two indices are computed. The current sentiment index indicates the respondents' assessment of the present scenario compared to six months ago, and the future sentiment index represents their expectations in the coming six months. However, the rest of the analysis focuses only on future sentiment. The survey was conducted during July-September 2014.

STAKEHOLDERS CONTINUE TO SHOW OPTIMISM POST THE UNION BUDGET 2014-15



FINDINGS

- The Union Budget 2014-15 has laid considerable emphasis on the real estate sector and this has infused a positive sentiment for the future. As a result, the future sentiment index has continued its upward run during Q3 2014. Some of the highlights are: relaxation in FDI, focus on infrastructure and affordable housing, Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts.
- While the RBI did not cut down policy rates post the change in the government at the Centre, a 50 basis point reduction in the Statutory Liquidity Ratio (SLR) has given

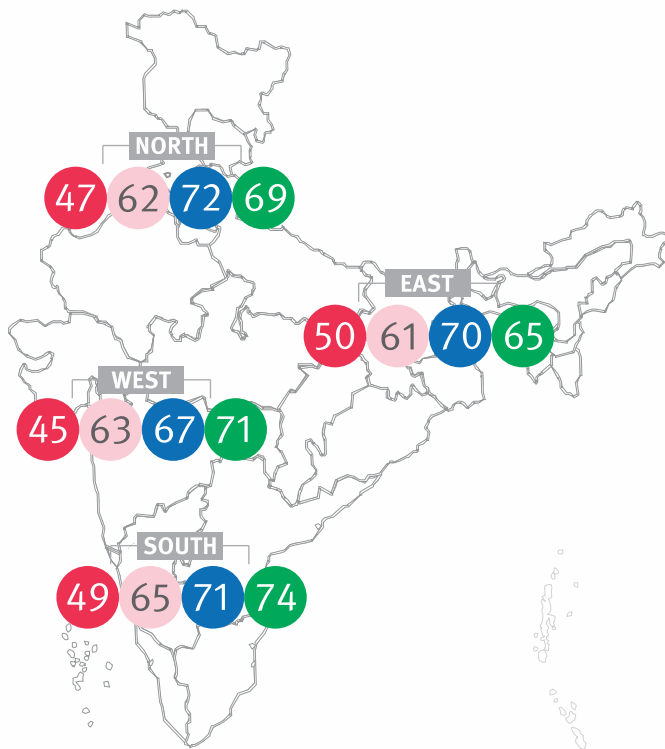
a fillip to ease the liquidity situation of banks. Going forward, the higher availability of funds is expected to be beneficial for the home loan sector.

- Reduction of home loan interest rates by leading banks is a sentiment booster for home buyers and corporates.
- Although the current sentiment score merely breached the 50 mark in Q2 2014, results for this quarter show a significant improvement. The current score of 63 is attributable to the stakeholders' positive perception regarding the economy, residential sales and price appreciation compared to six months back.

ZONAL SENTIMENT SCORE (FUTURE)

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

■ Q4 2013 ■ Q1 2014 ■ Q2 2014 ■ Q3 2014



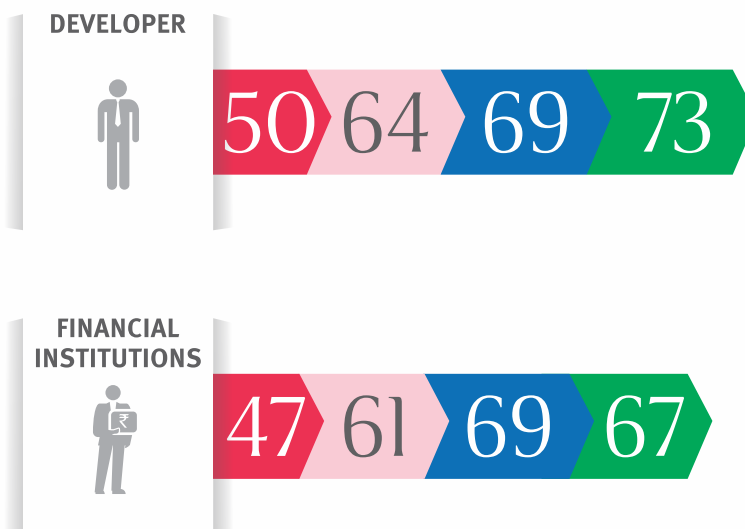
FINDINGS

- Although the stakeholders are optimistic about the future across all zones, the North and East show a slight de-growth in Q3 2014, mainly due to low expectation of recovery in the office sector.
- The South zone seems to be the most confident about the future due to a positive outlook for the IT/ITeS business in 2015.

STAKEHOLDER SENTIMENT SCORE (FUTURE)

SCORE >50: Optimism SCORE 50: Same/Neutral
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■ Q4 2013 ■ Q1 2014 ■ Q2 2014 ■ Q3 2014

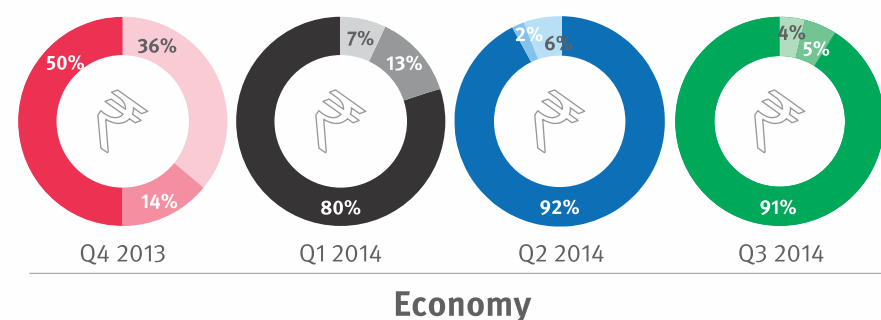


FINDINGS

Significant tail winds post a favourable budget focussing on real estate and infrastructure have impacted developer sentiments positively. The future sentiment score of the developers has surged to 73 in Q3 2014, up by 4 points from the previous quarter. However, financial institutions seem to be waiting for more concrete signs of revival. This is reflected in the marginal tapering of their future sentiment score.

THE SENTIMENT CONTINUES TO STAY STRONG UNDER THE PATRONAGE OF A BUSINESS-FRIENDLY REGIME

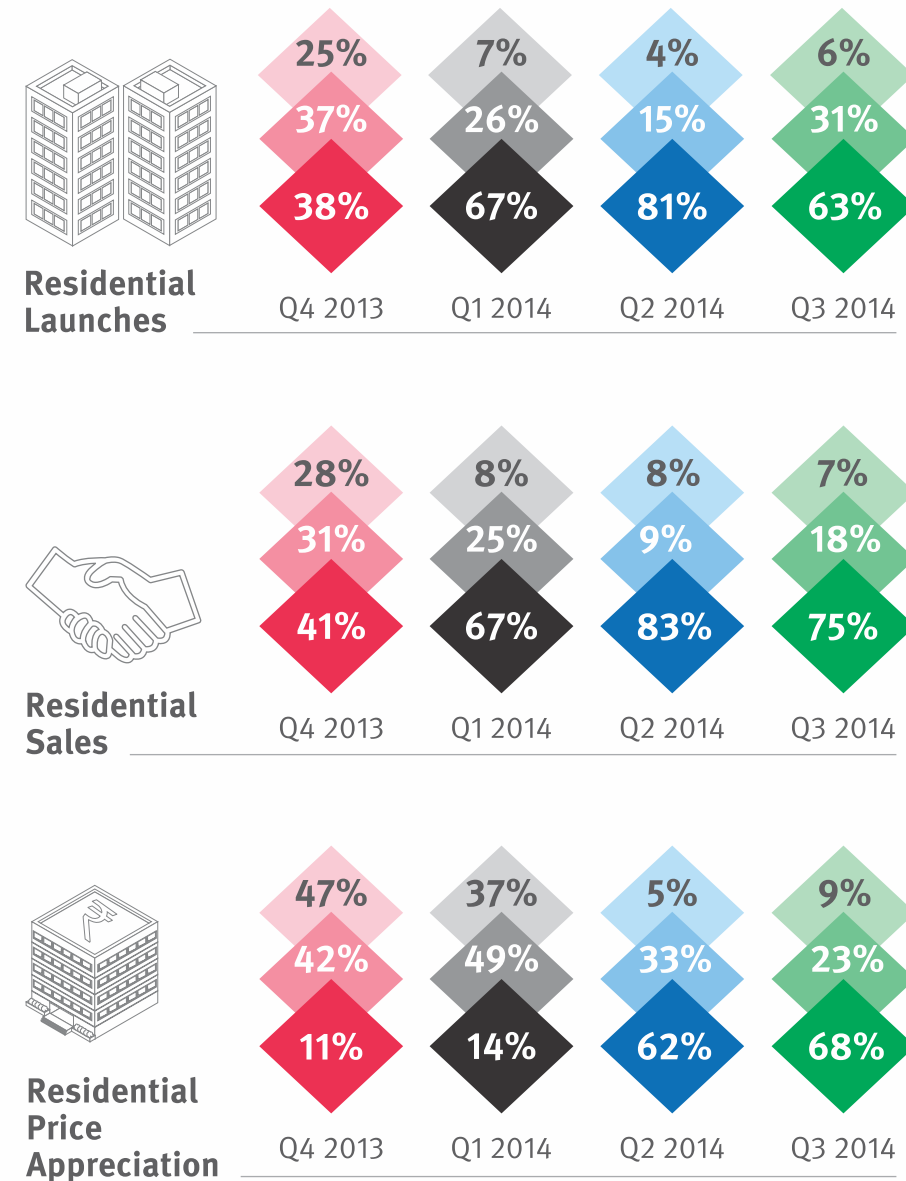
■ Better ■ Same ■ Worse



Economy

THE RESIDENTIAL SECTOR EUPHORIA SEEMS TO HAVE RATIONALISED

■ Better ■ Same ■ Worse

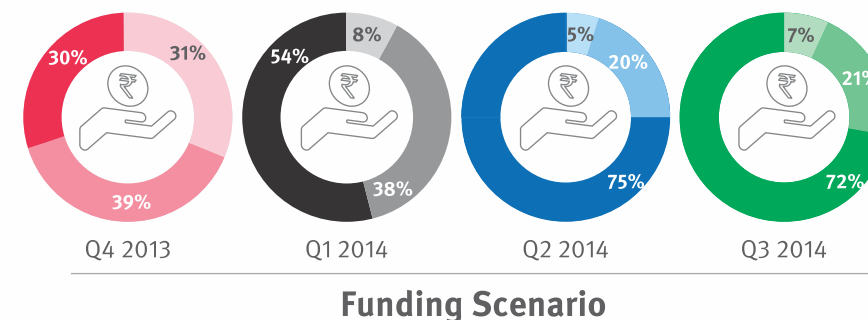


FINDINGS

- The majority of the respondents are markedly bullish about the residential sector for the coming six months. However, the euphoria observed in the previous round of the survey seems to have rationalised in terms of both, launches and sales.
- The slow velocity of sales and the pressures of unsold inventory, coupled with delayed economic revival and policy implementation, have weighed down stakeholder sentiments marginally during Q3 2014.
- The optimism about the residential price appreciation witnessed in Q2 2014 continues to hold steady in this quarter as well.

FINDINGS

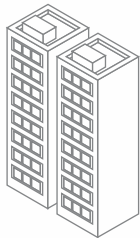
- In Q3 2014, it is observed that over 90% of the respondents expect the economy and funding scenario to be either the same or better in the coming six months. This is in line with our findings in the last round of the survey.
- Stakeholders are still keeping their patience regarding the actual recovery of the economy.



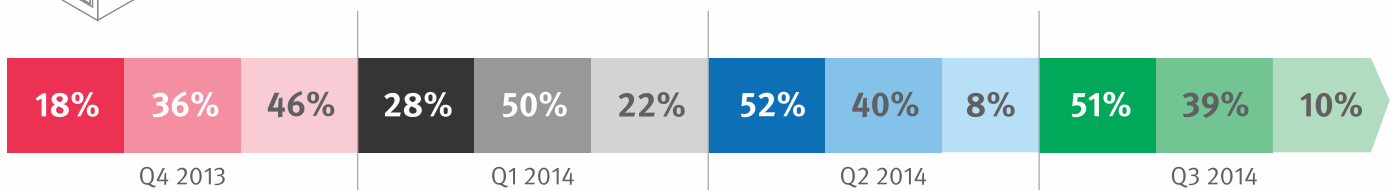
Funding Scenario

OFFICE SPACE LEASING VOLUME EXPECTED TO OUTSTRIP UPCOMING SUPPLY

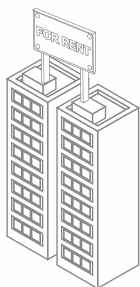
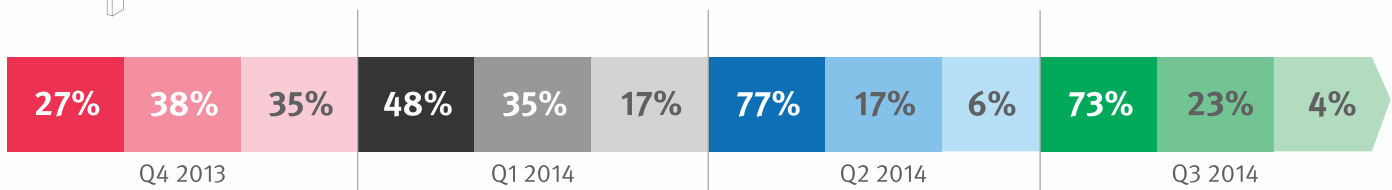
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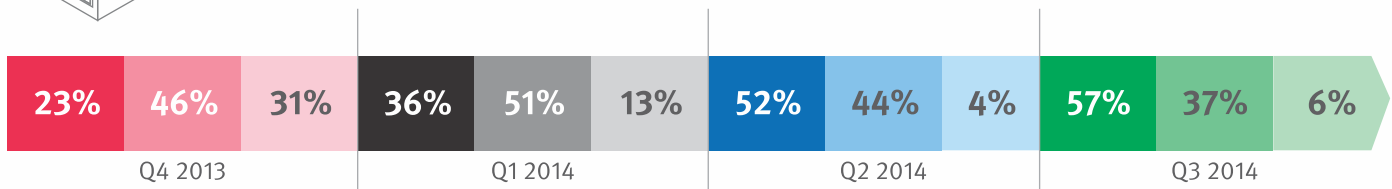
New Office Supply



Leasing Volume



Office Rental Appreciation



FINDINGS

- The conviction in the Indian economic story post the change in regime continues to hold strong and keep stakeholder sentiments positive in Q3 2014.
- The positive sentiment is more pronounced in the leasing volumes as demand is expected to grow in the coming quarters. Almost three quarters of the survey respondents believe that leasing volumes will witness an expansion by the end of Q1 2015.
- However, they expect new office supply to remain under check, which is likely to have an impact on rental appreciation. The majority of the respondents feel that office space rental growth will strengthen in the coming six months.

CONCLUDING REMARKS

Completion of four rounds of survey has given us an opportunity to evaluate how the real estate market has performed in comparison to the expectation of the stakeholders. As per our first round of the survey, conducted during October-December 2013, the future score stood at 50, indicating that the stakeholders expected a status quo by the end June 2014. While the sentiments were slightly negative for the office market, in reality, this sector performed better, both in terms of new office completions and leasing volumes. In the case of the residential sector, new launches have experienced a decline instead of the expected rise.



Residential

Expectation
for end of
June 2014

Actual
by end of
June 2014

New Launches



Sales Volume



Price Appreciation



Office

Expectation
for end of
June 2014

Actual
by end of
June 2014

New Completions



Leasing Volumes



Rental Appreciation



The Union Budget 2014-15 has undoubtedly strengthened the expectations of real estate stakeholders, with a substantial focus on infrastructure, affordable housing, FDI and REITs. Both, the current and future sentiment scores continue to show an upward trend; however a 12-point jump in the current score indicates that the real estate market has already started witnessing some green shoots of recovery. The future sentiment score also surged up by 2 points in Q3 2014, reinstating the fact that stakeholders expect ample growth in the coming six months. It remains to be seen if the sentiments continue to show a positive outlook in the coming quarters as we begin to experience actual economic revival and the implementation of policies.

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