Research

25th edition

Knight Frank –FICCI– NAREDCO

Real Estate Sentiment Index

Q2 2020 (APRIL – JUNE 2020)

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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 players in order to gauge the sentiment of the real estate market.

FOREWORD

Shishir Baijal
Chairman and Managing Director
Knight Frank India

Four months have passed since the outbreak of the COVID-19 pandemic in India, and the stringent countrywide lockdown imposed by the government has now given way to the more targeted lockdowns in specific areas to arrest the spread of the virus. These periods of lockdown have had adverse impact on demand as well supply parameters for most businesses. Resonating with the market uncertainties, our Real Estate Sentiment Index Survey for the period Q2 2020 (April – June) has recorded the lowest ever Current Sentiment score. While the Future Sentiment index is also subdued, it has recorded an improvement over the previous quarter. It is important to note that even in these turbulent times, the sentiments of the industry stakeholders for the next six months are showing an improvement in Q2 2020.

Strict restrictions on activity have been lifted in most parts of the country and businesses are adapting to the required social distancing norms and contactless conduct. This is being reflected in an improvement in economic indicators like Purchasing Managers' Index, power consumption, automobile sales and unemployment rate. As the economy moves towards normalcy, the sentiments for the real estate sector should also improve. While the Indian economy is projected to contract in FY 2021, IMF expects India's GDP growth to bounce back to 6% in FY 2022.

The Central Bank and the government have announced stimulus measures that have provided much required reprieve to the economy in these testing times. However, there is a need for further demand-boosting measures to improve sentiments in the economy. For the real estate sector in particular, there is need for measures such as further tax benefits for buying / renting a house, further incentives for affordable housing, easing of credit availability for the sector, a one-time restructuring of developer loans to help the sector recover from this crisis.

With this backdrop, I present to you the 25th edition of the Knight Frank-FICCI-NAREDCO Sentiment Index. I hope you find this index valuable in understanding the current and future outlook of the real estate sector.

I thank all our survey participants for their valuable market insights.

Stay safe.

Partners' take on the sector

Dr. Niranjan Hiranandani
National President - NAREDCO
Founder & MD - Hiranandani Group

"The economy was cratering even before the pandemic hit, with demand stagnation leading to declining GDP growth over successive quarters. The unprecedented Covid19 pandemic and the consequent total economic lockdown had a big dent on sentiments and activity level in Q2 2020. However, realizing the importance of livelihood along with lives has resulted in a recalibrated restart of the economic activities which will have an improved cascading effect gradually. In the backdrop of the current liquidity, labour and raw material shortage, Industry seeks handholding by the government to ease out economic distress. This could be done by reduction in taxes, levies; stamp duties and GST for stipulated time frame to generate demand shock which is imperative to kick start the economic uptick. Simultaneously, in addition to the fiscal stimulus industry pegs high hopes on One Time Debt Restructuring, additional stress fund and enhanced credit flow supply to facilitate working capital requirement of businesses to revive back.

Now as India slowly reopens, the needle seems to be moving, but is it enough to watch. Indian economy is consumption driven and resumption of purchase of houses will rekindle the real estate which in turn reboot about 300 industries with its positive effect and lead to generation of more than five crore jobs across the country. The supply chain disruption has pushed the growth of the Logistics parks sector along with high potential demand in the data centre business in wake of the data protection bill. The social distancing and work from home norms may continue as new normal, which will definitely witness a spurt in demand for residential. Also, demand in commercial and retail spaces will gradually see an uptick with improved economic activities."

Sanjay Dutt
MD & CEO, Tata Realty & Infrastructure Ltd.
Chairman, FICCI Real Estate Committee

"The sentiment for residential market is expected to remain low with a desire for "unlocking of the lockdown" and therefore better outlook for next quarter. However, if one does this survey again towards the end of the month, it would correct again to current lows. I believe given the constraints, the challenges and the emotional impact, current residential sales are also commendable. Developers have adapted AI, Digitization and SOP's at accelerated pace. The office market on the other hand has shown nearly 98-99% rent collection, low relevant micro market vacancies with some marginal rental growth abundantly demonstrating its sustainability. This can be attributed to the fact that office is linked to global consumption complemented by cost arbitrage, talent pool, scale, competitiveness, and geopolitical advantage. The retail and the institutional investors are flocking to REITS. You will see by end of the year close to 100 million sq. ft. listed at the exchanges. We expect 2-3 Billion US$ investment to exchange hands by March' 21. Some vacancies at Tier 2 tenants and developments is expected."

APPROACH & METHODOLOGY

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, prices and rentals, and funding. Respondents choose from options for which weightage has been assigned as follows: 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 number of responses in each of these categories across questions. A score of 50 represents a neutral view or status quo; a score above 50 demonstrates a positive sentiment; and a score below 50 indicates a negative sentiment.

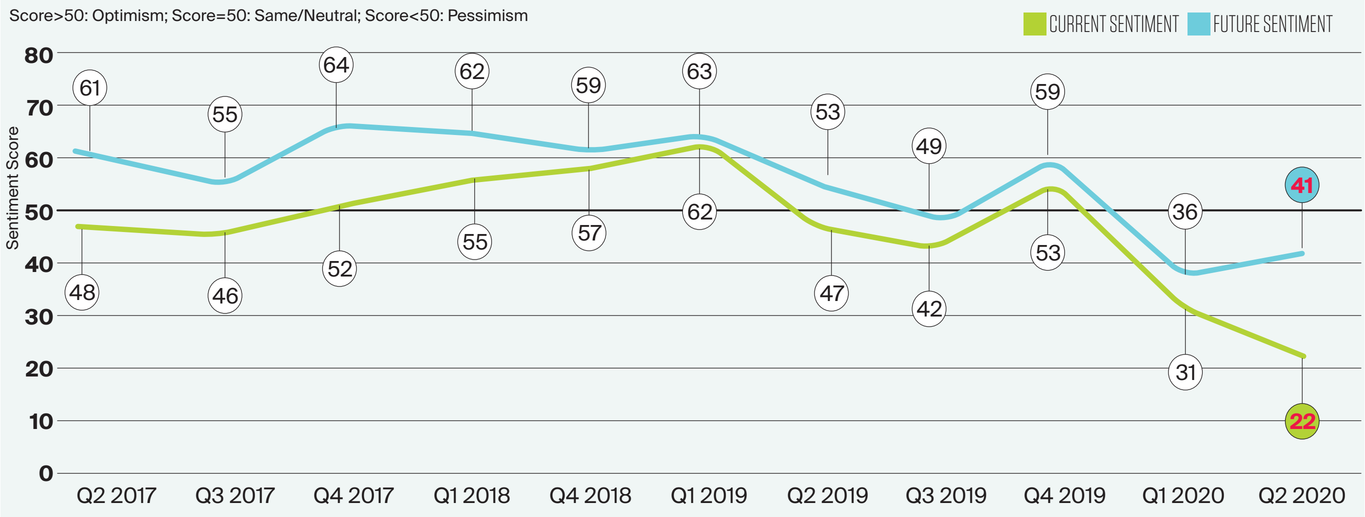
In order to present a holistic view of the real estate industry, the report is divided into two sections. Section A comprises two indices: the overall Current Sentiment Index that indicates the respondents' assessment of the present scenario compared to six months prior, and the overall Future Sentiment Index that represents their expectations for the next six months. Section B focuses on analysis of the future sentiments of the stakeholders on different aspects.

This survey covers the period April – June 2020 and was conducted in the first two weeks of July 2020.

SENTIMENT INDEX SURVEY FINDINGS

SECTION A: OVERALL SENTIMENT SCORE

CURRENT SENTIMENTS AT THEIR LOWEST, FUTURE SENTIMENTS SHOW SOME IMPROVEMENT



Source: Knight Frank Research

Note: Data for 2018 is available for Q1 and Q4 only

A.1. CURRENT SENTIMENT SCORE

- The Current Sentiment score has dropped to its lowest levels at 22 in Q2 2020 on account of the ongoing COVID-19 global pandemic. The strict lockdown implemented in India had brought around 70% of economic activities to a halt in April-May 2020 and this is reflected in the sharp fall in the Current Sentiment score.
- The market outlook had turned pessimistic in the previous quarter after the COVID outbreak. The Q1 2020 Current Sentiment score had hit a then low of 31 but as the impact of the ongoing crisis became more apparent in Q2 2020, market sentiments spiraled down further resulting in an even lower score in this quarter.
- Industry stakeholder sentiments had moved to the optimistic zone in Q4 2019 on the back of government measures announced for supporting the real estate sector. However, the sentiments have turned pessimistic in Q1 and Q2 2020 due to the COVID 19 crisis.

A.2. FUTURE SENTIMENT SCORE

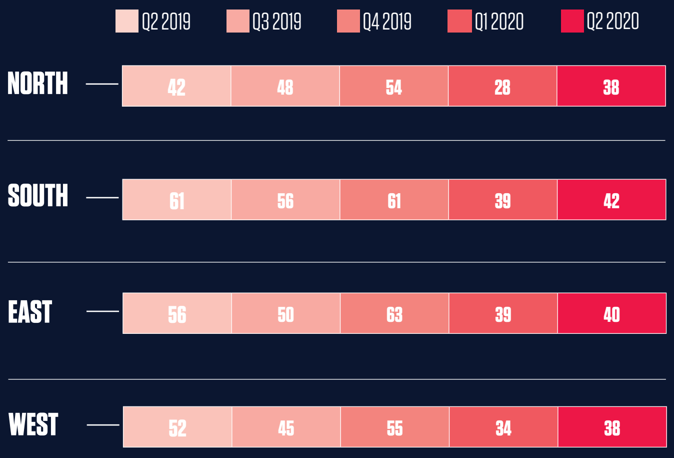
- Given that the uncertainties of the COVID crisis continue to cloud the future, stakeholders' sentiments for the coming six months remain in the pessimistic zone. However, the Future Sentiment score climbed up to 41 in Q2 2020 from 36 in Q1 2020 indicating that stakeholders' sentiment for the future of real estate sector is improving.
- With the current pandemic, there has been a gradual acceptance of the new ways of doing business. This has created hope for recovery in the coming six months as indicated by the upward movement of the Future Sentiment score in this quarter.
- These hopes of recovery also stem from the improving macroeconomic indicators. The Manufacturing Purchasing Managers' Index (PMI) rose to 47.2 in June 2020 from 30.8 in May 2020 while the Services PMI jumped to 33.7 in June 2020 from 12.6 in May 2020. (PMI is a leading economic indicator that gives a sense of expected growth in the manufacturing and services sector) Another key indicator that showed improvement is the unemployment rate in India which has fallen from 23.5% in May 2020 to 10.9% in June 2020, according to Centre for Monitoring Indian Economy (CMIE).

SECTION B: FUTURE SENTIMENTS

B.1 ZONAL FUTURE SENTIMENT SCORE

REGIONAL SENTIMENTS SOFTENED BY COVID UNCERTAINTIES

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



Source Knight Frank Research

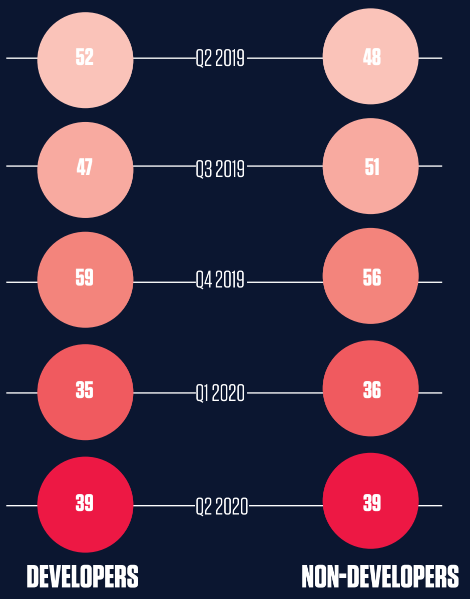
FINDINGS

- The sentiment score for all regions in India is subdued in Q2 2020. However, compared to the previous quarter, the sentiment scores of all zones have inched up in Q2 2020, with North zone sentiments seeing the highest jump. This reflects an improving outlook for the real estate market in the coming six months.

B.2 STAKEHOLDER FUTURE SENTIMENT SCORE

STAKEHOLDER SENTIMENTS MELLOWED BY COVID CHALLENGES

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



Source Knight Frank Research

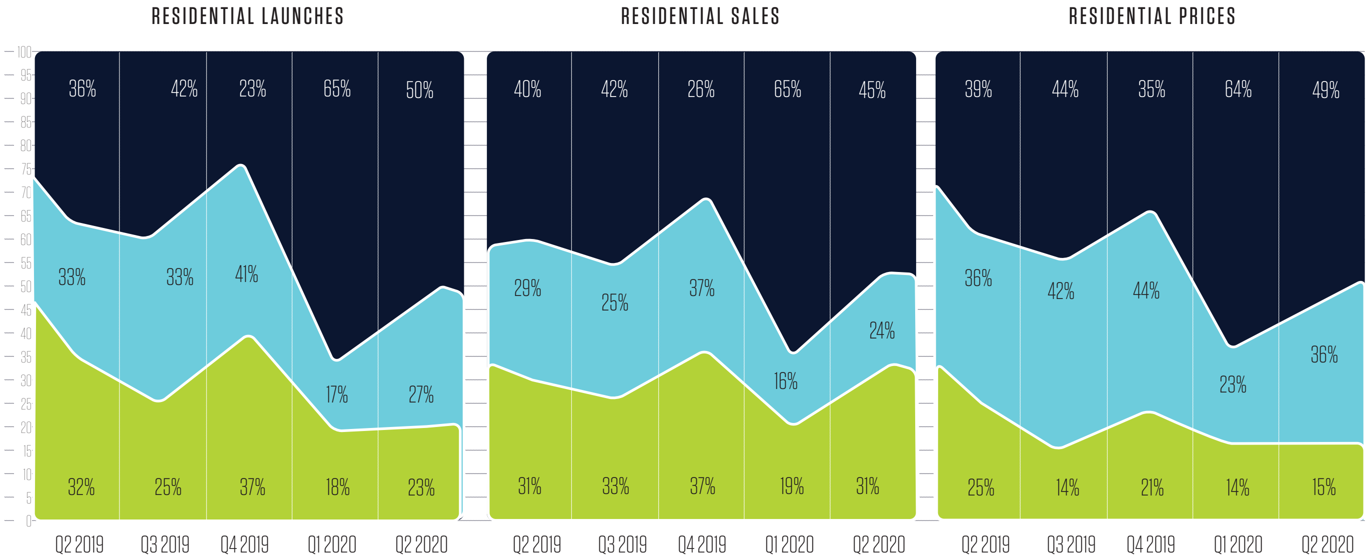
FINDINGS

- Developer sentiments are in the pessimistic zone in Q2 2020. Stalled construction during lockdowns, scarce availability of labour due to reverse migration, tighter lending norms and low demand on account of crisis-induced job losses and pay cuts are likely to have muted the developer community sentiments.
- The non-developer category which includes financial institutions and lenders, resonates with developers on their outlook on the real estate market for the next six months.
- However, it is important to note that the sentiments of both developers and non-developers have revived marginally in Q2 2020 from the preceding quarter.
- During Q2 2020, the government announced a fiscal stimulus package and a slew of measures to address the challenges of the COVID crisis. This, coupled with the gradual restoration of business activity and improvement in macroeconomic indicators, are likely to have given the market hope for recovery in the coming six months, causing the stakeholder sentiment score to marginally ascend.

B.3 RESIDENTIAL SECTOR OUTLOOK

RESIDENTIAL MARKET TO TREAD LIGHTLY

BETTER SAME WORSE



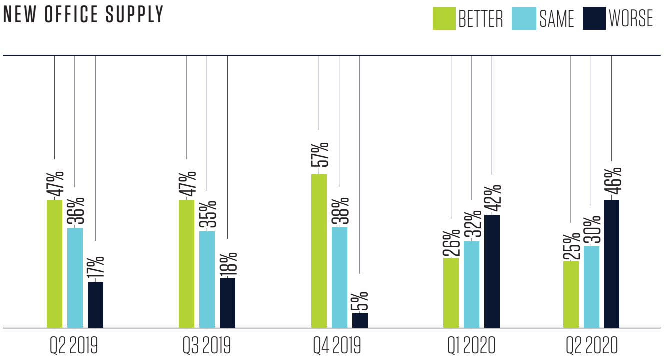
Source Knight Frank Research

- The mood of the residential market across the parameters of new launches, sales and prices continued to be somber in Q2 2020.
- On the supply parameter, 50% of the respondents in Q2 2020 - down from 65% in Q1 2020 - feel that new launches will worsen in the coming six months, while the rest feel that they will either improve or remain the same.
- With respect to sales, 31% of the respondents in Q2 2020 - up from 19% in Q1 2020 - are of the opinion that residential sales will be better in the coming six months.
- 49% of the respondents in Q2 2020 feel that prices will weaken in the next six months, while 36% feel that prices will continue to be around the current levels.

B.4 OFFICE MARKET OUTLOOK

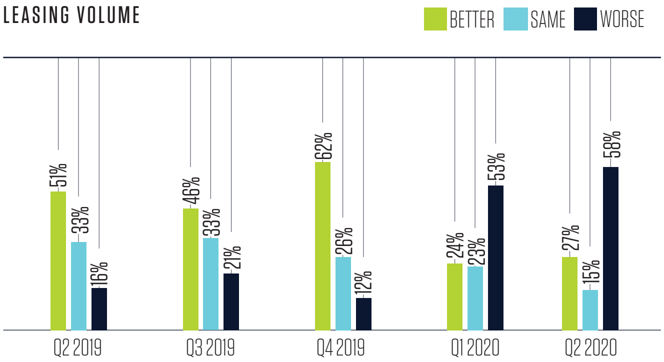
OFFICE MARKET OUTLOOK REMAINS CAUTIOUS

NEW OFFICE SUPPLY



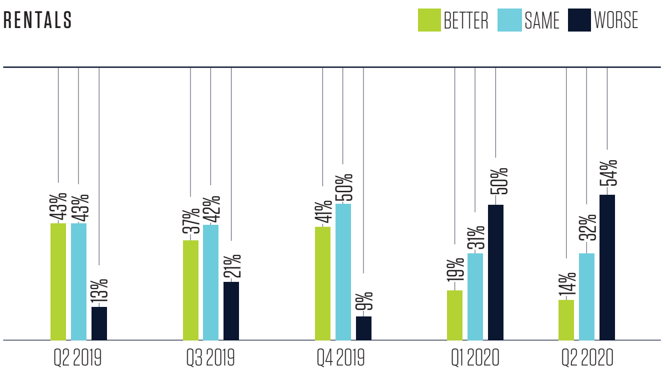
Source Knight Frank Research

LEASING VOLUME



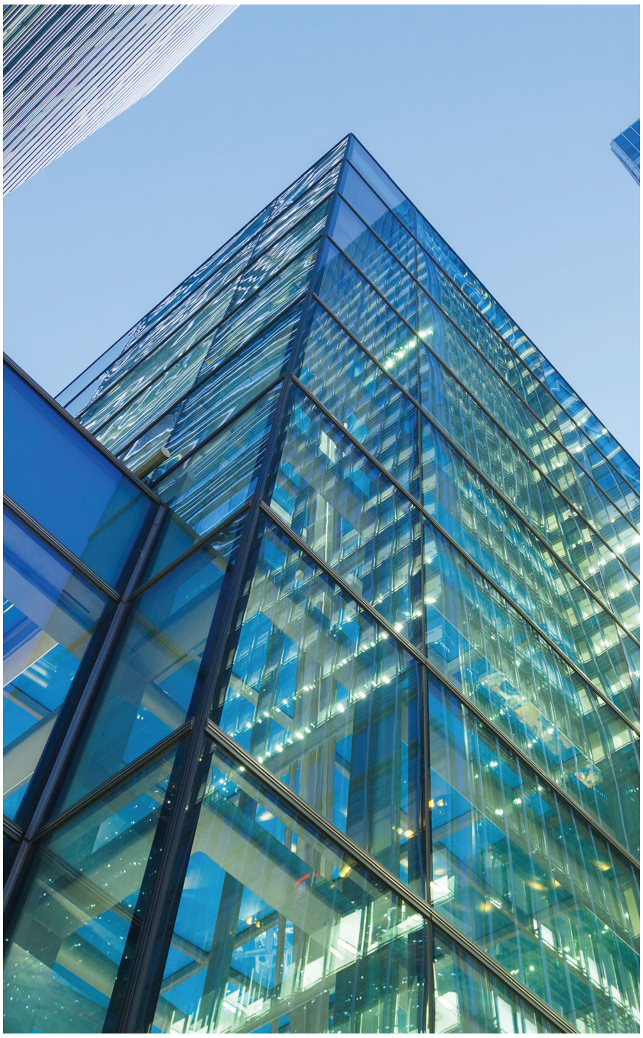
Source Knight Frank Research

RENTALS



Source Knight Frank Research

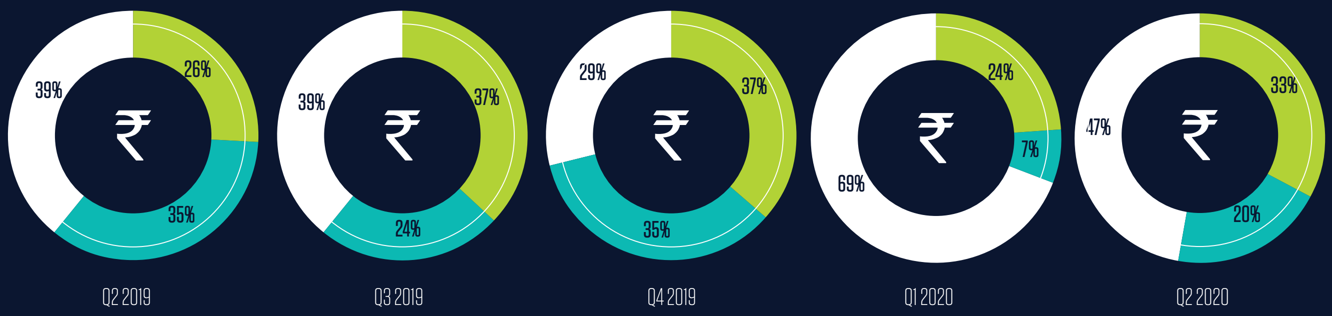
- In Q1 2020, stakeholder outlook for office market turned cautious due to the COVID 19 pandemic, and in Q2 2020, the sentiments have remained more or less similar.
- On the supply parameter, around 46% of the respondents in Q2 2020 feel that new office supply will worsen in the coming six months, while the remaining 55% feel that new supply will either improve or remain the same.
- 27% of the respondents in Q2 2020 feel that leasing activity is going to improve in the next six months, while 15% feel that it will remain around the same level.
- 54% of the Q2 2020 respondents feel that rentals will be under pressure in the next six months, while 46% feel that the rentals will either remain around the same level or increase in the next six months.



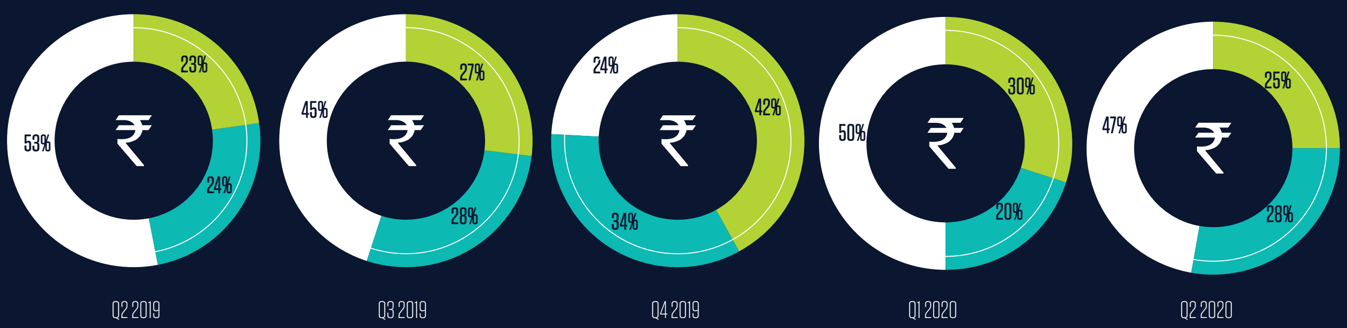
B.5. ECONOMIC OUTLOOK AND FUNDING SCENARIO

ECONOMIC CONCERNS REMAIN PERVASIVE, FUNDING TO REMAIN CONSTRAINED

ECONOMY



FUNDING SCENARIO



Source Knight Frank Research

FINDINGS

- India's Gross Domestic Product (GDP) growth rate for FY 2020 has been estimated to be 4.2%, the slowest since the Global Financial Crisis (GFC) of 2008. While the Indian economy had been going through a slowdown in the last few years, the outbreak of the COVID pandemic in early 2020 has brought business activity to a standstill and made the economy even more fragile. The International Monetary Fund (IMF) has forecasted a sharp 4.5% contraction in Indian GDP for FY 2021.
- The real estate sector's sentiments on the overall economy mirror these dismal numbers as 67% of the respondents in Q2 2020 were of the opinion that the impact of the ongoing crisis on the economy might get worse or will continue to remain at the current levels in the next six months.
- With regards to funding, 47% of the respondents in Q2 2020 expect that credit availability will worsen for the real estate sector over the coming six months.

CONCLUDING REMARKS

The Current Sentiment for the real estate sector has dropped to an all-time low due to the unprecedented COVID 19 pandemic. The positive point to note is that the stakeholders' sentiment for the future is showing an improvement in Q2 2020 compared to the previous quarter. This improvement in future sentiments of the real estate players is a healthy signal in these turbulent times.

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