

38th
edition

RESEARCH
Q3 2023 (JULY - SEPTEMBER 2023)



KNIGHT FRANK-NAREDCO

REAL ESTATE SENTIMENT INDEX

Q3 2023 (JULY - SEPTEMBER 2023)

The Real Estate Sentiment Index is developed jointly by Knight Frank India and the National Real Estate Development Council (NAREDCO). The objective is to capture the perceptions and expectations of industry players to gauge the sentiment of the real estate market.

FOREWORD



Shishir Bajjal
Chairman and Managing Director
Knight Frank India Pvt Ltd

With the onset of conflict in the Middle East, a new geopolitical disturbance has been introduced into the already challenging global environment, concurrent with the ongoing Russia-Ukraine war. The apprehension of regional escalation of this conflict has caused a surge in crude oil prices, primarily due to heightened concerns about disruptions in oil output from the Middle East. This development occurs against the backdrop of a sluggish global economy, with the International Monetary Fund (IMF) forecasting a 2.9% global Gross Domestic Product (GDP) growth for 2024. Any advancement of this new risk is likely to exert further downward pressure on global economic growth.

Furthermore, there is an anticipation of accelerated inflation at a global level due to heightened uncertainty, which presents new challenges for central banks and governments in developed markets.

Despite the deceleration in global economic growth, India's domestic economy demonstrates resilience. In the first quarter of the fiscal year 2023-24, real GDP grew by 7.8% year-on-year, driven by robust private consumption and investment demand. The improved near-term inflation outlook in India, along with its resilient economic activity, has positively impacted the outlook for consumers and businesses across various sectors, including real estate.

In October 2023, the Reserve Bank of India (RBI) chose to maintain the policy repo rate at 6.5% for the fourth consecutive time. This decision aligns with the gradual transmission of the cumulative 250 basis point increase in the policy repo rate through the economy. It provides a favorable scenario for the real estate sector, given the rise in home loan rates in India.

In the third quarter of 2023, the Current Sentiment Index Score declined from 63 to 59, reflecting concerns among stakeholders about the impact of the global geopolitical situation on Indian businesses. In contrast, the Future Sentiment Score experienced a modest increase from 64 to 65, driven by expectations that the Indian economy's stable trajectory will continue to support the performance of the real estate sector over the next six months.

In this context, I am pleased to present the 38th edition of the Knight Frank-NAREDCO Real Estate Sentiment Index for the third quarter of 2023 (July-September 2023). This quarterly report encompasses the current and future sentiments concerning the real estate sector, the economic environment, and funding availability, as perceived by supply-side stakeholders and financial institutions.

I hope that you will find these distinctive insights valuable, and I extend my gratitude to all industry participants for their participation in this survey.

PARTNERS' TAKE ON THE SECTOR



Hari Babu

President – NAREDCO

“ While the recent geopolitical disturbances have certainly affected the Current Sentiment Index Score resulting in a modest decline, the resilient Future Sentiment Score reflects the enduring confidence in the Indian real estate sector's potential. It is reassuring to note that despite certain challenges, stakeholders across different zones have maintained a positive outlook for the next six months. The significant rise in the Developer Future Sentiment Score, the highest in the past 11 quarters, is testament to the unwavering spirit of the real estate community. Similarly, the growing confidence among Non-Developer entities such as banks, financial institutions, and PE funds, signifies a strengthening belief in the sector's ability to navigate through uncertainties.

The upbeat residential market outlook, propelled by festive fervour and increasing sales and pricing parameters, underscores the sector's resilience in the face of volatility. Equally promising is the buoyancy seen in the office market, with stakeholders foreseeing a surge in demand, leasing, supply, and rents, despite the global economic concerns and recent geopolitical disruptions. NAREDCO is committed to supporting the real estate sector's growth and advocating for policies that promote stability and sustainability. We remain vigilant in monitoring market trends and will continue to work towards fostering a conducive environment for the industry's long-term prosperity.

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 the 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.

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 the residential and office markets, and outlook on the economy and funding scenario at large.

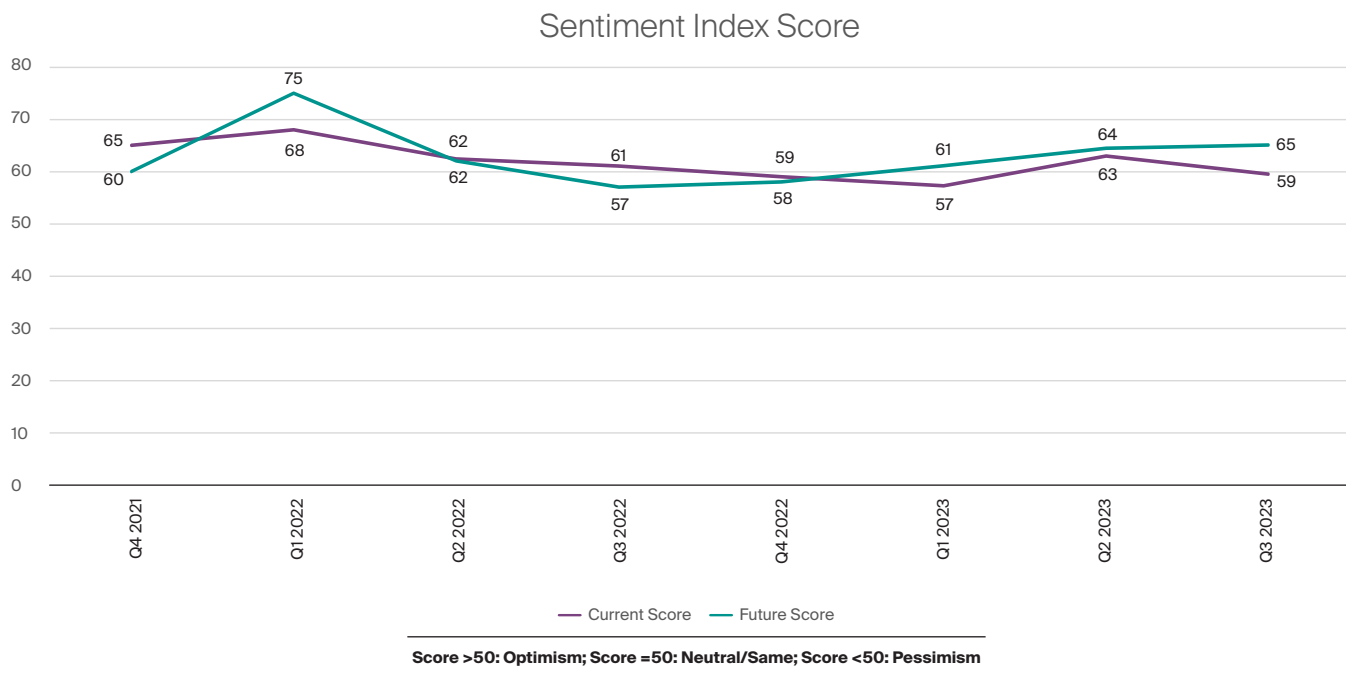
This survey edition is for the period July 2023 to September 2023 i.e., Q3 2023 and was conducted from 21st September 2023 to 18th October 2023.



SENTIMENT INDEX SURVEY FINDINGS

SECTION A: OVERALL SENTIMENT SCORE

CURRENT SENTIMENT SCORE SLIMS DOWN, FUTURE SENTIMENT REMAINS POSITIVE



Source: Knight Frank Research

A1. Current Sentiment Score

- The Current Sentiment Score remained in the optimistic zone even as it decreased from 63 in Q2 2023 to 59 in Q3 2023. The score's decline can largely be attributed to the sudden outbreak of conflict in the Middle East and rising regional tensions between nations. Stakeholder confidence was dampened as they feared an impact on Indian businesses despite the stable domestic economy.
- The Current Sentiment Score signifies stakeholders' current outlook in comparison to the preceding six months. The Current Sentiment Score's increase reinstates stakeholder confidence in the Indian economy and the real estate sector performance.

A2. Future Sentiment Score

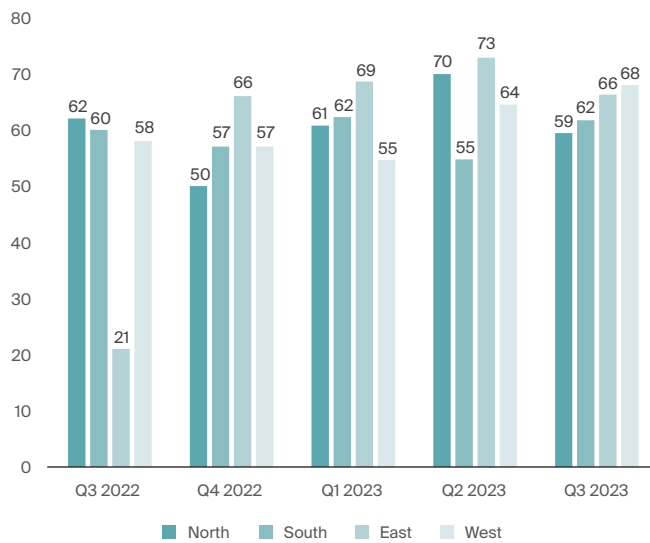
- The Future Sentiment Score witnessed a marginal uptick from 64 to 65 on the back of stakeholder expectation that the current conflict escalation is too premature to predict. Stakeholders were of the view that Indian economy's stable trajectory may continue to support real estate sector performance for the next six months with the festive period underway.

SECTION B: FUTURE SENTIMENTS

B1. Zonal Future Sentiment Score

ZONAL SCORES REMAIN A MIXED BAG

Zonal Score



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

Source: Knight Frank Research

Findings

- In Q3 2023, Zonal scores remained a mixed bag. Future Sentiment Scores of South and West Zones rose in the optimistic zone as stakeholders remained positive on the outlook for the real estate sector for the next six months.
- Despite a blip in the Future Sentiment Scores of North and East Zones, the scores for all remained firmly in the optimistic zone signifying inherent confidence in performance for these markets in the next six months.

B2. Stakeholder Future Sentiment Score

UPTICK IN DEVELOPER AND NON-DEVELOPER SENTIMENT SCORES

Stakeholder Score



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

Source: Knight Frank Research

Note: Non-Developers include banks, financial institutions and PE funds

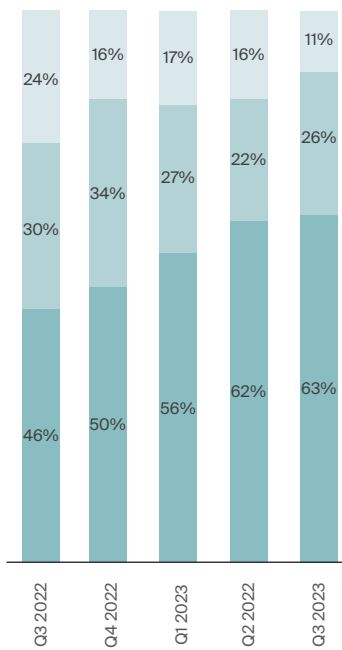
Findings

- The Developer Future Sentiment Score inched up from 65 in Q2 2023 to 66 in Q3 2023, the highest in the past 11 quarters. With the continuation of pause in interest rate hike for the fourth time by India's central bank, real estate developers remain optimistic about the next six months. This is largely because of the festive fervor driving the demand for home sales.
- The Non-Developer (which includes banks, financial institutions, PE funds) Future Sentiment Score scaled up from 62 in Q2 2023 to 64 in Q3 2023, the highest in the past six quarters. The institutional investors who remained watchful in the past periods, exhibited enhanced confidence in the Indian economy. The pause in the interest rate hike cycle by the RBI also influenced them positively.

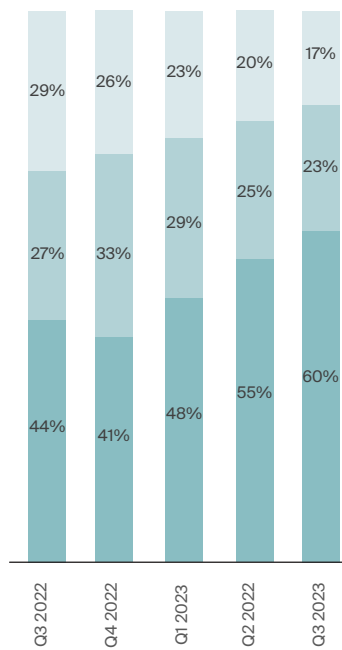
B3. Residential Market Outlook

STRONG FUTURE OUTLOOK

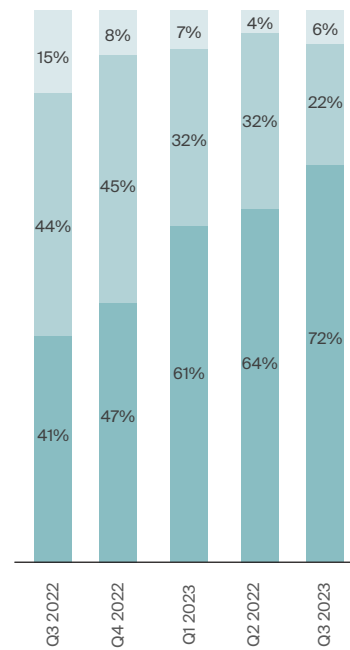
Residential Launches



Residential Sales



Residential Prices



■ Increase ■ Same ■ Decrease

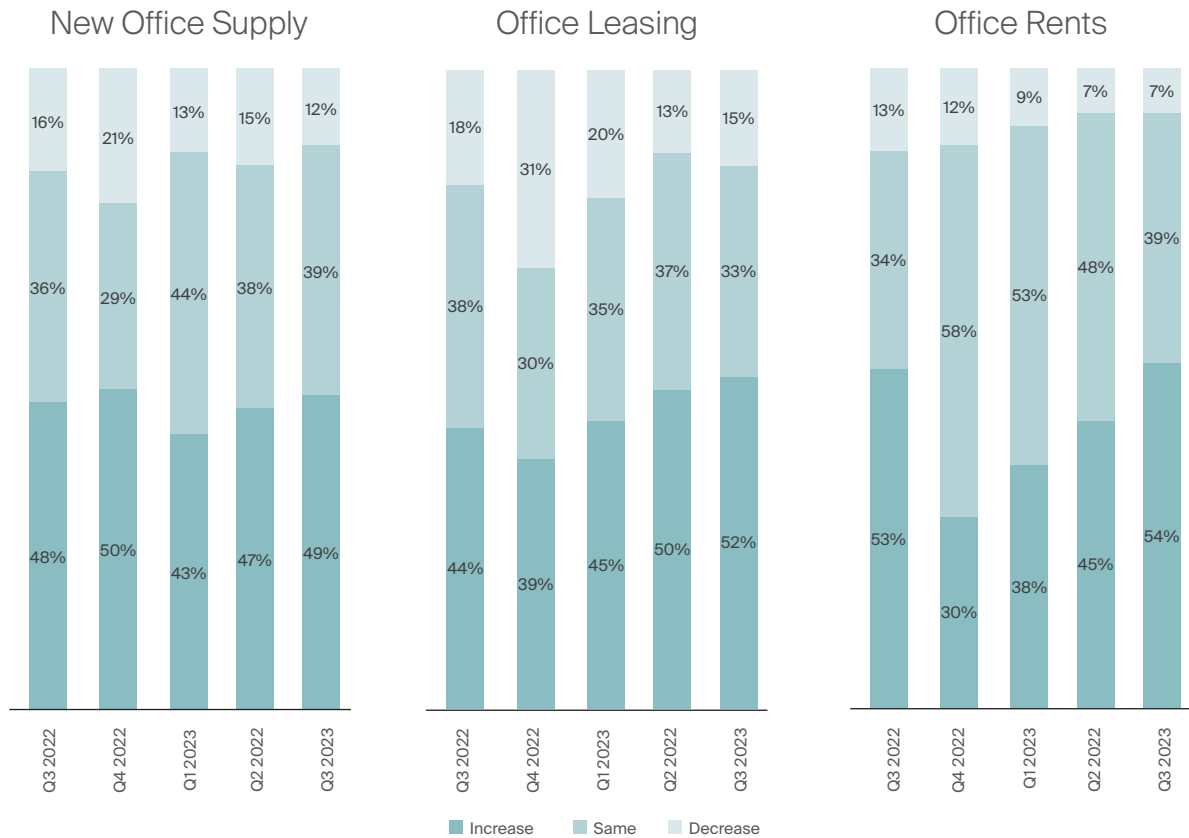
Source: Knight Frank Research

Findings

- The residential market outlook in the current quarter reflects robustness in residential sales and pricing parameters as stakeholders remain confident of an increase in both. This is largely due to the prevalence of a positive sentiment amongst survey respondents towards homebuying in the festive season.
- 60% of the survey respondents in Q3 2023 expect residential sales to increase in the next six months. In comparison, 55% of the respondents were of the same opinion in the previous quarter. The fourth pause in the interest rate hike cycle has spiked stakeholder sentiments about the sustenance of the current demand momentum in the next six months, as strong demand prevails due to rising income and accessible financing options for homebuyers.
- In Q3 2023, 63% of the stakeholders were of the opinion that residential launches will improve in the next six months. In Q2 2023, 62% of the stakeholders held a similar view. With most developers introducing new launches this festive season, stakeholder expectations for new project launches in the next six months largely remained similar to the previous quarter.
- 72% of the survey respondents in Q3 2023 expect residential prices to increase in the next six months as the demand momentum for residential assets continues to prevail. 64% of the survey respondents held a similar view in the past quarter.

B4. Office Market Outlook

BUOYANCY IN OFFICE MARKET OUTLOOK



Source: Knight Frank Research

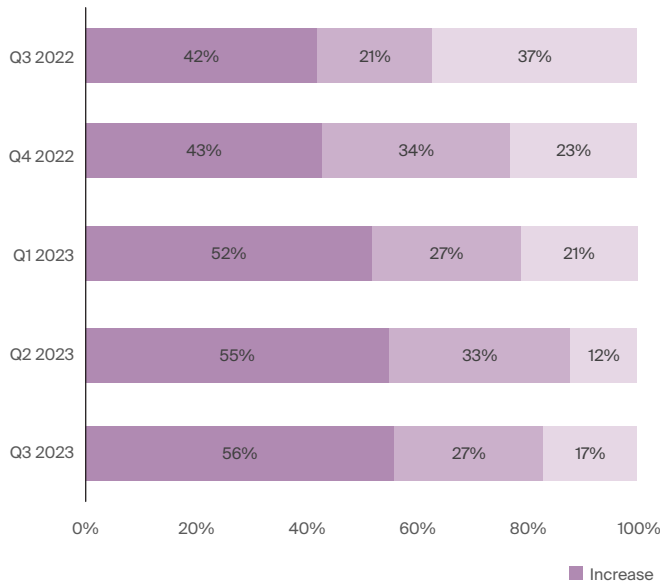
Findings

- The office market outlook exhibited buoyancy on all parameters as survey respondents remained confident of this asset class for the next six months. A looming threat of recession coupled with the impact of new geopolitical disturbances in developed markets, led stakeholders to opine that demand in the India office market will bolster and give a fillip to leasing, supply and rents.
- In Q3 2023, 52% of survey respondents expect office leasing to improve in the next six months. In the previous quarter, half the survey respondents held a similar opinion.
- 49% of survey respondents expect office supply to improve in the next six months. In the previous quarter, 47% respondents held a similar opinion. With strong leasing volume continuing, the outlook towards new supply has also strengthened in the near term.
- In Q3 2023, 54% of the survey respondents expect office rents to increase, whereas in the previous quarter, 45% of the survey respondents held a similar view.

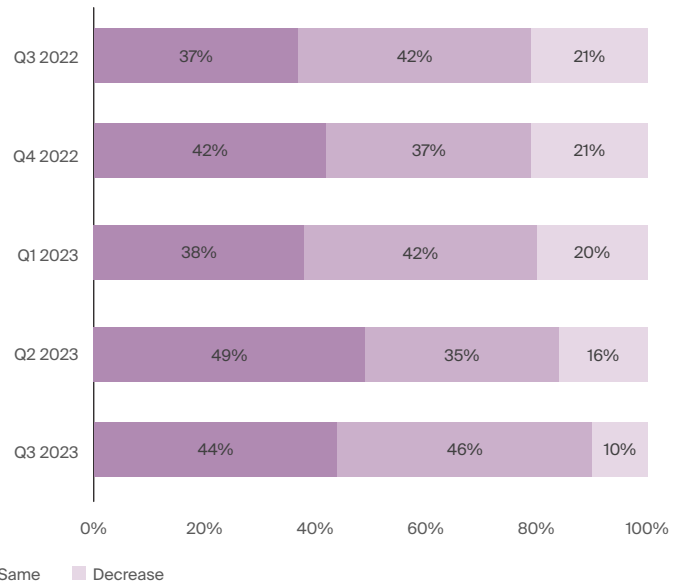
B5. Economic Scenario and Availability of Funding

ECONOMIC OUTLOOK STEADY

Overall Economic Momentum



Availability of Funding



Source: Knight Frank Research

Findings

- In Q3 2023, 56% of survey respondents indicated an increase in their expectation on overall economic momentum in the next six months. As India's domestic economy continues to remain steady, consumer and business optimism is expected to strengthen further.
- In Q3 2023, 44% of survey respondents opined an increase in funding availability in the next six months. In Q2 2023,

49% of survey respondents had a similar opinion. The cumulative foreign direct investment (FDI) inflow between April-July 2023 was lower by 67% over the past one year indicating unsteadiness. As a result, the sentiment towards new investment inflows in the next six months has also weakened, which is reflected in the survey.

CONCLUDING REMARKS

The future trajectory of Indian economy is bound to be influenced by the strength of domestic demand and the geopolitical climate. Amid rising global headwinds, the easing of consumer inflation and stable interest rate has given greater confidence to the supply-side stakeholders i.e., real estate developers and financial institutions regarding India's real estate sector. Heightened demand in the residential sector coupled with strong occupier activity in India's office market has been instrumental in shaping the robust outlook for Indian realty sector for the next six months.



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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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