FICCI-NAREDCO-KNIGHT FRANK

REAL ESTATE SENTIMENT INDEX

Q2 2017 (APRIL – JUNE 2017)

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 (NARDECO). The objective is to capture the perceptions and expectations of industry leaders in order to judge the sentiment of the real estate market.

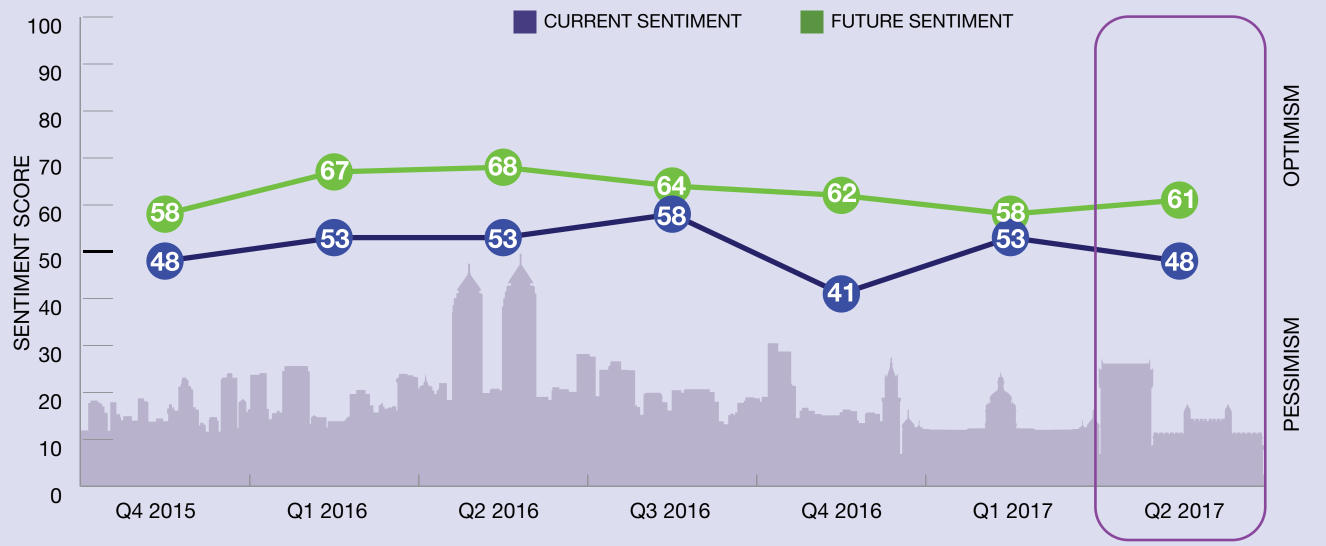
APPROACH

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, 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 April–June 2017.

SECTION A - OVERALL CURRENT AND FUTURE SENTIMENT

AMBIGUITY OVER THE IMPLEMENTATION OF POLICY MEASURES PULL DOWN CURRENT SENTIMENT IN Q2 2017
FUTURE SENTIMENTS STAY POSITIVE BUT NOT BULLISH



FINDINGS

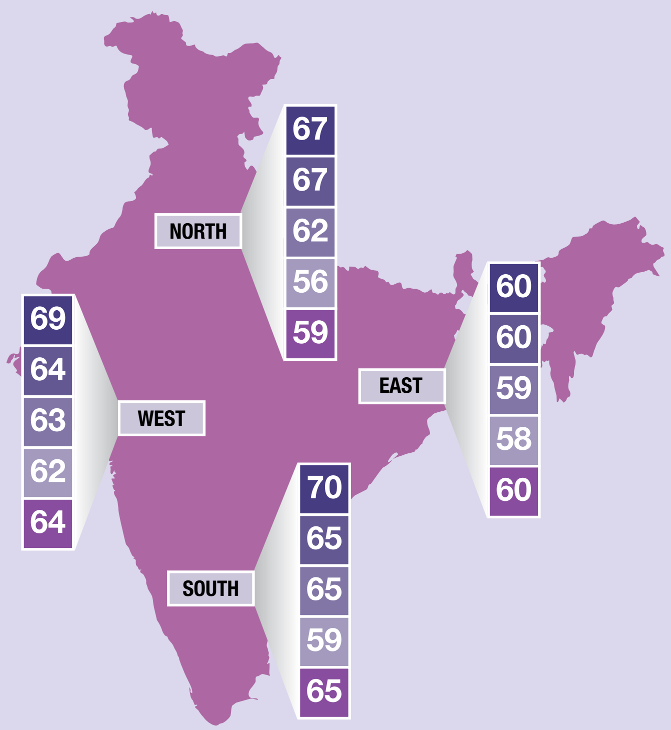
- The current sentiment score (48) has gone in the negative zone and has reached Q4 2015 levels. Factors such as the uncertainty over the manner and form in which the Real Estate (Regulation and Development) Act, 2016 (RERA) rules will be implemented across states and the implementation of the Goods and Services Tax (GST) from 1 July has created confusion among the stakeholders, especially with respect to ongoing projects. This has resulted in a dip in current sentiments in Q2 2017.
- After a slip in sentiments during Q4 2016, when the currency demonetisation took place, the current sentiment score is the lowest in the last five quarters. The "wait and watch mode" is still prevailing in the sector in the expectation of clarity on various policy measures by the government in the next six months.
- The future sentiments, on the other hand, have shown a positive trend in Q2 2017 but not as high as Q2 2016 levels. The future sentiment score that had been on a constant decline since Q3 2016, has shown an uptick from the preceding quarter, Q1 2017, implying that respondents are positive but not bullish for the next six months.
- The uptick in future sentiments stems from the fact that the supply side stakeholders believe that eventually in the next six months clarity on GST and RERA will come in coupled with the upcoming festival season.
- As regards RERA, some states like Maharashtra, Karnataka and Gujarat have already taken a lead by notifying their rules and appointing a regulator. Maharashtra has gone a step ahead and has also launched the website of its Authority, where developers can apply to get their projects registered. There are however, states that are yet to notify their rules. As per the Central Government, all states need to notify their RERA rules, latest by 31 July 2017. The major concern for developers, especially in states that have not yet notified RERA rules, is the manner in which the RERA rules would classify a project as an ongoing project.
- With the implementation of GST, stakeholders are also concerned that they would need to readjust their businesses and integrate their back-end supply chain to be able to claim the input tax credit under the GST rules and then pass it onto the consumers. Hence, even with positive aspects like low home loan interest rates, low prices and sound fundamentals of the economy, it is this realignment that is not making the stakeholders bullish about the next six months.

SECTION B - FUTURE SENTIMENTS

ZONAL SENTIMENT SCORE
ALL ZONES WARM UP TO POLICY REFORMS

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

Q2 2016 | Q3 2016 | Q4 2016 | Q1 2017 | Q2 2017



FINDINGS

- All the zones look upbeat with the future sentiment score on a positive swing. The fact that many states have modified their RERA rules as per the local dynamics has given a positive impetus to sentiments among stakeholders from the supply side of the real estate market.

STAKEHOLDER SENTIMENT SCORE
FINANCIAL INSTITUTIONS BULLISH ABOUT COMING SIX MONTHS; DEVELOPERS' SENTIMENTS HOLD STEADY

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

DEVELOPER		FINANCIAL INSTITUTIONS
69	Q2 2016	66
67	Q3 2016	61
65	Q4 2016	58
60	Q1 2017	59
60	Q2 2017	63

FINDINGS

- Both, the developers and financial institutions, have a positive outlook for the future with their scores pegged above 50. However, the developers are wary of the recent policy reforms like RERA and the implementation of GST. This paradigm shift in their way of doing business and the apprehension of when the buyer would return to the market has dented the developers' sentiments in Q2 2017. On the other hand, the future sentiment score of 63 of the financial institutions has seen an improvement from the last three quarters. The positivity stems from the fact that RERA, being a path-breaking real estate reform in the country, is seen to render the much-needed transparency to the sector, which was missing previously. This increased transparency will facilitate greater flow of institutional flow into the sector and that too at competitive rates.

RESIDENTIAL SECTOR FIGHTING HARD TO STAY AFLOAT

BETTER | SAME | WORSE

RESIDENTIAL LAUNCHES

	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
BETTER	46%	49%	48%	45%	68%
SAME	35%	37%	30%	26%	15%
WORSE	19%	14%	22%	29%	17%

RESIDENTIAL SALES

	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
BETTER	60%	46%	59%	64%	40%
SAME	35%	40%	29%	14%	28%
WORSE	5%	14%	12%	22%	32%

RESIDENTIAL PRICE APPRECIATION

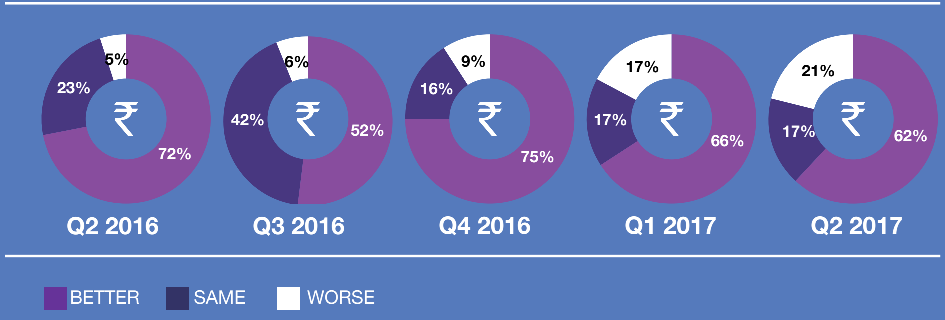
	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
BETTER	38%	43%	29%	40%	59%
SAME	41%	41%	45%	46%	19%
WORSE	21%	16%	26%	14%	22%

FINDINGS

- There is a striking recovery in the sentiments of residential launches in Q2 2017. Launches have been falling across cities for the past three years but nearly 68% of the respondents in Q2 2017 have opined that launches will improve in the next six months. It is likely that these positive sentiments are triggered by the upcoming festival season and expected clarity on policy issues.
- There is a marked dip in the sentiments of residential sales in the second quarter of 2017. At its lowest ever, 68% of the respondents feel that it will take time for buyers to return to the market. The buyer confidence that was marred by project delays, non-deliveries, litigations, etc. will only come back once they see the implementation of the policy reforms spearheaded by the government.
- In contrast to the lacklustre sentiments on residential sales, 59% of the respondents have opined that there will be an upward pressure on residential prices in the coming six months. Residential prices have been stagnant across cities for the past three years and the respondents opine that prices may move up due to factors such as an increase in compliance costs due to implementation of new policies.

OPTIMISM REIGNS OVER FUNDING SCENARIO

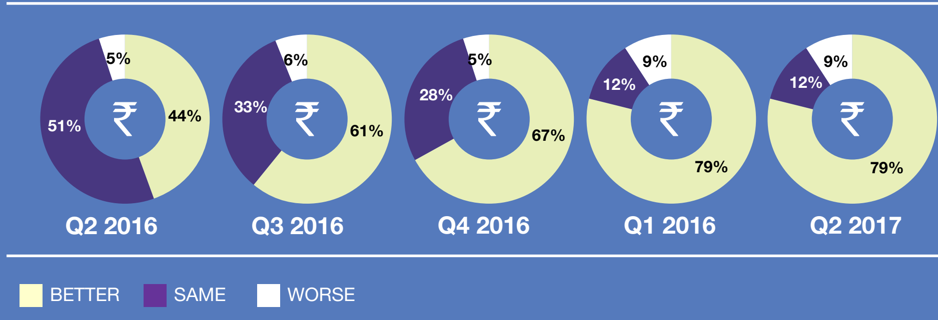
ECONOMY



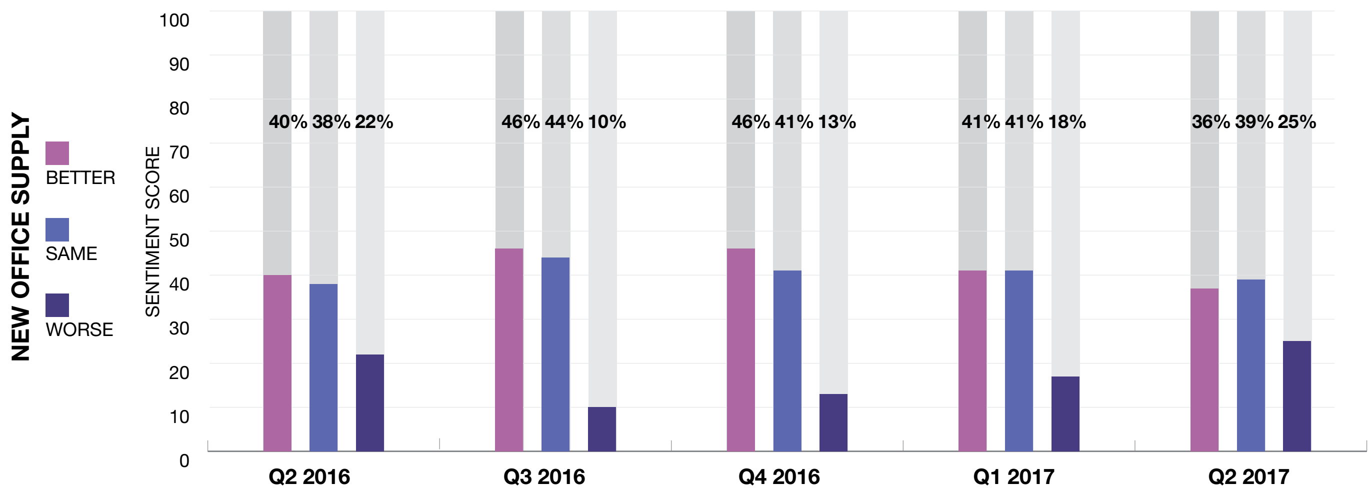
FINDINGS

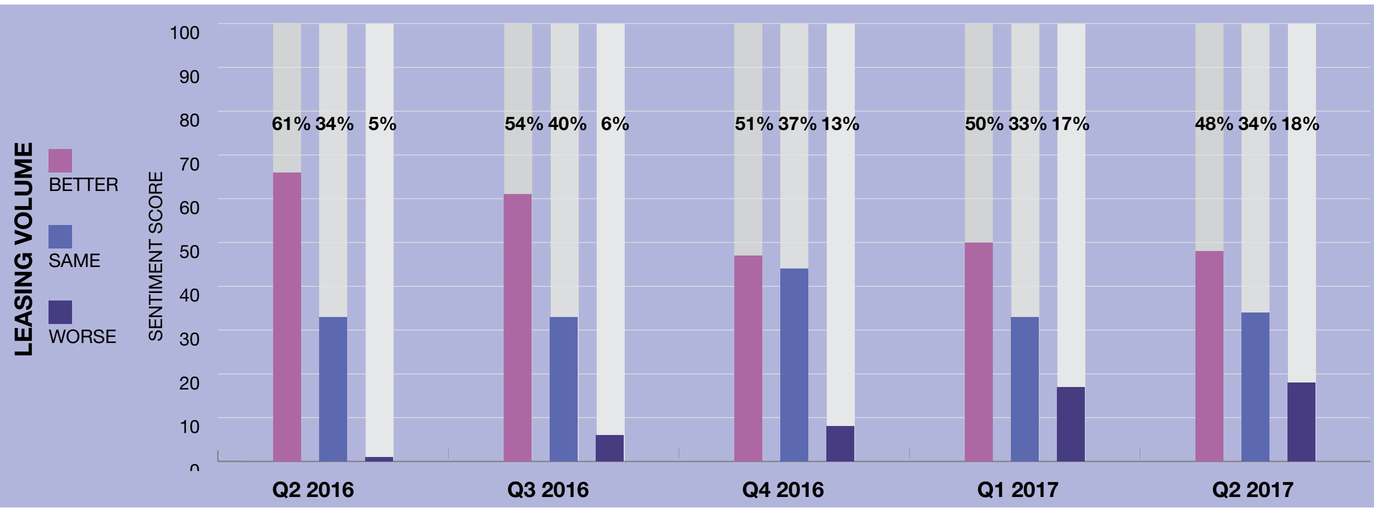
- Sixty-two per cent of the respondents opine that going forward the economy will reflect better results since most of the policy reforms that were in the pipeline have already seen the light of the day, especially those concerning the real estate sector.
- Stakeholder sentiments hold steady about the future flow of funds into the real estate sector. Seventy-nine per cent of the stakeholders have opined that going forward the flow of funds in the sector would be better. The transparency and processes brought about by government policy reforms have been instrumental in holding the positive sentiments of the institutional funds, including banks.

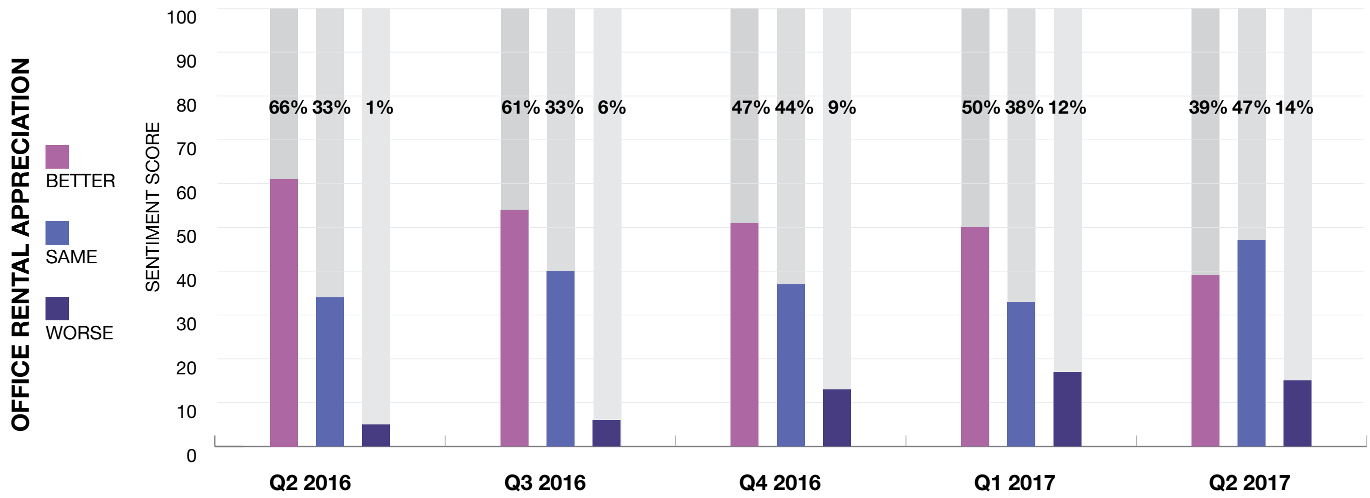
FUNDING SCENARIO



OFFICE MARKET – PRESSURE ON DEMAND AND SUPPLY PLAGUE THE OFFICE MARKET

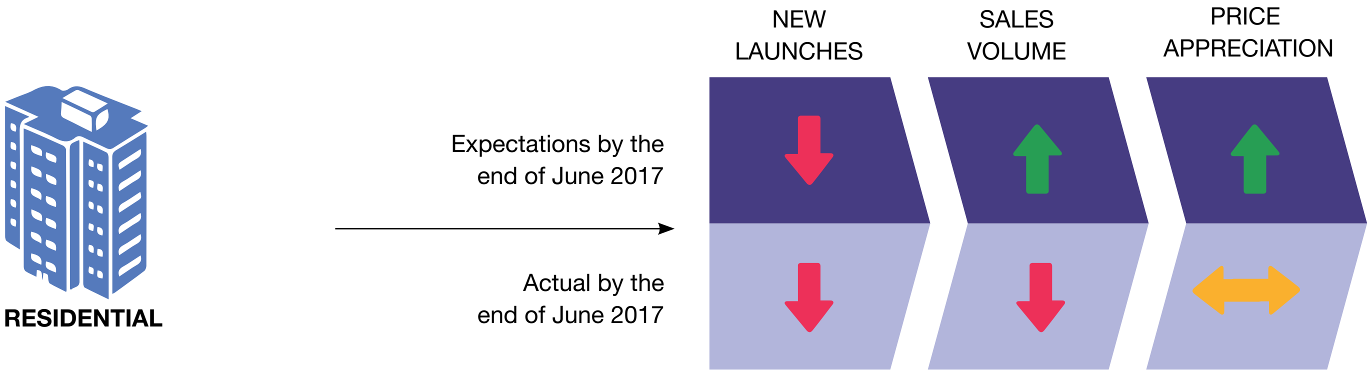


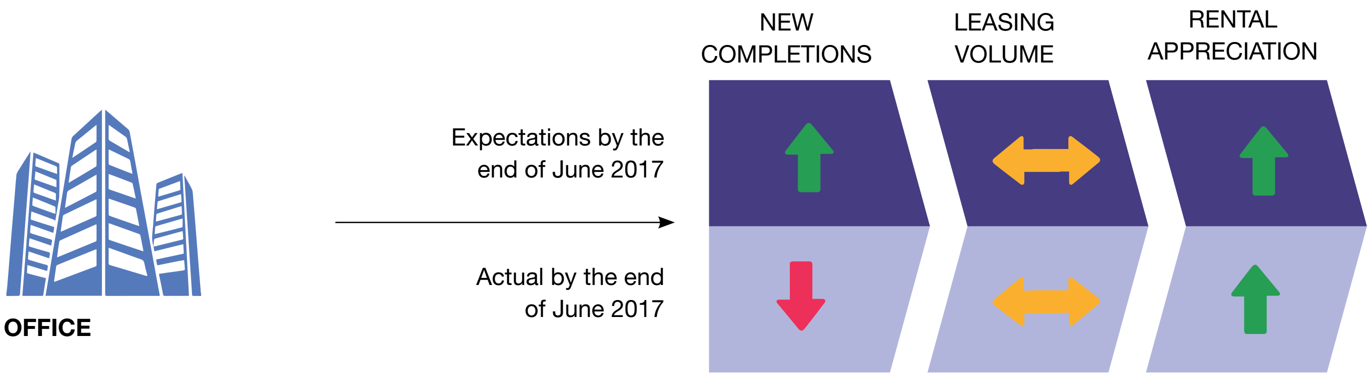




FINDINGS

- New office supply has been eluding the market for the past two years and the sentiments in Q2 2017 substantiate this fact. Sixty-four per cent of the stakeholders believe that new office supply will remain a challenge in the next six months. These sentiments coincide with the market reality as well as where the project delays and lack of quality office space in key locations have led to a supply crunch in all the major cities of the country.
- The office leasing has been holding steady in the past few years but the leasing volumes in the first and second quarter of 2017 have been low across cities. This is corroborated by the market sentiments as well, where more than half of the stakeholders opine that leasing volume will either hold steady or fall further in the coming six months. Pressure on the IT/ITeS sector and the lack of quality supply in key locations has all contributed towards the slowdown in leasing of office space.
- However, this lack of supply will lead to an upward pressure on rentals. Nearly 86% of the respondents opine that office rental either will remain the same or will move up in the coming six months.





CONCLUDING REMARKS

The analysis of the stakeholder expectations from the residential and office sectors for June 2017 versus the actual market statistics reveals interesting insights into the real estate market.

The survey that was conducted in Q4 2016 (October–December 2016) gave a mixed outlook for the future of both, the residential and office sectors. The expectations in our survey in Q4 2016 revealed optimism regarding the residential sales in the following six months (January – June 2017); however, in reality sales volumes have touched new lows across all major cities in India. As for new residential launches, the survey sentiments in Q4 2016 corroborate with the market reality and new launches across cities have seen a steep decline.

Residential property prices have remained muted at the end of June 2017 as opposed to the stakeholders' expectation. Contrary to expectations, office supply failed to hit the market for the period January–June 2017. Leasing volumes remained steady and rents firmed up in accordance to the stakeholder sentiments for the same period.

So in a nutshell, our survey finding suggests that going forward the residential sector will see some latent supply of new launches and an upward movement in prices. Demand will however stay muted. Office supply will be under pressure and lead to firming up of rentals across cities. Leasing volumes will hold steady in the coming six months.

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