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Real Estate Sentiment Index

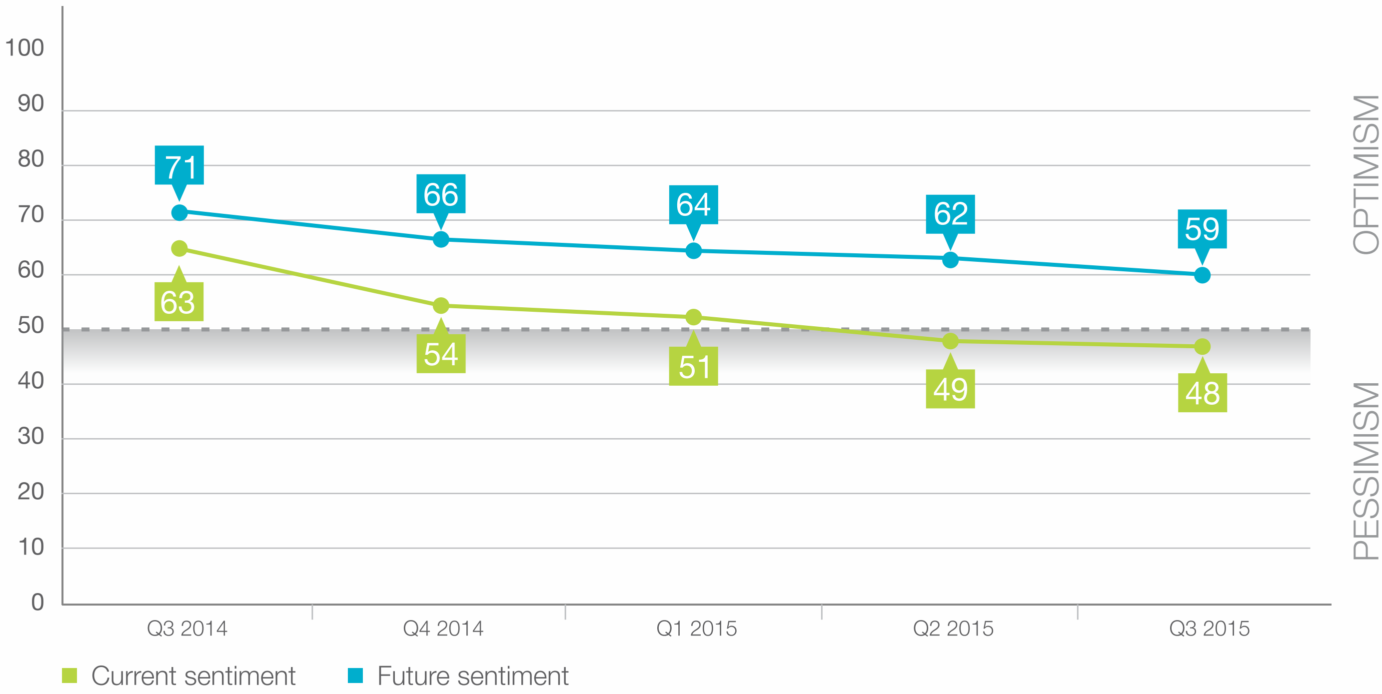
Q3 2015 (July-September 2015)

The real estate sentiment index is developed jointly 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 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, 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 for the next six months. However, the rest of the analysis focuses only on the future sentiment. This survey was conducted from July to September.

STAKEHOLDER SENTIMENT DECLINING IN Q3 2015



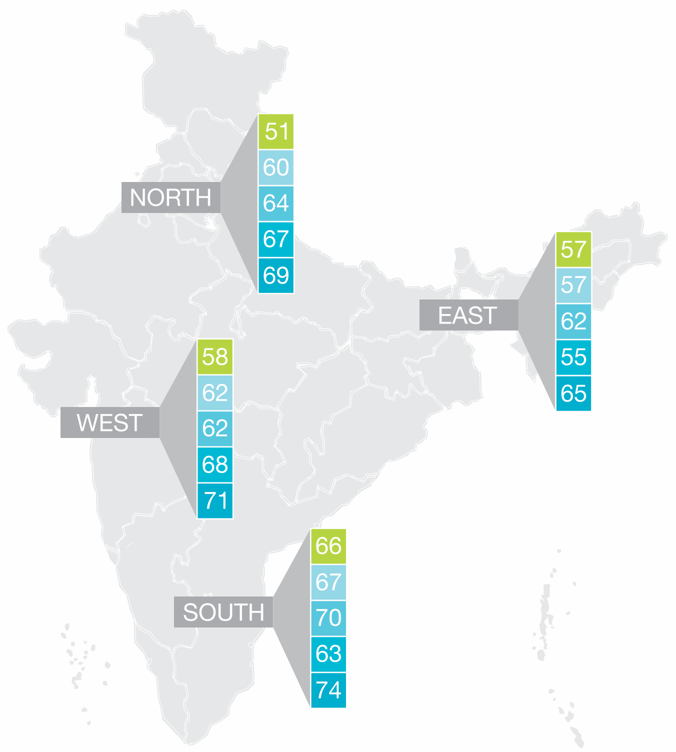
FINDINGS

- Stakeholder sentiments have been going downhill since Q4 2014, indicating their shaken confidence levels. This is the second quarter in a row wherein the current sentiment score is below the positive mark.
- The current score, at 49, shows that the stakeholders believe that the current market scenario is worse than it was six months ago. Delayed reforms and the underperformance of the residential market have weakened stakeholder confidence across all regions.
- While the current sentiment is negative, the future sentiment score stands at 59. Though the score indicates that the coming six months are likely to improve, this continuous four-quarter fall reflects the waning stakeholder confidence. A slightly positive expectation from the office sector in the future is keeping the future sentiment score in the positive zone.

ZONAL SENTIMENT SCORE (FUTURE)

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

Q3 2014 Q4 2014 Q1 2015 Q2 2015 Q3 2015

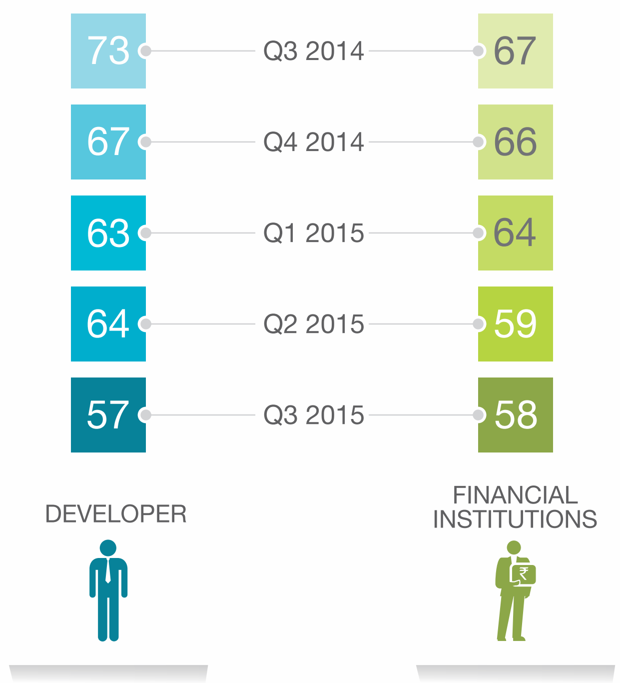


FINDINGS

- Although the survey participants across the country continue to be optimistic about the future, all the zones observed a dip in sentiment levels during Q3 2015 compared to the preceding quarter – a clear reduction in business sentiments across India.
- The North zone witnessed the steepest decline in the future sentiment score during Q3 2015. Stakeholder sentiments have barely made it into the positive territory in view of the current challenges faced by the underperforming residential sector in NCR.

STAKEHOLDER SENTIMENT SCORE (FUTURE)

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

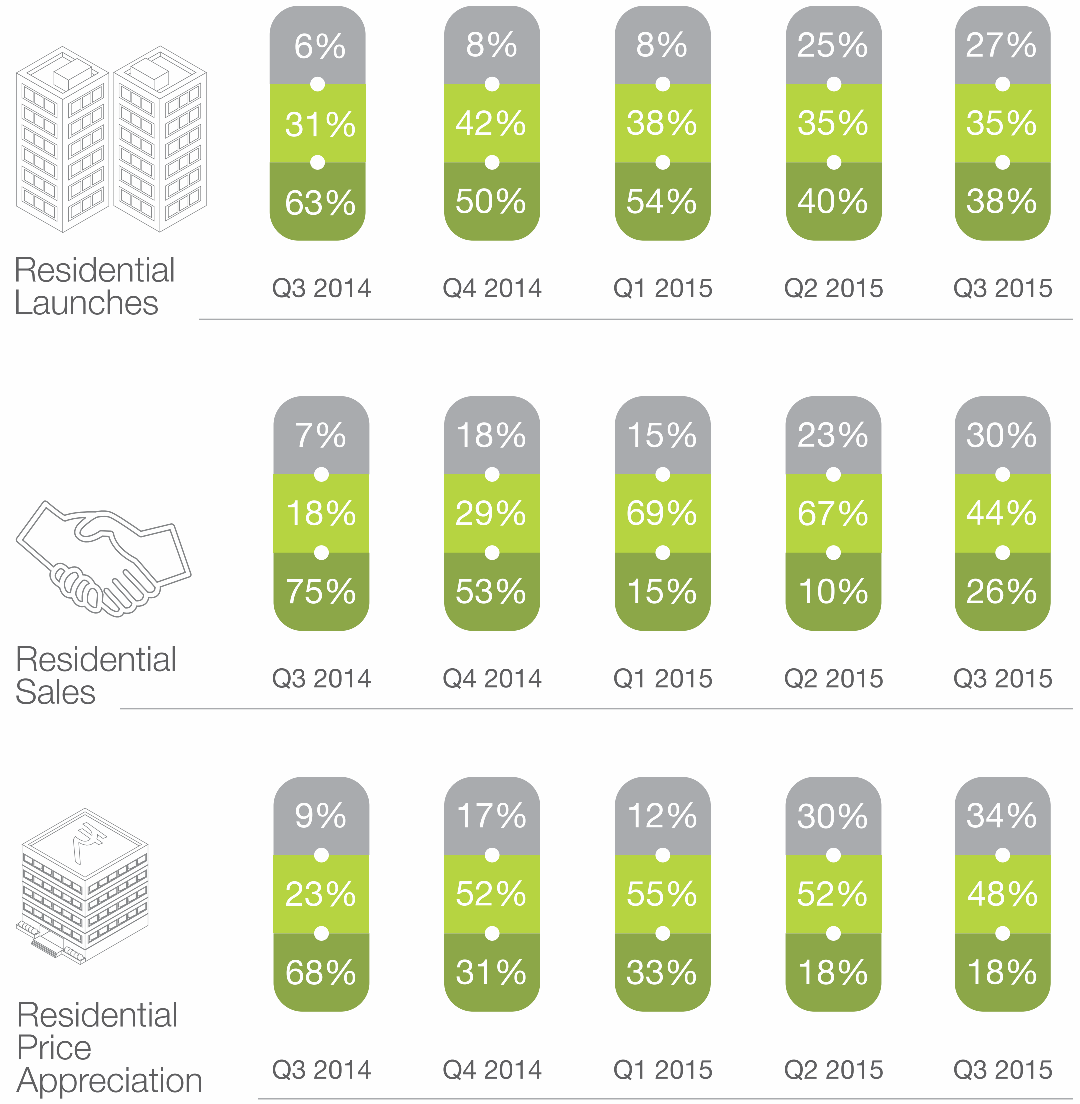


FINDINGS

- Although the Q3 2015 survey results show that developers and financial institutions believe that the market scenario will improve in the next six months, the level of optimism is demonstrating a declining trend since Q3 2014.

ON-GOING FESTIVE SEASON FAILS TO LIFT MARKET SENTIMENTS

Better Same Worse

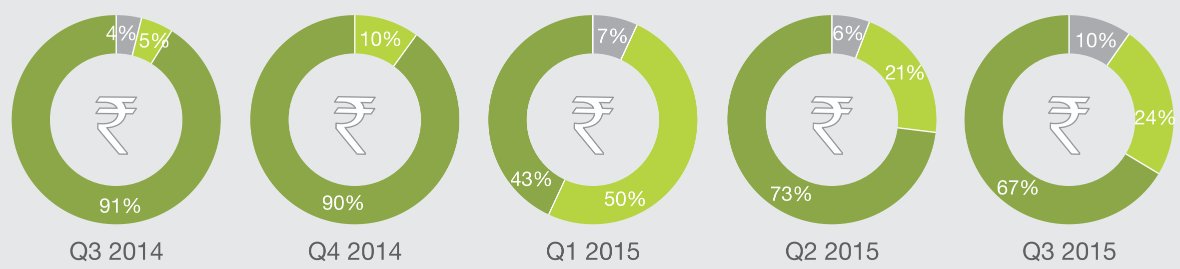


FINDINGS

- The recent slowdown in the residential sector across the major cities in India has shaken stakeholder sentiments. The number of respondents with a negative outlook towards new launches and sales volume has been increasing consistently since Q1 2015. There is no revival in the overall sentiment for the residential sector in Q3 2015 despite the ongoing festive season.
- Nearly 82% of the survey respondents feel that residential price appreciation is either going to remain the same or worsen in the coming six months.

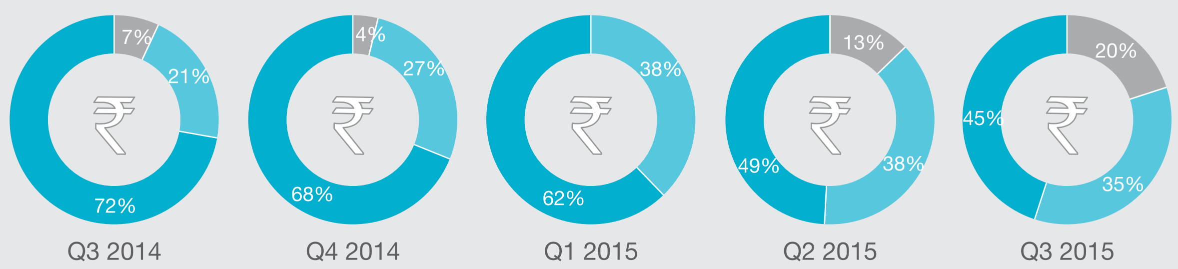
EXPECTATION FROM ECONOMIC GROWTH RATIONALISED

Economy



Better Same Worse

Funding Scenario



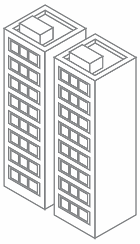
Better Same Worse

FINDINGS

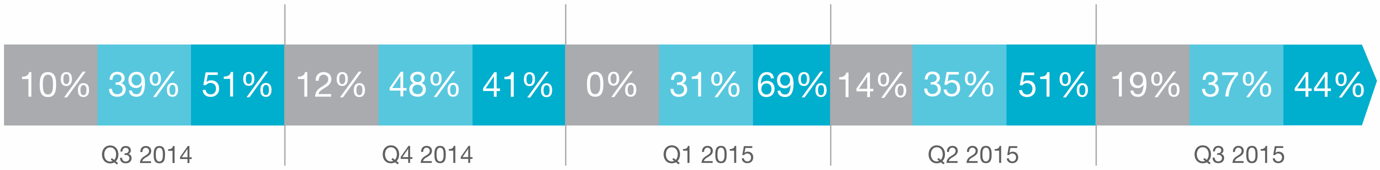
- There was a revival in sentiments for the economy in Q2 2015; however, that seems to have rationalised slightly in Q3 2015. Nevertheless, nearly 67% of the stakeholders believe that the economic scenario will strengthen further in the coming six months.
- Concerns about the funding scenario continue in Q3 2015 – more than 50% of the stakeholders believe that it will either remain the same or worsen by Q1 2016.

SENTIMENTS REMAIN UPBEAT FOR THE OFFICE SECTOR

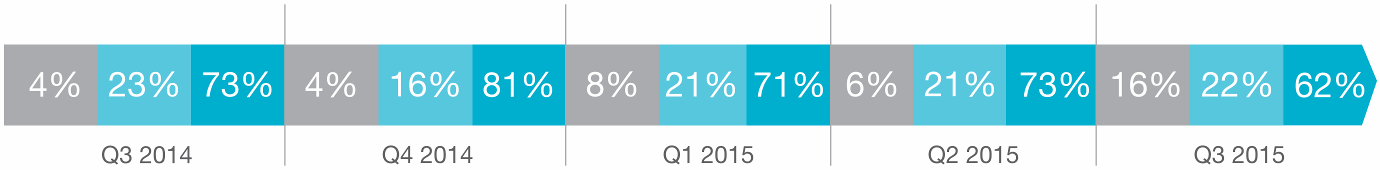
Better Same Worse

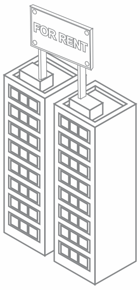


New Office Supply

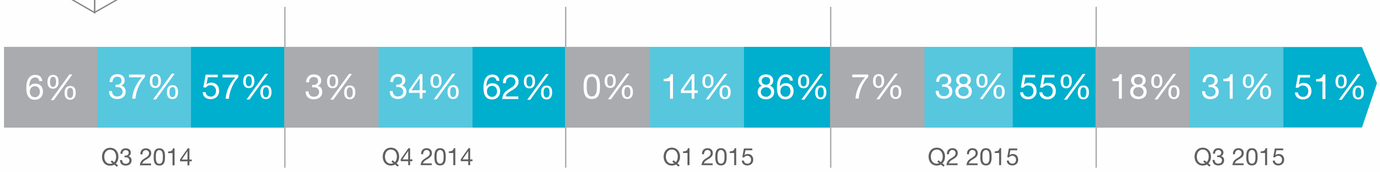


Leasing Volume





Office Rental Appreciation

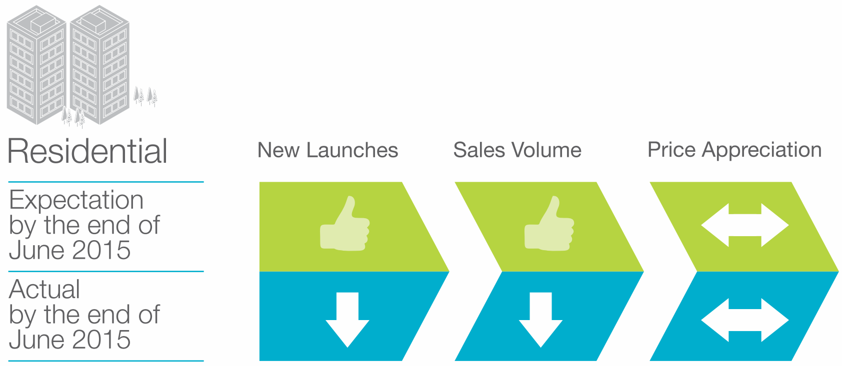


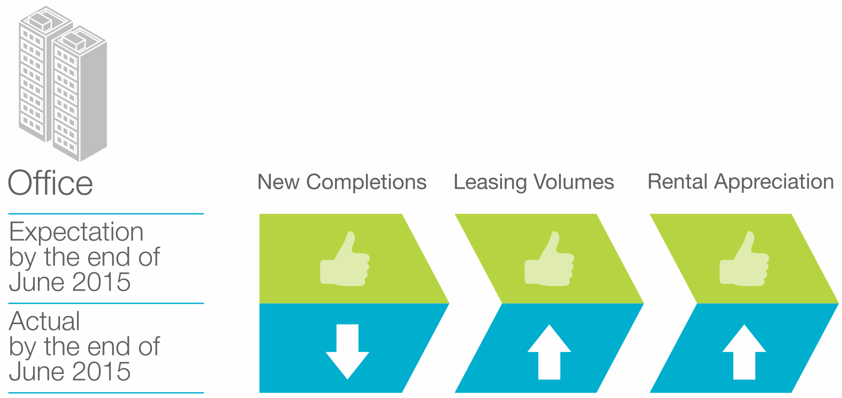
FINDINGS

- The stakeholders are reasonably optimistic about the office market in Q3 2015.
- Around 84% of the respondents expect the leasing volume to remain the same or improve in the coming six months. However, they expect the new office supply to remain under check, which is likely to have upward pressure on rentals.
- More than 50% of the respondents feel that office space rentals will strengthen by the end of Q1 2016.

CONCLUDING REMARKS

An analysis of stakeholder expectations from the residential and office sectors for June 2015 versus the actual figures gives us interesting insights into the real estate market. The survey that we conducted during Q4 2014 (October–December 2014) gave us positive results for both, the residential and office sectors for the subsequent six months. While the ground reality for the six months ending June 2015 is consistent with the expectations in the case of office space leasing volumes and rental appreciation, new completions have reduced. In the residential sector, stakeholder expectations were positive for new launches and sales volumes; however, they expected the price appreciation to remain stable. The actual numbers are quite conflicting, as both new launches and sales volumes have shrunk in the comparison period.





Delayed reforms have weakened the current business sentiment, which explains the downward trend in the current score, which continues to be in the negative zone for two quarters in a row. Although the future score, at 59, falls in the positive territory, the declining trend reflects that business confidence is weakening. The stakeholders are particularly pessimistic about the residential sector and they do not foresee any significant recovery in the next six months. However, developers and financial institutions are still maintaining a positive outlook for the office market.

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