Research

26th edition

Knight Frank –FICCI– NAREDCO

Real Estate Sentiment Index

Q3 2020 (JULY – SEPTEMBER 2020)

The Real Estate Sentiment Index is developed jointly by Knight Frank India, the Federation of Indian Chambers of Commerce and Industry (FICCI) and the 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.

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FOREWORD

Shishir Baijal
Chairman and Managing Director
Knight Frank India

After tumultuous months of COVID-induced economic uncertainties, the real estate sector has now begun to find its feet. The July-September 2020 quarter was a welcome surprise as the resilient residential real estate market bounced back with full gusto. Both sales and launches gathered momentum, rebooting the business cycle. Residential sales were supported by low home loan interest rates, discounted prices and government incentives. Launches picked up pace with the partial return of construction labour, the stirring demand and the extension of moratorium on payment of loan installments. The office market also saw a revival of business activity as offices re-opened and adopted measures that ensure business continuity. All these developments have set the tone for a gradual restoration of business and created strong hopes of recovery in the coming months.

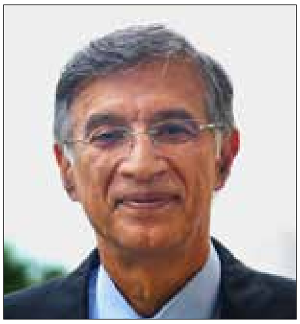
This positive mood of the market was mirrored in the findings of our Q3 2020 Real Estate Sentiment Index survey. The Current Sentiment score has revived significantly in Q3 2020, after hitting an all-time low in the previous quarter. The Future Sentiment score that covers expectations for the coming six months also surged and has now moved into the optimistic zone, indicating a positive outlook for the real estate sector.

The revival in sentiment of the real estate sector is in line with the improving macroeconomic scenario. Most economic indicators including auto sales, power consumption and railway freight revenues have shown recovery in the July-September 2020 quarter. The Manufacturing Purchasing Managers' Index (PMI) moved to the highest level in over eight years in September 2020. Goods and Services Tax (GST) collections were at a six-month high in September 2020, registering a 4% YoY growth. The economic growth momentum seen in Q3 2020 and the bounce back in the real estate sector is both reassuring and encouraging. After the revival seen in Q3 2020, we are hopeful that there will be further meaningful pick-up in the real estate sector in the festive season of Q4 2020.

With this backdrop, I present to you the 26th edition of the Knight Frank-FICCI-NAREDCO Sentiment Index. I hope you find this index useful 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
Founder & MD - Hiranandani Group,
National President – NAREDCO and ASSOCHAM

"The launched sentiment Index score for Q3 2020 indicates the gained momentum in the economic activity as a cumulative outcome of the economic unlocking phase and policy measures driven by the Government and RBI. Industry is optimistic with renewed consumer confidence with unclogging of the economy. The housing demand is expected to rebound strongly due to the pent-up demand on the parameters of safe and secured investment. The buyers are reaping the accrued benefits of lower stamp duty and lower risk weightage on home loans now linked to the Loan to Value ratio by RBI. Also, in addition to the historic low interest rates. The snowball effect will be visible in the upcoming festive season as developers put across their best offers and schemes to clock sales which will further give impetus to the economic demand. The consumption cycle has once again moved back in an optimistic zone salvaging the economic recovery. This will lead to economic recovery followed by real estate revival. This revival will improve employment and resuscitate GDP growth by 2021."

Sanjay Dutt
Joint Chairman, FICCI Real Estate Committee and
Managing Director and CEO, Tata Realty and Infrastructure Ltd

"Real Estate Industry, which is largely dependent on region and asset class is reeling under adverse impact of COVID-19 crisis. The sector that was already struggling to re-emerge from the past turbulence of structural changes, policy reforms, and the liquidity crisis, is finding it difficult to resurrect itself in the given circumstances.

However, market in Q3 2020 (July – September 2020) have started picking up pace with demand cycles moving and partial restoration of the economic activities across the country. On the supply front, there has been some relief as the limited return of construction workers has helped in restoration of construction activities. The reduction in the number of launches past year or two is helping RTMI inventory being exhausted at faster pace.

Liquidity provision given by the Reserve Bank of India (RBI) in various forms and the loan moratorium has also provided some comfort to developers by easing the credit crunch. Discounts and freebies offered by developers have also contributed to pick up in sales across cities.

In the case of commercial real estate, most developers have done an outstanding job of keeping offices operational, which enabled corporates to work from home and access servers without any interruptions. There is a temporary slowdown phase in terms of maintaining rents growth and new expansions etc. Rental collection is approx. 97%-98% stable amongst Grade A developments where majority of tenants are Fortune 500. Going forward, social distancing as a basic principle will lead to less dense space requirement. The office interiors layouts and organizations offering flexible timings and remote working would likely to be a new norm.

I hope this FICCI-Knight Frank-NAREDCO sentiment index for Q3 2020 will be helpful in understanding the future patterns."

Stakeholders' take on the sector

Bijay Agarwal,
Managing Director
Salarpuria Sattva Group

"COVID-19 has altered the business backdrop across all industries. With remote work taking centre stage and businesses across sectors coming to a slowdown, there has been a far-reaching impact on the demand, operations, supply and production aspects of the real estate industry as a whole. However, with the lifting of the lockdown and people adapting to the 'new normal', the industry has seen a silver lining in these dark times.

The allied industry stakeholders are rethinking and re-strategizing, to shift market sentiments. Although the commercial real estate market in India is growing, the dynamics of the industry are changing rapidly and corporate occupants are expected to make changes according to post-covid norms. Demand for sustainable commercial real estate, especially for those looking for safer rental income, is expected to increase. The demand for residential properties has seen a fairly good upswing in recent times, especially for ready-to-move-in apartments. There are more serious buyers looking for quality construction. Nevertheless, we still require persistent resilience and adaptability to keep the trajectory up. This unprecedented predicament has forced people to make the necessary structural change required in order to keep pace with the paradigm shift in the usual method of doing business. Developers are compelled to source new ways to maintain seamless material and manpower supplies to keep the momentum on. Although there are varying emergent opinions concerning the impact of COVID-19 on the realty sector, the industry is already on the path of revival and is expected to recuperate sooner than the rest of the market. "

Boman Irani
Chairman and Managing Director
Rustomjee Group

"Real estate developers have been through a long and rough ride with COVID-19, however we have all now learnt to live with it. Buyers are responding to the decreased stamp duty, lowest interest costs in a decade and deals being offered by developers. The last quarter has seen increased buying in ready-to-move-in inventory, plotted developments, luxury and premium apartments. Developers in various parts of the country are reporting good sales in various asset classes, However, there is cautious optimism and care should be taken. The demand that exists for smaller/mid-sized homes particularly by millennials, who were renting earlier, is now the backbone of the growing demand.

The long and harsh shutdown has affected development and most western India developers still await labour to resume in full force. The added debt because of the negligible revenues of the period will also have to be managed. This is all leading to a growing consolidation amongst developers, blessed by financial institutions with an objective to support the completion of projects. The industry awaits good news in the form of GST reforms allowing input tax credit to developers thereby reducing the cost of acquisition to the homebuyers. CREDAI developers have been asking for income tax benefits to homebuyers to spur demand, thereby adding revenue to the exchequer."

Sunil Rohokale
Managing Director and CEO
ASK Group

"As a positive surprise, we have comeback really quick from the abyss of uncertainty in the June 2020 quarter, when reverse migration of workers, income uncertainty and other issues disturbed sentiments all around.

Key catalysts have propelled this sharp rebound earlier than expected. Benign home loan interest rate ensured translation of pent up demand into sales. Further, meaningful government stimulus measures like stamp duty cut in Maharashtra was complemented very well by the developers. Besides the monetary benefit for the home buyer, it has served as a big sentiment boost for a mid-income home buyer. We must also take cognisance of project performances where customer confidence was secured by steady construction progress and complemented by right product pricing and flexible payment schemes, which ensured sales. Considering that a fair share of pent-up demand also helped this performance, sustaining this momentum will be key. We would see concentration of demand as well as funding into projects that have high score on execution, working capital availability and price flexibility."

Sharad Mittal
Executive Director, CEO -
Real Estate Funds, Motilal Oswal
Real Estate Investment Advisors

"Starting 2013, when the prices peaked across Residential real estate in India, sector has been facing challenges. But in last 4 years, the sector has undergone several structural reforms like demonetization, RERA and GST, which have organized the sector, albeit with immense pain and disruption. This created a trust deficit in the sector which impacted demand and caused prices to stagnate in most markets. The liquidity crunch sparked by the IL&FS crisis created a severe liquidity crunch, thereby increasing the woes of the sector. The lockdown in the earlier part of this year seemed like the final nail in the coffin for sector.
However, in the last few months, residential real estate has witnessed a pick-up in activity which is better than what was anticipated in the early months of the lockdown. In cities like Bangalore and Chennai, some indicators show ~80-90% recovery as compared to pre-COVID levels. While some part of this recovery may be attributed to unfulfilled pent-up demand and discounts offered by developers, we believe that a large part of it is also a function of some of the following fundamental factors that will be bring about a sustained recovery over the next 24 - 36 months:

a) Demand-supply gap on account of reduced new launches over the last few years and a continuous reduction in unsold inventory across markets.
b) Mortgage rates being at a multi-decadal low with rates now below 7% p.a.
c) Price stagnation over the last 7 years and likely stagnation of 2 – 3 more years
d) A general increase in demand for owning homes for better stability and security in COVID like environments

This recovery in the next 24 - 36 months will bring in a wave of growth in residential real estate on the back of demand that will be more volume-based and less price-based, hence, more sustainable in the long run.
But before we see a new start, we will have to go through a period of unwinding and that will bring both learning and opportunities."

APPROACH & METHODOLOGY

The Real Estate Sentiment Index is based on a quarterly survey of key supply-side stakeholders which include developers and non-developers i.e. financial institutions including banks, Non-Banking Financial Companies (NBFCs) and private equity funds. The survey comprises questions pertaining to the economy, funding availability, project launches, sales volume, leasing volume, prices and rentals. For each of these questions, respondents choose from the following 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.

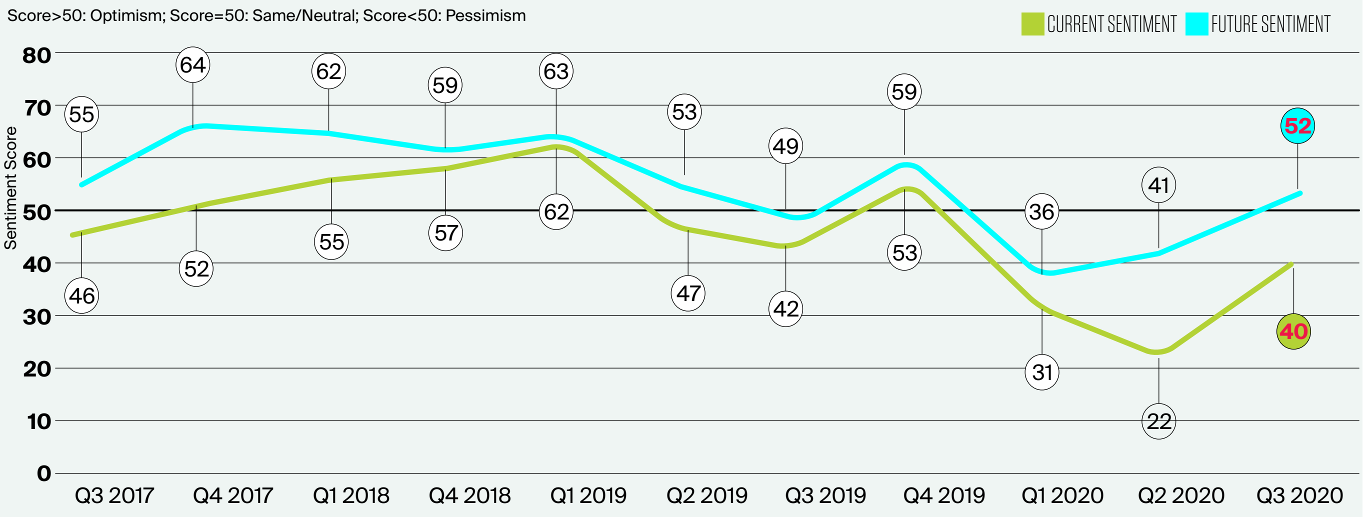
In order to present a holistic view of the real estate industry, the report is divided into two sections. Section A comprises two indices: the overall Current Sentiment Index that indicates the respondents' assessment of the present scenario compared to six months ago, and the overall Future Sentiment 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 such as geography of stakeholders, stakeholder type (developer / non-developer), outlook specific to residential and office market, and outlook on the economy and funding scenario at large.

This survey edition is for the period July – September 2020 i.e. Q3 2020 and was conducted from 24th September 2020 to 9th October 2020.

SENTIMENT INDEX SURVEY FINDINGS

SECTION A: OVERALL SENTIMENT SCORE

CURRENT SENTIMENTS REVIVE SUBSTANTIALLY, FUTURE SENTIMENTS IN THE OPTIMISTIC ZONE



Source: Knight Frank Research; Please note: Data for 2018 is available for Q1 and Q4 only.

A.1. CURRENT SENTIMENT SCORE

- The Current Sentiment score takes into account stakeholders' current outlook vis-a-vis six months ago. In Q3 2020, the Current Sentiment score has jumped up to 40 from a record low of 22 in Q2 2020.
- The Current Sentiment score had turned negative in Q1 2020 after the COVID-19 outbreak, recording a score of 31. As the impact of the pandemic and the stringent lockdowns on businesses became more apparent in the following months, market sentiments spiraled down further, resulting in an all-time low score of 22 in Q2 2020.
- Q3 2020 has seen partial restoration of business activity and improvement in economic health and this has in turn improved the sentiments for the real estate sector.

A.2. FUTURE SENTIMENT SCORE

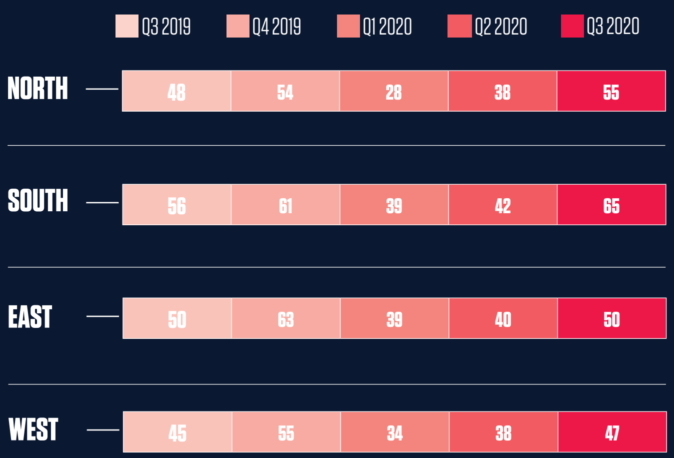
- The Future Sentiment score takes into account stakeholder outlook of the real estate sector for the coming six months. The Future Sentiment score has climbed up to 52 in Q3 2020 from 41 in Q2 2020, moving into the optimistic zone after staying in the pessimistic zone for two consecutive quarters.
- The July-September 2020 quarter has seen considerable improvement in real estate business activity. Residential launches and sales, across cities, bounced back from the COVID-induced decline with gusto. Offices have resumed operations at varying occupancies across markets and have been taking steps to ensure continuity in business operations to their highest potential.
- The economy at large has also seen improvement as evidenced across key macroeconomic indicators such as the Manufacturing and Services Purchasing Managers' Index (PMI), auto sales, power consumption and Goods and Services Tax (GST) collections.

SECTION B: FUTURE SENTIMENTS

B.1 ZONAL FUTURE SENTIMENT SCORE

REVIVAL IN SENTIMENTS ACROSS REGIONS, SOUTH ZONE MOST BULLISH

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



Source Knight Frank Research

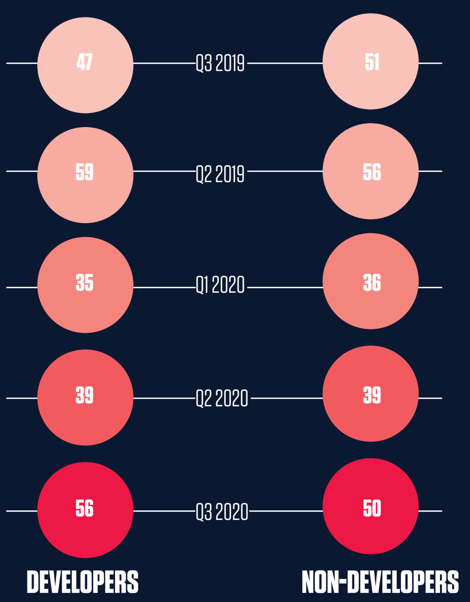
FINDINGS

- Buoyed by the positive market activity, stakeholders in all four zones are showing a significant surge in future sentiments (for the next six months) for the real estate market.
- South zone stakeholder outlook has seen the maximum leap in future sentiments in Q3 2020, jumping to a score of 65 in Q3 2020 from 42 in Q2 2020. The Future Sentiment score for North region has jumped to 55 in Q3 2020 from 38 in Q2 2020 while that for the East has improved to 50 in Q3 2020 from 40 in Q2 2020. For the West zone, while the sentiments have revived, the score remains in the pessimistic zone at 47 in Q3 2020 compared to 38 in Q2 2020.

B.2 STAKEHOLDER FUTURE SENTIMENT SCORE

DEVELOPERS AND OTHER INDUSTRY STAKEHOLDERS TURN OPTIMISTIC

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



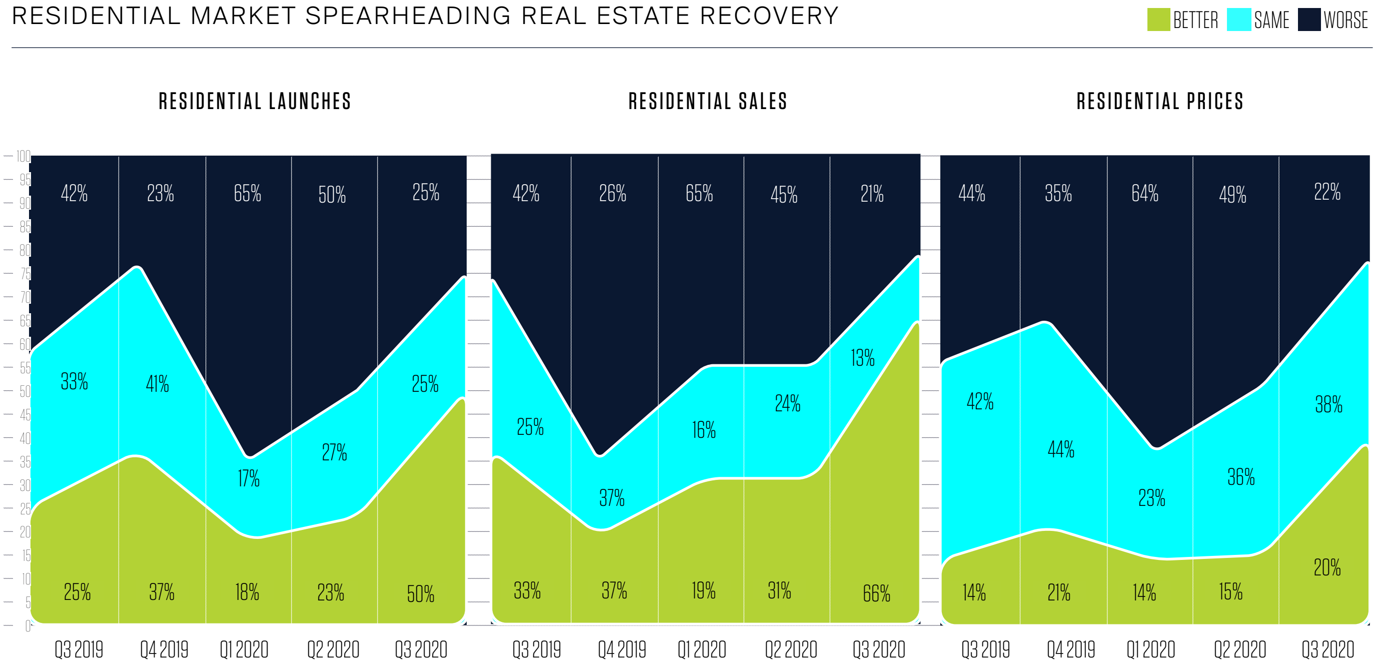
Source Knight Frank Research
Note: Non-developers include banks, NBFCs and private equity funds

FINDINGS

- Sentiments of the supply-side stakeholders of the real estate sector, both developers and non-developers, (include banks, NBFCs and private equity funds) have revived significantly in Q3 2020 as the signs of business recovery became increasingly visible.
- On the supply side, there has been some relief as the partial return of construction workers has helped in resumption of construction activities. Liquidity support given by the Reserve Bank of India (RBI) in various forms and the loan moratorium has also provided some comfort to developers by easing the credit crunch. Discounts and freebies offered by developers have also contributed to pick up in sales across cities.
- Besides attractive residential prices, homebuyers have been incentivised to buy homes by the multi-decadal low home loan interest rates and government measures such as reduction in stamp duty in some markets. This in turn has given a boost to real estate lending activity of banks and financial institutions i.e. the non-developers.
- Office market activity has also begun to see traction across cities, as more and more companies are re-opening their offices at varying levels of occupancies. They are also adopting feasible strategies to ensure business continuity at its fullest potential.
- Developer sentiments on real estate market for the next six months leaped to a score of 56 in Q3 2020, up from 39 in Q2 2020, bringing this category in the optimistic zone.
- Non-developer outlook of real estate market for the coming six months also revived with a score of 50 in Q3 2020, up from 39 in Q2 2020, bringing the category to a neutral zone.

B.3 RESIDENTIAL SECTOR OUTLOOK

RESIDENTIAL MARKET SPEARHEADING REAL ESTATE RECOVERY



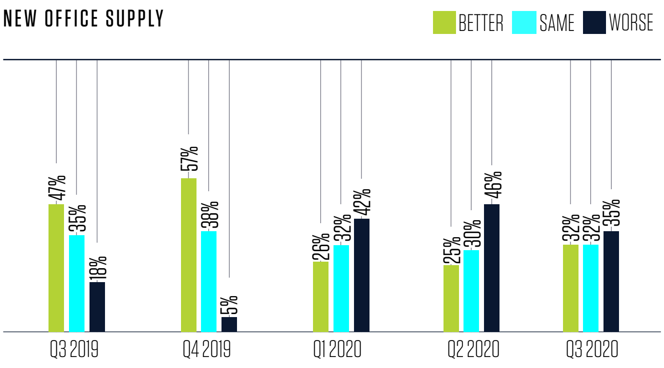
Source Knight Frank Research

FINDINGS

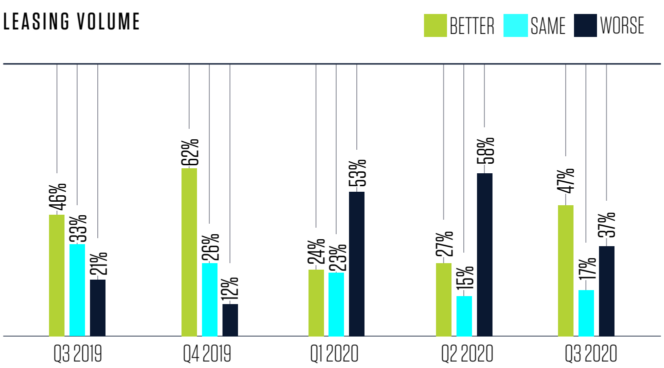
- The resilient residential real estate market bounced back in Q3 2020 on the back of healthy recovery in supply as well as demand. Most developers resumed construction activity immediately after lockdown restrictions started to be relaxed across cities and undertook aggressive strategies to market ready products. Demand picked up as homebuyers took advantage of the multi-decadal low home loan interest rates (below 7% pa), low residential prices coupled with attractive freebies and government incentives such as reduction of stamp duty in some markets.
- With respect to supply, 50% of the Q3 2020 survey respondents – up from 23% in Q2 2020 – expect new project launches to increase in the coming six months.
- On the demand front, the share of respondents expecting increase in sales activity over the next six months more than doubled this quarter, as it increased from 31% in Q2 2020 to 66% in Q3 2020.
- With regard to residential prices, 40% of the survey respondents in Q3 2020 believe prices will increase in the next six months while 38% opine that they will remain at the current levels. Only 22% survey respondents expect a decline in prices in the coming six months.

B.4 OFFICE MARKET OUTLOOK

OFFICE MARKET OUTLOOK IMPROVES, LEASING ACTIVITY EXPECTATION DOUBLES



Source Knight Frank Research



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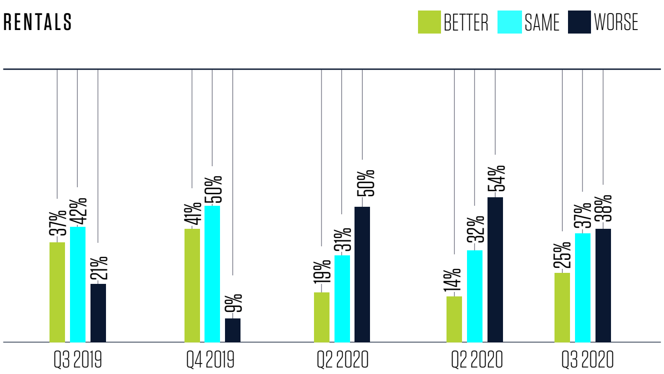


Source Knight Frank Research

FINDINGS

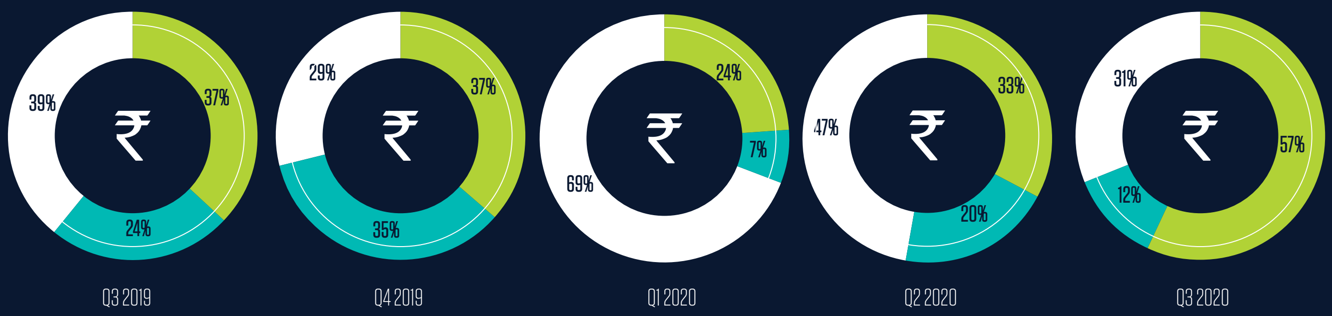
- Q3 2020 survey results show an improvement in office market outlook backed by the gradual re-opening of offices and restoration of business activity across India.
- On the supply front, 64% of the Q3 2020 survey respondents – up from 55% in Q2 2020 – opined that new completions and project deliveries will either increase or remain at current levels, over the next six months.
- With respect to office leasing activity in Q3 2020, 47% of the survey respondents expect leasing activity to increase in the next six months, a significant increase over the 27% respondents who expected an increase in Q2 2020.
- On office rentals, 62% of the Q3 2020 survey respondents – up from 46% in Q2 2020 – are of the opinion that rentals will either increase or continue to stay at current levels, for the next six months.

B.5. ECONOMIC SCENARIO AND AVAILABILITY OF FUNDING

ECONOMIC CONCERNS RECEDE, FUNDING OUTLOOK IMPROVES

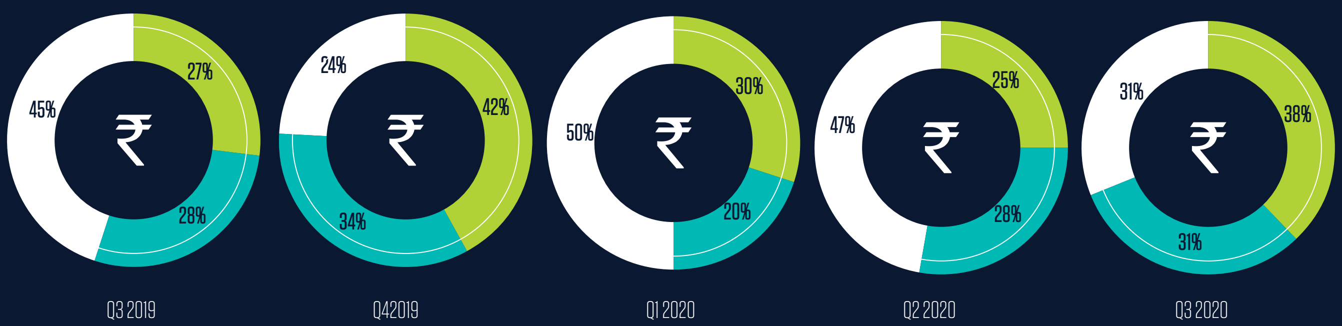
ECONOMY

BETTER SAME WORSE



FUNDING

BETTER SAME WORSE



Source Knight Frank Research

FINDINGS

- On the macroeconomic front, key indicators have shown improvement in the July-September 2020 quarter. For instance, the Manufacturing Purchasing Managers' Index (PMI) rose to 56.8 in September 2020 from 52 in August 2020, recording a second straight month of economic expansion and the highest reading since January 2012. The Services PMI also leaped from 41.8 in August 2020 to 49.8 in September 2020. (PMI is a leading economic indicator that gives a sense of expected manufacturing and services sector growth, going forward.)
- Similarly, the infrastructure / construction goods category in the use-based categories of the Index of Industrial Production (IIP) has shown a strong sequential recovery in July 2020, reaffirming growth in real estate business activity.
- Goods and Services Tax (GST) collections in September 2020 were at a six-month high and registered a positive year-on-year (YoY) growth of 3.9%. This reflects recovery in the economy as GST revenue is directly proportional to the business activity in the economy.
- Resonating with the improving economic health, 57% of the Q3 2020 survey respondents opined that the economy would fare better in the coming six months. This is a significant improvement over the 33% respondents of Q2 2020 with the same opinion.
- The share of survey respondents with the opinion that the economy will worsen in the next six months reduced considerably to 31% in Q3 2020 from 47% in Q2 2020.
- In the context of availability of funding, 38% of the Q3 2020 survey respondents - up from 25% in Q2 2020 - opined that the scenario will be better in the coming six months, while 31% of the Q3 2020 survey respondents felt that the current levels of credit availability will continue for the next six months.

CONCLUDING REMARKS

With the demand and supply parameter of the real estate sector reviving in Q3 2020, there has been a significant improvement in the sentiments for the sector. Even in the midst of economic uncertainties, the Current Sentiment index has jumped in Q3 2020 from the abysmal low of Q2 2020. With the government and Central Bank announcing support measures and with the demand reviving, industry stakeholders are positive on the future outlook for the sector as reflected in the sharp jump of the Future Sentiment Index to the optimistic zone.

KNIGHT FRANK INDIA

RAJANI SINHA
Chief Economist & National Director - Research
rajani.sinha@in.knightfrank.com

PRADNYA NERKAR
Associate Consultant - Research
pradnya.nerkar@in.knightfrank.com

FICCI

NEERJA SINGH
Senior Director – Infrastructure
neerja.singh@ficci.com

SACHIN SHARMA
Senior Asst. Director – Real Estate, Urban Infrastructure & Smart Cities
sachin.sharma@ficci.com

SHAILY AGARWAL
Senior Asst. Director – Real Estate, Urban Infrastructure & Smart Cities
shaily.agarwal@ficci.com

NAREDCO

RAJESH GOEL
Director General
naredco@naredco.in

CIN No. – U74140MH1995PTC093179