



FICCI-NAREDCO-KNIGHT FRANK

# REAL ESTATE SENTIMENT INDEX

Q1 2018 (JANUARY-MARCH 2018)

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 leaders in order to judge the sentiment of the real estate market.



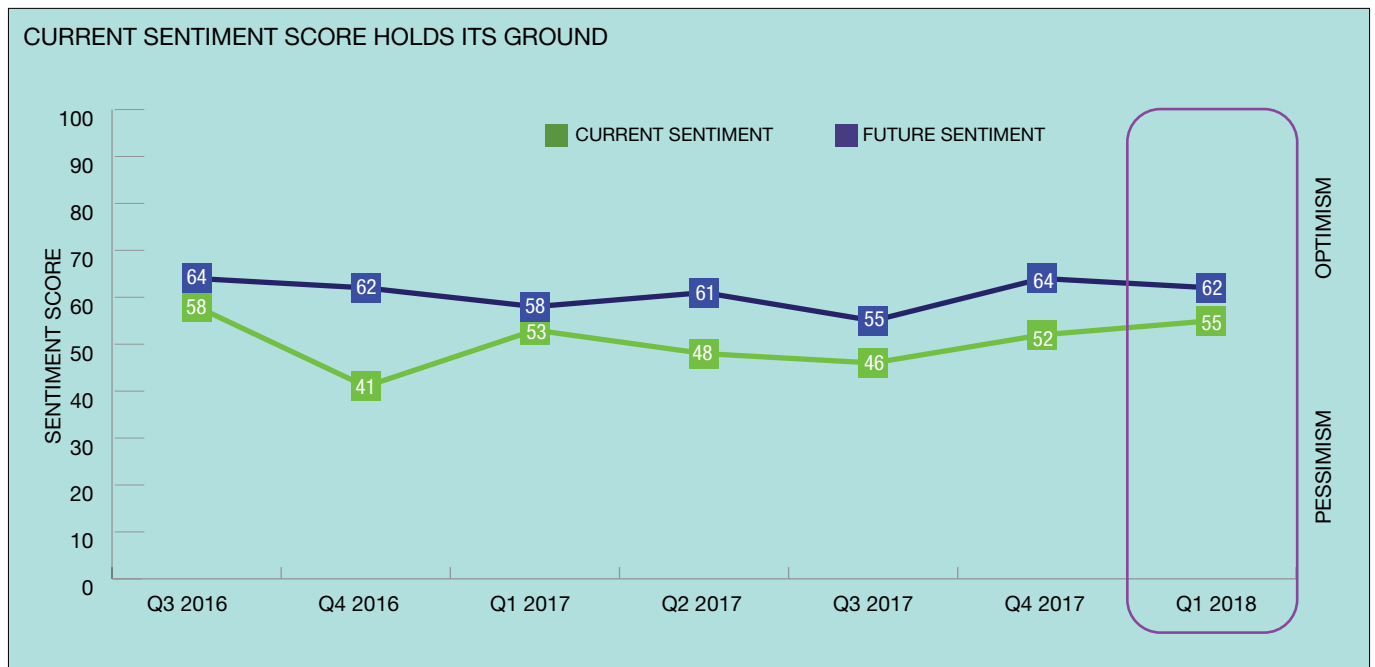
## APPROACH

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, price appreciation and funding. Respondents choose from the following options, for which weights have been assigned: 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 percentage of responses in each of these categories. Hence, a score of 50 represents a neutral view; a

score above 50 demonstrates a positive outlook; and a score below 50 indicates 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 only on the future sentiments of the stakeholders. This survey was conducted between January–March 2018.

## SECTION A – OVERALL CURRENT AND FUTURE SENTIMENT SCORE



## FINDINGS

- The current sentiment score remains in the positive in first quarter of 2018. The sentiments that were in the red in Q2 and Q3 of 2017 (April–September 2017) due to implementation of various structural reforms had started to show signs of revival in Q4 2017 with the stakeholders showing confidence in the outcome of the long-term policy initiatives of the government.
- On the other hand, the optimism regards the future of the real estate sector is holding on to the same level.

## SECTION B – FUTURE SENTIMENT SCORE

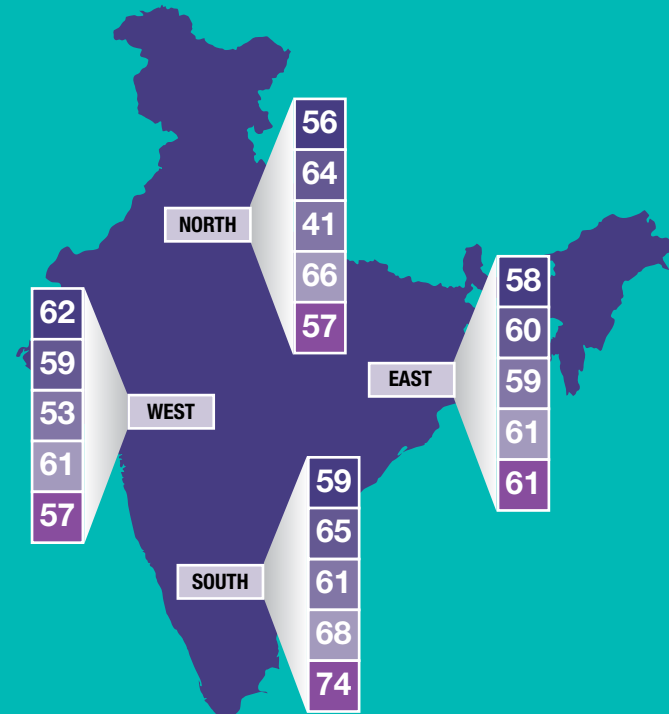
- Though transitory in nature, the stakeholder sentiments regards the coming six months has taken a slight dip in our survey findings of Q1 2018.
- We believe, that even though the stakeholders are positive regarding the outcome of the structural reforms, they are not overtly bullish about the future of the real estate scenario and want to keep a wait and watch approach. Factors such as the laxity in the formation of the Real Estate Regulatory Authority in some states, sluggish sales, rising inflation and an uncertainty over the overall economic scenario have thwarted the stakeholders' sentiment.

ZONAL SENTIMENT SCORE

NATIONAL CAPITAL REGION SLIDES DOWN ON SENTIMENTS YET AGAIN

SCORE>50: Optimism SCORE=50: Same/Neutral SCORE<50: Pessimism

Q1 2017 Q2 2017 Q3 2017 Q4 2017 Q1 2018



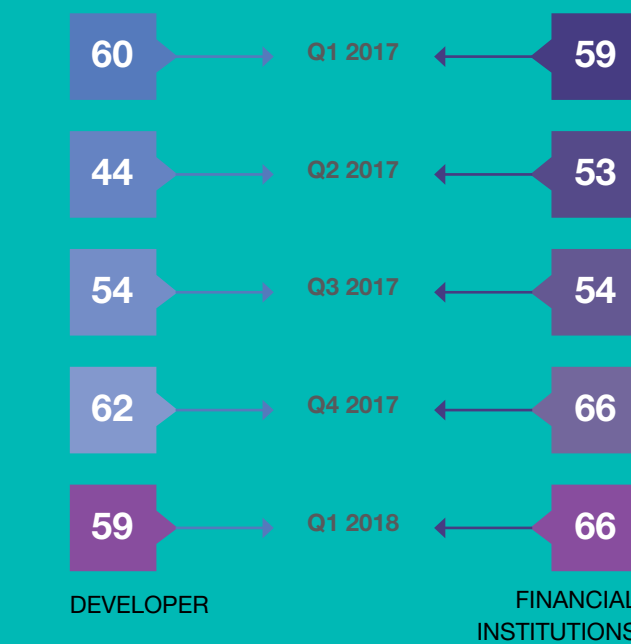
FINDINGS

- The future sentiment score for north has come down substantially in Q1 2018. This dip in sentiments for the coming six months stems from the lack of buyer confidence in the market. We believe, that that proper implementation of RERA will give a new lease of life to real estate in north. But unfortunately, states like Haryana and Uttar Pradesh have only been laggards in their execution in this regard.
- On the other hand, even though future sentiment score for west has moved down in Q1 2018, it remains in the positive zone. We believe that the way RERA has been implemented in the west zone, particularly in Maharashtra, sentiments will only inch up and this dip is transitory.
- South, on the other hand, has seen an up-swing in future score (74), and we see that stakeholders are positive for the next six months.

STAKEHOLDER SENTIMENT SCORE

FINANCIAL INSTITUTIONS AND DEVELOPERS KEEP A CLOSE WATCH ON THE FUTURE

SCORE>50: Optimism SCORE=50: Same/Neutral SCORE<50: Pessimism

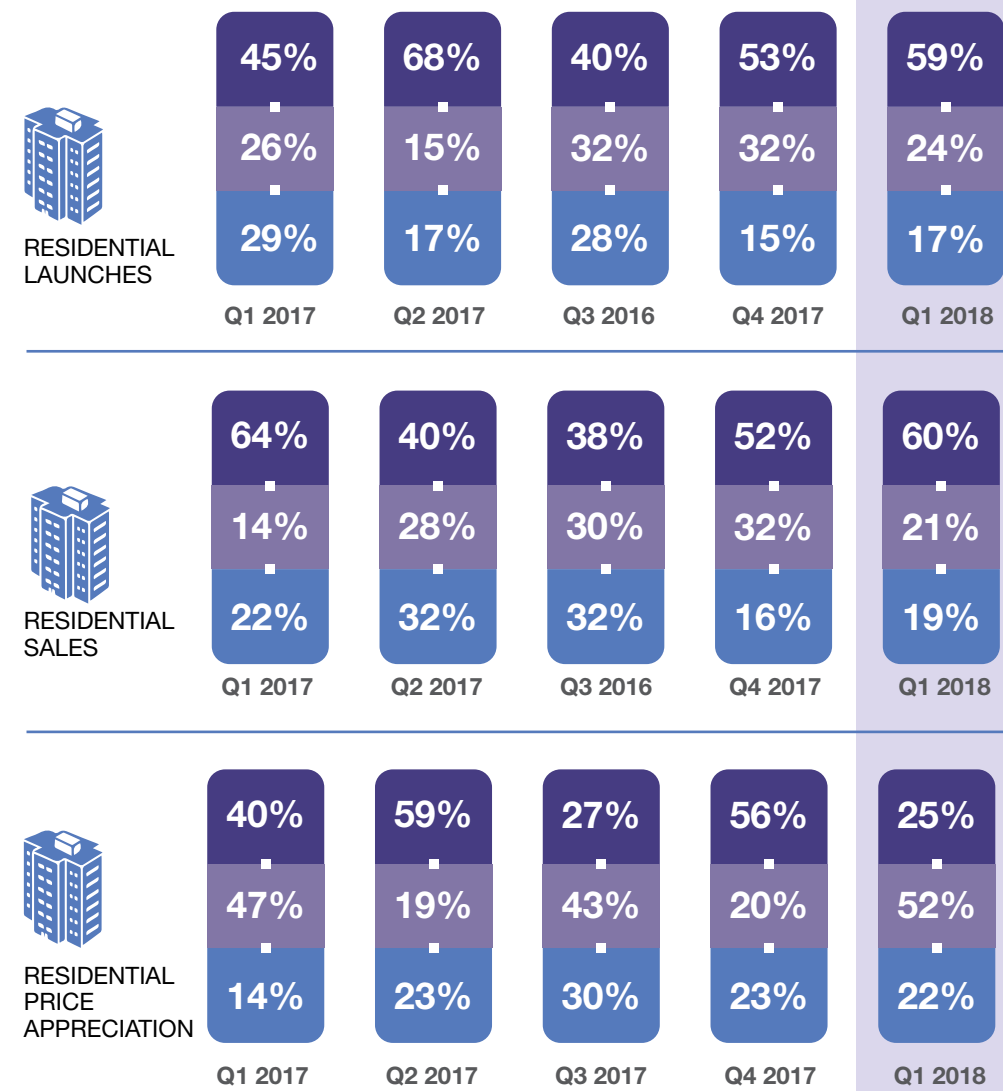


FINDINGS

- Sentiments of the financial institutions are steady regards the future of real estate in the coming six months. However, on the developer side, even though the future score has waned marginally, it still remains in the optimistic zone.

OPTIMISM RESURFACES IN THE RESIDENTIAL SECTOR

BETTER SAME WORSE

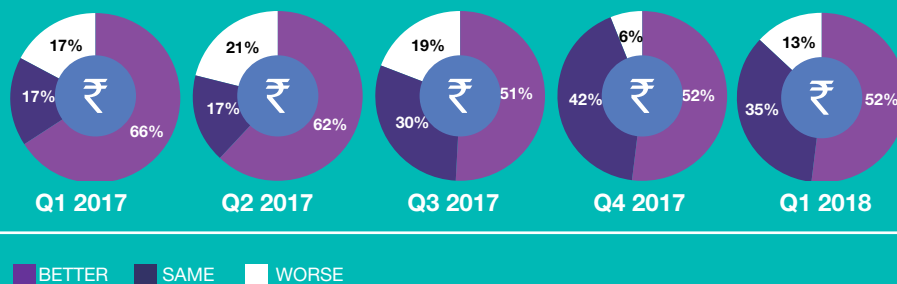


FINDINGS

- Majority of the stakeholders have expressed optimism regarding the new residential launches coming up in the next six months. 59% of the stakeholders opine that with the reforms in place, the sector will see new launches in the coming six months, mainly on the back of mid and affordable segment.
- The residential sales have shown optimism after a long time with 60% of the stakeholders opining that sales will pick up in the coming six months. This confidence stems from the increased number of enquiries for ready-to-move-in properties.
- In contrast to the sentiments in the previous quarter, the future sentiment score for price appreciation have dampened in Q1 2018 with 75% of the stakeholders opining that the prices will either remain stagnant or may even drop further to attract the fence-sitting buyer in the coming six months.

REAL ESTATE INDUSTRY HOLDS ON TO SENTIMENT ON THE ECONOMIC FRONT

ECONOMY



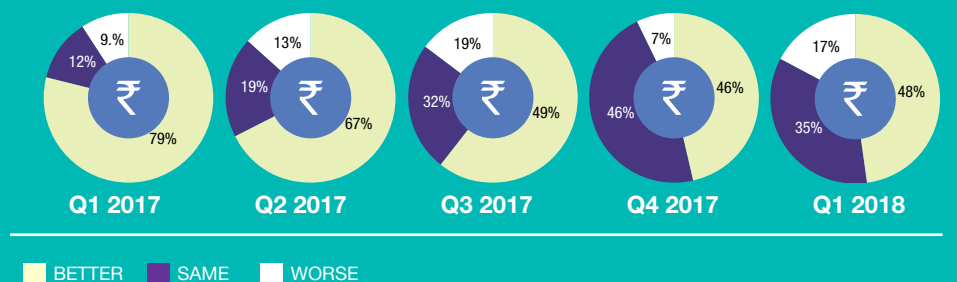
FINDINGS

- The real estate industry's sentiments regards the economy does not show any substantial change from the preceding quarter. Around a third of them feel that it will remain the same. Pressure on the fiscal deficit side and current account deficit, high crude oil prices along with higher inflation expectation, is holding back the stakeholders who are taking time to give a thumbs up to the economic performance of the country. In a recent development, the Reserve Bank of India (RBI) has increased the policy rates in its second Bi-monthly Monetary Policy

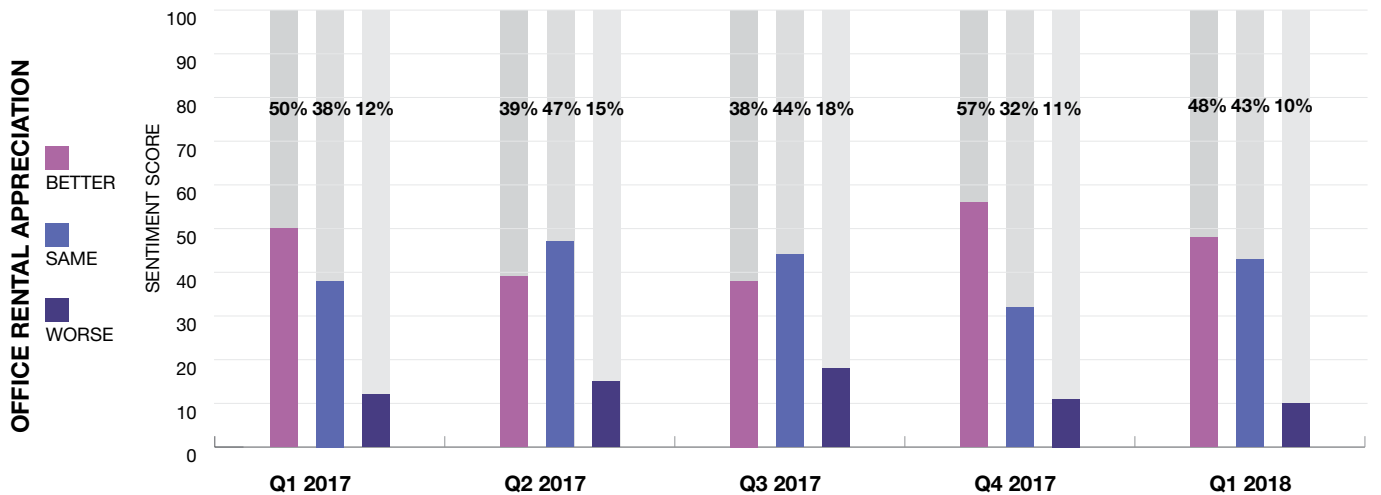
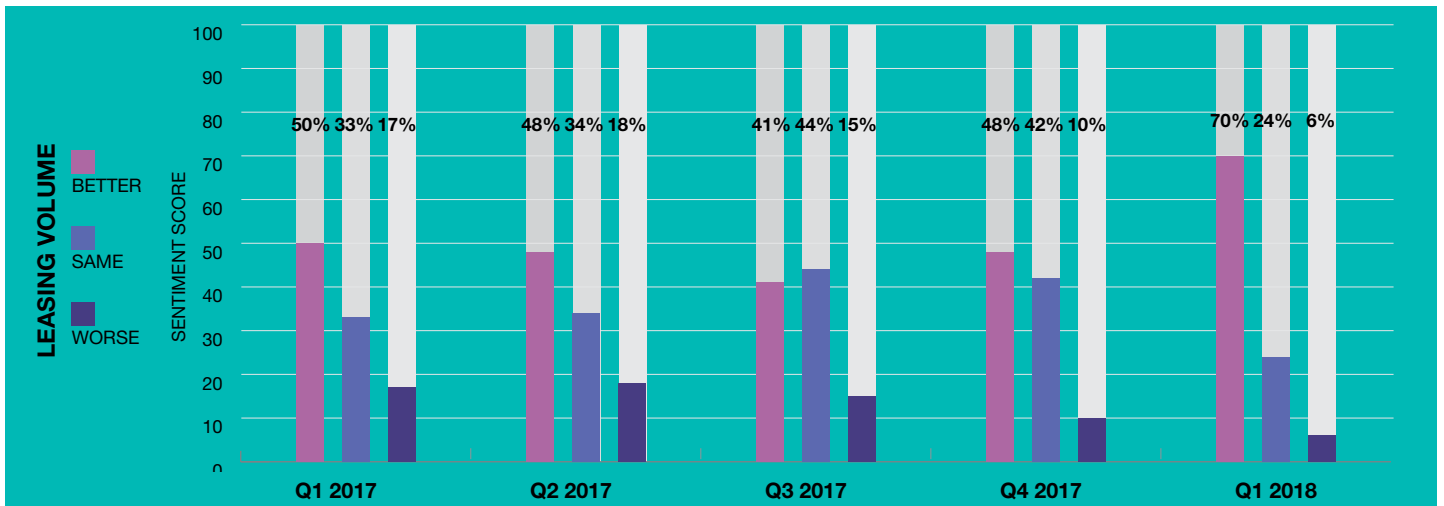
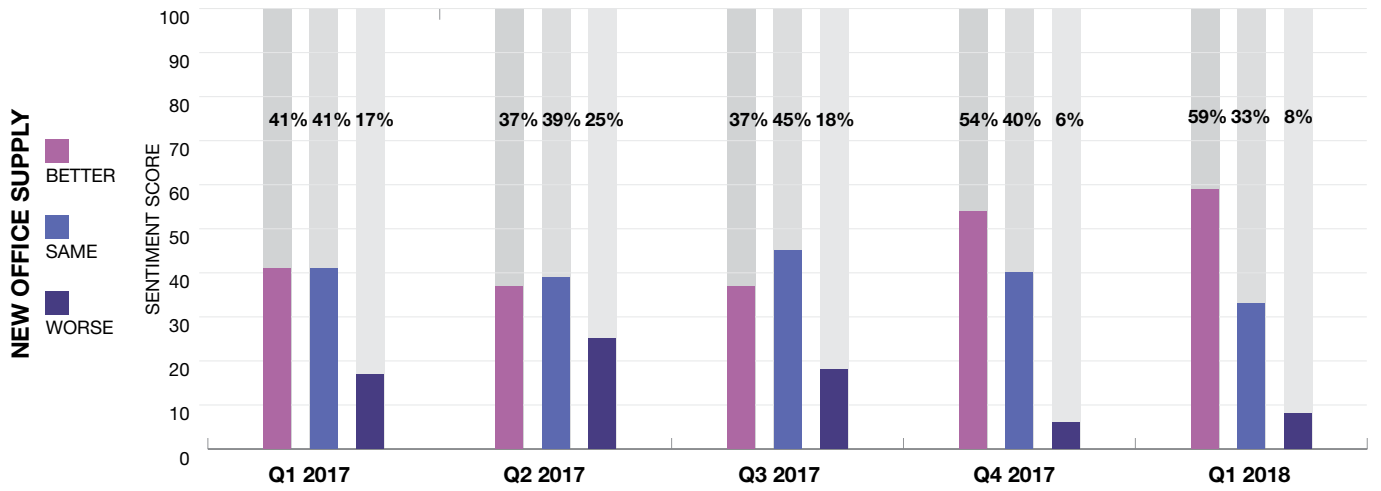
Statement for 2018-19. This increase will further lead to hardening of interest rates and dampen sentiments in the real estate sector.

- Similarly, stakeholder sentiments regarding the funding scenario is also largely stagnant in Q1 2018.

FUNDING SCENARIO



**OFFICE MARKET MAINTAINS GROWTH**



**FINDINGS**

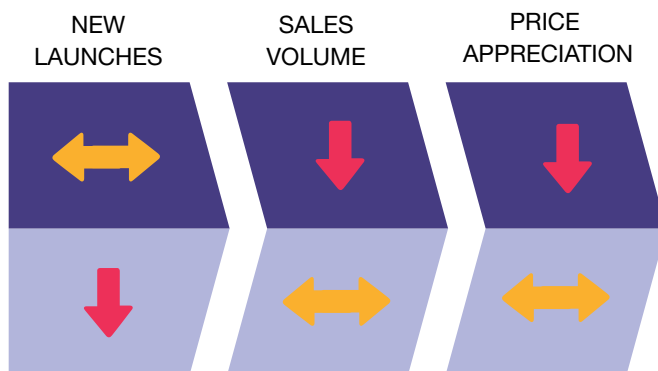
- The office market registers an improvement in future sentiments with majority of the stakeholders opining that it will either improve in the coming six months or will hold onto its current reins but will definitely not get depressed. 59% of the respondents believe that the coming six months will see an improvement in the new office supply owing to a robust under-construction pipeline in key cities like NCR and Bangalore.
- The future sentiment score regards the leasing activity has seen a positive uptick with 70% of the stakeholders banking on the new office take up in the coming six months. Sentiments regards the rental appreciation has gone down in Q1 2018.



**RESIDENTIAL**

Expectations by the end of March 2018

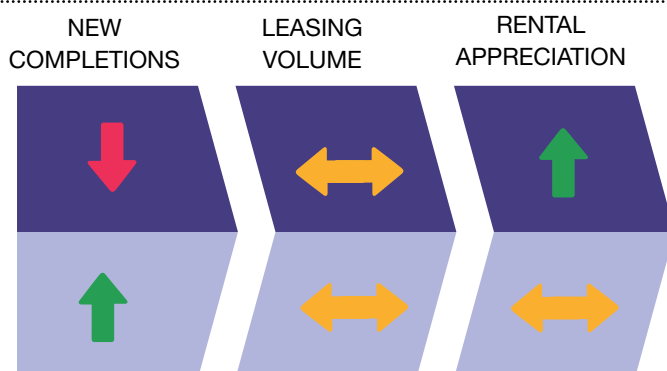
Actual by the end of March 2018



**OFFICE**

Expectations by the end of March 2018

Actual by the end of March 2018



**CONCLUDING REMARKS**

The analysis of the stakeholder expectations from the residential and office sectors for Q1 2018 versus the actual market statistics reveals interesting insights.

The survey that was conducted in Q3 2017 (July–September 2017) had painted a gloomy picture of the residential sector for the next six months, which differs from the present day ground reality. While de-growth in the residential supply has been getting progressively worse, demand for residential units and residential prices has been relatively stagnant. This stagnation in prices and sluggish sales has cautioned the developers to finish projects at hand rather than launch new ones, therefore limiting supply. On the office front, the lull in office supply has slightly picked up in Q1 2018 as opposed to the stakeholder expectations six months ago. In terms of rentals, growth has somewhat been stable across markets with the average rental growth of 3% year-on-year across the seven cities.

Therefore, in a nutshell, our survey findings in Q1 2018 (January–March) suggest that the stakeholders are positive regards the residential new launches and sales in the coming six months largely on

the back of stable prices and transparency induced by policy reforms such as RERA and GST. However, given the market sentiments and the sales velocity, they are not too optimistic about increase in prices in the coming six months. Office leasing will gather steam, whereas supply will hold steady in the coming six months. Office rentals to stay somewhat muted across cities.

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