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Real Estate Sentiment Index

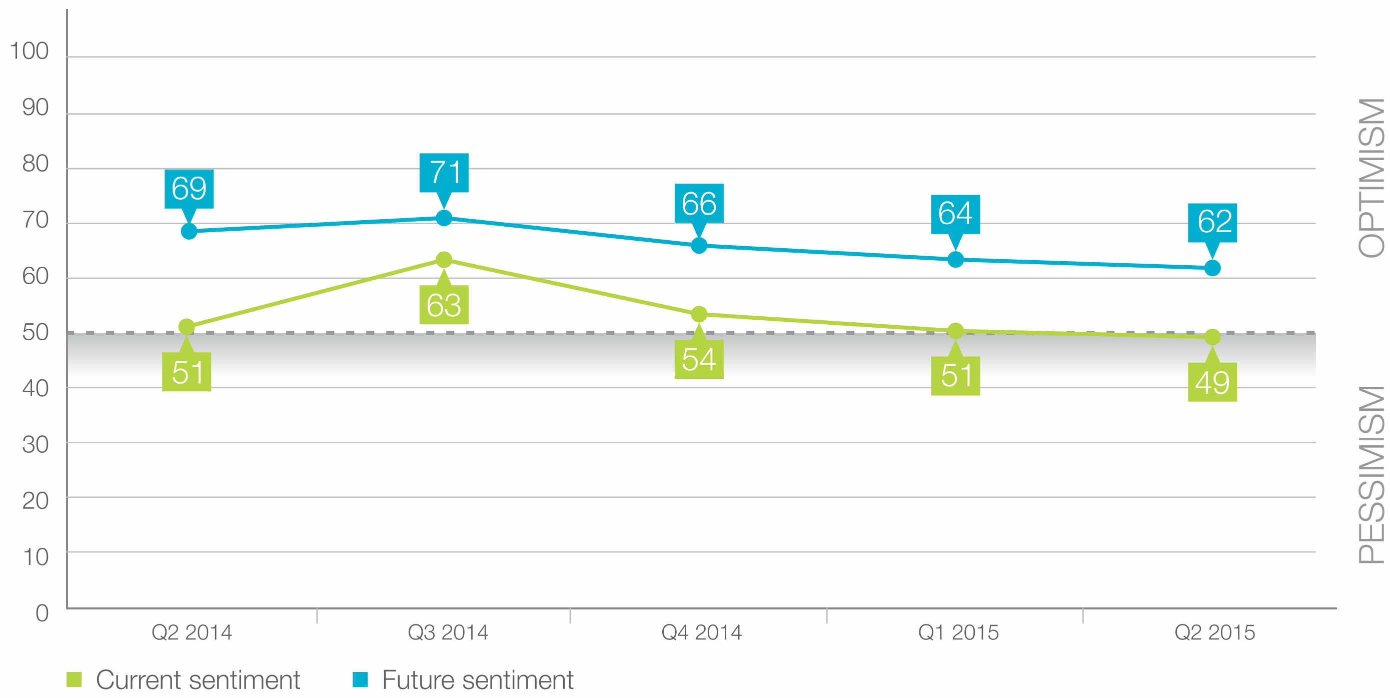
Q2 2015 (April-June 2015)

The real estate sentiment index is developed jointly by Knight Frank India and the Federation of Indian Chambers of Commerce and Industry (FICCI). 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-bank 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, two indices are computed: the current sentiment index indicates the respondents' assessment of the present scenario compared to six months ago; and the future sentiment index represents their expectations for the next six months. However, the rest of the analysis focuses only on the future sentiment. This survey was conducted from April to June 2015.

STAKEHOLDER SENTIMENT CONTINUES TO FALL IN Q2 2015



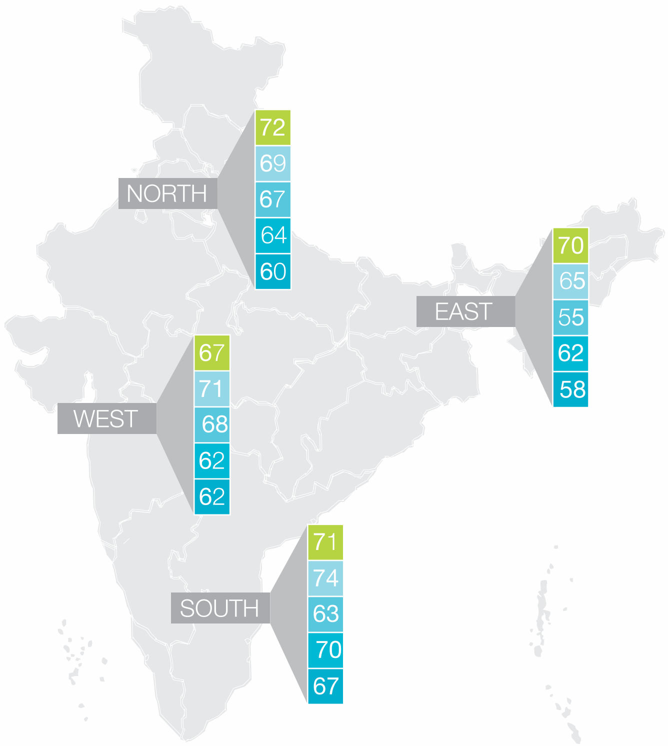
FINDINGS

- Economic fundamentals are showing robust trends, substantiating the expected growth in the economy. Inflation has been controlled; the wholesale price index (WPI) has stayed in the negative territory for the last eight months; and the consumer price index (CPI) has also come down to 5.4%. Although this has instilled confidence in real estate stakeholders about the future, the current sentiment is sluggish.
- The current score, at 49, has reached the pre-election level and reflects a negative sentiment. The stakeholders believe that the current market scenario is worse compared to six months ago. Delayed reforms seem to have affected the sentiments. Another factor that has had a negative impact on the current score is the under performance of the residential market. Nearly 50% of the respondents are of the view that the current residential launches, sales and price appreciation are at a much lower level than six months ago.
- While the current sentiment is negative, the future sentiment score stands at 62.Though the score indicates that the coming six months are likely to be better, this continuous four-quarter fall reflects the waning stakeholder confidence.

ZONAL SENTIMENT SCORE (FUTURE)

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

Q2 2014 Q3 2014 Q4 2014 Q1 2015 Q2 2015



STAKEHOLDER SENTIMENT SCORE (FUTURE)

SCORE >50: Optimism SCORE 50: Same/Neutral
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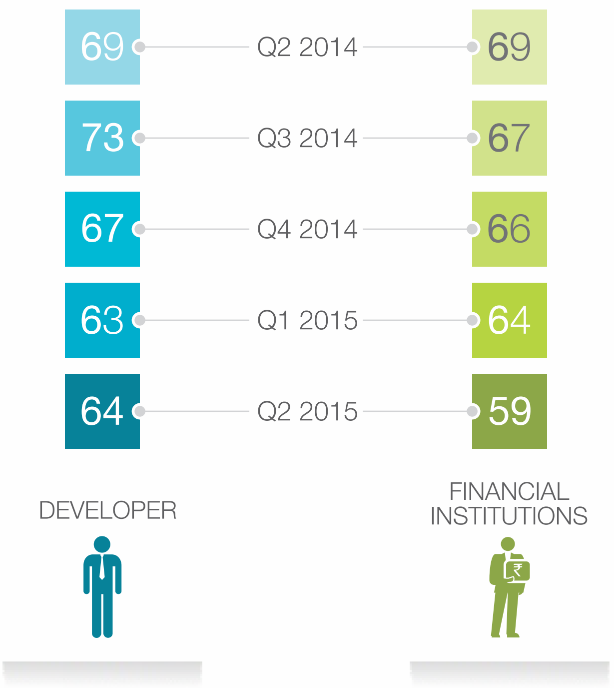


FINDINGS

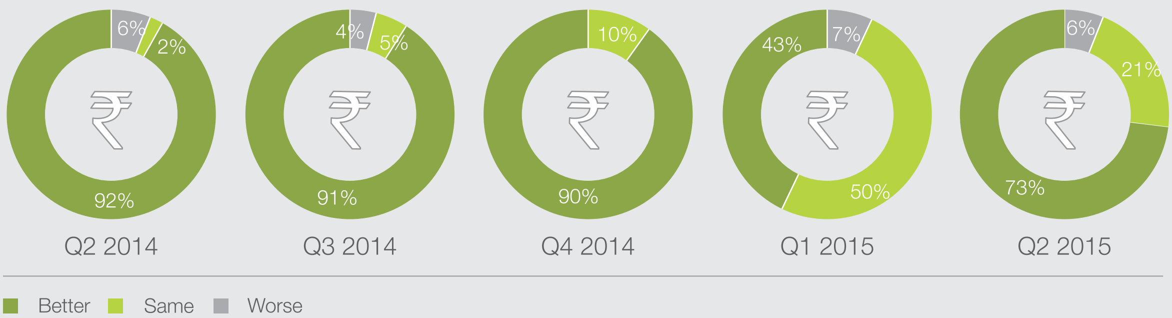
Although the survey participants across the country continue to be optimistic about the future, all the zones observed a dip in sentiment levels during Q2 2015 compared to the preceding quarter – a clear reduction in business sentiments across India.

FINDINGS

- The Q2 2015 survey results show that developers and financial institutions believe that the market scenario will be better in the next six months.
- Financial institutions are demonstrating a declining trend in their confidence levels with each passing quarter. Developers, on the other hand, are still holding on to their optimism.

ECONOMIC GROWTH EXPECTED TO IMPROVE

Economy



THE RESIDENTIAL SECTOR SENTIMENT SHOWS CONSISTENT DECLINE

Better Same Worse

Residential Launches

	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Worse	4%	6%	8%	23%	25%
Same	15%	31%	42%	38%	35%
Better	81%	63%	50%	39%	40%

Residential Sales

	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Worse	8%	7%	18%	15%	23%
Same	9%	18%	29%	69%	67%
Better	83%	75%	53%	15%	10%

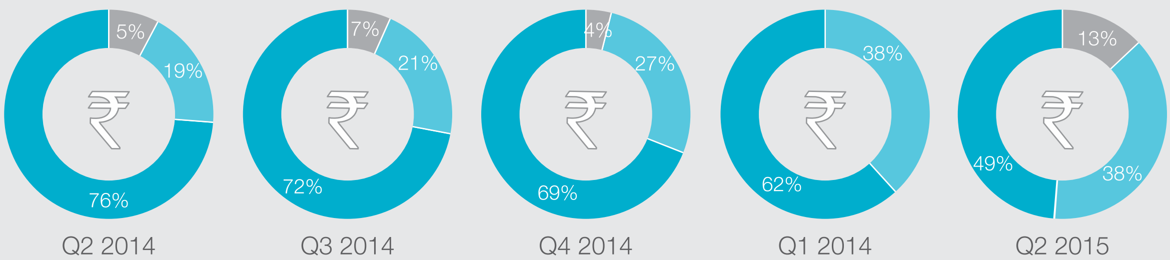
Residential Price Appreciation

	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Worse	5%	9%	17%	12%	30%
Same	33%	23%	52%	55%	52%
Better	62%	68%	31%	33%	18%

FINDINGS

- The residential sector is reeling under immense pressure, with a consistent decline in home sales since the last ten quarters. This slowdown has had an impact on stakeholder sentiments for the future as well.
- Nearly a quarter of the survey respondents feel that new launches and sales will drop even further by the end of 2015. This view is consistent across all the zones.
- The persistent fall in demand has manifested itself in the slackening growth rate of the capital values across all the zones. This has also had an adverse impact on the stakeholder sentiment for price growth in the coming six months. Nearly one-third of the survey participants feel that residential prices will witness some correction by the end of the year 2015.

Funding Scenario



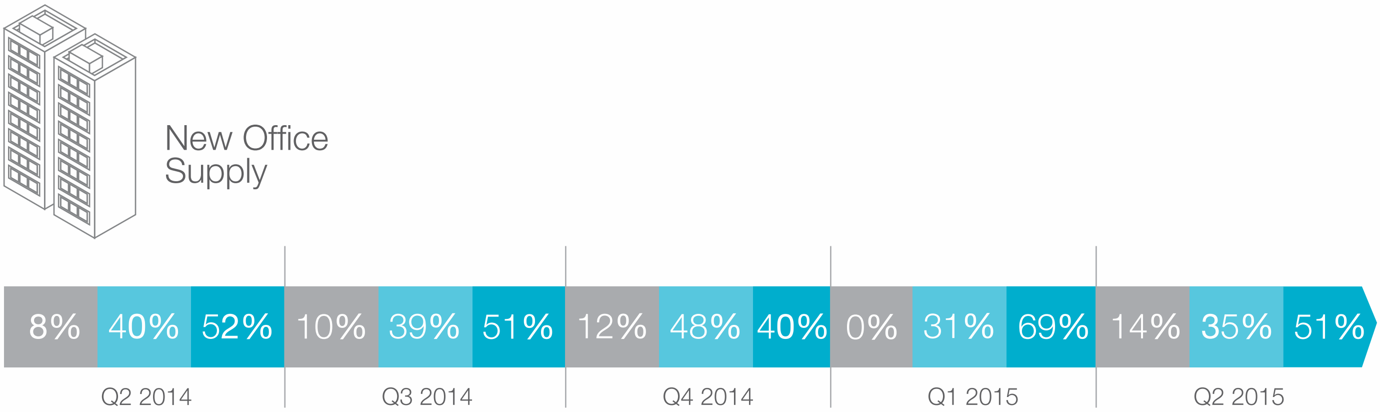
Better Same Worse

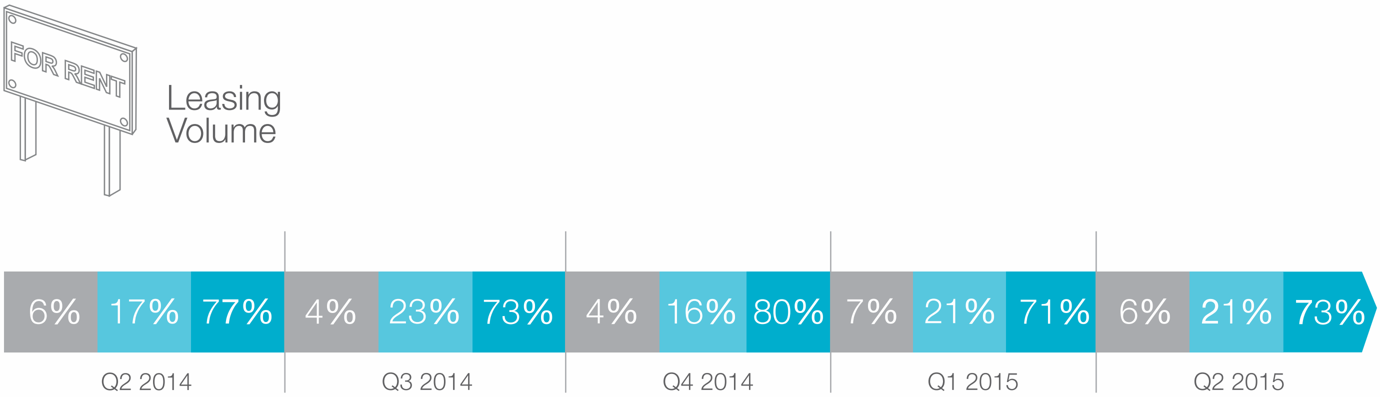
FINDINGS

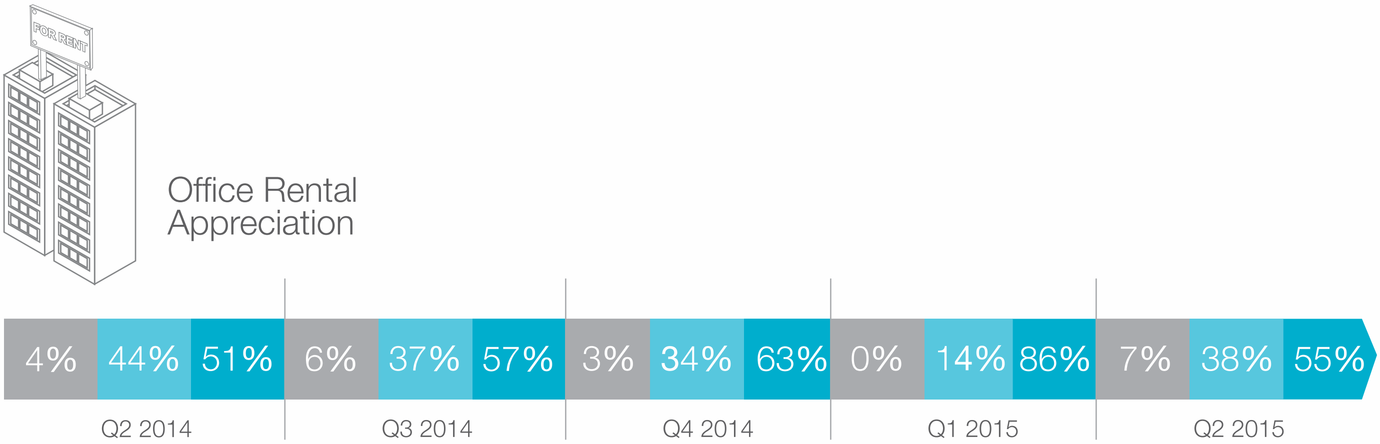
- There is a revival in sentiments for the economy in Q2 2015. More than two-thirds of the stakeholders believe that the economic scenario will strengthen further in the coming six months.
- However, there is a concern about the funding scenario – the majority of the stakeholders believe that it will either remain the same or worsen by the end of the year.

COMMERCIAL OFFICE SPACE MARKET POISED FOR BETTER TIMES

■ Better ■ Same ■ Worse





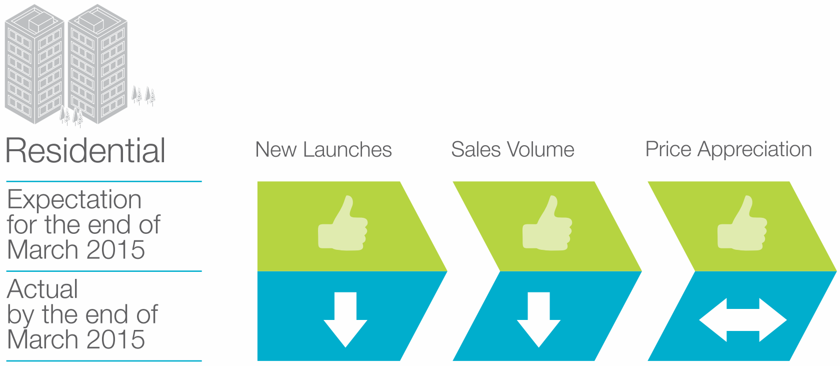


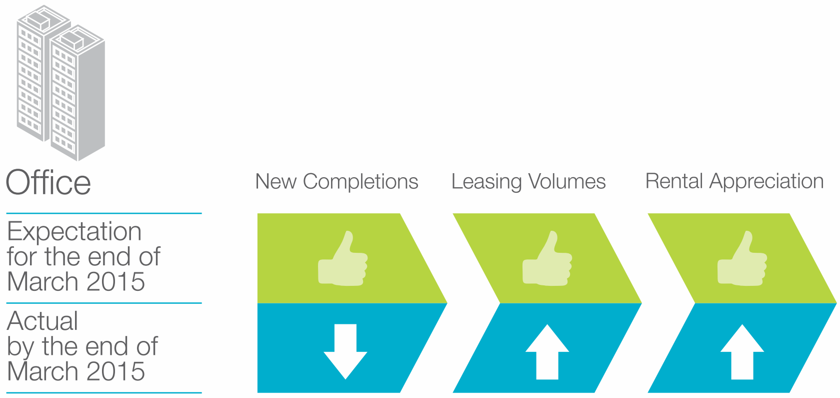
FINDINGS

- Stakeholder sentiments continue to remain relatively strong about the office market. There has been an improvement in business sentiments recently, leading to a higher demand for office space. The survey respondents believe that the demand for office space will strengthen even further in the coming six months. However, there are concerns regarding the supply of new office spaces.
- In Q2 2015, the majority of the respondents believed that the rentals would firm up by December 2015.

CONCLUDING REMARKS

A re-look at stakeholder expectations for March 2015 in comparison with reality gives an interesting perspective on the dynamic nature of real estate markets. The survey we conducted during Q3 2014 (June–September 2014) gave us positive results on all real estate parameters for the subsequent six months. While the ground reality for the six months ending March 2015 is consistent with the expectations in the case of office space leasing volumes and rental appreciation, new completions have actually reduced. Reality has played truant in the case of the residential sector, wherein what actually transpired was contrary to the expectations.





Delayed reforms have weakened the current business sentiment, which explains the downward trend in the current score, which has entered the negative zone for first time after the last central government election. Although the future score, at 62, falls in the positive territory, the declining trend reflects that business confidence is weakening. The stakeholders are particularly pessimistic about the residential sector and they do not foresee any significant recovery till the end of 2015. However, developers and financial institutions are still maintaining a positive outlook for the office market.

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