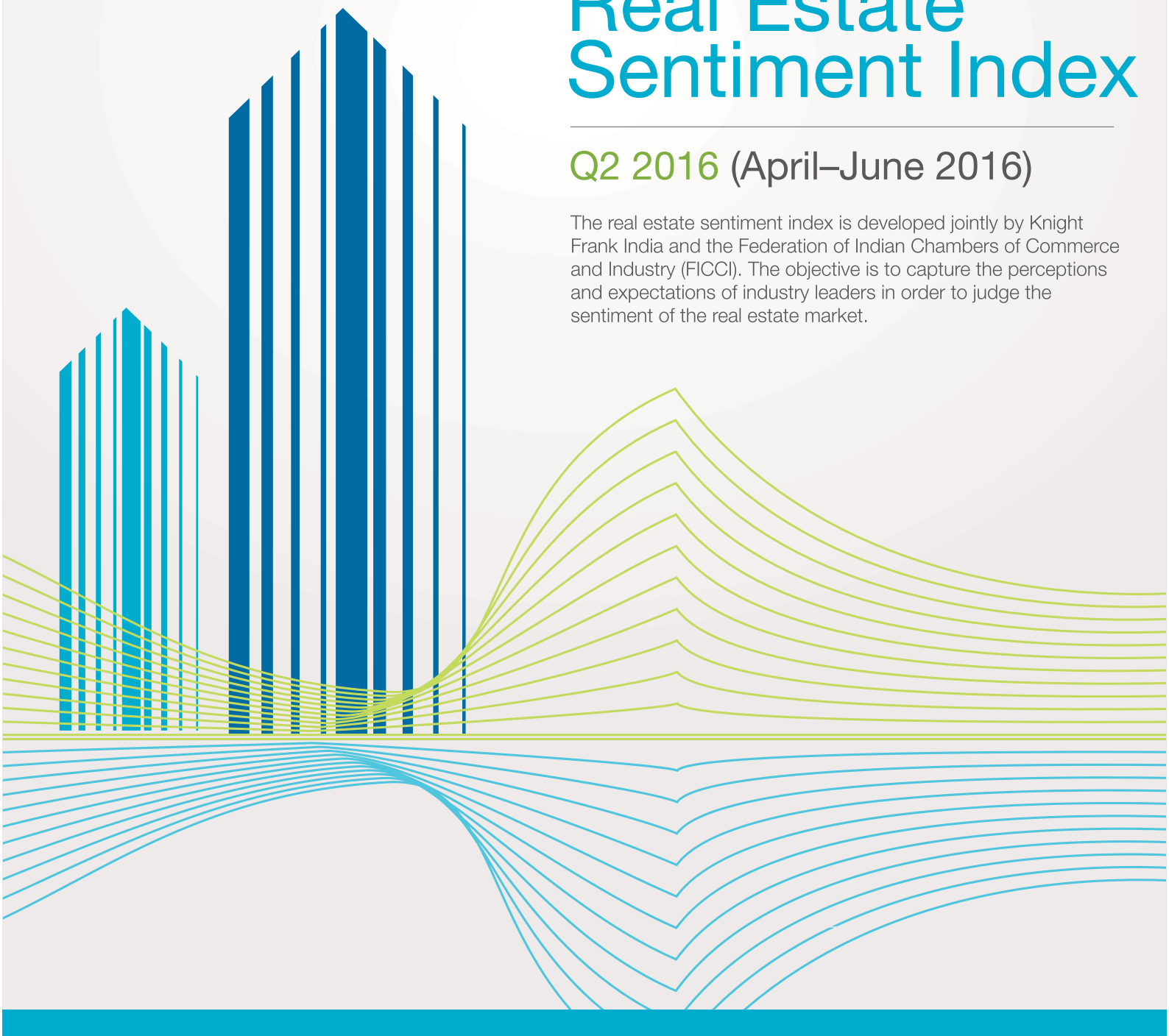
FICCI

Knight Frank

FICCI-Knight Frank Real Estate Sentiment Index

Q2 2016 (April–June 2016)

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.

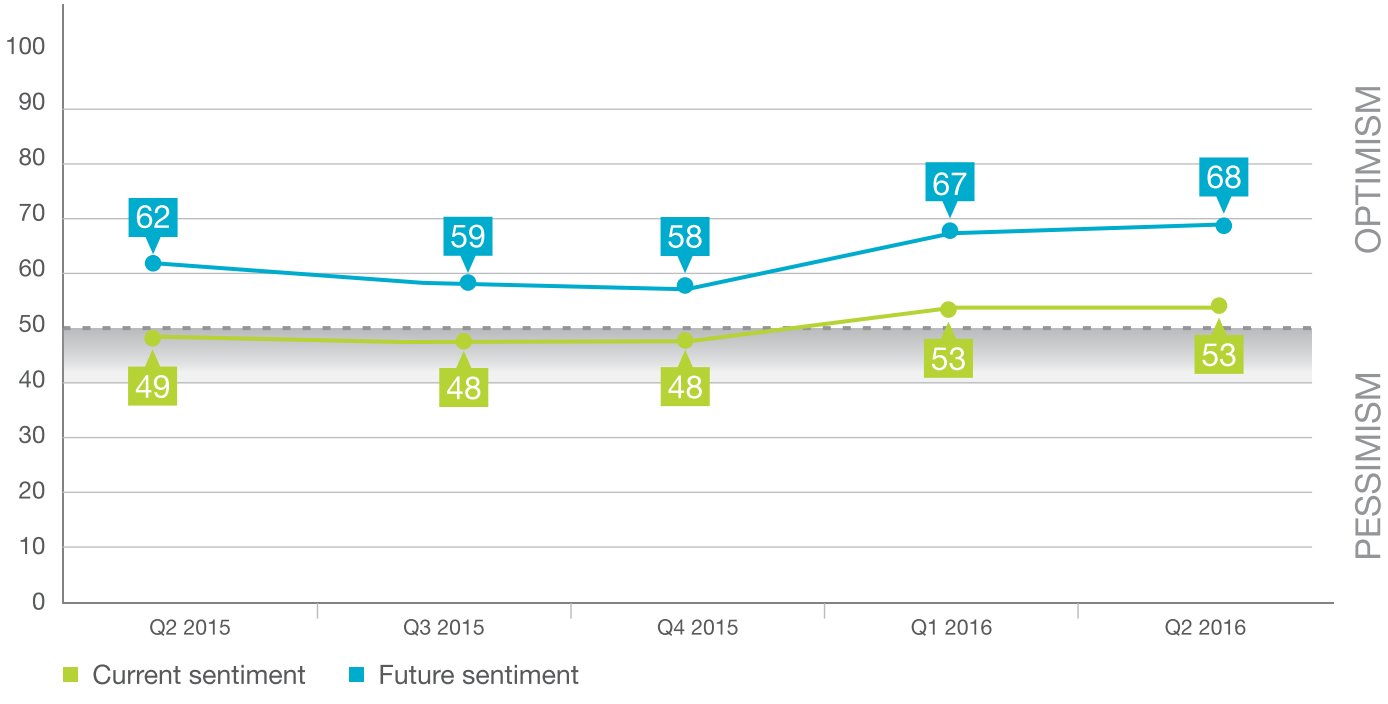


APPROACH

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 prior, 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 2016.

The real estate sector in India is going through an interesting phase. When all of us thought things were stabilising and going well with the RERA and GST Bills getting passed, relaxation in REITs, a lower interest rate regime and good monsoon, the RBI Governor announced his resignation. This was followed by Brexit and policy makers across several global economies announcing fiscal stimulus packages amid the prevailing weakness. However, the Indian real estate market has shown positive traction in the last six months. Office space absorption is going from strength to strength and, the residential market that was reeling under tremendous pressure for the last three years has shown signs of recovery.

OPTIMISM PERSISTS FOR THE SECOND QUARTER IN A ROW



FINDINGS

- The current score stands at 53, which is in the positive territory for the second quarter in a row, indicating that stakeholder confidence has strengthened in Q2 2016 as respondents believe that the real estate market is stabilising.
- After a lull that lasted six quarters, the future sentiment scores saw a significant upturn in Q1 2016, the same trend is holding in Q2 2016. This signals a robust optimism of stakeholders going forward.
- Real estate stakeholders seem markedly bullish about the future in view of the new reforms and expect the business environment to be upbeat in the coming six months. Going forward, the score is expected to move in a narrow range, although very much in the positive territory.

FICCI-Knight Frank

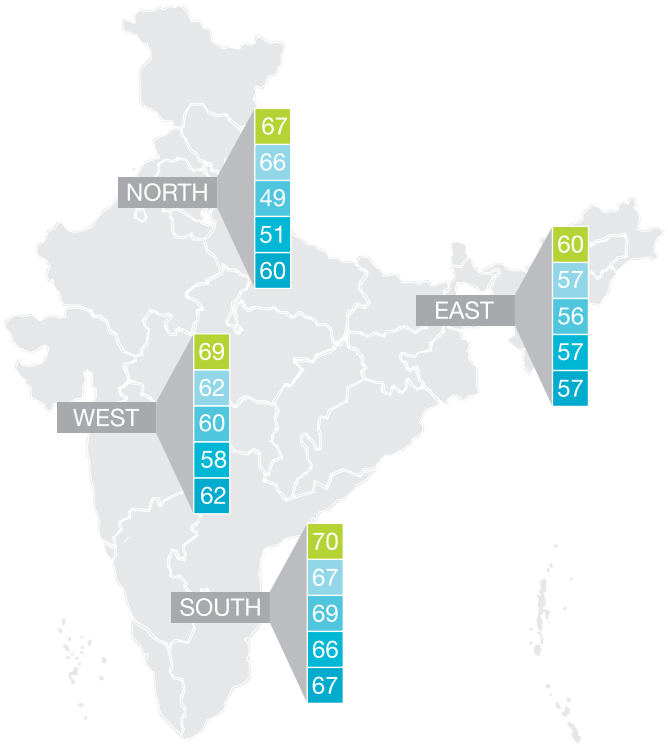
REAL ESTATE SENTIMENT INDEX

Q2 2016

ZONAL SENTIMENT SCORE (FUTURE)

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

Q2 2015 Q3 2015 Q4 2015 Q1 2016 Q2 2016

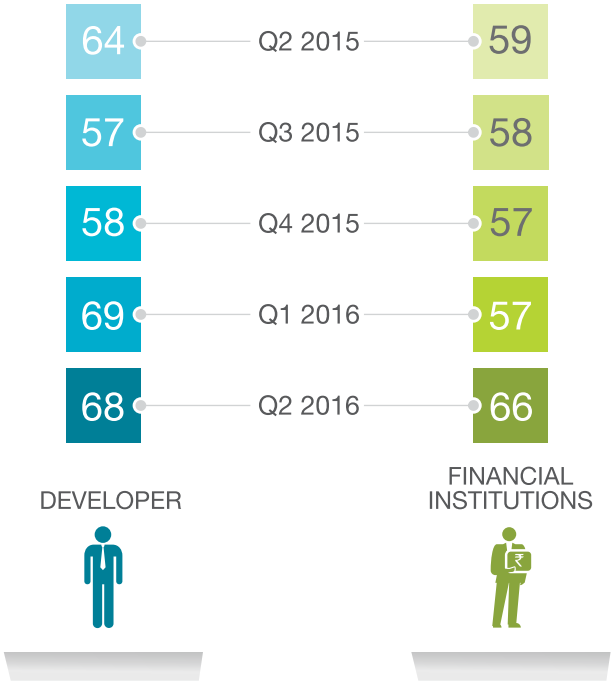


FINDINGS

- The optimism is observed at the zone level as well. The future sentiment score has improved across all zones exhibiting a strong positive outlook.
- With a score of 70, the South zone seems the most confident about the future.

STAKEHOLDER SENTIMENT SCORE (FUTURE)

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

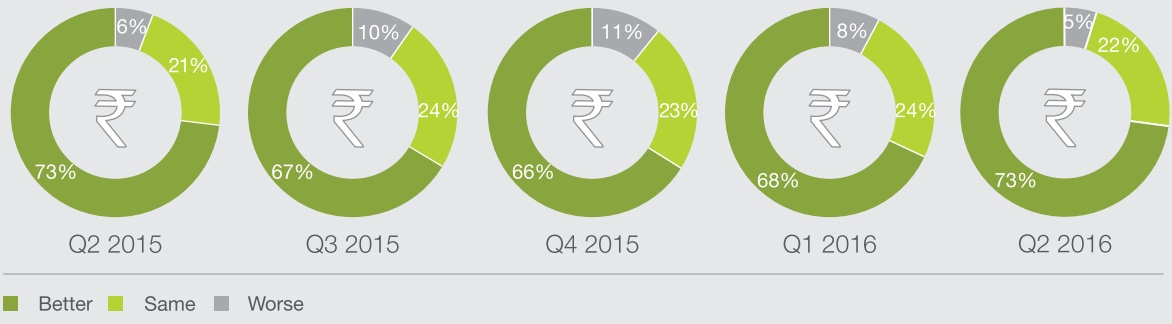


FINDINGS

- The Q1 2016 survey results showed a steep uptick in the developers' future sentiment score. However, this seems to have rationalised a bit in Q2 2016. Nevertheless, the sentiments are very much in the positive territory, especially in view of the Real Estate Regulation Bill.
- There is an evident improvement in the overall sentiments of the financial institutions.

FUNDING SCENARIO TO STRENGTHEN

Economy



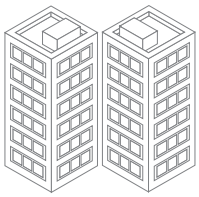
FICCI-Knight Frank

REAL ESTATE SENTIMENT INDEX

Q2 2016

RESIDENTIAL SECTOR ON A REBOUND

Better Same Worse

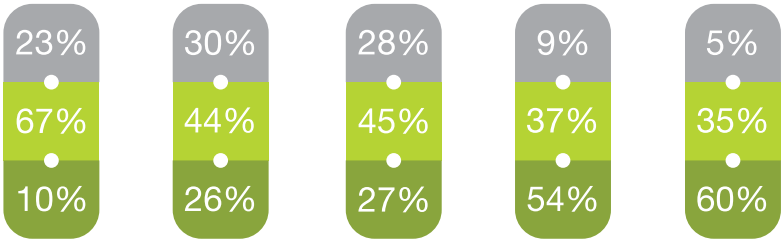


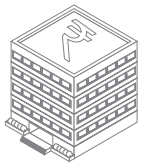
Residential Launches



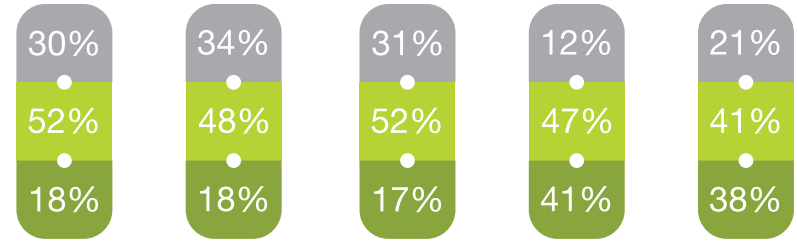


Residential Sales





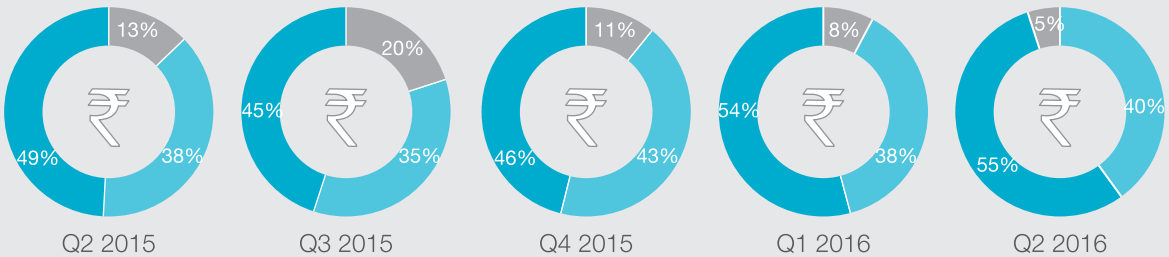
Residential Price Appreciation



FINDINGS

- Overall, there is a considerable improvement in the sentiments for the residential sector. The number of respondents with a positive outlook for the sector has gone up substantially in Q2 2016, especially for the sales volume.
- More than 95% of the respondents feel that the sales volume will either be at the same level or improve in the next six months.
- Despite an expectation of a better sales scenario in the future, the stakeholders feel that the residential prices will remain muted. More than 60% of the survey respondents feel that the residential price appreciation will remain the same or worsen by the end of the year.

Funding Scenario



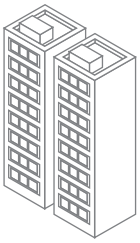
Better Same Worse

FINDINGS

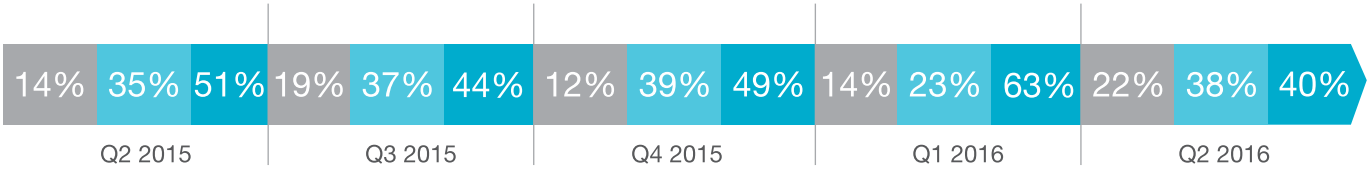
- The stakeholders continue to be bullish about the economy. Over 95% of them believe that the economic scenario will either improve or remain the same in the coming six months.
- There was an evident improvement in stakeholder sentiments for the funding scenario in Q1 2016, this continues in Q2 2016. Nearly 55% of the respondents anticipate the availability of funds to be better in the next six months.

LEASING VOLUMES TO STRENGTHEN FURTHER

Better Same Worse

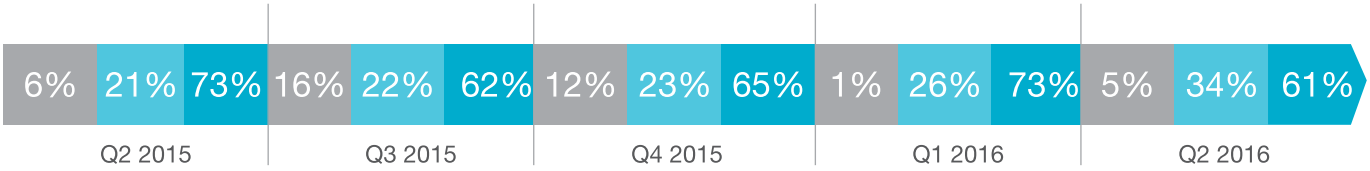


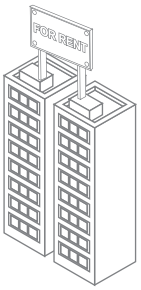
New Office Supply



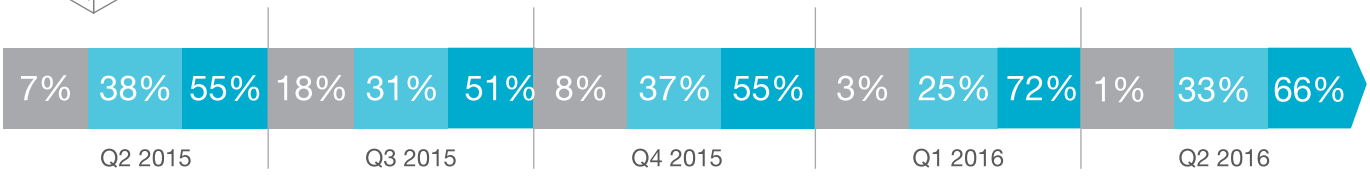


Leasing Volume





Office Rental Appreciation



FINDINGS

- Office markets across the top six cities of the country witnessed good traction in the first two quarters of 2016, going forward the stakeholders expect this to continue at the same pace.
- More than 60% of the respondents believe that leasing volumes are going to improve further in the next six months.
- However, they expect the office supply to remain under check, which is likely to have an impact on the rental appreciation. Majority of the respondents feel that office space rental growth will strengthen by the end of 2016.

CONCLUDING REMARKS

The analysis of the stakeholders' expectations from the residential and office sectors for June 2016 versus the actual market statistics reveal interesting insights into the real estate market. The survey that we conducted in Q4 2015 (October–December 2015) gave us positive results for both, the residential and office sectors for the subsequent six months. While the ground reality for the six months ending June 2016 is consistent with the expectations in the case of office space leasing volumes, rental appreciation and new completions, the residential market has not been able to match up with the expectations. The stakeholders believed that new launches, sales volume and price appreciation will remain more or less at the Q4 2015 levels; however, in reality new launches and sales volume have plummeted further.

Expectations from the residential price appreciation were fairly rationalised in Q4 2015, when the survey respondents indicated that the rate of the residential price appreciation would remain steady, which is what happened on the ground as well.



Residential

	New Launches	Sales Volume	Price Appreciation
Expectation by the end of June 2016	↔	↔	↔
Actual by the end of June 2016	↓	↓	↔



Office

	New Completions	Leasing Volumes	Rental Appreciation
Expectation by the end of June 2016	👍	👍	👍
Actual by the end of June 2016	↑	↑	↑

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