RESEARCH

FICCI | NAREDCO | Knight Frank

28th edition

KNIGHT FRANK-FICCI-NAREDCO

Real Estate Sentiment Index

Q1 2021 (JANUARY - MARCH 2021)

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

The year 2021 started on a positive note for the real estate market with the residential and commercial real estate segment on a recovery path. While the residential market was recording a strong bounce back from Q4 2020, the office segment was also getting back on its feet. Offices started operations across cities, some at full occupancy while others on a rotational or hybrid model, giving employees the flexibility of workplace. The onset of the pan-India vaccination drive in March 2021 gave a further boost to the stability notion in the market. Demand continued to grow and business appeared to be moving towards pre-COVID levels. Just then, the rate of COVID infections in the country began to spike and by mid-March there were talks of this being the onset of a second COVID wave in India. As the month progressed, the severity of the pandemic returned with infection rates at levels significantly higher than last year. Consequently, mobility curbs and lockdown restrictions became a reality once again. With some states already having such curbs in place, offices have had to return to the work-from-home mode of operation, for the time being. Uncertainty of intensity and period of this second COVID wave and the ensuing mobility and business restrictions, have rekindled the fears of the pandemic.

The Q1 2021 edition of our Sentiment Index captures the changed industry scenario and the resultant cautiousness amongst stakeholders. With the fear of the second wave of COVID, the Future Sentiment score has fallen to 57 in Q1 2021 from 65 in Q4 2020, even while the Current Sentiment score has inched up marginally. As we wait for these clouds of panic and uncertainty to wither away, it is hoped that the health hazards of the COVID virus are taken care of at the earliest. Increased vaccination should help arm people against the virus and enable return to normalcy in the economy. Apart from the pace of vaccination, government decisions on lockdowns / localised restrictions will largely determine the performance of real estate sector in the coming months.

With this backdrop, I present to you the 28th 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
Founder & MD - Hiranandani Group,
National President – NAREDCO

"This growth ride is on account of the pent up business momentum in lieu of fiscal impetus and regained consumption demand. This optimistic sentiment led to record hit property registrations and uptick in sales velocity. Also, as the influx of PE and FDI investment is on rise in FY 2021, the sentiment remains bullish for the Indian economic outlook and growth of Indian real estate is imperative due to its multiplier effect on 270 ancillary industries and employment generation.

The dip in the future sentiment score in Q1 2021 mirrors the prevalent market uncertainties on account of the second COVID wave. However, there is no cause of worry for the Industry as it is well geared to mitigate the risk on ground. The ongoing production with uninterrupted supply chains will help the sector to rebound with more finished goods catering the discerning home buyers and the reverse migration of labourers is at bay due to ensured food, shelter and daily wages along with all the safety measures and vaccination shots. The business continuity plan is coping up with alternative digital platforms and leveraging innovative technologies to keep the sales momentum unhampered. Therefore, there will be a positive growth in the long run for Indian real estate."

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

"2020 was the year that changed everything, and 2021 will be the year where change will become 'better' through resilience, digital insurgency, and innovation. While 2021 may not evade all the challenges of a pandemic-affected economy, the planning and implementation for a sector-wide recovery have already been laid out. Backed by positive economic fundamentals, healthy demand and quality supply infusion across sectors, India's real estate sector is prepared for robust growth.

The report reflects a positive sentiment towards Q1, 2021 (January – March 2021) with demand cycles moving and restoration of the economic activities across the country. Also, a gradual shift in buying patterns has been witnessed where residential buyers are looking for additional space to meet 'work from home' purposes etc. On the supply front, limited new supplies were introduced in the quarter. The reduction in the number of launches in the past year or two is helping RTMI inventory being exhausted at a faster pace.

In the case of commercial real estate, we believe technology (IT-BPM), engineering and manufacturing sectors will drive the demand in 2021. Technology companies will broaden their office portfolio over the next three years as demand for artificial intelligence, machine learning, and robotics is expected to grow significantly, and Indian talent is being considered favourably for high-end R&D activities.

In summary, these are testing times and the future will depend on how focused we are towards bringing in an overall transition in both health and economy.

I hope this Knight Frank-FICCI-NAREDCO sentiment index for Q1 2021 will be helpful in understanding future patterns."

STAKEHOLDERS' TAKE ON THE SECTOR

Michael Holland
Chief Executive Officer -
Embassy Office Parks Management Services Private Limited;
Manager - Embassy Office Parks REIT

"Prior to the recent onset of the second wave of Covid-19 cases, we were witnessing a rapid increase in occupier interest for new leasing and return to office. The increase in cases will slow down the return to office plans by 1-2 quarters. However, it doesn't alter the fundamental fact that India is the go-to market for hiring Digital Talent and Technology expertise. The young Indian professional will continue to serve global businesses that are more dependent on technology and less constrained by geography.

We have seen great results from technology companies here in India which have their highest order books ever and record hiring of new staff over the past quarter. We have witnessed some strong results from major banks in the US that rely on Indian technology to support their global business lines and with the growth outlook out in West improving, we feel positive about the medium-term outlook for office demand once we get past this second wave in India, given how reliant these companies are on their Indian workforces."

Balaji Rao
Managing Partner – Real Estate –
Axis Asset Management Company Limited

"Along with the onset of COVID-19 pandemic in early 2020, came its associated challenges of activity lockdown and set back on life and business. This was followed by gradual reopening across the country and return to normalcy with a strengthening recovery momentum across key economic segments. As a country we have always been resilient. Managing lives and livelihoods, as a country of this magnitude on population and geography, we strived hard and coped well with the crisis.

In this backdrop, the second wave of the pandemic has erupted as a successive crisis, but we are confident that the nation will again rise like a phoenix from this health crisis. Taking cues from the key trends of the pandemic experience, residential segment is going to be the fastest to get back on its feet. With the aspiration of our citizenry – in tier 1 and tier 2 towns alike – to own bigger and better homes, the pandemic has created a strong structural trend for the country's housing market. Conducive factors in terms of multi-year low house prices and multi-decade low home loan interest rate will ensure housing and in turn real estate sector will bounce back vigorously from this crisis."

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 (PE) funds. The survey comprises questions pertaining to the overall economic momentum, funding availability, project launches, sales volume, leasing volume, prices and rents. For each of these questions, respondents choose from the following options for which weightage has been assigned as follows: a) Increase/Increased (100 points), b) Somewhat Increase/Somewhat Increased (75 points), c) Same (50 points), d) Somewhat Decrease/Somewhat Decreased (25 points), and e) Decrease/Decreased (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 Current Sentiment Index that indicates the respondents' assessment of the present scenario compared to six months back, and the Future Sentiment Index that represents their expectations for the next six months. Section B focuses on the analysis of future sentiments of the stakeholders on different aspects such as the 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.

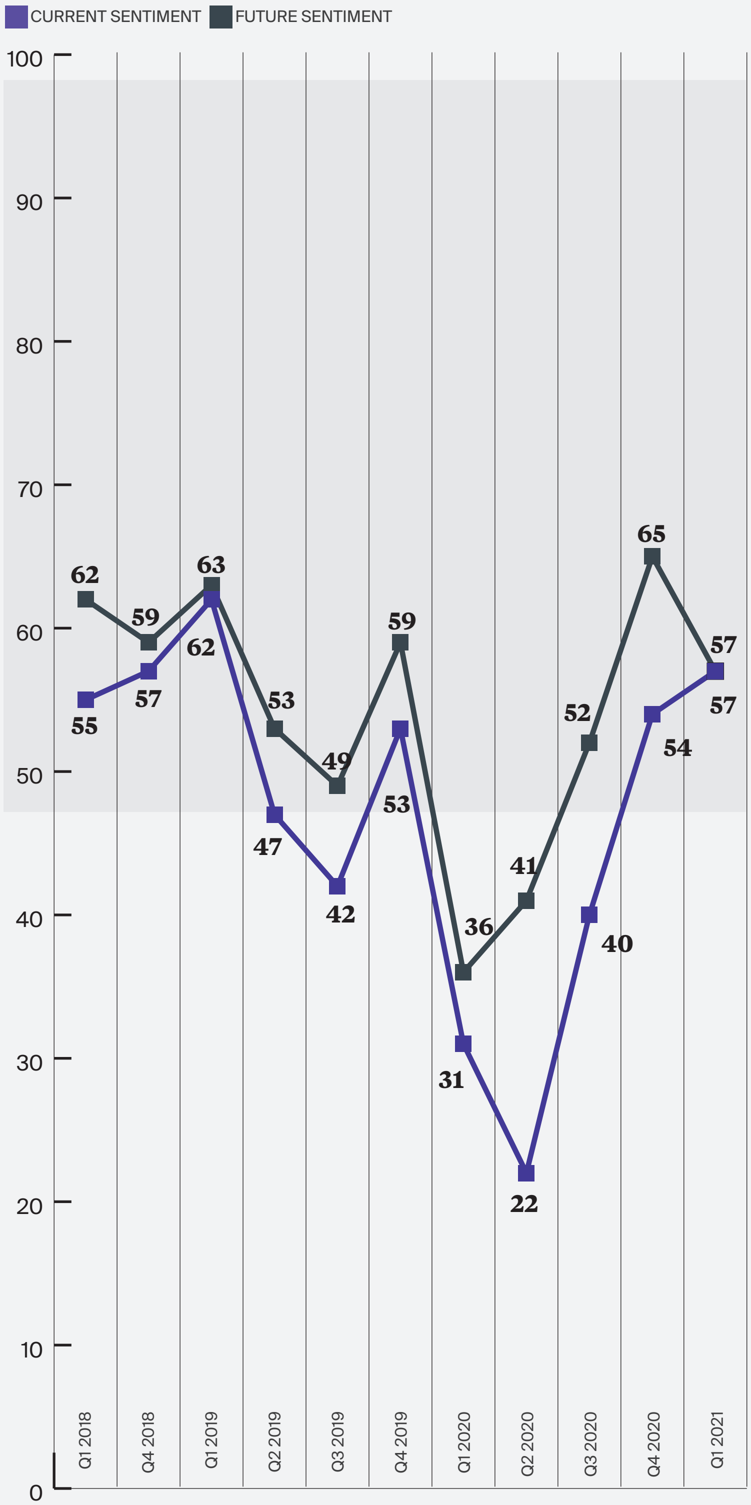
This survey edition is for the period January – March 2021 i.e. Q1 2021 and was conducted between 31st March 2021 and 12th April 2021.

SENTIMENT INDEX SURVEY FINDINGS

SECTION A: OVERALL SENTIMENT SCORE

FUTURE SENTIMENTS DAMPENED BY SECOND COVID WAVE

Score>50: Optimism; Score=50: Same/Neutral; Score<50: Pessimism



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

A.1. 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 fallen from 65 in Q4 2020 to 57 in Q1 2021 echoing the present market uncertainties on account of the second wave of COVID.
- Rising rate of COVID infections from mid-March 2021 has recreated the fears and concerns of March 2020 when the COVID pandemic first broke out. Despite the ongoing vaccination drive, state governments and local bodies have had to impose curfews and restrictions at varying degrees to curtail the fast-growing infection rate. Mobility restrictions are back in some states and these developments have caused many offices to return to the work-from-home mode, for the time being.

A.2. CURRENT SENTIMENT SCORE

- The Current Sentiment score takes into account stakeholders' current outlook vis-a-vis six months back. The Current Sentiment score inched up marginally from 54 in Q4 2020 to 57 in Q1 2021.
- The current sentiments were supported by a bounce back in commercial and residential segment that we had seen in Q4 2020 and in the first two months of 2021.
- However, the severe spread of a second wave of COVID infections has marred the sentiments in the last month or so. While the Current Sentiment index has shown a marginal improvement in Q1 2021, the Future Sentiment index has been dampened.

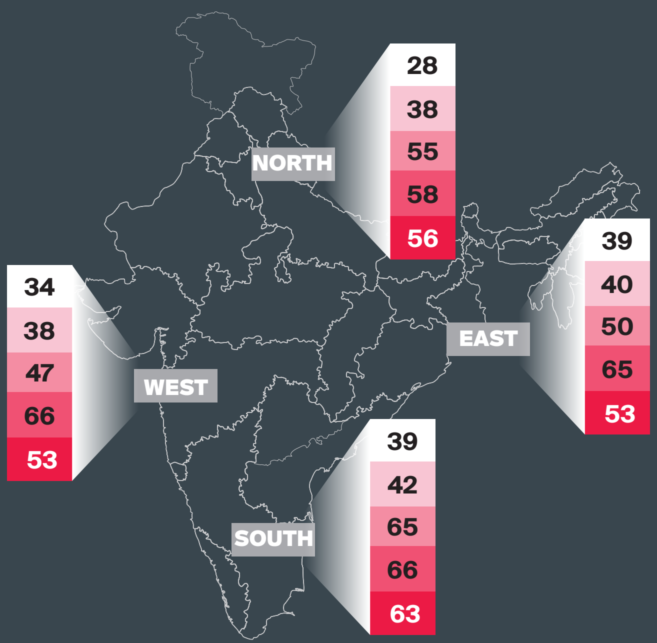
SECTION B: FUTURE SENTIMENTS

B.1 ZONAL FUTURE SENTIMENT SCORE

FUTURE OPTIMISM SOFTENS ACROSS REGIONS

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

Q1 2020 Q2 2020 Q3 2020 Q4 2020 Q1 2021

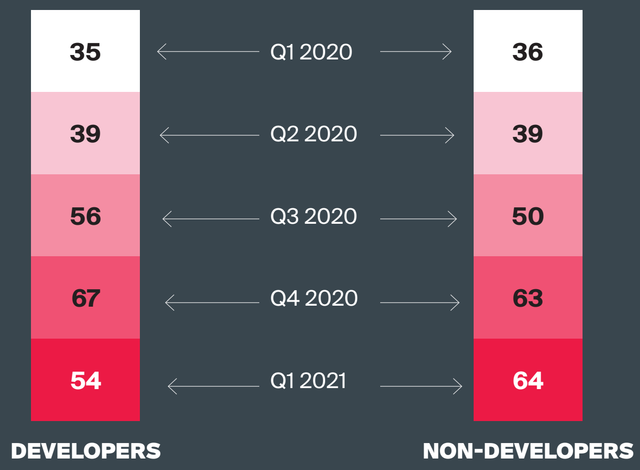


Source: Knight Frank Research

B.2 STAKEHOLDER FUTURE SENTIMENT SCORE

DEVELOPER OUTLOOK WEAKENS, NON-DEVELOPER SENTIMENTS IMPROVE MARGINALLY

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



Source: Knight Frank Research;
Note: Non-developers include banks, financial institutions and PE funds

FINDINGS

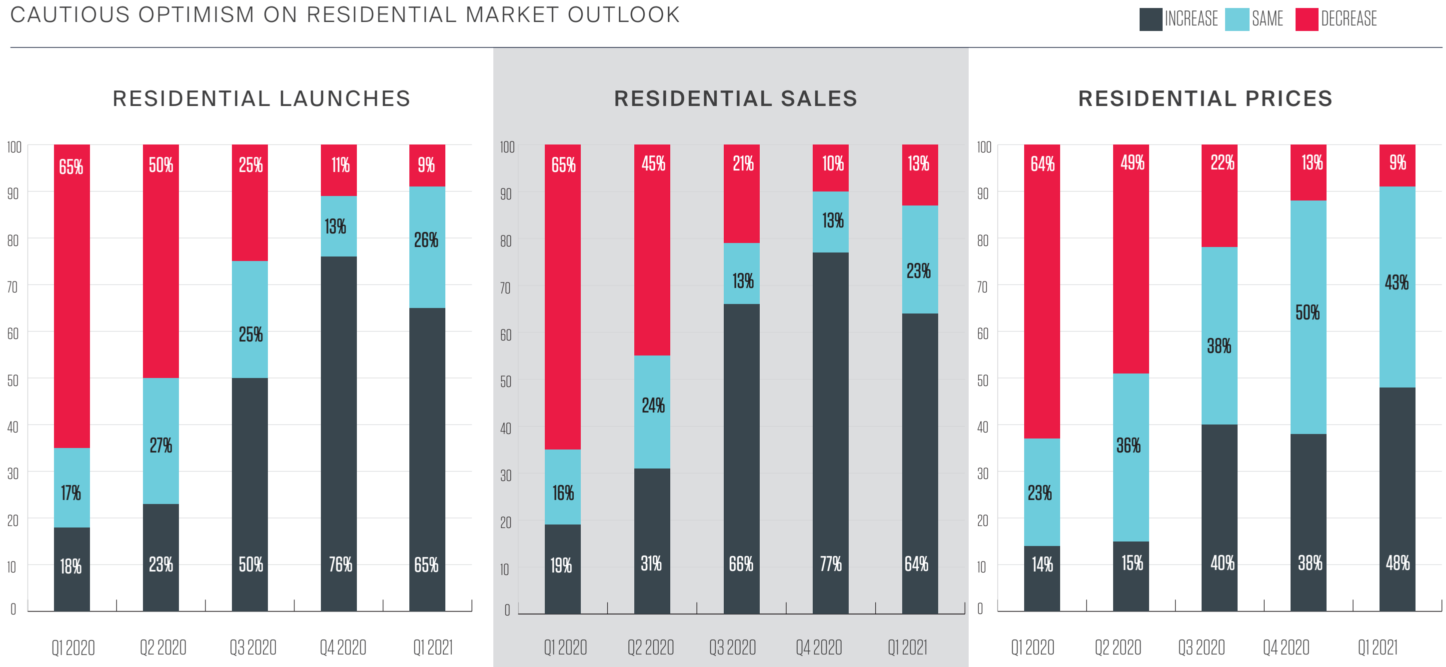
- Hampered by the second COVID wave concerns, the Future Sentiment score (for the next six months) of stakeholders has fallen across regions, even while it remains in the optimistic zone.
- South zone's Future Sentiment score shows a marginal decline from 66 in Q4 2020 to 63 in Q1 2021, while the score for North zone has fallen from 58 in Q4 2020 to 56 in Q1 2021.
- The Future Sentiment score of West region witnessed a significant slump from 66 in Q4 2020 to 53 in Q1 2021, while the score for the East zone has fallen from 65 in Q4 2020 to 53 in Q1 2021.

FINDINGS

- The Q1 2021 outlook of supply side stakeholders reflects caution on the future of real estate for the next six months, even if their scores remain in the optimistic zone.
- Developers' Future Sentiment score in Q1 2021 has seen a significant fall from 67 in Q4 2020 to 54 in Q1 2021. With the fear of lockdowns looming large, developers appear to have accounted for the likely challenges in their outlook for next six months.
- Non-developer sentiments, on the other hand, have improved marginally from 63 in Q4 2020 to 64 in Q1 2021.

B.3 RESIDENTIAL MARKET OUTLOOK

CAUTIOUS OPTIMISM ON RESIDENTIAL MARKET OUTLOOK



Source: Knight Frank Research

FINDINGS

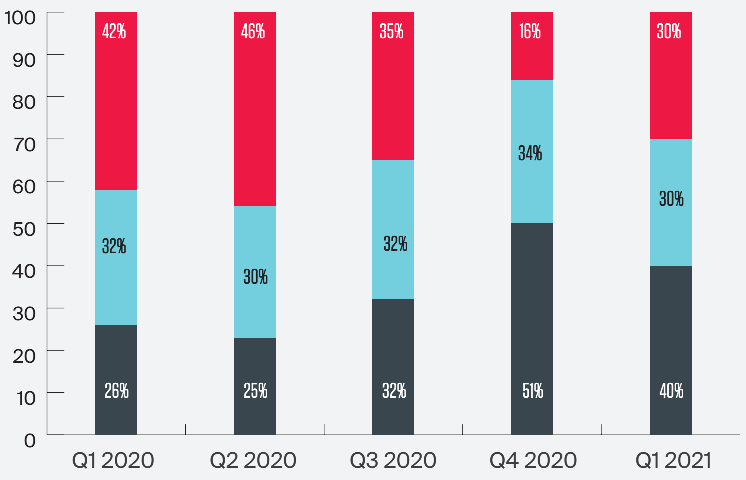
- The residential segment outlook had been showing healthy improvement in the last two quarters on the back of increased traction in this segment. With the substantial increase in COVID cases since March 2021, the outlook for residential launches and sales has softened in Q1 2021. Even so, the share of respondents that expect the residential market to grow or remain steady in the next six months is more than 80%, across parameters of launches, sales and prices.
- In Q1 2021, 65% of the survey respondents were of the opinion that residential launches will increase in the next six months while 26% respondents felt that new project launches would remain the same.
- On the demand front, the share of respondents who expected the sales activity to continue at the same pace over the next six months jumped from 13% in Q4 2020 to 23% in Q1 2021. At the same time, the share of survey respondents with the opinion that sales would increase in the next six months stood at 64% in Q1 2021.
- With regards to residential prices, 48% of the Q1 2021 survey respondents – up from 38% in Q4 2020 – opined that residential prices would increase in the next six months, while 43% of Q1 2021 survey respondents believe that prices will remain the same.

B.4 OFFICE MARKET OUTLOOK

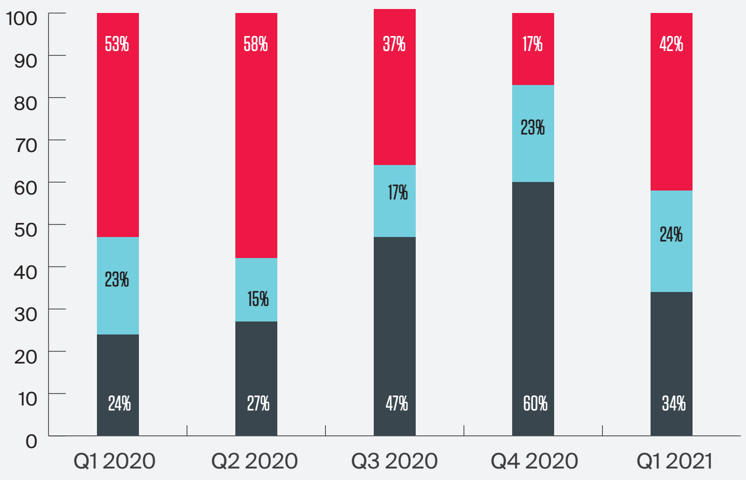
OFFICE MARKET OUTLOOK TURNS SOMBER

INCREASE SAME DECREASE

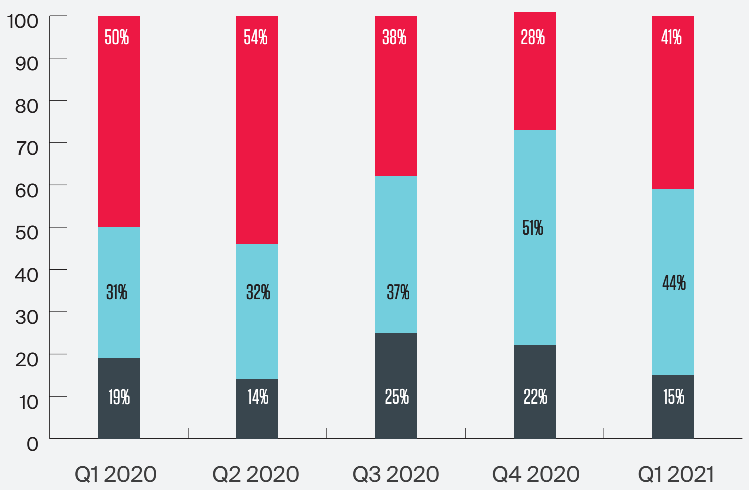
NEW OFFICE SUPPLY



OFFICE LEASING



OFFICE RENTS



Source: Knight Frank Research

FINDINGS

- The office market was showing healthy recovery from Q4 2020. However, the second wave of COVID and the resultant mobility restrictions and possible lockdowns in some cities has adversely impacted office occupancy levels. This has resulted in weakening of the office market outlook for the next six months.
- Q1 2021 saw an increase in the share of respondents that expect a decrease in office supply, office leasing and office rents over the next six months.
- 58% of Q1 2021 survey respondents expect office leasing activity to increase or remain stable in the next six months.
- As far as rentals are concerned, 44% of the Q1 2021 survey respondents expect office rentals to remain steady over the next six months.

B.5. ECONOMIC SCENARIO AND AVAILABILITY OF FUNDING

ECONOMIC OUTLOOK WAVERS, CREDIT AVAILABILITY STANCE TURNS OBSERVANT

OVERALL ECONOMIC MOMENTUM

INCREASE SAME DECREASE

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
INCREASE	24%	33%	57%	82%	68%
SAME	7%	20%	12%	11%	17%
DECREASE	69%	47%	31%	7%	15%

AVAILABILITY OF FUNDING

INCREASE SAME DECREASE

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
INCREASE	30%	25%	38%	59%	41%
SAME	20%	28%	31%	28%	40%
DECREASE	50%	47%	31%	13%	19%

Source: Knight Frank Research

FINDINGS

- On the macroeconomic front, the pace of economic revival appears to have slowed down with some key economic indicators showing weakening over the last two months.
- The Index of Industrial Production (IIP) recorded a 3.6% year-on-year (YoY) fall in February 2021 while the core sector (that includes infrastructure industries) contracted by 4.6% in February 2021.
- Influenced by the change in macroeconomic developments, stakeholder outlook on the overall economic momentum has faltered marginally in Q1 2021. 85% of the Q1 2021 survey respondents - down from the 93% of Q4 2020 - now expect improvement or stability in the overall economic health in the next six months. The remaining 15% - up from 7% in Q4 2020 - believe that economic health would worsen over the next six months.
- On the credit availability front, the stakeholder outlook has shifted from positive to observant as 81% of the Q1 2021 survey respondents - down from the 87% of Q4 2020 - expect the funding scenario to either improve or to remain the same for the coming six months.

CONCLUDING REMARKS

The commercial and residential real estate segments had started seeing a meaningful bounce back from Q4 2020, resulting in improvement in the industry stakeholders' sentiments. However, hampered by the pandemic exigencies in the last one month, the stakeholders have turned cautious. Marred by COVID concerns, future outlook for real estate has weakened across most parameters in Q1 2021, even if scores continue to remain in the optimistic zone. The progress of vaccination in the country and the government's stance on restrictions and curbs will be the key influencers of real estate performance in the next quarter.

Knight Frank LLP is the leading independent global property consultancy, serving as our clients' partners in property for 125 years. Headquartered in London, Knight Frank has more than 20,000 people operating from 488 offices across 57 territories. The Group advises clients ranging from individual owners and buyers to major developers, investors and corporate tenants. For further information about the Firm, please visit knightfrank.com.

In India, Knight Frank is headquartered in Mumbai and has more than 1,200+ experts across Bangalore, Delhi, Pune, Hyderabad, Chennai, Kolkata and Ahmedabad. Backed by strong research and analytics, our experts offer a comprehensive range of real estate services across advisory, valuation and consulting, transactions (residential, commercial, retail, hospitality, land & capitals), facilities management and project management. The company completed 25 years of serving our clients as their partners in India. For more information, visit www.knightfrank.co.in

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Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence, its industrialization, and its emergence as one of the most rapidly growing global economies.

A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry. From influencing policy to encouraging debate, engaging with policy makers and civil society, FICCI articulates the views and concerns of industry. It serves its members from the Indian private and public corporate sectors and multinational companies, drawing its strength from diverse regional chambers of commerce and industry across states, reaching out to over 2,50,000 companies.

FICCI provides a platform for networking and consensus building within and across sectors and is the first port of call for Indian industry, policy makers and the international business community.

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National Real Estate Development Council ("NAREDCO") is established as an autonomous self-regulatory body in 1998 under the aegis of Ministry of Housing and Urban Affairs, Govt. of India; with the mandate to (a) induce transparency and ethics in real estate business and transform the unorganized Indian real estate sector into a matured and globally competitive business sector, and (b) create and sustain an environment conducive to the growth of real estate industry in India, partnering industry and government alike through advisory and consultative processes. It is hailed as the apex national body for the real estate industry and have been working as a single platform where Government, industry and public would discuss various problems and opportunities face to face which would result in speedy resolution of issues.

The National Real Estate Development Council strives to be the collective force influencing and shaping the real estate industry. It seeks to be the leading advocate of developing standards for efficient, effective, and ethical real estate business practices, valued by all stakeholders of real estate sector and viewed by them as crucial to their success. NAREDCO works to create and sustain an environment conducive to the growth of real estate industry in India, partnering industry and government alike through advisory and consultative processes.

NAREDCO's mission is to improve the confidence level of the Real Estate stakeholders across the value chain by bringing in professional practices. One of the highly professional methods is to develop an index to assess the market sentiment in order to enhance the confidence levels of lenders, investors and consumers while making lending and / or investment decisions. NAREDCO has partnered with Knight Frank and FICCI to publish a quarterly Real Estate Sentiment Index to fulfil this endeavour.

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