



RESEARCH
Q4 2023 (OCTOBER - DECEMBER 2023)



KNIGHT FRANK-NAREDCO

REAL ESTATE SENTIMENT INDEX

Q4 2023 (OCTOBER - DECEMBER 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

India is advancing steadily towards its ambition of becoming the world's third-largest economy, targeting a GDP of US\$7 trillion by 2030. Assessing various indicators such as historical performance, ongoing investments, and future prospects, international agencies uniformly express optimism regarding India's trajectory. Notably, in Q2 2023 (July – September 2023), GDP growth surged to 7.6%, surpassing expectations. Despite inflationary pressures niggling at the growth rate, the Reserve Bank of India's timely interventions and stringent liquidity measures have sustained economic momentum. The recent revision of the RBI's forecast to 7% for FY 2024 reaffirms India's resilience amid a global economic landscape still fraught with uncertainties. This narrative of economic stability and expansion finds resonance in the robust performance of the Indian real estate markets.

The real estate sector witnessed exceptional performance in 2023, both in commercial and residential segments. Residential sales reached a decade-high, buoyed by increased transactions in high-value properties. Concurrently, the commercial sector experienced its second-best year with 59.6 million square feet of office space transactions. Notably, Indian businesses and Global Capability Centres (GCCs) have been pivotal in driving office space uptake. These encouraging demand dynamics have propelled the sector forward, fostering positive market sentiments.

In the final quarter of 2023, the Current Sentiment Index Score soared further in the optimistic territory. From 59 in Q3 2023, the Current Sentiment Score scaled up to 69. Similarly, the Future Sentiment score climbed from 65 in Q3 2023 to 70 in Q4 2023, reflecting stakeholders' confidence in the Indian economy and sustained real estate demand.

I invite you to delve into the 39th edition of the Knight Frank-NAREDCO Real Estate Sentiment Index for the fourth quarter of 2023 (October-December 2023). This quarterly publication offers insights into the prevailing sentiments regarding the real estate sector, economic conditions, and funding availability, as perceived by stakeholders and financial institutions on the supply side.

I trust you will find this report informative and engaging, and I extend my gratitude to all industry stakeholders for their invaluable contributions to this survey.

PARTNERS' TAKE ON THE SECTOR



G. Hari Babu
National President – NAREDCO

“ As we anticipate the 39th Knight Frank NAREDCO Real Estate Sentiment Index Report for Q4 2023, there's a positive shift in sentiment. The Current Sentiment Index reflects increased confidence, attributed to a stable Indian economic environment. The Future Sentiment also points to optimism about India's economic growth. Globally, with easing inflationary pressures, there is a balanced risk perspective. Regionally, all zones maintain an optimistic outlook. Developer sentiment shows resilience, and non-developer entities express cautious optimism. The residential market sees increased confidence, and the office sector anticipates growth. This signals a positive trajectory for the next six months.

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.

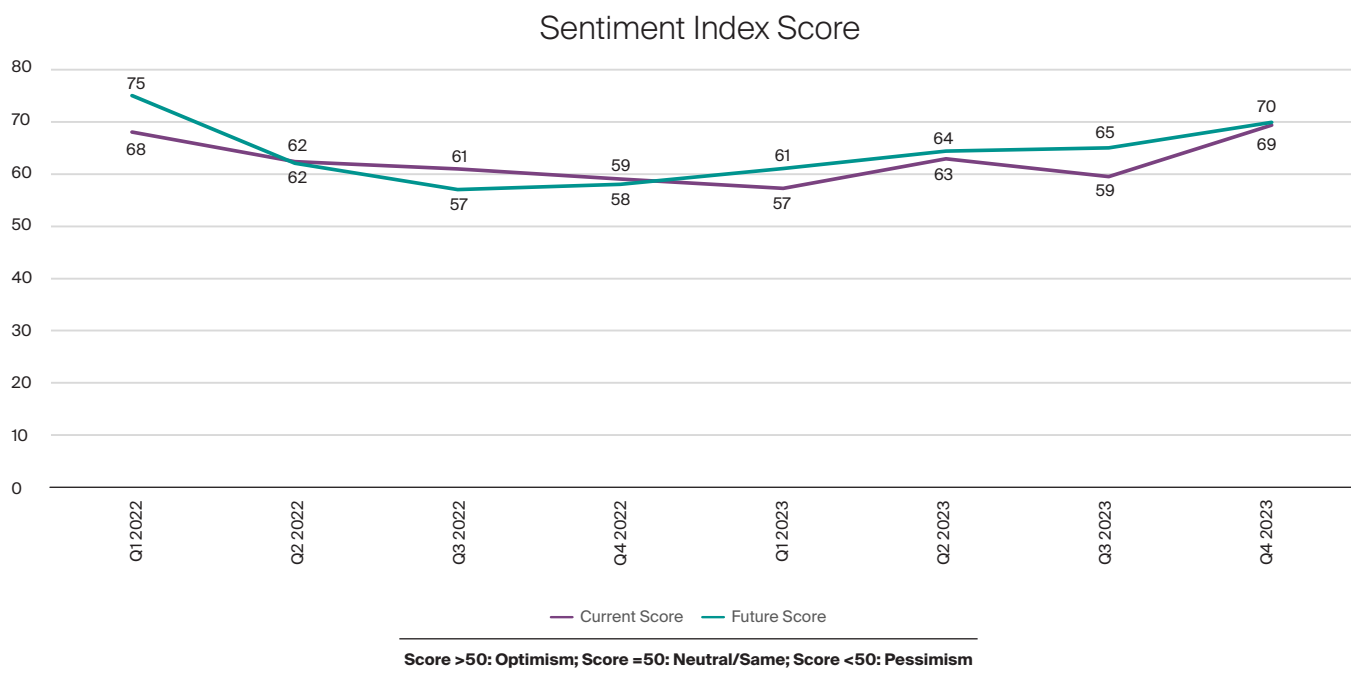
This survey edition is for the period October 2023 to December 2023 i.e., Q4 2023.



SENTIMENT INDEX SURVEY FINDINGS

SECTION A: OVERALL SENTIMENT SCORE

CURRENT AND FUTURE SENTIMENT SCORES ON AN UPWARD TRAJECTORY



Source: Knight Frank Research

A1. Current Sentiment Score

- The Current Sentiment Score rose in the optimistic zone from 59 in Q3 2023 to 69 in Q4 2023. The increase in the Current Sentiment Score is largely due to a robust economic environment in India. Stakeholder confidence has increased as Indian businesses, including real estate, stand to benefit from a growing 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

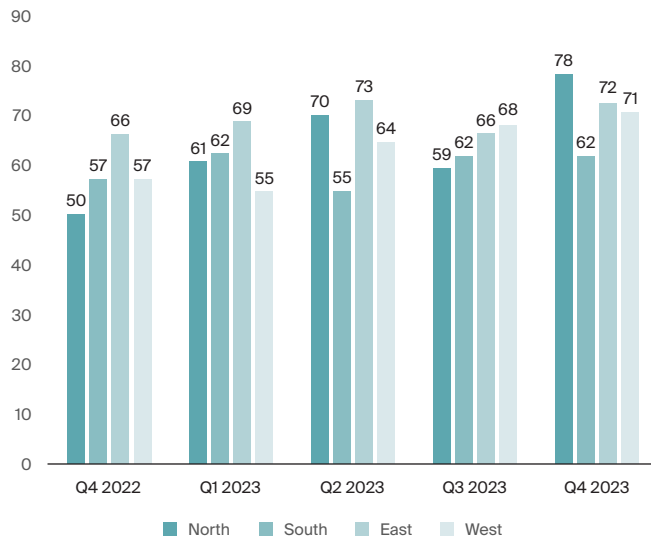
- The Future Sentiment Score has increased from 65 in Q3 2023 to 70 in Q4 2023 on account of stakeholder optimism about the Indian economy and a sustained demand in the real estate sector that is likely to continue for the next six months.

SECTION B: FUTURE SENTIMENTS

B1. Zonal Future Sentiment Score

ZONAL SCORES RISE IN OPTIMISTIC TERRITORY

Zonal Score



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

Source: Knight Frank Research

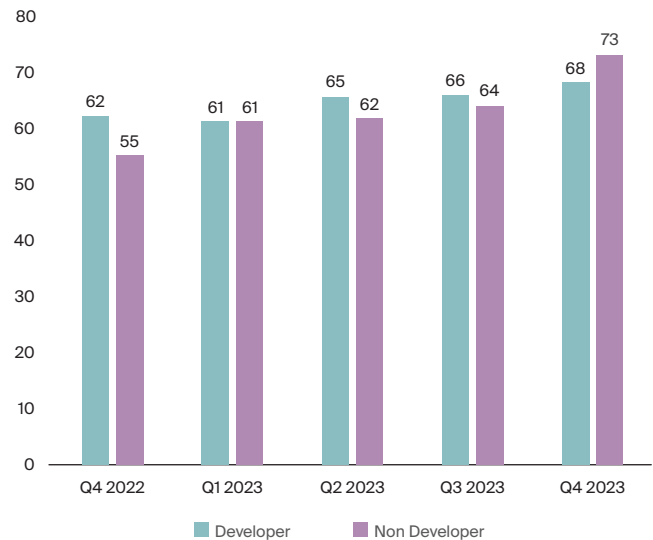
Findings

- In Q4 2023, the scores for all zones, except South, climbed in the optimistic zone signifying inherent confidence in the performance of the real estate sector in the next six months.
- In the South zone, the Future Sentiment Score remained at par with Q3 2023. At 62, the score remained firmly in the optimistic territory during both quarters.

B2. Stakeholder Future Sentiment Score

DEVELOPER AND NON-DEVELOPER SENTIMENT SCORES IMPROVE

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

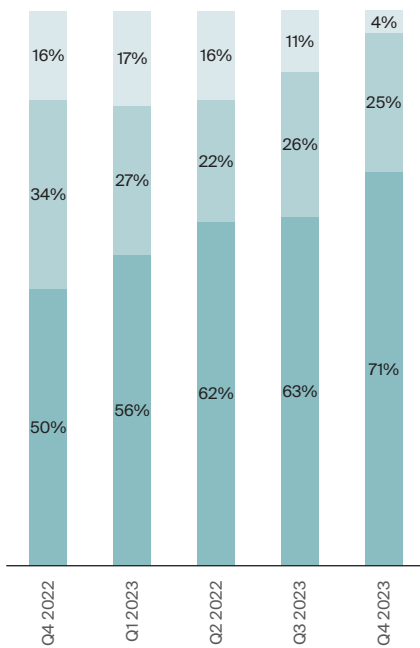
Findings

- The Developer Future Sentiment Score scaled up from 66 in Q3 2023 to 68 in Q4 2023. With the Reserve Bank of India (RBI)'s monetary policy committee (MPC)'s status quo on policy repo rate for the sixth consecutive occasion, real estate developers remain optimistic about growth in the sector for the next six months.
- The Non-Developer (which includes banks, financial institutions, PE funds) Future Sentiment Score rose from 64 in Q3 2023 to 73 in Q4 2023. The institutional investors that remained watchful in the past periods, exhibited enhanced confidence in the Indian economy.

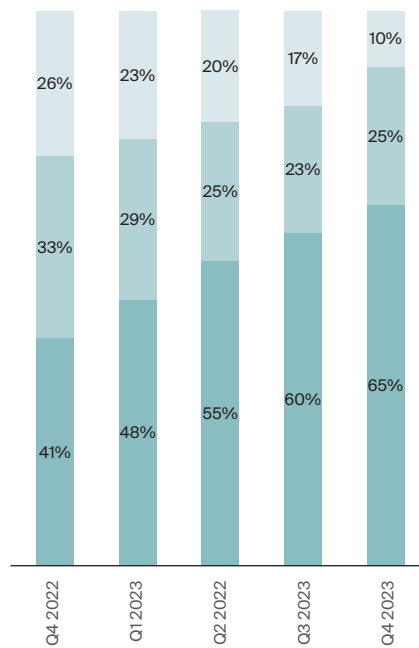
B3. Residential Market Outlook

ROBUST FUTURE OUTLOOK

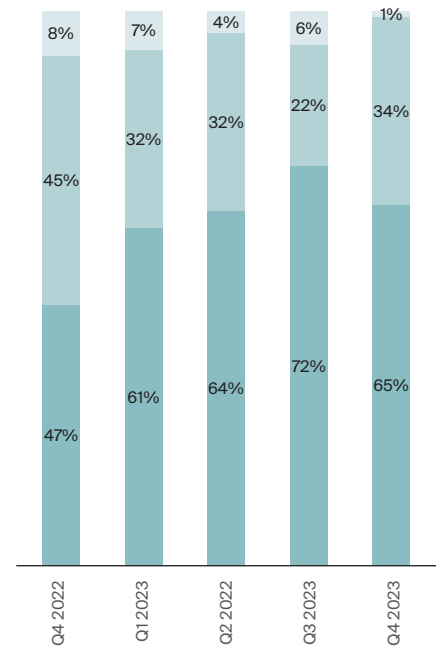
Residential Launches



Residential Sales



Residential Prices



■ Increase ■ Same ■ Decrease

Source: Knight Frank Research

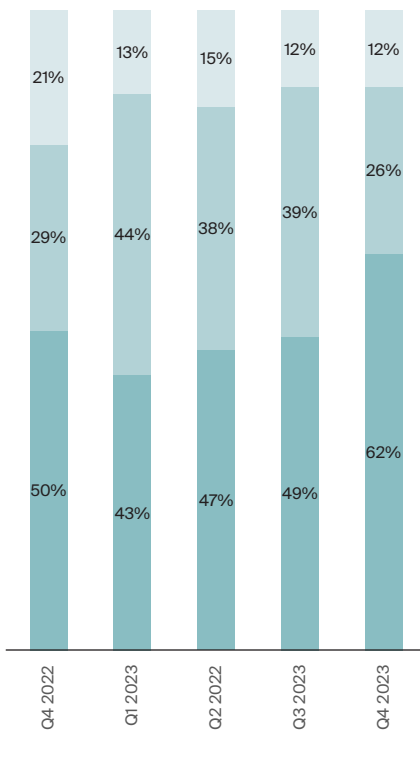
Findings

- In Q4 2023, the residential market outlook reflects enhanced optimism on parameters of residential sales and launches, as stakeholders remain confident of the sustained demand momentum to drive activity in the market.
- In this quarter's survey, 65% of the survey respondents expect residential sales to increase in the next six months. In comparison, 60% of the respondents were of the same opinion in the previous quarter. The sixth consecutive MPC pause on the interest rate hike cycle has led stakeholders to believe that steady demand may prevail in the residential sector in the next six months.
- In Q4 2023, 71% of survey respondents were of the opinion that residential launches will improve in the next six months. In Q3 2023, 63% of the stakeholders held a similar view. With continued demand, survey respondents believe that the momentum in new residential launches will continue to prevail over the next six months.
- 65% of the survey respondents in Q4 2023 expect residential prices to increase in the next six months. However, during Q3 2023, 72% of survey respondents held a similar view.

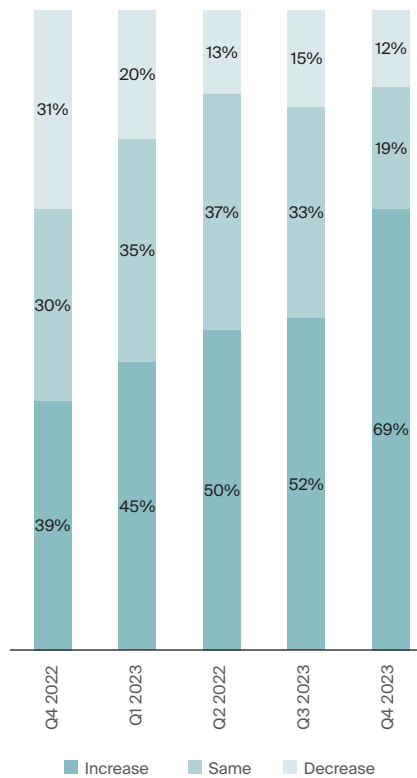
B4. Office Market Outlook

OFFICE MARKET OUTLOOK BUOYANT

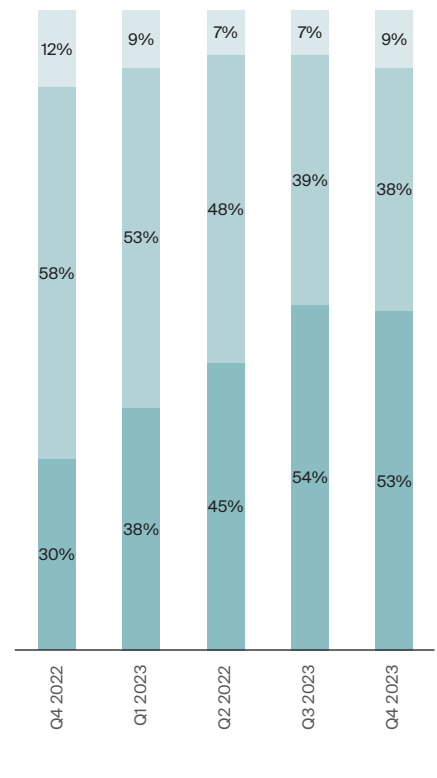
New Office Supply



Office Leasing



Office Rents



Source: Knight Frank Research

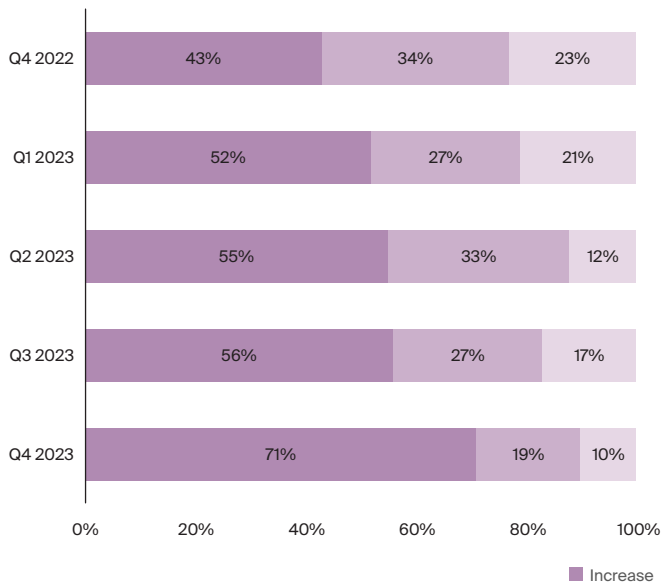
Findings

- The office outlook exhibited buoyancy on leasing and supply parameters as survey respondents remained confident about this sector in the next six months. Stakeholders opined that demand in India's office market will bolster in the next six months and give a fillip to new supply as well.
- In Q4 2023, 69% of survey respondents expect office leasing to improve in the next six months. In the previous quarter, 52% of survey respondents held a similar opinion.
- 62% of survey respondents expect office supply to improve in the next six months. In the previous quarter, 49% of respondents held a similar opinion. With strong momentum in office leasing, the outlook towards new supply has also strengthened in the near term.
- In Q4 2023, 53% of the survey respondents expect office rents to increase. In Q3 2023, a similar percentage or 54% 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 Q4 2023, 71% of survey respondents indicated an increase in their growth expectation on overall economic momentum in the next six months. As India's domestic economy continues to remain strong, consumer optimism for the near term has strengthened.
- In Q4 2023, 57% of survey respondents expect an increase in funding availability in the next six months. The cumulative foreign direct investment (FDI) inflow between April-September 2023 stood at USD 15.34 bn. In Q3 2023, 44% of survey respondents had a similar opinion.

CONCLUDING REMARKS

With strong domestic consumption and supportive capex boosting its growth trajectory, the Indian economy is expected to grow by 7% in the upcoming financial year 2024-25. Despite short term volatility, retail inflation is within RBI's upper tolerance band of 6% and likely to moderate going forward. This continues to give confidence to the supply-side stakeholders i.e., real estate developers and financial institutions regarding India's real estate sector. Sustained demand in the residential sector coupled with strong occupier activity in India's office market have been key catalysts 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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