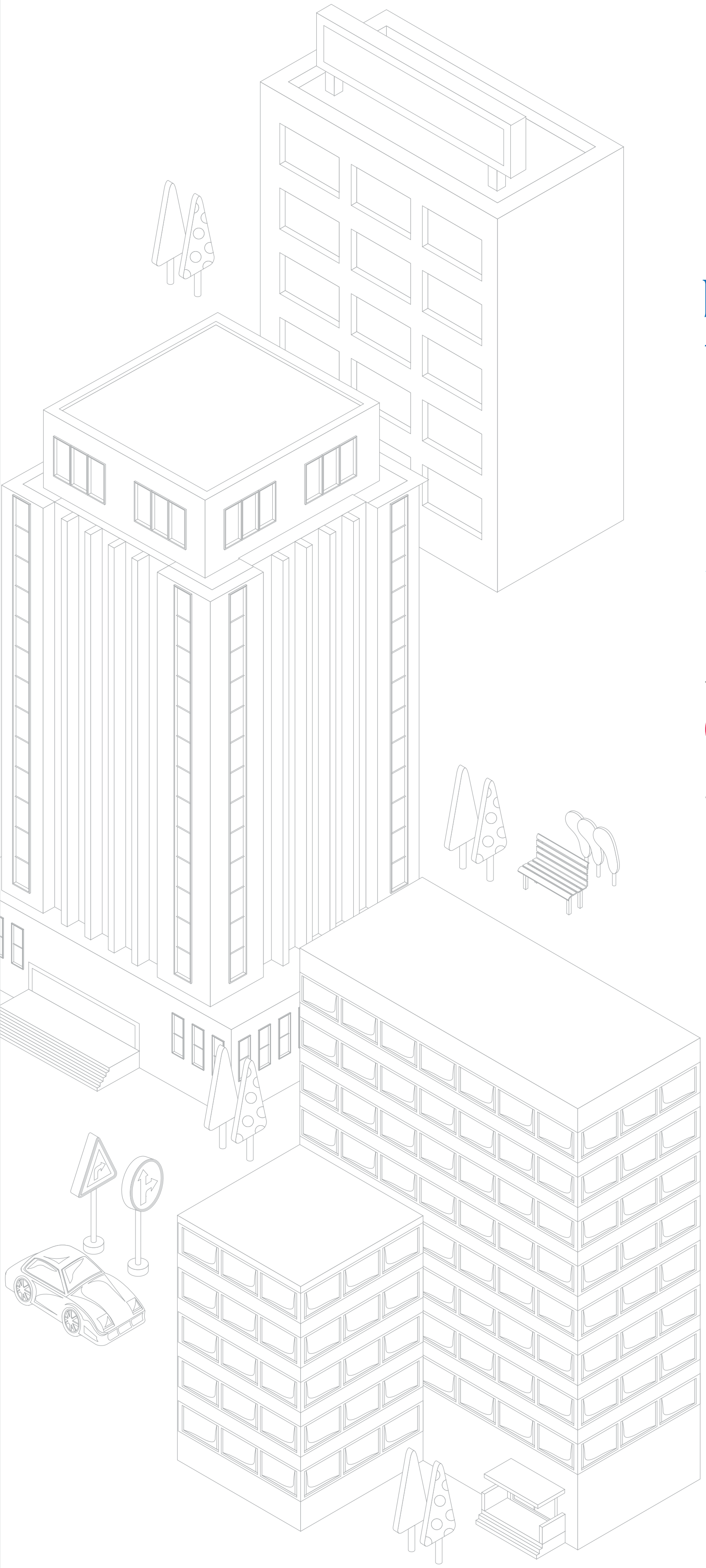
FICCI-KNIGHT FRANK

REAL ESTATE SENTIMENT INDEX

Q4 2013

The real estate sentiment index is jointly developed by FICCI and Knight Frank India. The objective is to capture the perceptions and expectations of the industry leaders in order to judge the sentiment of the real estate market.



FOREWORD

Real Estate sector has undergone unprecedented change in the last two decades and has been at the forefront of the Indian Government's agenda on account of its potential to propel economic growth significantly. It is one of the fastest growing sectors and constitutes about 11 per cent of the GDP. Across all its segments, be it residential, office space or commercial, there has been enhanced development activity driven by growth of various sectors of the Indian economy.

Real Estate markets are highly susceptible to sentiments and plays a very significant role in the decision making process of investors, developers and consumers. The jointly developed FICCI-Knight Frank sentiment index aims to capture the perceptions and expectations of real estate leaders, helping them gauge the market sentiments. This sentiment tracker would be a ready reckoner for the stakeholders of this industry to gauge the pulse of real estate industry leaders.

I would like to thank all those who have participated in the survey and expressed their views. I hope this initiative is a step forward in bringing value to the industry and engaging with them to depict the reality of the realty sector.

Dr. A. Didar Singh
Secretary General
FICCI

Slow and steady wins the race - a saying that holds true for the Indian economy which has gradually positioned itself as a preferred business destination. Giving fuel to this growth, has been the real estate sector which despite facing hurdles at every nook and corner has certainly played the role of an active catalyst.

But it's time we break loose of the usual practice of analyzing real estate merely from the perspective of customers, and adopt a wider frame to include other major players of the game - the supply side stakeholders that include developers, contractors, financial institutions, funds to name a few and gauge their sentiments with the help of structured and robust survey findings.

Therefore, I take this opportunity to present India's first of its kind real estate sentiment index report in association with the Federation of Indian Chambers of Commerce & Industry (FICCI) which aims at bringing to light the thoughts, beliefs and expectations of the supply side stakeholders that together determine the health of the real estate sector.

This quarterly report is an attempt to bridge the gap between the supply and demand side and bring them onto a common platform.

Hope you find this report useful and relevant.

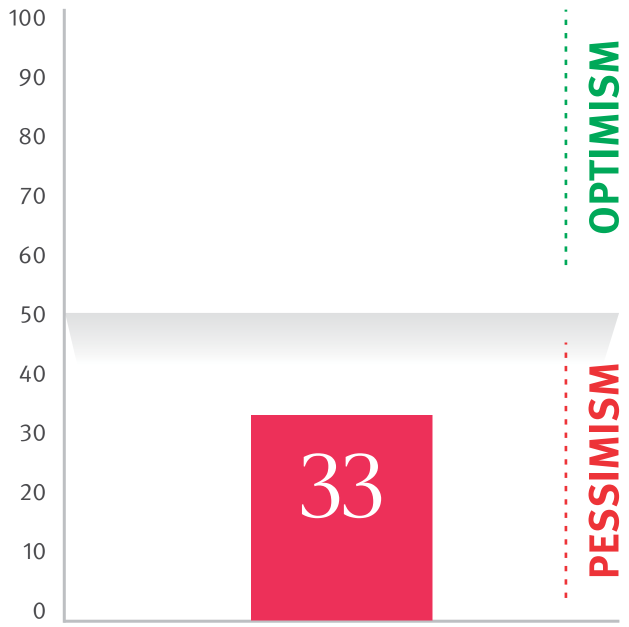
I would love to hear back from you.

Shishir Baijal
Chairman & Managing Director
Knight Frank India

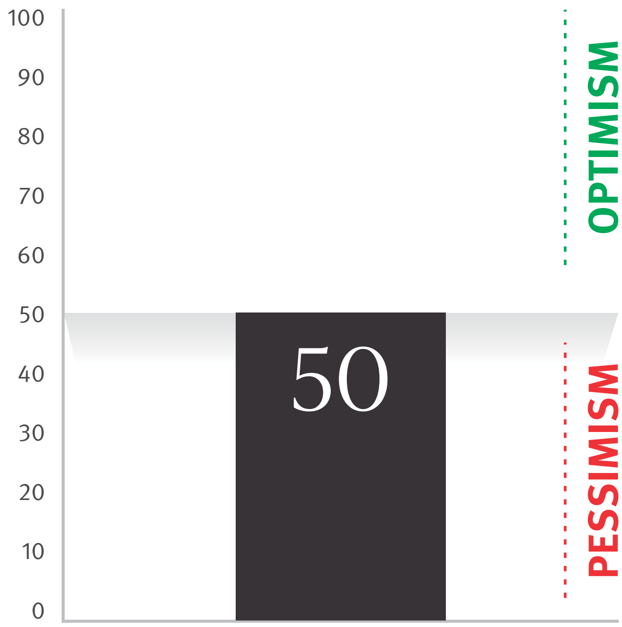
Approach

The index is based on a quarterly survey of key stakeholders including developers, private equity funds, banks and NBFCs. The survey comprises questions pertaining to 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)* e) Worse *(0 Points)*. The index is calculated by taking the weighted average score of the percentage of responses in each of these options. Hence a score of 50 represents a neutral view; a score above 50 demonstrates a positive outlook whereas a score below 50 shows a negative sentiment. In order to present a holistic view on the real estate industry two indices are computed. The current sentiment index indicates the respondent's assessment of present scenario compared to six months back and the future sentiment index represents the expectations in the coming six months. The two indices have to be read independently and will have a time series going forward. The survey was conducted during October-November 2013.

PART I: India Real Estate Sentiment Index



CURRENT
Q4 2013



FUTURE
Q4 2013

FINDINGS

- Current real estate sentiment score stands at 33 implying that stakeholders feel the current real estate market is somewhat worse compared to six months back
- Future sentiment score at 50 reflects a neutral view indicating a status quo in the coming six months

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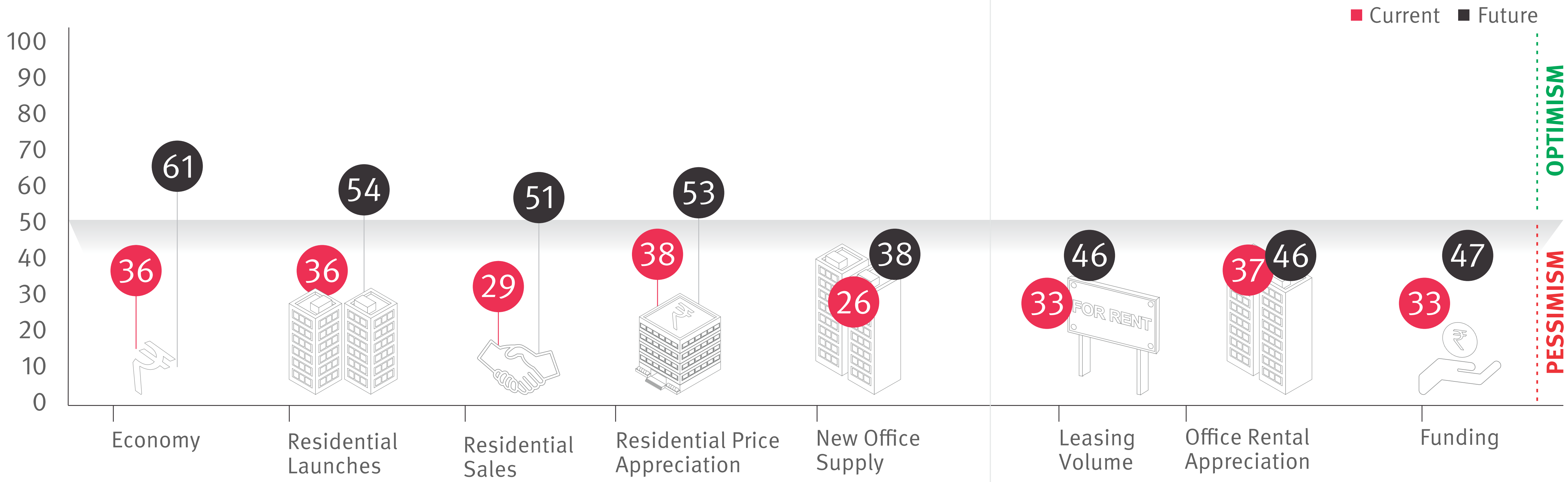
OPTIMISM ON ECONOMY AND RESIDENTIAL SECTOR



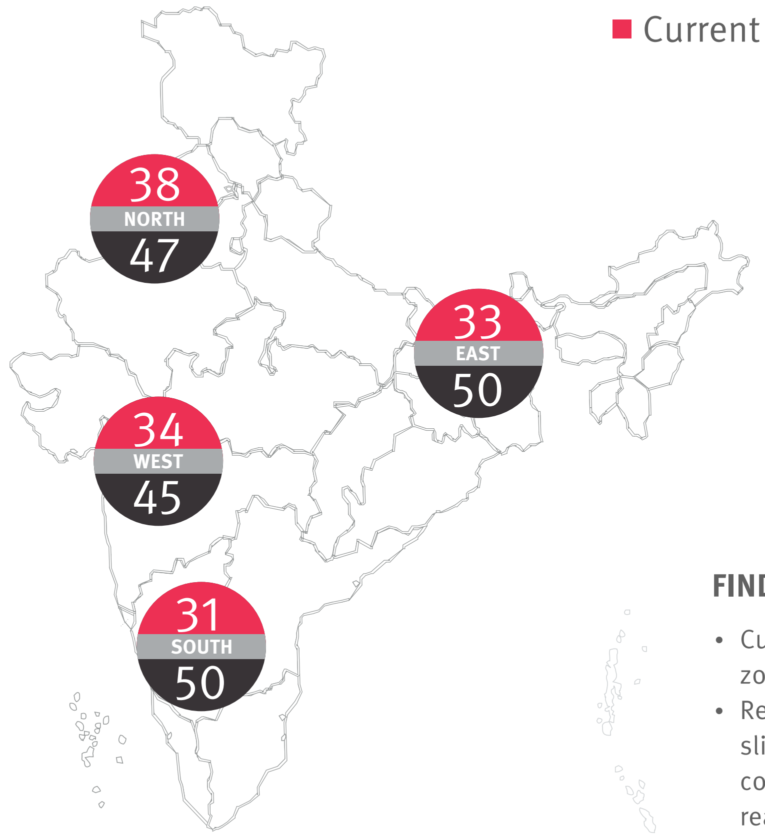
FINDINGS

- The stakeholders perceive that the present residential and office markets are comparatively weaker than what they were six months back
- Majority of the respondents are optimistic about the economic scenario and expect improvement in the next six months
- There is an evident optimism for the residential sector be it launches, sales volume or price appreciation in the coming six months
- Office sector on the other hand is expected to be pessimistic in the coming two quarters
- Credit lending/ funding situation appears worse now compared to six months back and is not expected to improve in the near future

ZONAL SENTIMENT SCORE

Current ■ Future

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

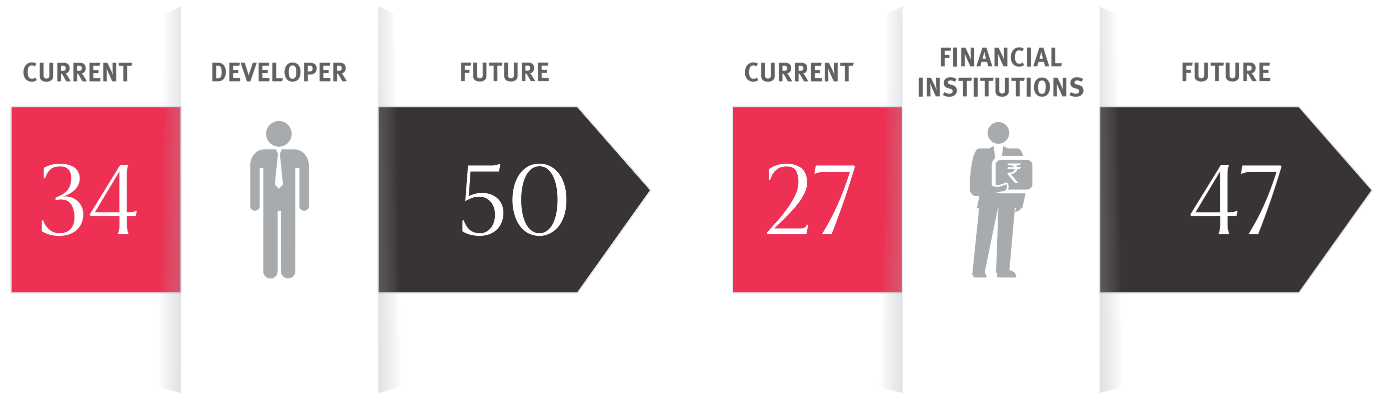


FINDINGS

- Current sentiment is pessimistic across all zones
- Respondents from the east and south are slightly more optimistic about the future compared to the other zones and expect the real estate development to remain stable

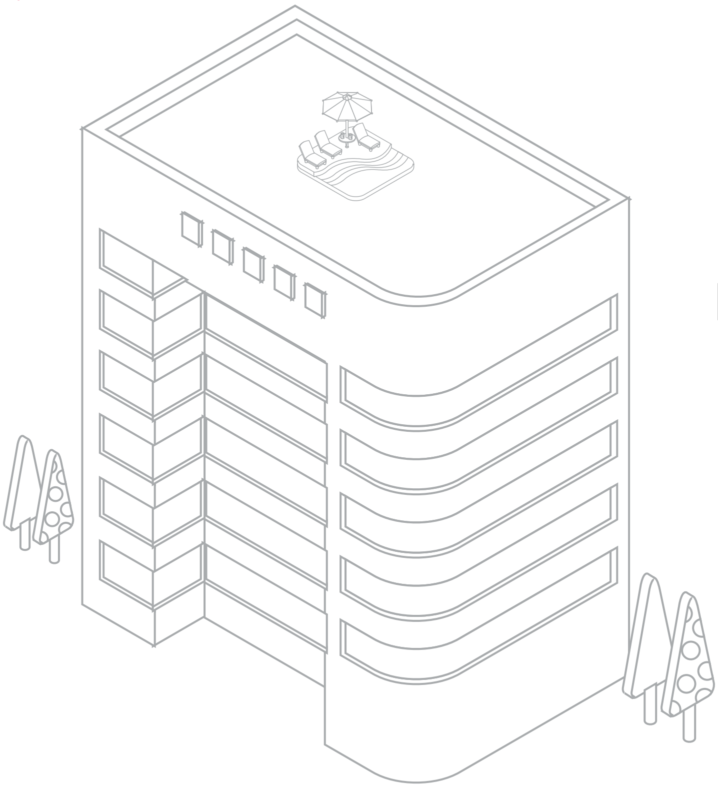
STAKEHOLDER SENTIMENT SCORE

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



FINDINGS

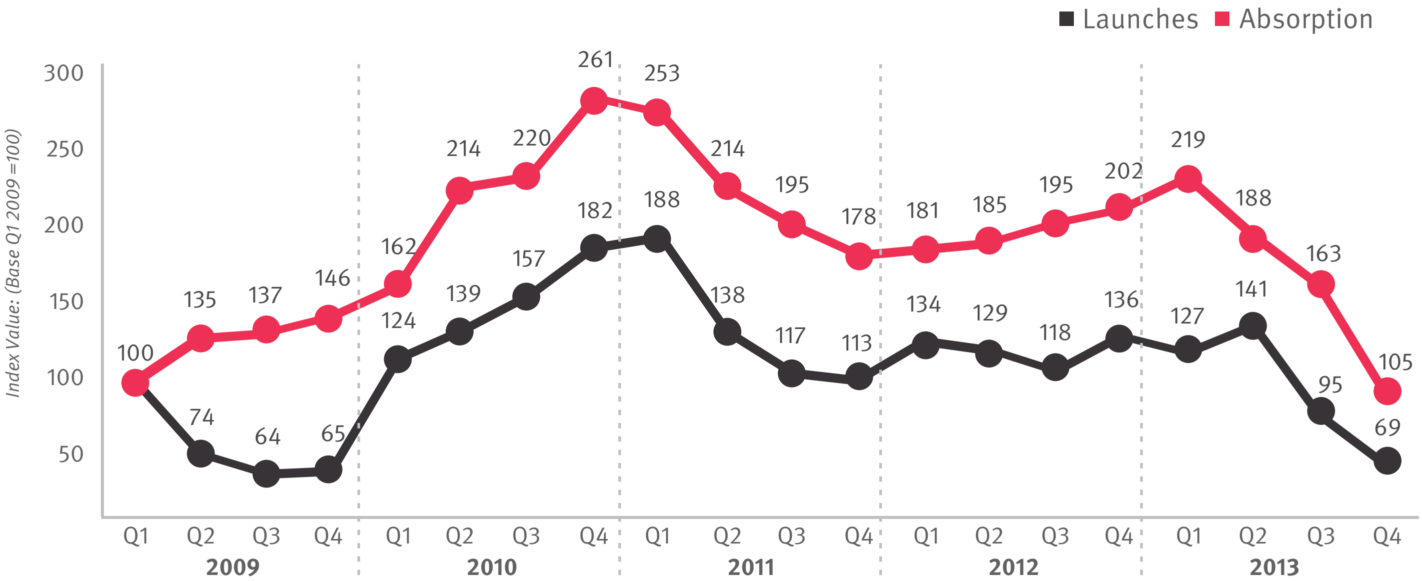
- The real estate market has worsened compared to six months back
- Developers are of the opinion that the condition of the Indian real estate market will not deteriorate in the next six months
- Financial institutions, however feel that the real estate market is still not bottomed out

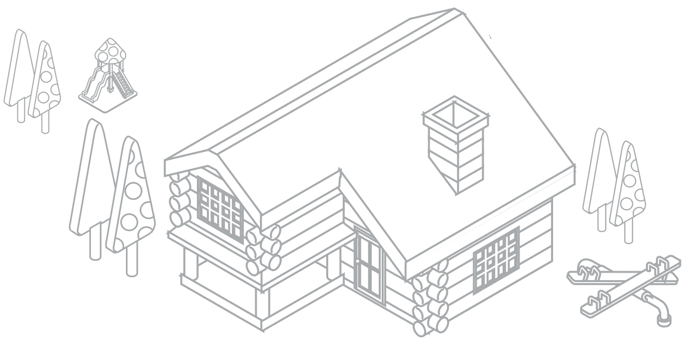


PART II: India Real Estate Overview

We have considered seven major cities i.e. National Capital Region, Mumbai Metropolitan Region, Pune, Chennai, Bengaluru, Hyderabad and Kolkata to represent the Indian real estate scenario.

RESIDENTIAL INDEX: UNIT LAUNCHES AND ABSORPTION

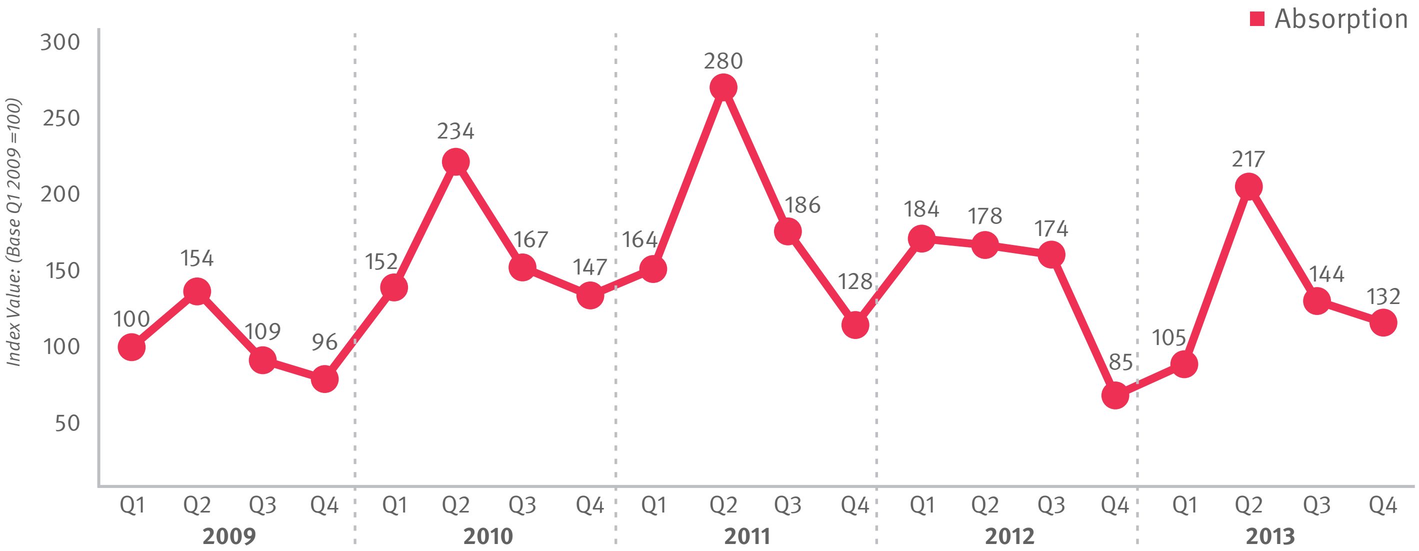


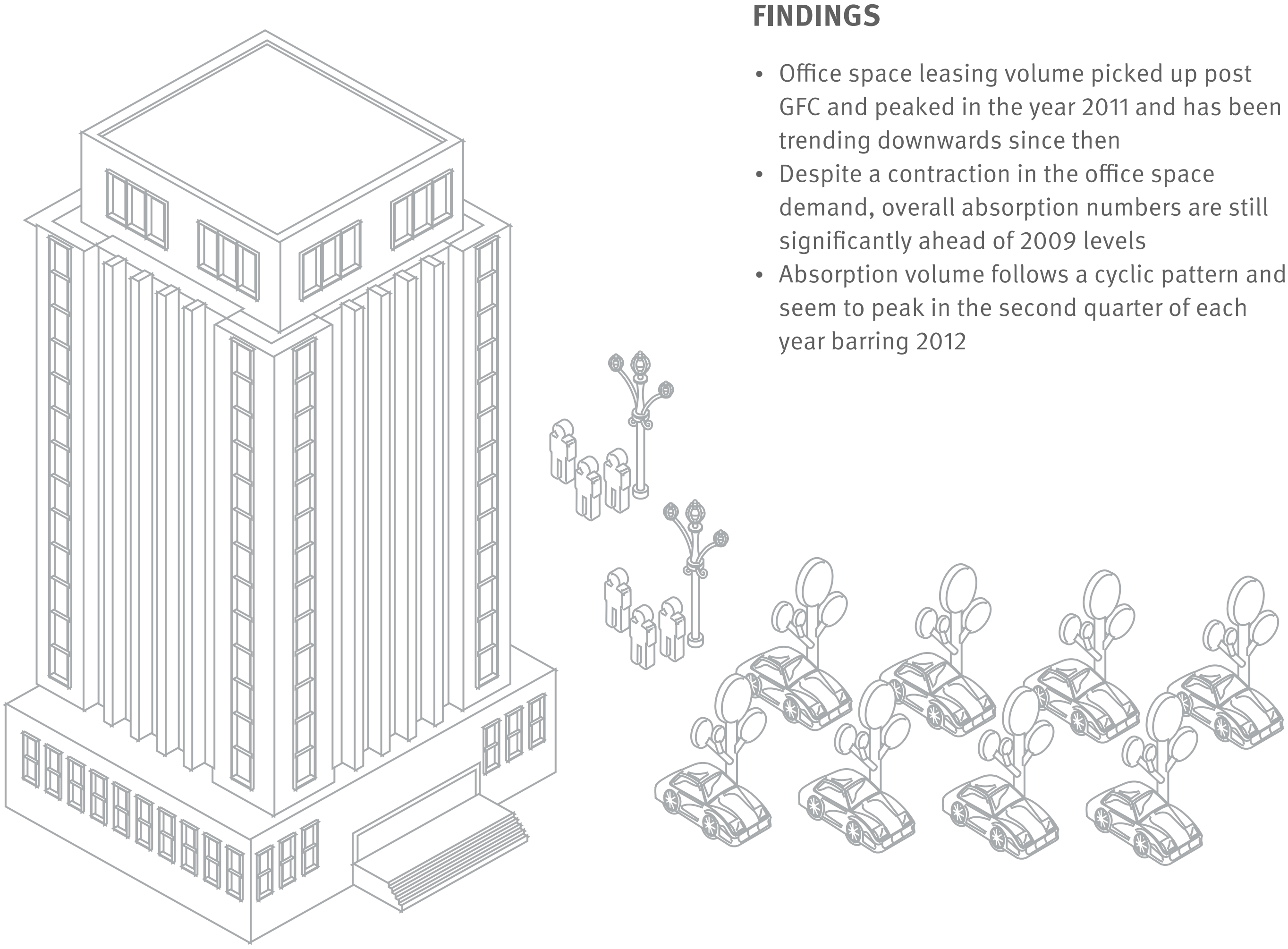


FINDINGS

- Project launches and absorption peaked in 2010 post the Global Financial Crisis (GFC) and have been trending down since then
- Drastic fall has been witnessed in the last three quarters of 2013
- Residential launches and sales volume are nearing 2009 levels

OFFICE SPACE INDEX: ABSORPTION

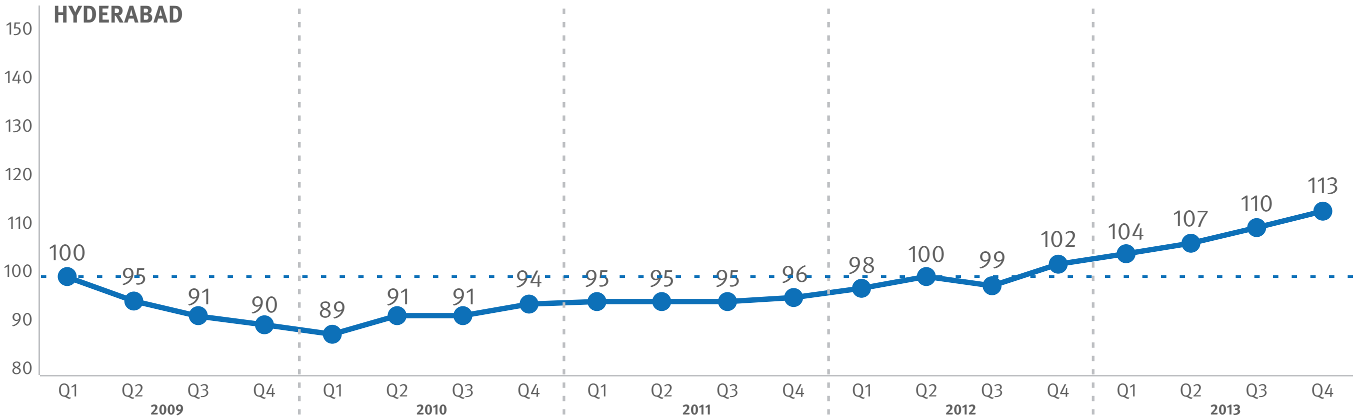


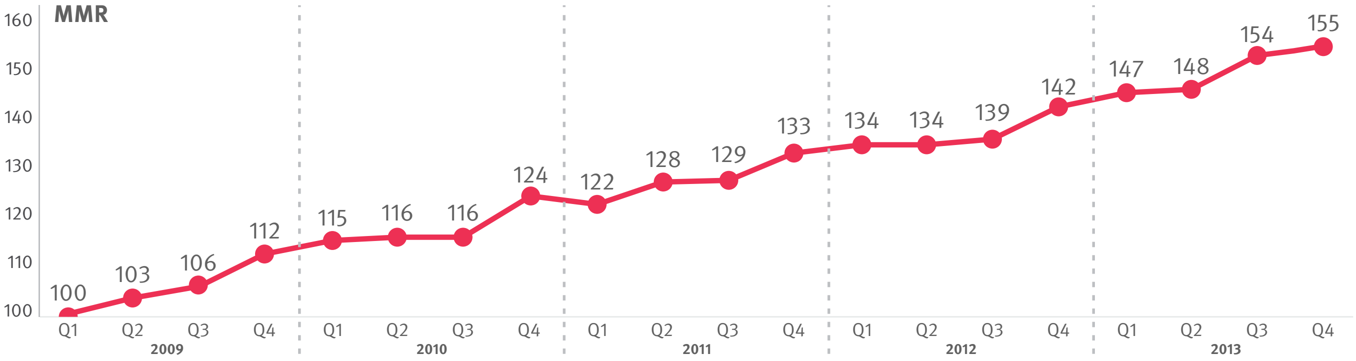


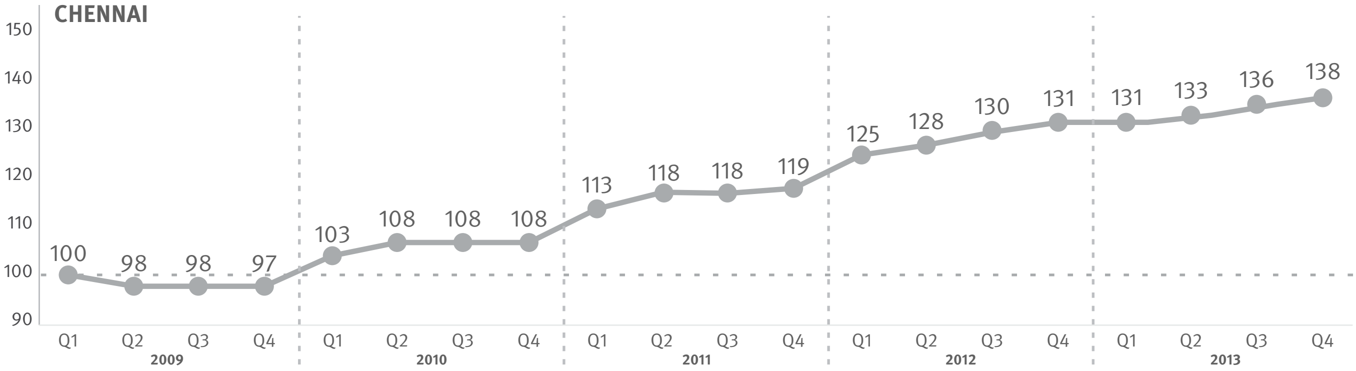
FINDINGS

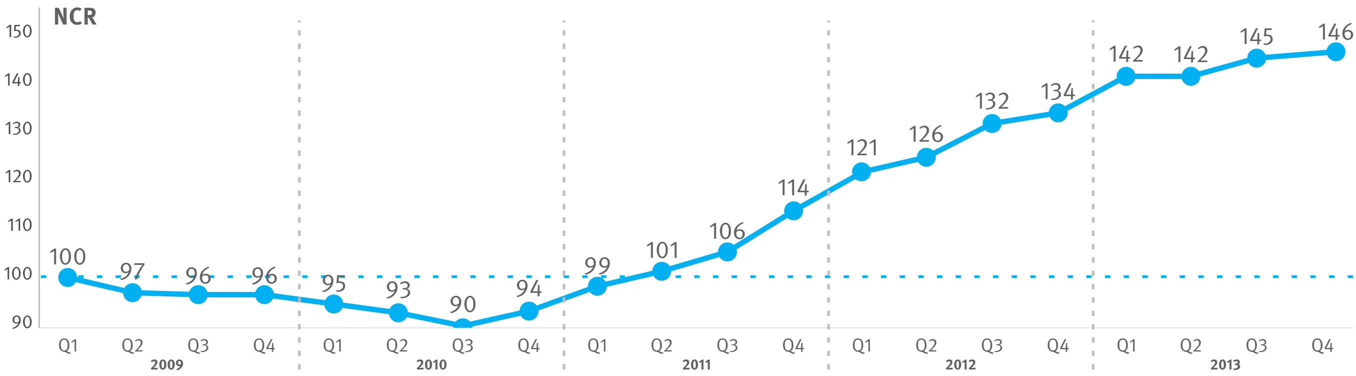
- Office space leasing volume picked up post GFC and peaked in the year 2011 and has been trending downwards since then
- Despite a contraction in the office space demand, overall absorption numbers are still significantly ahead of 2009 levels
- Absorption volume follows a cyclic pattern and seem to peak in the second quarter of each year barring 2012

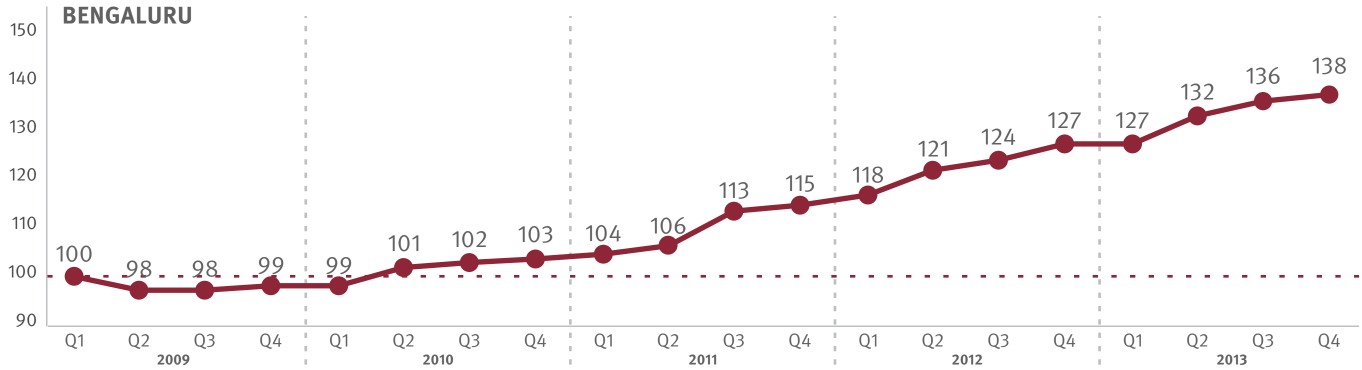
RESIDENTIAL PRICE INDEX (BASE Q1 2009: 100)

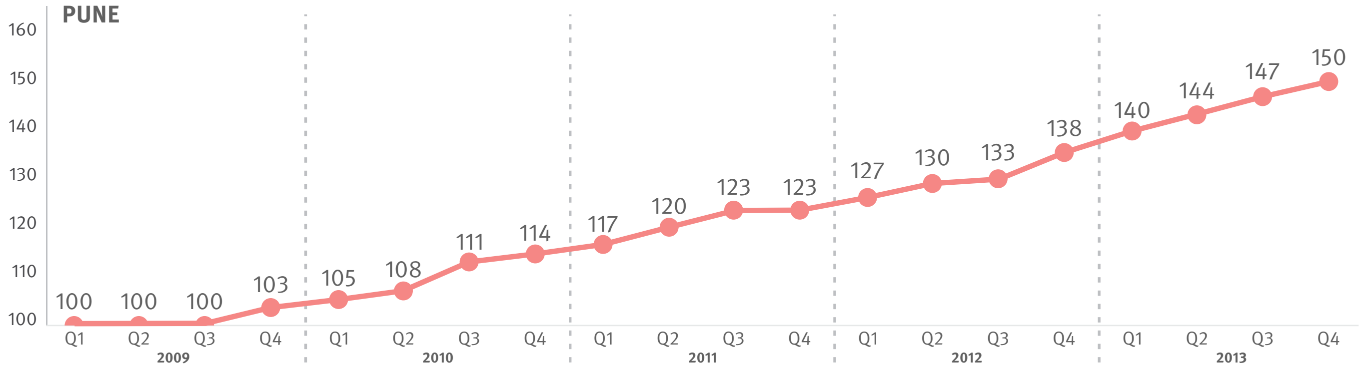


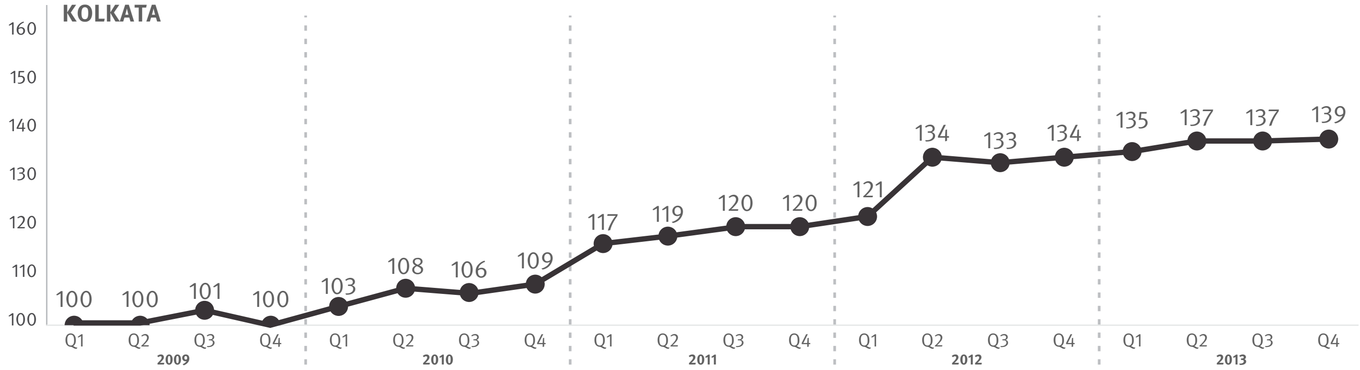








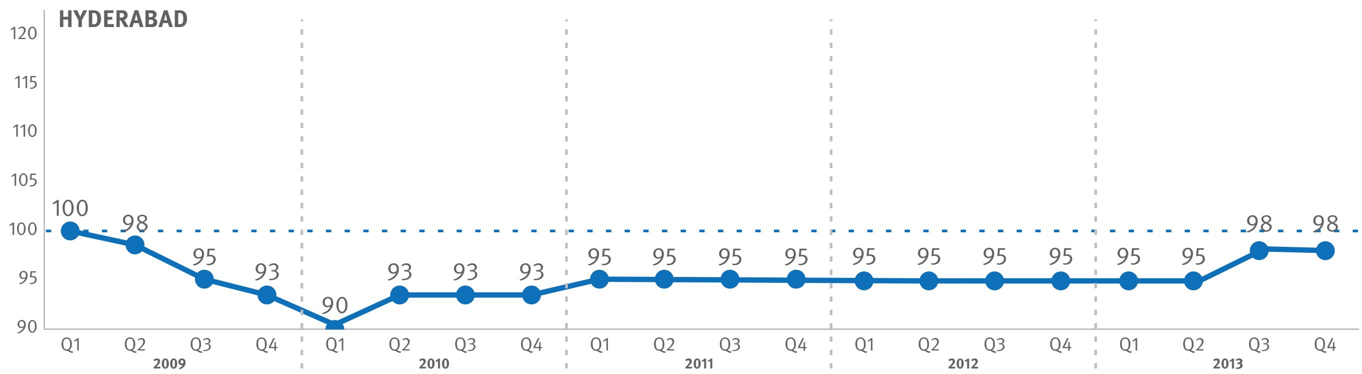


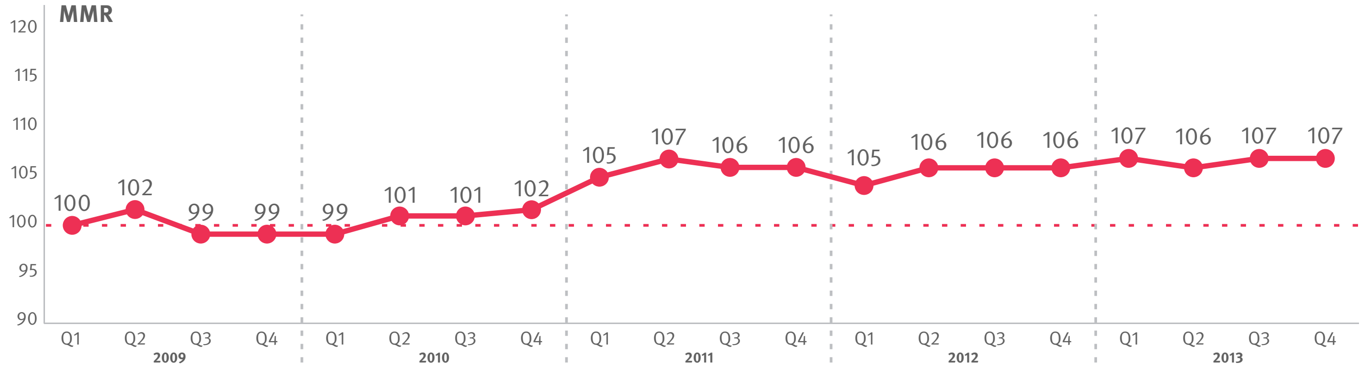


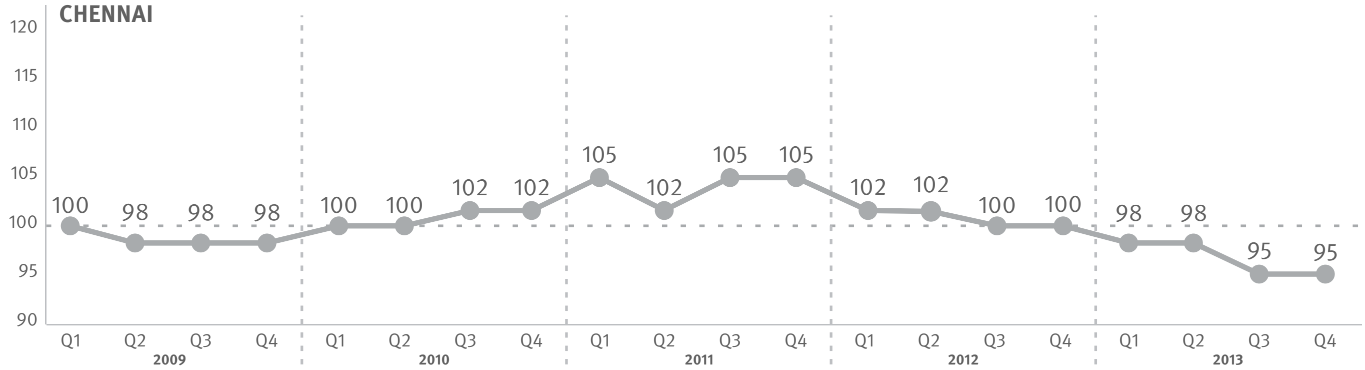
FINDINGS

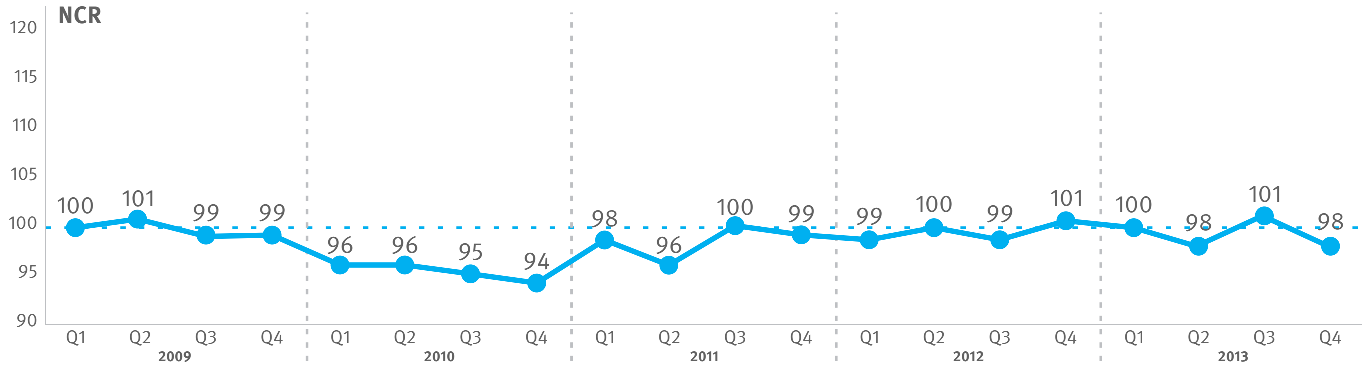
- Mumbai and Pune are forerunners in price appreciation during 2009-2013
- Pune shows the maximum appreciation amongst the IT/ITeS driven markets of Bengaluru, Hyderabad and Chennai
- The NCR market prices trended downwards till the end of 2010, post which they have risen more than any other major residential market in India
- Hyderabad has substantially underperformed compared to other markets

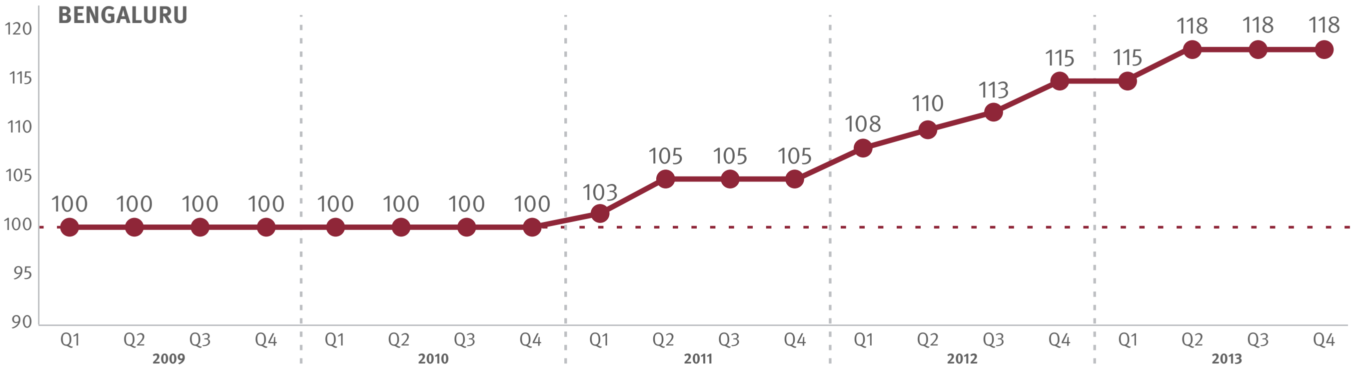
OFFICE SPACE RENT INDEX (BASE Q1 2009: 100)

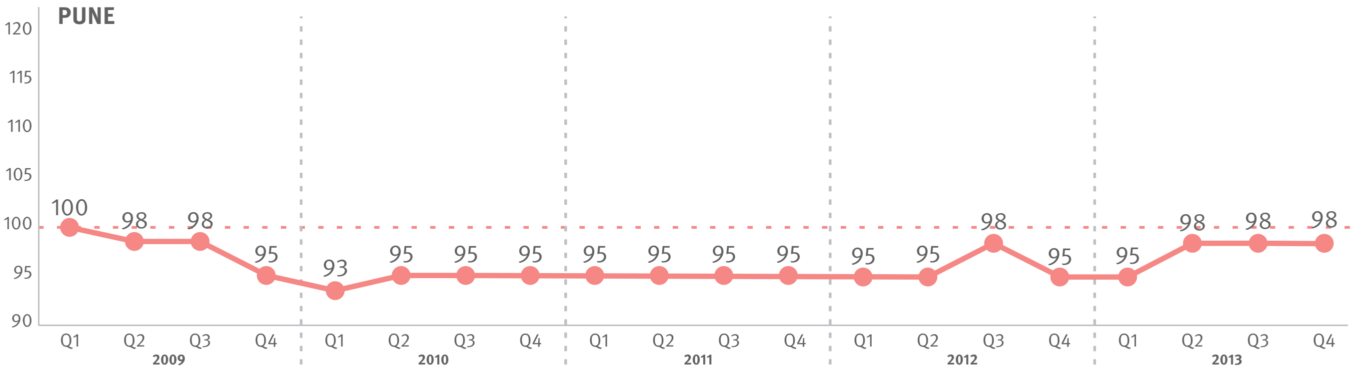


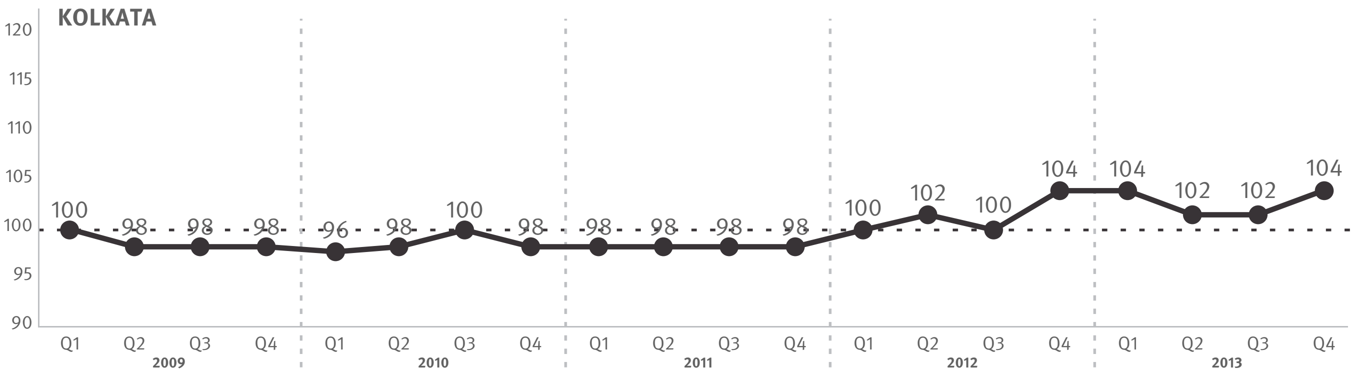












FINDINGS

- Office markets in India have seen minor appreciation compared to residential markets
- Bengaluru office market has seen the maximum rental appreciation during the analysis period
- All IT/ITeS driven markets have witnessed rental weakening since 2009 with the exception of Bengaluru
- Mumbai office market has managed to sustain the rentals with marginal appreciation of 7% since 2009
- NCR office rentals remained stable with a slight downward bias

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Outlook

- Notwithstanding the economic risks associated with the election code of conduct and impending election, stakeholders expect an economic expansion during the next six months. However, we believe that political compulsions will supersede any economic urgency leading to a delayed economic expansion during this period.
- As per the stakeholder survey, not just supply and demand for residential property, but also price is expected to witness an upward movement during the next six months. However, if an analogy is drawn with the 2009 general election period, the determinants of housing demand are strikingly different this time around. Property prices have risen faster than the growth in household income or general inflation during this period. Interest rates are much higher *(Repo rate: May'09: 4.75%, Jan'14: 8.00%)*. Lack of any meaningful improvement in determinants of housing demand, according to us means the situation will remain the same.
- Commercial Real Estate (CRE) is an area where stakeholders are skeptical and anticipate a contraction in demand, supply as well as prices during January'14 to June'14. We believe a larger magnitude of CRE project completions at a time when business growth and employee addition remain weak, will translate in to marginally higher vacancy level in the Indian office market and continue to put pressure on rents. Therefore, the stakeholder survey results are in line with our assessment of the CRE market.

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