RESEARCH



31st edition

KNIGHT FRANK-FICCI-NAREDCO

Real Estate Sentiment Index

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Q4 2021 (OCTOBER-DECEMBER 2021)

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 players in order to gauge the sentiment of the real estate market.

Your partners in property for 125 years

FOREWORD



Shishir Baijal
Chairman and Managing Director
Knight Frank India

Just a year after the pandemic arrived in India, we were hit by the deadly Delta variant of the coronavirus in the summer of 2021. Even before an accelerated pace of economic recovery could become a reality, the Omicron variant induced third wave is here. The economic, social and human cost of the pandemic has been very high. Yet, with each passing wave, the economic resilience has only increased. Businesses and consumers have adapted better to these disruptions and this reflects in India's 9.2% growth estimate for Gross Domestic Product (GDP) in 2021-22.

With Europe preparing for a 'flu' like approach towards dealing with the virus and China extending a dynamic zero COVID policy, there is hope for a better 2022. In India, the mass inoculation drive has now been extended to the age group of 15-18 years and booster shots for senior citizens are the new public health initiatives that are under way. The environment is dynamic and the economy and real estate sector are better prepared today to deal with the Omicron inflicted risks. With graded and localized restrictions, mobility is not stifled this time compared to the previous two waves. The current pandemic picture gives hope that economic activity will not be stalled this time.

As before, the Reserve Bank of India (RBI) has kept the repo rate unchanged for the ninth consecutive time in its bi-monthly meeting in December 2021 and maintained its stance to support growth. The growth witnessed in housing sales in 2021 and demand bounceback in the office sector should continue steadily in 2022. Though many corporates are forced to delay their plans to return to office, strategic office space sign-ups strengthen the outlook for office assets.

The current edition of our Sentiment Index Report for Q4 2021 (October-December 2021) captures the stakeholder sentiments in the backdrop of the third wave. In Q4 2021, the Current Sentiment Score touched a new high of 65 – the best ever, inching up from 63 recorded in Q3 2021. However, as the Omicron variant's impact is yet to be discerned on economic indicators and real estate, the stakeholders remain prudent about how the next six months will take shape. The Future Sentiment score remains in the optimistic zone but has dipped from 72 in Q3 2021 to 60 in Q4 2021.

I hope you find the 31st edition of Knight Frank-FICCI-NAREDCO Real Estate Sentiment Index a valuable tool in understanding the current and future outlook of the real estate sector.

I thank all the industry participants for taking the survey and sharing their market insights.

My best wishes to all of you for a healthy 2022. Stay safe.

PARTNERS' TAKE ON THE SECTOR



Mr. Sanjay Dutt
Joint Chairman – FICCI Real Estate Committee
Managing Director & Chief Executive Officer – Tata Realty & Infrastructure Ltd.

2020 and 2021 can be coined as historic years for real estate. While the pandemic disrupted the sector globally, it also presented an opportunity to take a step back and put in place building blocks for long-term sustainable growth. The commercial real estate is now focused on wellness besides sustainability & optimisation. It is now a hybrid work environment. The homes are now all about liveability supported by workability. With housing affordability in India at its decadal best, residential sales registered 59% growth. On the commercial side, leasing activity is again ramping up due to robust underlying demand from IT/ITES and global MNCs, augmented by a surge in smart cities and CBDs. As we deal with each wave more confidently, I am sure that we are on the cusp of a very exciting and unprecedented cycle of real estate growth.



Mr. Rajan Bandelkar
President, NAREDCO India and
Director, Raunak Group

The Knight Frank-FICCI-NAREDCO Real Estate Sentiment Index has been a very true reflection of the actual consumer sentiment and how the market performs. I am very glad to see that the Current Sentiment score has increased from 63 in Q3 2021 to 65 in Q4 2021 which is indicative of the steady revival that the real estate sector has observed in the year 2021. The Covid scenario globally is improving, and countries are getting better at dealing with it. The same is being observed in India also. We are currently in the third wave of Covid, which has definitely impacted the Future Sentiment score with a dip from 72 in Q3 2021 to 60 in Q4 2021. However, I must add that it still remains in the optimistic zone and is temporary and will inch back up soon. I thank the Government for its constant efforts towards revival of the economy. It has certainly boosted the demand and that reflects optimistically in the zonal scores and stakeholders' take on the sector. We plan to carry forward the momentum from last year and intend to make 2022 a benchmark year for the real estate sector.

APPROACH & METHODOLOGY



The Real Estate Sentiment Index is based on a quarterly survey of key supply-side stakeholders which include developers and non-developers, i.e., financial institutions including banks, Non-Banking Financial Companies (NBFCs) and private equity (PE) funds. The survey comprises questions pertaining to the overall economic momentum, funding availability, project launches, sales volume, leasing volume, prices and rents. For each of the questions, respondents choose from the following options for which weightage has been assigned as follows: a) Increase/Increased (100 points), b) Somewhat Increase/ Somewhat Increased (75 points), c) Same (50 points), d) Somewhat Decrease/Somewhat Decreased (25 points), and e) Decrease/ Decreased (0 points). The Index is determined by calculating the weighted average score of the number of responses in each of these categories, across questions.

A score of 50 represents a neutral view or status quo; a score above 50 demonstrates a positive sentiment; and a score below 50 indicates a 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 Current Sentiment Index that indicates the respondents' assessment of the present scenario compared to six months back, and the Future Sentiment Index that represents their expectations for the next six months.

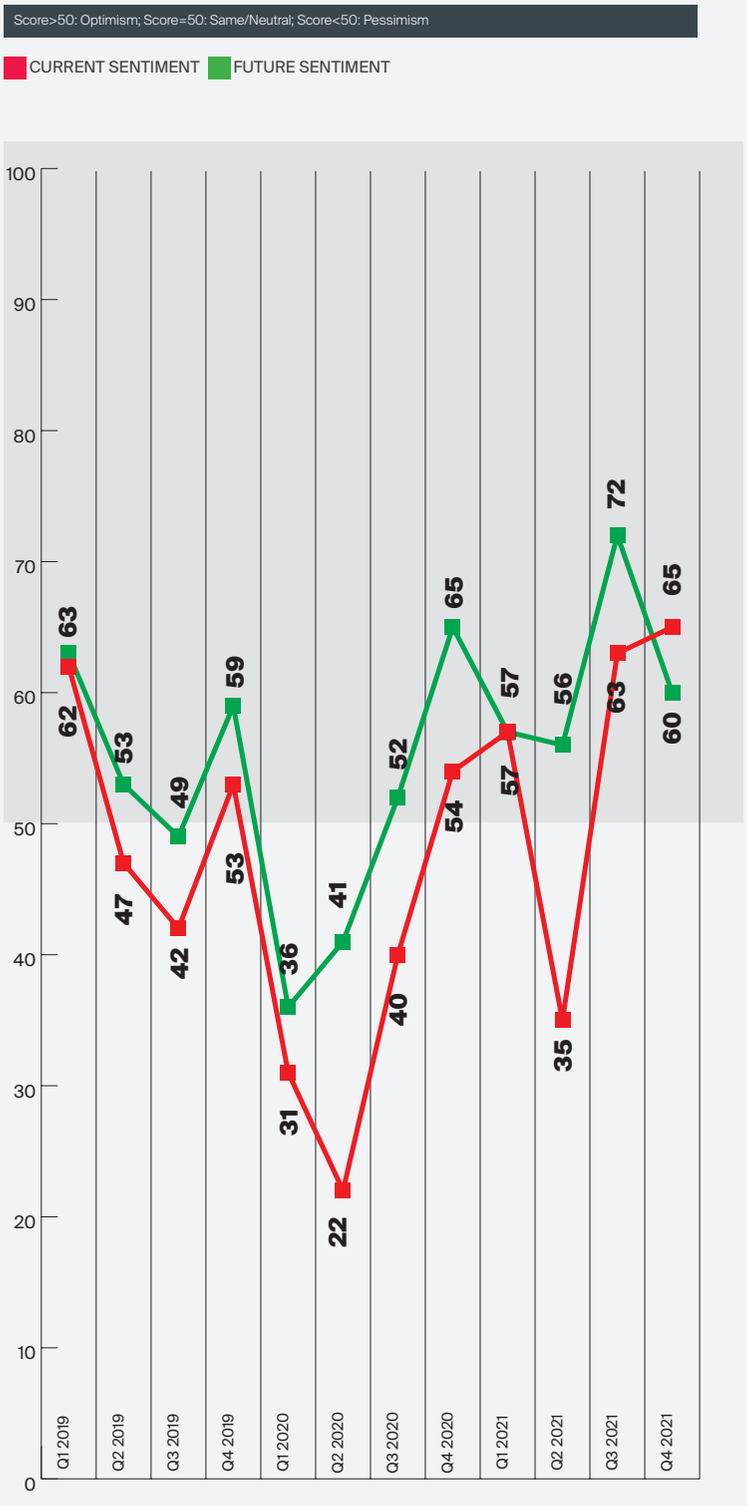
Section B focuses on the analysis of future sentiments of the stakeholders on different aspects such as the geography of stakeholders, stakeholder type (developer/non-developer), outlook specific to the residential and office markets, and outlook on the economy and funding scenario at large.

This survey edition is for the period October - December 2021 i.e., Q4 2021 and was conducted from 21st December 2021 to 7th January 2022.

SENTIMENT INDEX SURVEY FINDINGS

SECTION A: OVERALL SENTIMENT SCORE

CURRENT SENTIMENT AT A NEW HIGH, FUTURE OUTLOOK SLIDES DOWN



Source: Knight Frank Research

A.1. CURRENT SENTIMENT SCORE

- The Current Sentiment score signifies stakeholders' current outlook in comparison to six months back. This score has inched up from 63 in Q3 2021 to 65 in Q4 2021, as the Indian economy started recovering resiliently from the second wave of the pandemic. The current sentiment score has reached a new high since the inception of the Index eight years ago and is marginally higher than the score achieved in Q3 2021.
- Compared to six months ago, there is reduced economic uncertainty, and consumption in the real estate sector was sustained during this period. This has led to an improvement in market sentiments amongst stakeholders. The Current Sentiment score of 65 is the highest ever, surpassing the previous high of 63 – achieved in both Q3 2014 and Q3 2021.

A.2. FUTURE SENTIMENT SCORE

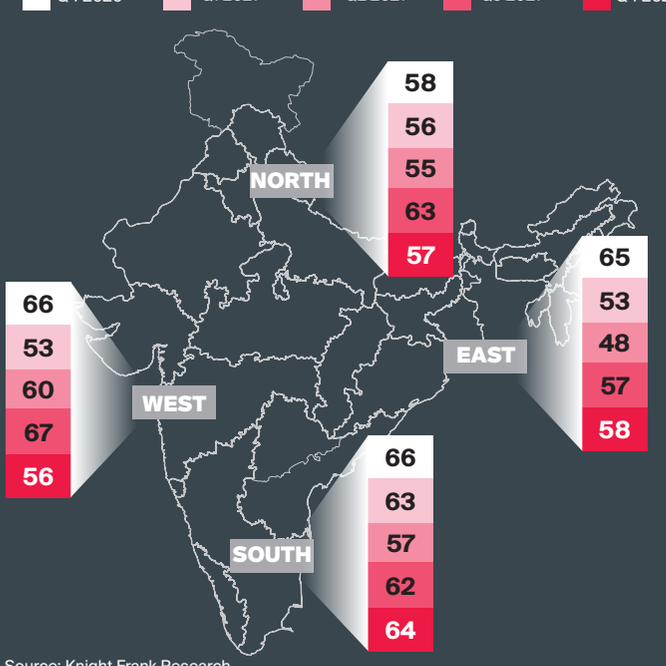
- The Future Sentiment score captures stakeholder outlook of the real estate sector for the next six months. The Future Sentiment score remains in the optimistic zone but has dipped from its all-time high of 72 in Q3 2021 to 60 in Q4 2021. The outlook of stakeholders reflects prudent optimism as the Omicron inflicted risk to the Indian economy is yet to be discerned.
- The Future Sentiment Score has fallen below the Current Sentiment Score for the first time in the history of the index as fear of restrictions due to the Omicron variant in December 2021 led to a cautious outlook for the future, mainly towards residential real estate supply and prices.

SECTION B: FUTURE SENTIMENTS

B.1. ZONAL FUTURE SENTIMENT SCORE

FUTURE SENTIMENT INCHES UP IN SOUTH AND EAST ZONES

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



Source: Knight Frank Research

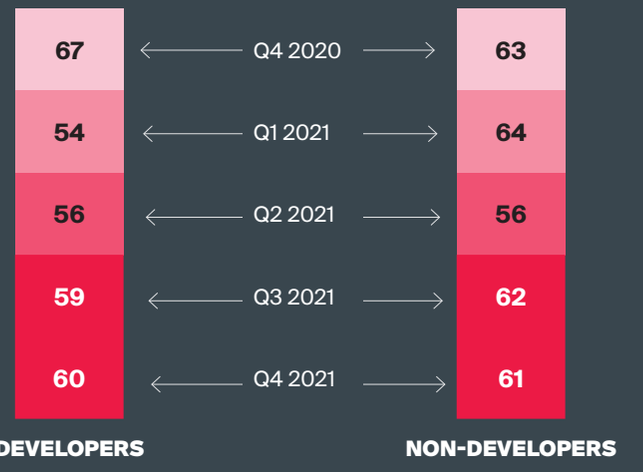
FINDINGS

- Demand resurgence in India's real estate sector has led to near pre-pandemic volume of transactions being achieved in most key Indian markets for the residential sector in 2021. As the current restrictions are less stringent compared to earlier waves, the present-day pandemic picture gives confidence to stakeholders across regions.
- The Future Sentiment score for South Zone has increased from 62 in Q3 2021 to 64 in Q4 2021 as key Southern markets recorded good traction in both office and residential sectors. Despite Omicron related concerns in December 2021, stakeholders remain hopeful of the future as they perceive a reduced impact of the restrictions on the real estate sector and economy this time around.
- Similarly, for the East Zone, the score has inched up from 57 in Q3 2021 to 58 in Q4 2021 as a stellar performance of the residential sector in 2021 and the extension of stamp duty cut in West Bengal kept stakeholders optimistic for the next six months.
- The other zones – North and West – maintained their optimistic position with a score of 57 and 56 respectively. As the Omicron variant related risks are unfolding, the stakeholders in these zones remain optimistic, yet prudent about the next six months.

B.2. STAKEHOLDER FUTURE SENTIMENT SCORE

DEVELOPER SENTIMENT INCHES UP; NON-DEVELOPERS MAINTAIN GUARDED OUTLOOK

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



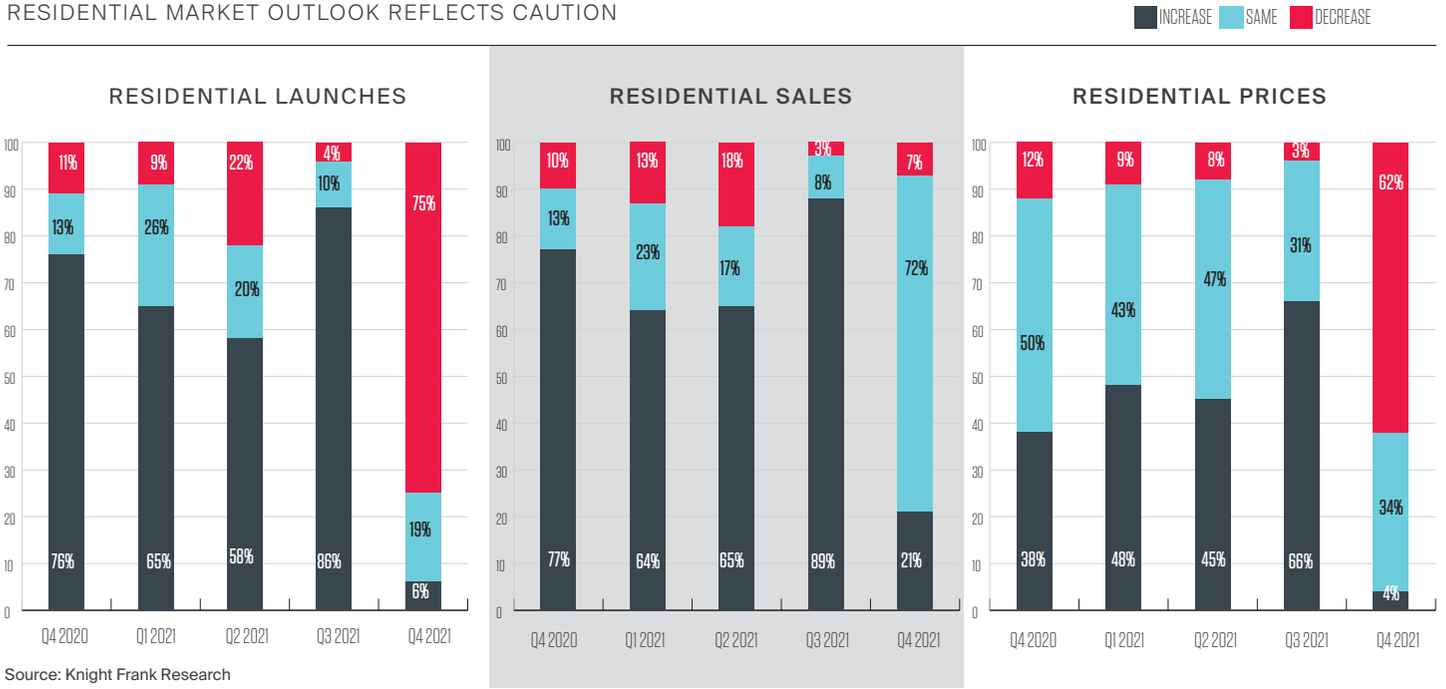
Source: Knight Frank Research
Note: Non-developers include banks, financial institutions and PE funds

FINDINGS

- In line with the trends witnessed in the past 1.5 years, the future outlook of both developers and non-developers (includes banks, financial institutions and PE funds) continues to remain in the optimistic zone in Q4 2021.
- Developer Future Sentiment score has improved marginally from 59 in Q3 2021 to 60 in Q4 2021. This is due to the fact that the sector itself is witnessing growth and the long-term fundamentals of the realty business remain intact. Hence, developers see a reduced impact of the third wave on their business in the next six months.
- Non-Developer (which include banks, financial institutions, PE funds) Future Sentiment score has inched down marginally from 62 in Q3 2021 to 61 in Q4 2021. While good demand conditions prevail for the real estate sector, institutional investors are adopting a cautious approach for the next six months in the wake of the uncertainty arising from Omicron and third wave developments.

B.3 RESIDENTIAL MARKET OUTLOOK

RESIDENTIAL MARKET OUTLOOK REFLECTS CAUTION



Source: Knight Frank Research

FINDINGS

- The improved homebuyer perception on safety and security provided by home ownership has played a key role in the residential real estate recovery during the pandemic. Pent-up demand coupled with suitable policy interventions have led to a surge in housing sales in 2021. Towards the end of the year, we also saw the momentum in new launches come back. Unlike other countries, where a mini housing boom led to a steep increase in prices, the same has not been witnessed in India and prices are largely stable.
- In Q4 2021, 72% of the survey respondents expect residential sales to remain stable in the next six months. If the third wave and fear of infections would not have come up, stakeholder sentiments may have been more upbeat about the next six months.
- Residential market outlook in Q4 2021 reflects caution for future as stakeholders remained downbeat on residential launches and pricing. 75% of the stakeholders fear residential supply may decrease in the next six months due to the Omicron virus related disruptions. In Q3 2021, only 4% had opined the same.
- 62% of the Q4 2021 survey respondents expect residential prices to decrease in the next six months. During Q3 2021, only 3% of the survey respondents had a similar take. At a time when the residential price increase was coming to the fore, the ongoing third wave disturbances have impacted stakeholder sentiments.

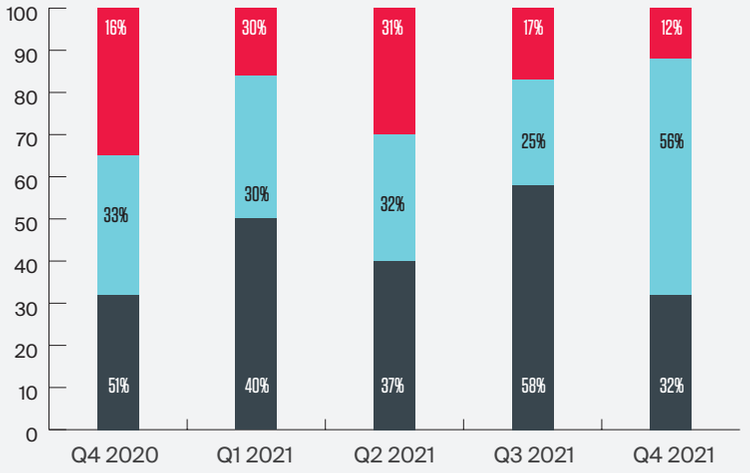


B.4 OFFICE MARKET OUTLOOK

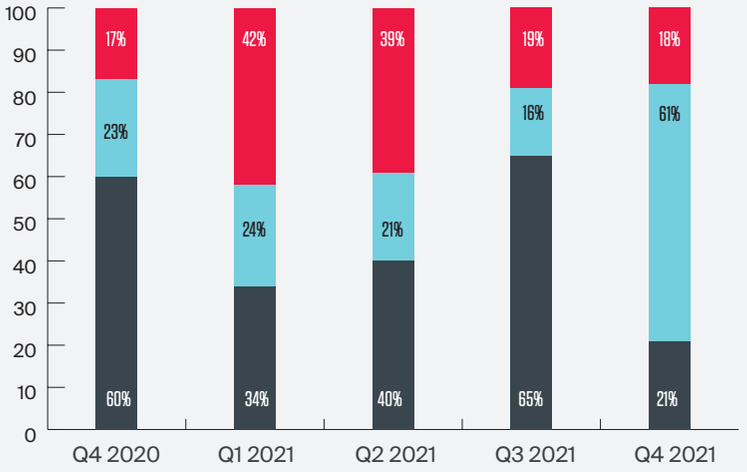
OFFICE MARKET OUTLOOK STEADY

INCREASE SAME DECREASE

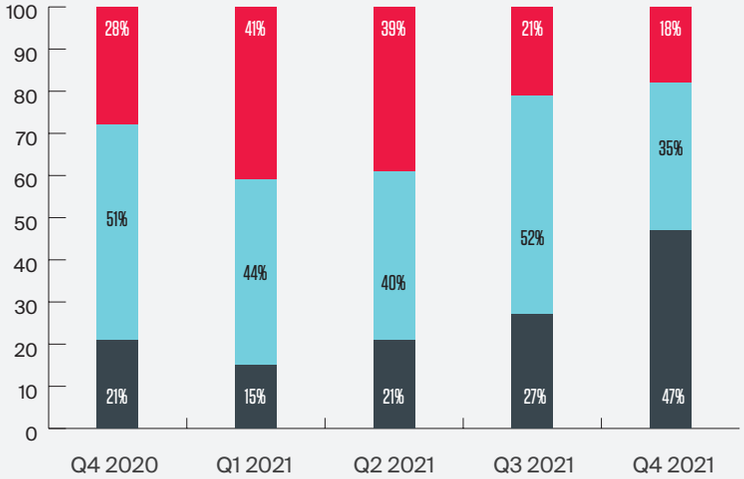
NEW OFFICE SUPPLY



OFFICE LEASING



OFFICE RENTS



Source: Knight Frank Research

FINDINGS

- Stakeholder sentiments for leasing, supply and rents in Q4 2021 have also undergone a change. Though the planned return to office by many companies has been delayed, stakeholders remain optimistic yet guarded in their outlook for the next six months.
- Despite four months of active business being lost in 2021, the office sector transacted volumes similar to 2020. 61% respondents in Q4 2021 felt that office leasing will maintain a similar volume in the next six months, despite the Omicron impact as mobility restrictions will be graded and less severe compared to the past.
- Stakeholder outlook for office rents has improved in Q4 2021. Compared to Q3 2021 – when 27% respondents felt office rents may increase in next months – this time, 47% respondents opined the same. This is the only quarter in the past one year when such a huge percentage of respondents have expressed a strengthening outlook towards office rents.
- In terms of new office supply, 88% of the Q4 2021 survey respondents expect that new office supply will either remain same or increase over the next six months. In Q3 2021, 83% of the survey respondents had expected the same.

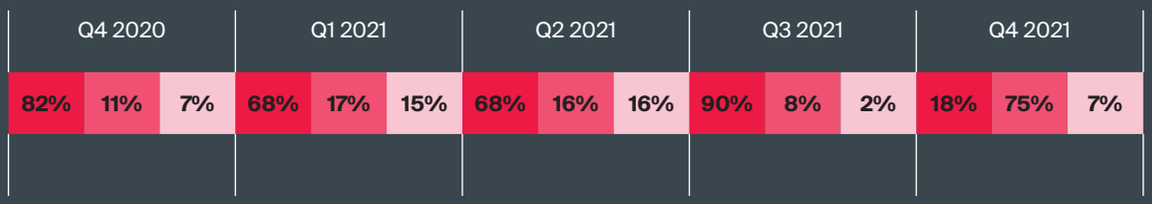


B.5. ECONOMIC SCENARIO AND AVAILABILITY OF FUNDING

ECONOMIC OUTLOOK AND FUNDING AVAILABILITY SENTIMENT STEADFAST

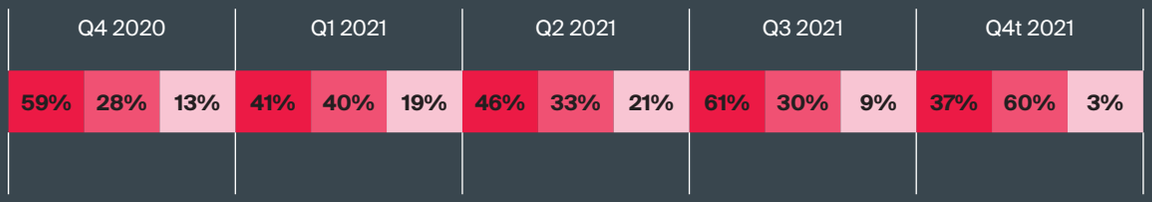
OVERALL ECONOMIC MOMENTUM





AVAILABILITY OF FUNDING





Source: Knight Frank Research

FINDINGS

- As per the advanced estimates of National Income 2021-22[1] , the growth in real Gross Domestic Product (GDP) during 2021-22 is estimated at 9.2%[2] . While India still remains the world's fastest growing economy, inflationary pressures continue due to supply side constraints. India's Consumer Price Index (CPI) based inflation rose to 5.59% in December compared to 4.91% in November 2021[3].
- As the current scenario evolves, 75% of survey respondents in Q4 2021 expect the overall economic momentum to remain the same in the next six months. Compared to Q3 2021, there is cautious optimism in the stakeholder view this time as the Omicron variant's impact is yet to be felt on economic indicators.
- Due to demand consolidation, there is better credit availability for listed players in the real estate sector, and many have witnessed an increase in their market share in the current fiscal year. The stakeholder outlook remains steady in Q4 2021. 60% of the survey respondents expect the credit situation to remain the same in the next six months, while 37% expect it to increase in this period.

CONCLUDING REMARKS

The arrival of the third wave of the pandemic, that too, at a time when the real estate sector's demand was accelerating has adversely impacted future sentiments of the stakeholders. However, the real estate players are better prepared in terms of technology and operational resilience to tackle these pandemic induced hiccups. With a surge in COVID-19 cases and economic uncertainty due to the new Omicron variant, the real estate stakeholders remain cautiously optimistic.

[1]National Statistical Office (NSO)
[2]Press note – First Advance Estimates of National Income 2021-22, MOSPI, January 7th, 2022
[3]Press note – Consumer Price Index Numbers for the Month of December 2021, MOSPI, January 12th, 2022

Your partners in property for 125 years

Knight Frank

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Divya Agarwal
Vice President - Research
divya.agarwal@in.knightfrank.com

Vivek Rathi
Director - Research
vivek.rathi@in.knightfrank.com

Rajani Sinha
Chief Economist & National Director - Research
rajani.sinha@in.knightfrank.com

FICCI

Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence, its industrialization, and its emergence as one of the most rapidly growing global economies.

A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry. From influencing policy to encouraging debate, engaging with policy makers and civil society, FICCI articulates the views and concerns of industry. It serves its members from the Indian private and public corporate sectors and multinational companies, drawing its strength from diverse regional chambers of commerce and industry across states, reaching out to over 2,50,000 companies.

FICCI provides a platform for networking and consensus building within and across sectors and is the first port of call for Indian industry, policy makers and the international business community.

For more information on FICCI, contact:

Neerja Singh
Senior Director – Infrastructure
neerja.singh@ficci.com

Sachin Sharma
Senior Asst. Director –
Real Estate, Urban Development & Smart Cities
sachin.sharma@ficci.com

Shaily Agarwal
Senior Asst. Director –
Real Estate, Urban Development & Smart Cities
shaily.agarwal@ficci.com

NAREDCO

National Real Estate Development Council ("NAREDCO") is established as an autonomous self-regulatory body in 1998 under the aegis of Ministry of Housing and Urban Affairs, Govt. of India; with the mandate to (a) induce transparency and ethics in real estate business and transform the unorganized Indian real estate sector into a matured and globally competitive business sector, and (b) create and sustain an environment conducive to the growth of real estate industry in India, partnering industry and government alike through advisory and consultative processes. It is hailed as the apex national body for the real estate industry and have been working as a single platform where Government, industry and public would discuss various problems and opportunities face to face which would result in speedy resolution of issues.

The National Real Estate Development Council strives to be the collective force influencing and shaping the real estate industry. It seeks to be the leading advocate of developing standards for efficient, effective, and ethical real estate business practices, valued by all stakeholders of real estate sector and viewed by them as crucial to their success. NAREDCO works to create and sustain an environment conducive to the growth of real estate industry in India, partnering industry and government alike through advisory and consultative processes.

NAREDCO's mission is to improve the confidence level of the Real Estate stakeholders across the value chain by bringing in professional practices. One of the highly professional methods is to develop an index to assess the market sentiment in order to enhance the confidence levels of lenders, investors and consumers while making lending and / or investment decisions. NAREDCO has partnered with Knight Frank and FICCI to publish a quarterly Real Estate Sentiment Index to fulfil this endeavour.

Rajesh Goel
Director General
naredco@naredco.in

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