FICCI-NAREDCO-KNIGHT FRANK

REAL ESTATE SENTIMENT INDEX

Q2 2019 (APRIL–JUNE 2019)

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 of this report is to capture the perceptions and expectations of industry leaders in order to gauge the sentiment of the real estate market.



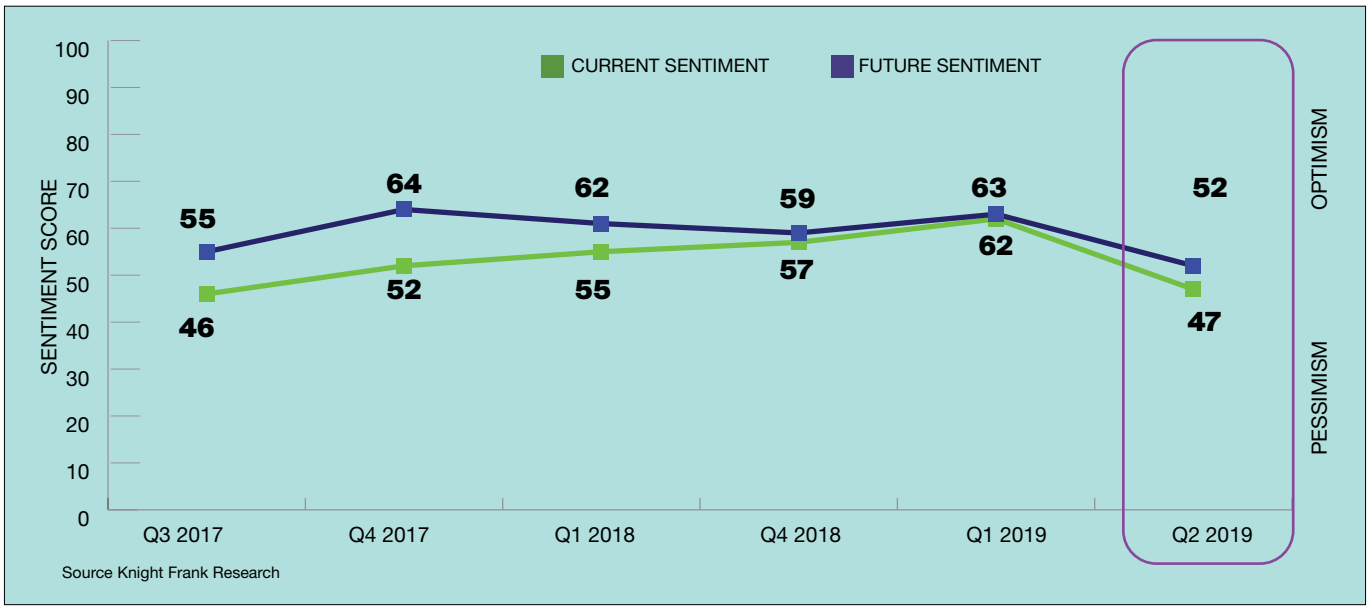
APPROACH

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 of 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 sentiment; and a score below 50 indicates negative sentiment.

In order to present a holistic view of the Indian real estate sector, the report is divided into two sections. Section A comprises of two indices: the overall current sentiment index that indicates the respondents' assessment of the present scenario compared to the preceding six months, 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 2019.

SECTION A – OVERALL CURRENT AND FUTURE SENTIMENT SCORE

SIGNIFICANT DIP IN OVERALL SENTIMENTS – UNCERTAINTY LOOMS LARGE OVER THE REAL ESTATE SECTOR



Source Knight Frank Research

FINDINGS

- The current sentiment score has taken a nosedive in the second quarter of 2019. Falling to 47, the current sentiment score has come in the negative zone in Q2 2019; a stark contrast to the preceding quarter. The score indicates that the stakeholders have gone on the backfoot in the second quarter of 2019 owing to the overall economic slowdown.
- The slump that was perceived only for the real estate sector is slowly manifesting itself in other sectors as well, which has negatively impacted the current sentiment score. The series of defaults that caused the NBFCs, or shadow bank crisis in India has dried up funding for not only the sector but also created a cautious atmosphere in others sectors.
- India is a consumption-driven market and the dip in the current sentiment score corroborates with the fact that the Indian household savings, which is the major contributor to the economy, has slumped to a decade low, whereas the financial liabilities as a part of the disposable incomes have seen a 200% increase from 2009–2019, according to the Reserve Bank of India(RBI).

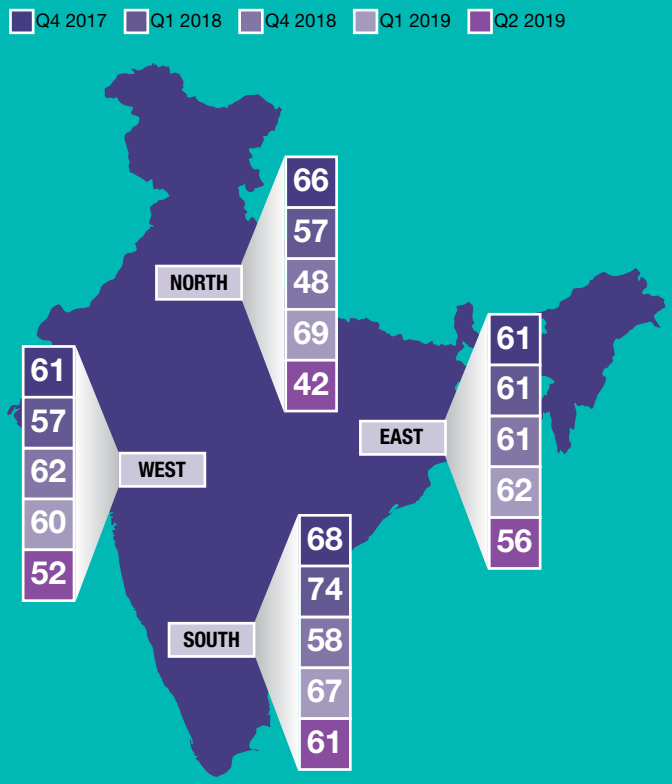
SECTION B – FUTURE SENTIMENT SCORE

- The future sentiment score has also taken a hit in Q2 2019 with the score dropping to 52 compared to 63 in Q1 2019. Though remaining in the positive zone, the dip in the score indicates that the stakeholders are exercising caution to give a thumbs up to the sector in the coming six months.
- The real estate sector has been under pressure for over three years now and the stakeholders have revised their outlook for the sector for the coming six months. Weak demand, inventory overhang, developer defaults coupled with the worsening of the NBFC crisis has dried up funding for the sector, which in turn has increased the borrowing cost and impacted finances for the already strained sector. In the current scenario, stakeholders meaning to do good business are also finding it tough to convince lenders.

ZONAL SENTIMENT SCORE

NORTH GOES IN RED, WEST TRIMS OUTLOOK

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



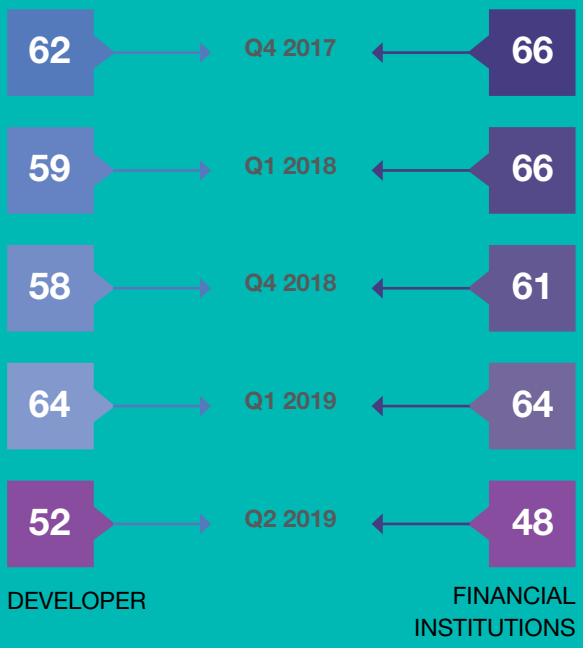
FINDINGS

- The future sentiment score for north has gone in the red in the second quarter of 2019. Inventory pressure and weak demand, low buyer confidence have adversely affected the market.
- The recent Supreme Court decision to cancel the licence, Real Estate (Regulation and Development) RERA registration number and property leases of real estate major Amrapali has come as a stern action against defaulting developers in the region. To add to this, the amendment to the Insolvency and Bankruptcy Code (Amendment) Bill, 2019 making homebuyers as financial creditors has exposed many prominent developers in the region to the National Company Law Appellate Tribunal (NCLAT).
- Stakeholders in the west have lowered their outlook for the next six months, which is in sync with the overall slowdown in the market sentiment.

STAKEHOLDER SENTIMENT SCORE

LENDERS ON THE BACK FOOT

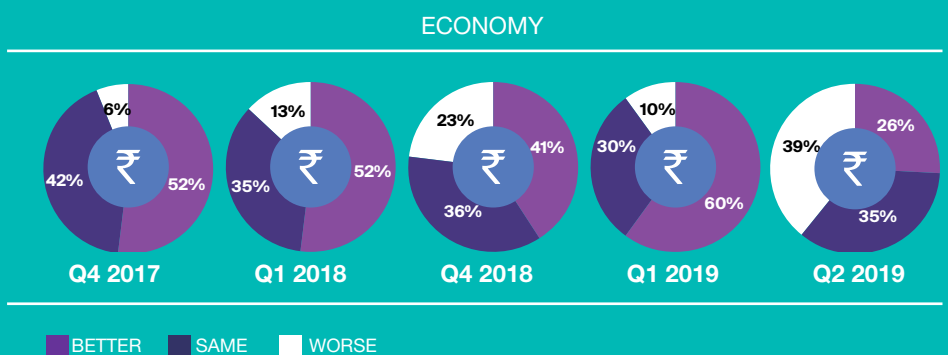
SCORE>50: Optimism SCORE=50: Same/Neutral
SCORE<50: Pessimism



FINDINGS

- The sentiment score of the developers and the financial institutions regards the real estate scenario for the coming six months has significantly plummeted in Q2 2019. The worsening NBFC crisis which began with default by the Infrastructure Leasing and Financial Services (IL&FS), which was both a lender and executor of infrastructure projects, in June of 2018 has hit the real estate sector in full force resulting in a credit freeze to the already cash-strapped developers. The default has tightened liquidity and even developers with hitherto impeccable record are finding it tough to find lenders.

ECONOMY LOSING STEAM



FINDINGS

- The real estate industry's sentiments regarding the economy has dipped significantly in Q2 2019. 74% of the stakeholders have opined that the economic situation will be the same or may even worsen in the coming six months.
- The recent dip in sentiments is validated by the downward revision of growth by the RBI and other rating agencies, such as the International Monetary Fund (IMF), DBS Bank and Asia Development Bank (ADB) who have brought down their forecast for FY20 GDP for India. A

RESIDENTIAL SECTOR IN THE DOLDRUMS



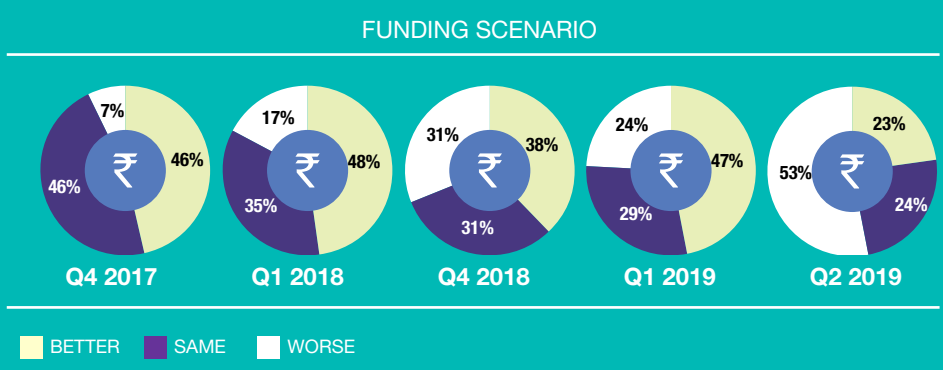
FINDINGS

- The outlook for the residential new launches, sales and price appreciation have taken a hit in Q2 2019. 69% of the stakeholders have maintained that the residential sales will remain tepid or may even go down further in the coming six months.
- Sentiments regarding the residential price appreciation also looks lacklustre with 75% of the stakeholders opining that the residential prices will continue to remain muted. Taking cognisance of the slowdown in the sector, the Reserve Bank of India (RBI) has cut the repo rate by 35 basis points to 5.40% – a fourth consecutive rate cut since February this year. However, reduction in the domestic spending and investment activity will loom large given the flat income growth.

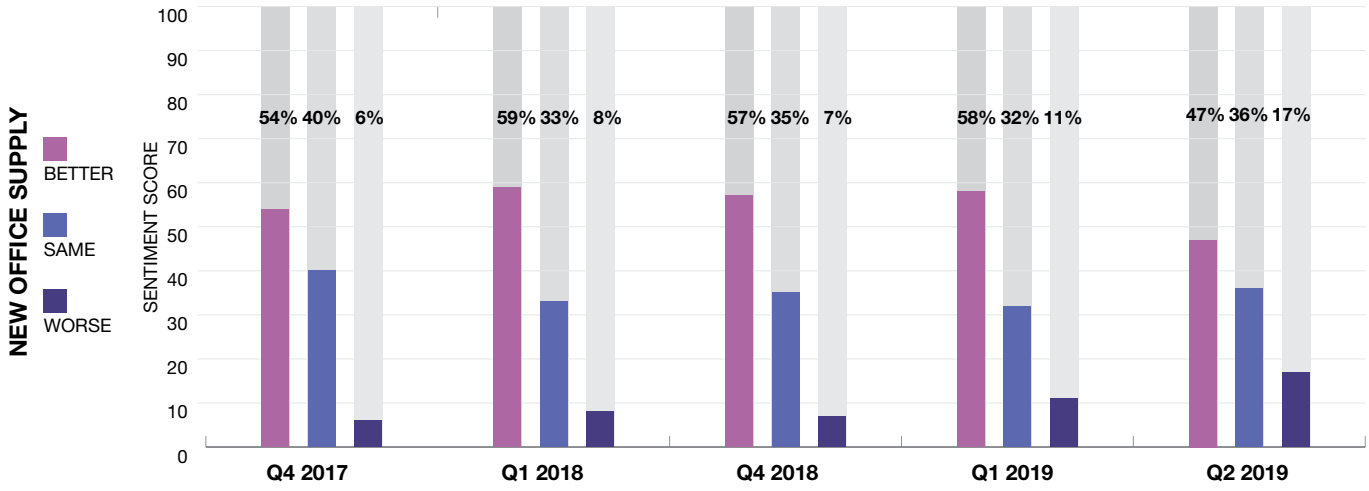
slowdown in consumption, investments and the tightening on the borrowing ecosystem have put the stakeholders on the backfoot for the next six months.

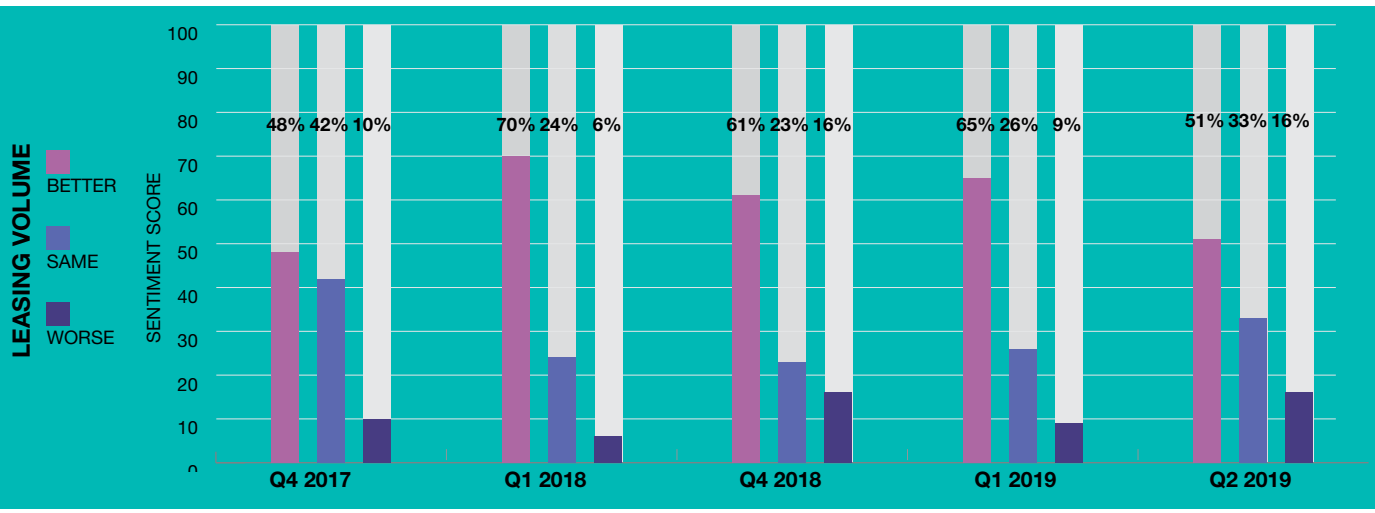
- Mirroring the overall market sentiments, stakeholders maintain a conservative outlook regards the funding scenario for the coming six months. 53% of the stakeholders have opined that the funding scenario may worsen in the coming six months with lenders exercising caution in lending to sectors such as real estate, automobile and other consumption driven sectors.

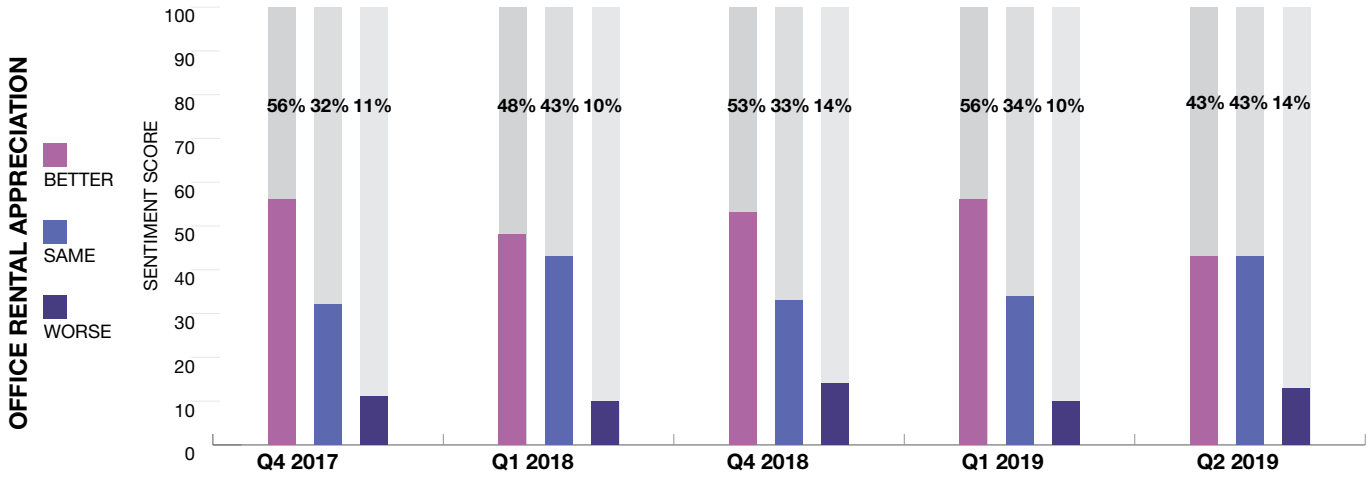
CAUTIOUS FUNDING ON THE CARDS



OFFICE MARKET HOLDS STEADY







FINDINGS

- Sentiments towards the new office supply is expected to remain strong in the coming six months. 83% of the respondents believe that the next six months will see new supply additions and market and will continue its momentum in key office markets across the country.
- The future sentiment score regards the leasing activity, remains stable in Q2 2019. 84% of the stakeholders opine that leasing activity will remain steady or may even improve in the forthcoming six months. According to Knight Frank Research, office leasing recorded a decadal high of 2.6 mn sq m (27.4 mn sq ft) for space transacted in a single period during H1 2019 due to demand from IT/ITeS and co-working spaces.
- Stakeholder outlook with regards future rental appreciation remains upbeat in Q2 2019 with 86% of the stakeholders expecting rents to either remain stable or inch upwards in quality office space in key locations due to limited options.

CONCLUDING REMARKS

In a nutshell, the survey findings for Q2 2019 (April–June) suggest that the stakeholders are maintaining a sense of caution and concern regarding the real estate sector for the coming six months. The overall slump in the economy coupled by domestic factors like the shadow bank crisis, developer defaults and bankruptcy, and the reduction in private consumption, which is the backbone of demand and investment in the overall economy, have all slackened the sentiments of the market. On the office front, stakeholders remain positive and expect leasing and rents to be on an upward swing in the coming six months.

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