

Research



24th edition

Knight Frank – FICCI – NAREDCO

Real Estate Sentiment Index

Q1 2020 (January – March 2020)

The real estate sentiment index is developed jointly by Knight Frank India, the Federation of Indian Chambers of Commerce and Industry (FICCI) and the National Real Estate Development Council (NAREDCO). The objective is to capture the perceptions and expectations of industry leaders in order to judge the sentiment of the real estate market.

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Covid 19: Disrupts the Revival of Real Estate Sector



Shishir Baijal
Chairman and Managing Director
Knight Frank India

Before the scare of Covid-19 became a real threat in early March this year, the Indian economy was already reeling under pressure with weak consumer demand and the NBFC liquidity crisis. India recorded GDP growth at a 6-year low of 4.7% in Q3 FY20 and other economic indicators were also showing a sharp disruption. Indian businesses and consumers alike were having their fair share of challenges to negotiate, even as global economies worked hard to stay on course with monetary and fiscal interventions.

The Covid-19 virus has created an extraordinary situation for everyone, and without doubt, our primary collective effort must be to safeguard life and health of our people. Even as the pandemic and consequent lockdown has brought economic activity to a virtual standstill and livelihoods are under threat, a strong resolve to adapt and survive must be demonstrated by all. With uncertainty looming large, we know that life after Covid-19 will be very different, with outcomes dependent on the intensity and timeline of the virus itself. It is therefore difficult to make any

prediction on the outcome of this crisis at present. Managing liquidity and sustaining through the length of this pandemic will be critical for the economic survival in the post Covid-19 era. While the government and RBI have come up with stimulus measures to support the economy, further support would be required to help the economy recover from this unprecedented crisis.

Given these turbulent times, it is not surprising that our Survey has recorded its lowest ever sentiment score in Q1 2020 (January – March 2020). As I thank all who participated in the 24th edition of the Knight Frank-FICCI-NAREDCO Sentiment Index, I hope that you will find this Index valuable as a tool to understand the current and future industry outlook.

In the meantime, stay safe. Stay well!

Partners' take on the sector



Dr. Niranjan Hiranandani
National President - NAREDCO
Founder & MD - Hiranandani Group

The global pandemic has set an unprecedented crisis that aggravated the problems of the real estate sector, which was already reeling under the pressure of a challenging economic environment and liquidity starved crisis. The current lock down has brought industry to a standstill position and recovery curve shall depend on the fiscal stimulus rolled out by the government machinery.

Given the market scenario bleak, all the concerned stakeholders are on cautious mode and fighting the war of life versus livelihood. However, a great amount of resilience and adaptability have been demonstrated by consumers and the developer. This crisis has definitely put people to re-channelize their thoughts and behavior which will lead industry to the structural trends. The biggest learning is a change in the perception of owning one's own house which embeds a deep sense of safety and security in the period of crisis. This shall be the next driving force to generate long term sustainable housing demand for the segment. Industry now needs to realign their business continuity model with more financial discipline and brace up for newer segments of development. Consolidation, Diversification and Decentralization will be the new directional way forward in the industry.

Commercial real estate will witness a temporary slowdown but other emerging asset classes like warehousing, Industrial logistics parks shall be demand driver due to the importance of seamless supply chain distribution development.

There will be a slowdown across the industry post COVID crisis. The industry is facing an acute working capital crisis which is essential to restart the business moving. At last, we all have pinned hope on the government intervention to salvage the dent loss created by the crisis with its big fat fiscal stimulus to get the growth trajectory back on track.



Sanjay Dutt
MD & CEO, Tata Realty & Infrastructure Ltd.
Chairman, FICCI Real Estate Committee

There is an extreme sense of uncertainty on the COVID-19 pandemic both in terms of its intensity and timeline of damage on human life and everything associated with it, including business. This unknown has created a lot of fear and is reflecting on the sentiments of industry stakeholders too.

The government has proactively taken measures to prevent the spread of virus, save lives and livelihoods besides providing some procedural regulatory relief. It is time to strengthen revival efforts with a strong fiscal boost that shall serve as a stimulus to ensure that the economy recovers sooner than later.

As gradual recovery begins with improvement on this pandemic and things settle over a 12-24-month time horizon we will see a long drawn extended U-shaped recovery for the residential segment but a faster V-shaped recovery for the office segment in the country. Sentiments perhaps may return earlier.

Stakeholders' take on the sector



Irfan Razack
Chairman & Managing Director
Prestige Group

Covid-19 has come as a disruptive force and associated challenges call for an introspection from all stakeholders. As a responsible business and individual our primary priority is to take care of our family, employees and customers. Keeping their motivation level high, helping communities and fulfilling our corporate social responsibility is the need of the hour.

While the current situation of lockdown has brought activity to a complete standstill, as normalcy returns after lockdown is lifted, we would witness interesting trends in the real estate sector. On the housing market front, millennials would reconcile with the idea of owning a house, which as an asset grows over time besides providing the much-needed financial stability. With the strengthened US dollar, NRIs will find favor in owning a house in their hometown. The theme of households upgrading to a bigger house will continue to exist. Because housing as a product is not perishable, developers should have a clear focus on completion, keep customers happy and most importantly not get swayed to launch new projects without financial closure.

In case of office segment, which was going well with strong occupancy level, there would be some challenge in maintaining rent growth even as landlords have worked hard to ensure business continuity and maintain the premises during this period. Occupiers and asset owners alike are witnessing a tough environment and hence a blanket approach of 'force majeure' may not work but case to case relief may be required to tide with this tough time. Going forward, social distancing as a basic premise will lead to a higher space requirement and considering there would be a heightened need for cost optimization, India as an outsourcing hub will have a strong premise on the global landscape.

At this juncture, considering that real estate sector is a critical sector besides having strong linkage with other sectors in the economy, strong government intervention is needed. The tight financial liquidity scenario requires that the entire realty sectors' loan liability is pushed by one year so that the sector has survival oxygen to not falter during this temporary phase. Similarly, restoring the GST input tax credit will lower cost of housing and help the cause of demand revival. With collective effort of all stakeholders, hopefully as a sector we shall be able to bounce back in 12-15 months.



Vipul Roongta
 Managing Director & CEO
 HDFC Capital

I think these times are unprecedented and require all to focus on controlling the situation and taking care of people in the circle of influence. Health precedes economics and the only certain thing is complete uncertainty in the short term.

In such times, any expert opinion and crystal ball gazing is at best speculative. Having said that, I feel that whenever the fear subsides and the market turns, whether over next 6 months or 12 months, certain new themes will emerge.

We are expecting a big shift in consumption and investment patterns in the economy. The stability and utility offered by investment grade real assets would be appreciated by market participants even as they face high volatility and a prospect of sub-par return in financial assets. Consequently, on the context of the real estate sector, we expect a strong demand for middle income, affordable housing and plotted development products. On the supply side, consolidation of weaker market participants is expected to accelerate.

In the case of commercial office segment, factors like performance of the western world economies and behavioural pattern of work from home and de-concentration of office spaces due to BCP practices shall play a major role in determining the growth prospects.



Getambar Anand
 Chairman & Managing Director, ATS Infrastructure
 Co-Chair, FICCI Real Estate Committee

Covid-19 pandemic has thrown a lot of challenges for households and businesses alike. It has also created a long-lasting impression on the mind of people in terms of their orientation towards consumption, saving and investment. On this account, in the context of the housing market, we have seen people coming up to the realization of safety and security offered by a self-owned roof over their head since many suffered hardships to maintain their tenancies amidst the corona situation. Given the unfolding of events around this pandemic, end users will look up to the premise of owning a house in a big way.

A big challenge between this consumer reorientation and supply side will be posed by the income uncertainty for the consumers and stretched financial liquidity scenario with the developers. Hence, the sector would do be able to attend to this new trend only if financial institutions particularly the housing finance companies are allowed to bridge the gap by enhancing their funding proposition for the home buyers.



Irfan A. Kazi
Chief Investment Officer
SBICap Ventures Ltd

We expect sales to be slow to start and also slow to recover in the months ahead. It will be challenging to maintain prices at a flat level without further slowing sales velocity. At the same time, a drop in demand might ease construction commodity prices and increased unemployment might make wage rise no longer a threat. However, the delivered cost of the product will keep rising as the interest clock will continue to accrue financial burden on projects even if it happens more slowly because of softer interest rates. Customer defaults and activism might only compound an already bad scenario. This will lead to a situation of increasing financial defaults and projects stalling in the next couple of years. Like a bad *deja vu*, concepts like trust deficit will be reinforced and sales will be restricted to completed inventory only.

In such a scenario, we expect developers to more actively reach out for last mile financing to complete projects. They will need funding that is focused on project completion, doesn't have intermediate servicing requirements and places minimal reliance on sales and collections. Access to such funding could turn out to be the key differentiator of projects that progress while the others languish. Thus, we expect the SWAMIH Investment Fund I to be the preferred partner for funding requirements going ahead.



Murali Malayappan
Managing Director,
Sriram Properties

Given the current situation around the COVID-19 pandemic, a lot will depend on the way we are able to protect health and life of our citizens and the timelines associated with the lockdown. We believe that the lockdown will be relaxed in a staggered manner and most markets should resume activities beginning May 2020.

Besides the challenges, the pandemic has changed a lot of dynamics at the global level and this has also opened new possibilities for India. Entire world has been impacted by this pandemic and certain markets like Eastern Europe will take longer to recover. Similarly, with the world looking at manufacturing alternatives to China, India is placed well to attend to this need provided we have a strong government support to enhance our manufacturing capabilities particularly in the SME segment.

On the real estate front, shopping malls are facing a very turbulent time and this pain may last for another two quarters. Survival in the retail business will depend a lot on the strength of balance sheet. The commercial office segment is still going strong and we expect only a limited impact on rent or demand level in this segment. Demand in the residential segment will have a varying degree of impact. The luxury housing segment will be hit hard whereas the middle income and affordable housing segment will have a moderate impact. Supply side is expected to take a substantial hit and consolidation of market space will ensure strong players gain higher market share.

COVID 19 – A Global Crisis



1. The Global Scenario

The world today is facing an unprecedented challenge in the form of the COVID 19 crisis which is expected to slow down the global economy and have far reaching socio-economic impact. The COVID 19 crisis has hit us at a time when several economies including EU, Japan, China and India were already in midst of a slowdown. Now, with more and more countries having gone into a lockdown, there are high chances of a global economic recession. Apart from severe demand destruction, the global economy is also struggling with supply chain disruptions caused by the pandemic. As per United Nations, the World GDP may shrink by almost 1% in 2020 due to the COVID 19 pandemic. While all sectors have been adversely impacted, sectors like travel, tourism, aviation, hospitality and real estate have been particularly hit very hard. Unlike the global financial crisis of 2008, resuscitating demand would be more difficult in the current crisis period given the sharp rise in unemployment. The US unemployment rate has shot up to 4.4% (rise by almost one percentage point), with the economy losing 701,000 jobs in March alone. The job losses may be even more severe in developing countries that have a large unorganized sector and daily wage earners.

Most governments are announcing fiscal stimulus measures to revive their economies. US has cut policy interest rate by 150 bps and announced monetary stimulus equivalent to \$ 2.3 trillion, while China has cut its RRR (Reserve Ratio Requirement) by 100 bps to inject liquidity in the system. Other economies like Canada, Australia, UK, South Korea have also announced a cut in policy interest rates. Given the sharp slump in demand, most economies

are extensively employing financial stimulus measures. US has already announced fiscal stimulus equivalent to around 11% of its GDP, while Japan has announced a strong stimulus package equivalent to around 20% of GDP. Other economies like Australia and Canada have also announced strong fiscal stimulus packages.

2. The Indian scenario

The Indian economy was already slowing down before the COVID 19 crisis. The GDP growth in Q3 FY20 had slowed to 4.7%, lowest in the last six years. With the lockdown and demand destruction, GDP growth is expected to fall sharply in FY21. Several agencies have already revised their growth forecasts downwards for India (refer Table below). The MSME sector that contributes around one-third to India's GDP would be hit particularly hard by the current crisis. Given the large share of unorganised sector in India, the slowdown will have severe repercussions on employment and the economy. As per CMIE, unemployment rate in India has shot up to 23% currently from 8.7% a month ago. This in turn will have an adverse impact on consumption and investment in the economy.

India's Central Bank has cut the repo rate by 75 bps and injected liquidity to the tune of INR 3.74 trillion by cutting CRR by 100 bps, providing additional MSF (Marginal Standing Facility) and LTRO (Long-term Repo Option). It has also announced a moratorium of 3 months for all term loans. As far as fiscal stimulus is concerned, the Government has announced a package of INR 1.70 trillion, including food security and direct benefit transfer for the lower income strata.

Growth forecast revised downwards by rating agencies for India

| AGENCY | EARLIER GROWTH FORECAST FOR FY21 | REVISED FORECAST FOR FY21 |
|---------------|----------------------------------|---------------------------|
| Fitch | 5.1% | 2.0% |
| CRISIL | 5.2% | 3.5% |
| Moody's | 5.3% | 2.5% |
| India Ratings | 5.5% | 3.6% |

Source: Knight frank Research

2.1 Impact of COVID 19 on Indian Real Estate Sector

The Indian real estate sector had just started to recover from structural reforms such as demonetisation, Real Estate Regulatory Authority Act (RERA), Good and Services Tax (GST) and liquidity issues arising out of the NBFC crisis. Measures adopted by the government to help the sector, such as the AIF of INR 250 billion for completion of stalled projects were starting to infuse confidence in the sector. This was evident in the optimistic Sentiment Index Scores of the preceding quarter (Q4 2019). However, the sector is in severe crisis yet again as the revival of confidence has been dampened by the COVID 19 outbreak.

Due to a nationwide lockdown, on-going construction activity has come to a grinding halt which will lead to a further delay in completion of the on-going projects. The residential sector which was already adjusting to the structural reforms and reeling under

inventory overhang and lack of consumer confidence, is headed for an overall slump in demand. The affordable housing sector in particular, will be hit harder as a large number of buyers in this segment grapple with job losses and pay cuts.

The commercial office sector which was recording robust growth in the past few years, will also be adversely impacted by the COVID 19 crisis. With domestic and global businesses severely impacted, expansion plans may get deferred, which in turn will have a bearing on the office space demand. With discretionary spending going down, the retail sector too will be adversely impacted. There is also the likelihood of an increased shift to e-tailing at the cost of brick and mortar stores. Overall, the uncertain environment and ensuing deterioration of consumer sentiments will adversely impact demand in the real estate sector. Apart from poor demand, developers may also get hit by financing issues, as banks and NBFCs get risk averse.



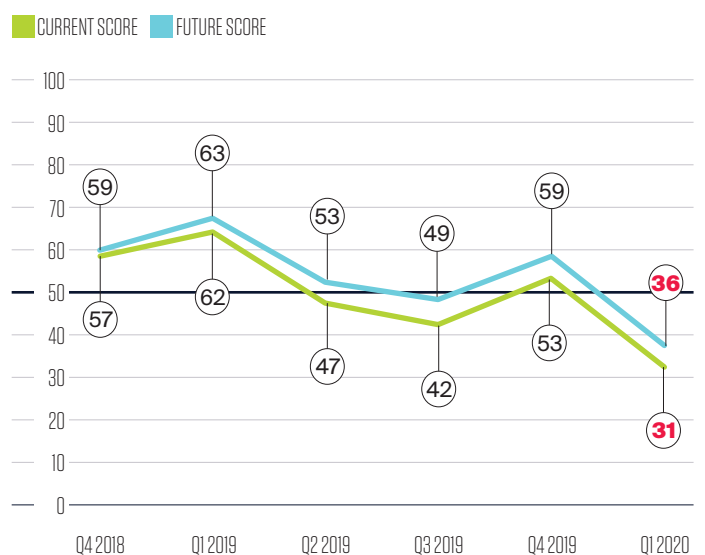
Sentiment Index Survey Findings

A. CURRENT SENTIMENT SCORE

- The current and future sentiment score have nosedived to the lowest levels in Q1 2020 in the wake of the ongoing COVID 19 outbreak.
- It is to be noted that the current sentiment score had revived in the fourth quarter of 2019 after being in the pessimistic zone (below 50 mark) for two consecutive quarters. The revival was however short-lived, as the current sentiment score has dropped to 31 in Q1 2020.
- The mood of the stakeholders as regards the overall economy and the real estate sector had been in the pessimistic zone in the second and third quarter of 2019 due to credit squeeze and overall economic slowdown. With the slew of measures announced by the government to revive the sector, the last quarter of 2019 infused confidence in the real estate market. The creation of a stressed asset fund (AIF) of INR 250 billion to provide last mile funding to stalled affordable housing projects was a welcome step in this direction. However, the COVID 19 outbreak has marred the stakeholder's sentiments.

COVID - 19 OUTBREAK DEPRESSES STAKEHOLDER SENTIMENTS

Score > 50: Optimism; Score = 50: Same/Neutral; Score < 50: Pessimism



Source Knight Frank Research

COVID 19 Impact on the overall Real Estate Sector



Residential

- With pay cuts and job losses, low and mid- priced segment would be hit the most
- For the high-priced segments, the buying decision might get deferred due to the sharp wealth erosion and poor consumer sentiments
- Prices to see a dip in the weak demand scenario



Office

- Current uncertainty and travel restrictions will result in transactions being deferred
- Rental growth witnessed in last few years will slow down for at least the next few quarters
- Demand for managed/furnished spaces or co-working spaces to increase as corporates may curtail capex



Warehousing

- Supply chain disruption to hit the warehousing segment
- Demand from auto and auto ancillary industry to drop significantly
- Given low consumer appetite to spend, demand from consumer discretionary segments will be hit severely
- Demand from e-commerce companies to increase significantly



Retail

- Occupiers may demand rent free periods to compensate for shutdown
 - De-growth in rents imminent
 - Developers to be severely hit by non-payment of rentals
 - Mall valuations will get compromised with rent defaults and rise in vacancy
-

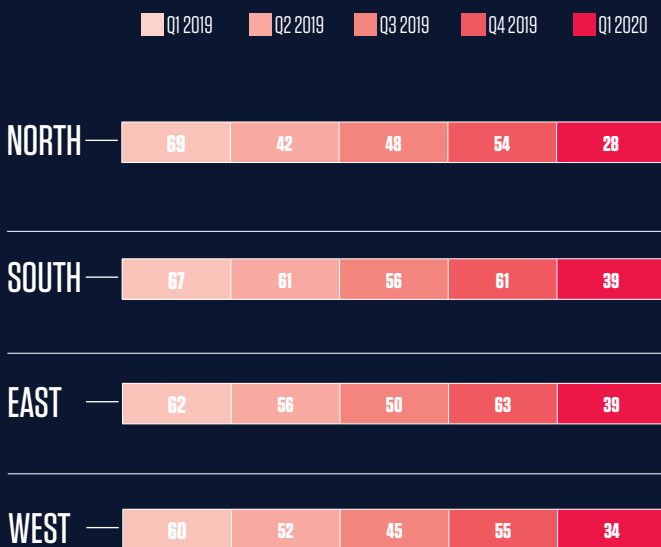
B FUTURE SENTIMENT SCORE

- Not only have the current sentiments dipped across parameters, but the looming uncertainty due to the pandemic has adversely impacted the stakeholder sentiments for the coming six months as well.
- The future sentiment score which had bounced back in Q4 2019 after being in the pessimistic zone in the third quarter of 2019 has fallen to 36 in Q1 2020.
- The lockdown will translate into a vicious sequence of stalled construction, delay in project deliveries, delay in loan repayments by buyers, delay in debt servicing to banks and an overall slump in demand due to the unease over job losses and salary cuts. All these factors have marred the future sentiment score of stakeholders.

B.1 ZONAL FUTURE SENTIMENT SCORE

NORTH AND WEST ZONE MOST WARY FOR THE FUTURE

SCORE>50: OPTIMISM | SCORE=50: SAME/NEUTRAL | SCORE<50: PESSIMISM



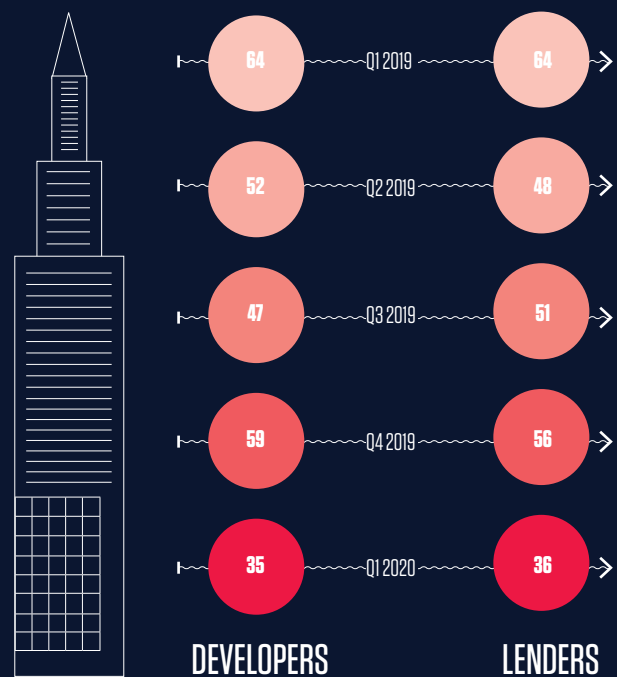
FINDINGS

- The future sentiment score for North had moved to the optimistic zone in the preceding quarter after being in the pessimistic zone for two consecutive quarters. However, in the wake of the pandemic, future sentiments of stakeholders for North nosedived to 28 – the lowest across parameters in Q1 2020.
- Similarly, future sentiment index for West has dropped to 34 in Q1 2020 after bouncing back to 55 in the preceding quarter.

B.2 STAKEHOLDER FUTURE SENTIMENT SCORE

DEVELOPERS AND LENDERS MIRROR GLOBAL CONCERNS ON ECONOMY AND THE REAL ESTATE SECTOR

SCORE>50: OPTIMISM | SCORE=50: SAME/NEUTRAL | SCORE<50: PESSIMISM



FINDINGS

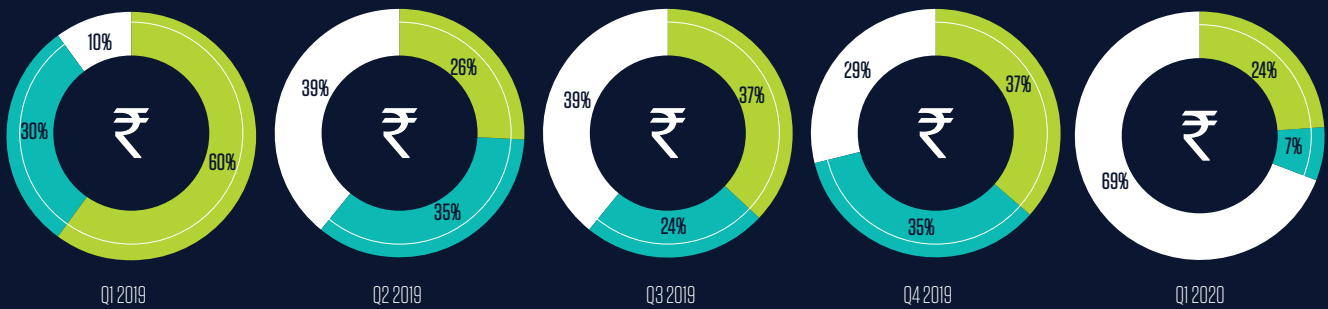
- Mirroring the global and domestic economic concerns, the real estate stakeholders' sentiments have dropped to new lows.
- The developer's sentiments as regards the sector had seen a boisterous revival (59) in the preceding quarter of Q4 2019 on the back of government interventions. However, due to the current pandemic, the developers' sentiments have dropped to the pessimistic zone for the coming six months.
- Sentiments of the financial institutions also moved to pessimistic zone, with a score of 36.

B.3 ECONOMIC OUTLOOK AND FUNDING SCENARIO

ECONOMY AT A STANDSTILL; FUNDING TO REMAIN DEPRESSED

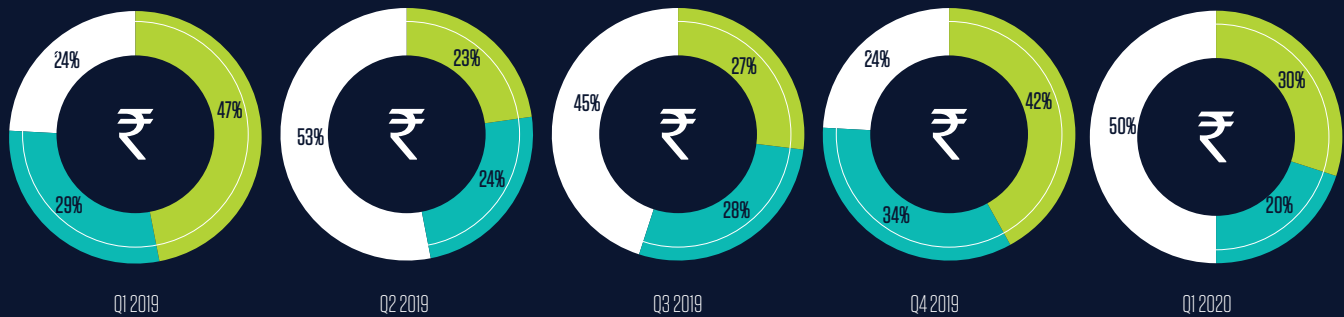
ECONOMY

BETTER SAME WORSE



FUNDING SCENARIO

BETTER SAME WORSE



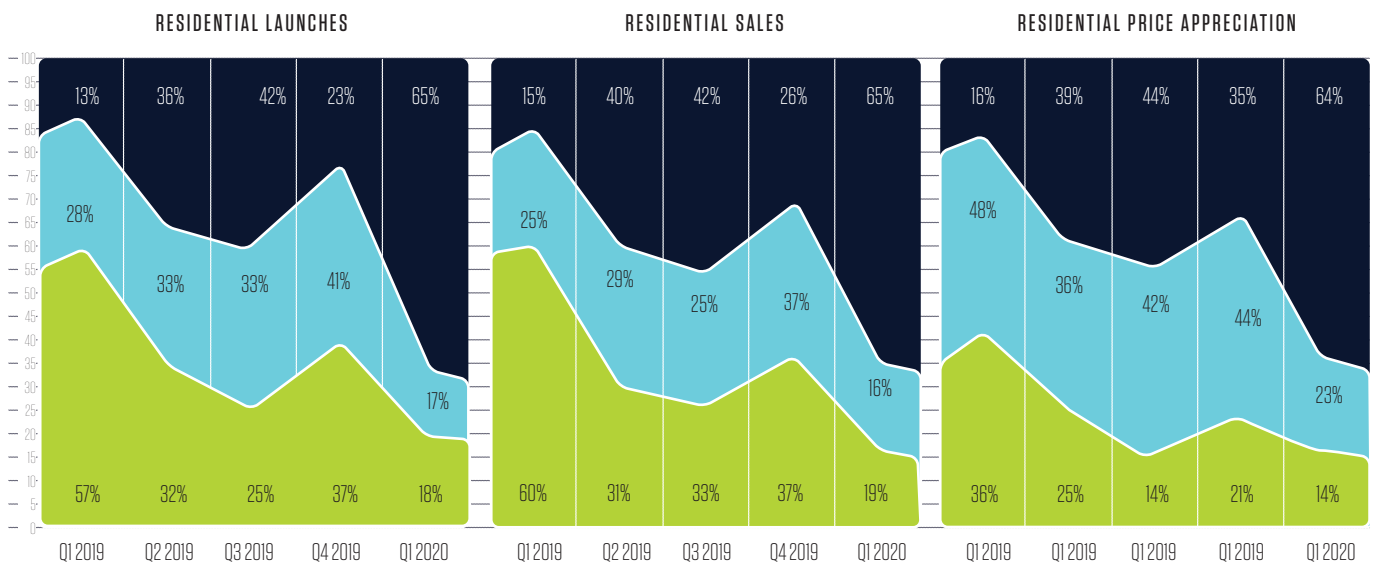
FINDINGS

- The stakeholders' sentiments as regards the economic scenario for the coming six months paint a dismal picture.
- 69% of the stakeholders opine that the overall economy is headed for a downward spiral.
- As far as funding is concerned, 80% of the stakeholders believe that the flow of funds to the sector might get worse or remain at the current levels in the coming six months.

B.4 RESIDENTIAL SECTOR OUTLOOK

RESIDENTIAL MARKET TO REMAIN STAGNANT POST SIGNS OF REVIVAL IN THE PRECEDING QUARTER

BETTER SAME WORSE



Source Knight Frank Research

- After regaining a positive outlook regards the sector in the preceding quarter, the sentiments for the residential sector dipped across parameters of new launches, sales and price. More that 60% of the stakeholders have opined that the current COVID-19 situation will adversely impact the new launches, sales and prices in the coming six months.
- The residential sector, which already had concerns of weak demand, will find it difficult to launch new projects and complete the ongoing ones due to construction halts and labour shortage.
- The slew of measures announced by the government like AIF for last mile funding of affordable housing, rationalisation of GST rates, liquidity support to HFCs and NBFCs were desirable steps to revive the sector. However, in the current situation, further stimulus measures will be required to revive the sentiments and invigorate demand.

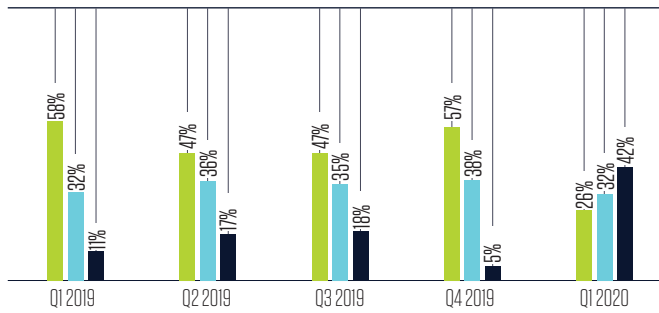


B.5 OFFICE MARKET OUTLOOK

OFFICE GROWTH DERAILS

NEW OFFICE SUPPLY

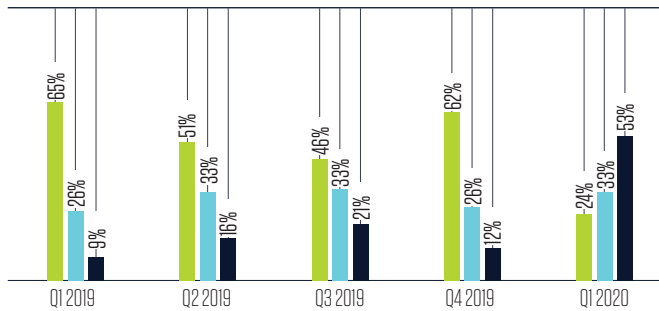
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Source Knight Frank Research

LEASING VOLUME

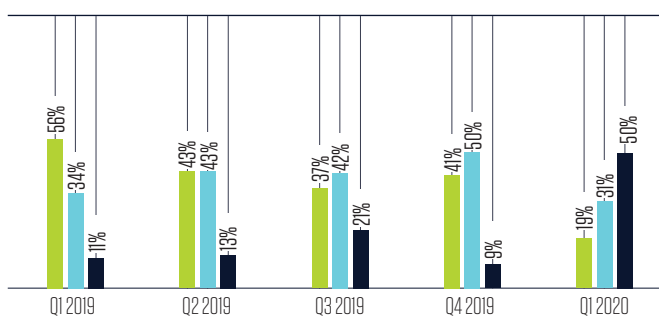
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Source Knight Frank Research

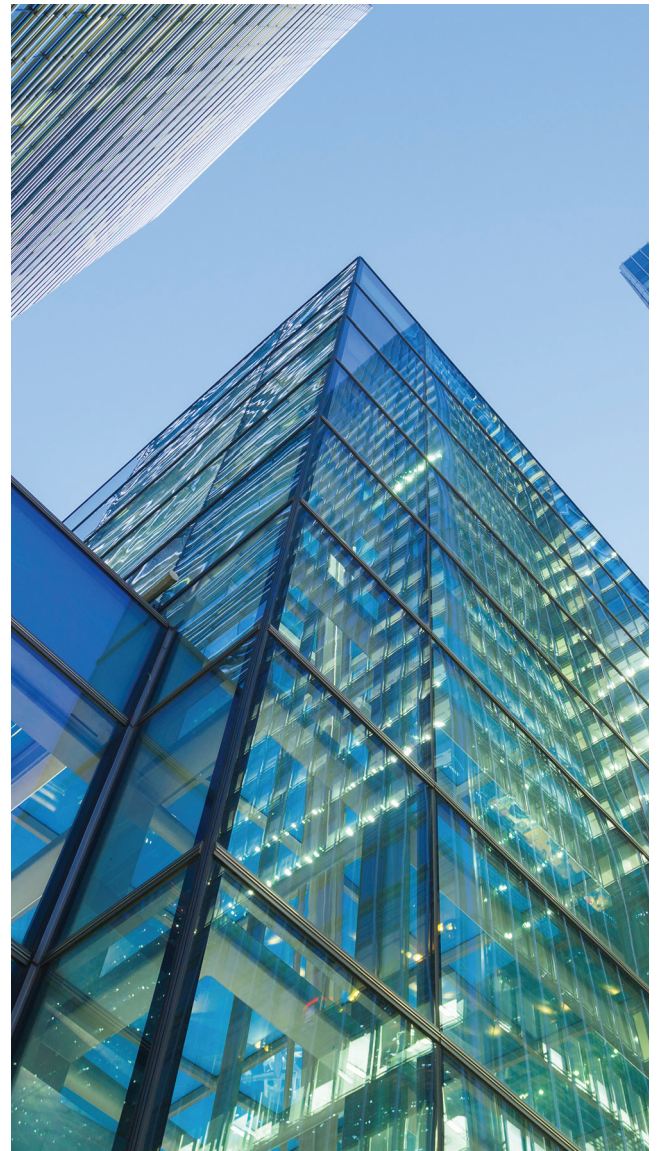
OFFICE RENTAL APPRECIATION

BETTER SAME WORSE



Source Knight Frank Research

- The office market has not remained untouched in the current grim scenario. Outlook regarding the office market for the coming six months has slid as economic activities come to a standstill. It is to be noted that the office market had clocked an all-time high transaction of 5.6 mn sq m (60.6 mn sq ft) in 2019, signalling the robustness of the market.
- However, in the current situation, more than 50% of the respondents feel that leasing volume will get worse in the coming six months and the rentals will come under pressure.



Policy measures required to support the real estate sector

- Banks and NBFCs should be allowed one time restructuring of developer loans
- RBI should also give banks relaxation in bad-debt classification for six months to minimize bad loans in their balance sheets
- Stressed asset fund (AIF) quantum needs to be enhanced to INR 500 billion and its scope increased to include commercial projects as well
- Stamp duty should be removed temporarily
- GST for most distressed sectors like real estate should be waived off/reduced for a year
- Direct banks to lend more to NBFCs so that they can lend to sectors like real estate and MSMEs
- Higher tax benefits to be provided under the Income Tax Act for consumption of real estate products whether purchase or renting of premises

Concluding Remarks

In a nutshell, the survey findings for Q1 2020 (January – March) echo the domestic and global concerns on the COVID 19 crisis. The lack of clarity on the timeline for containment of this pandemic has further severely impacted sentiments for the real estate sector and for the economy as a whole. The government and the Central Bank have taken a number of measures to alleviate the concerns of the economy and there are expectations of more stimulus measures to revive the economy. However, after the COVID 19 virus spread is contained, the economy and real estate sector may take six months to one year take time to bounce back.

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