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REAL ESTATE SENTIMENT INDEX

Q1 2017 (JANUARY–MARCH 2017)

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

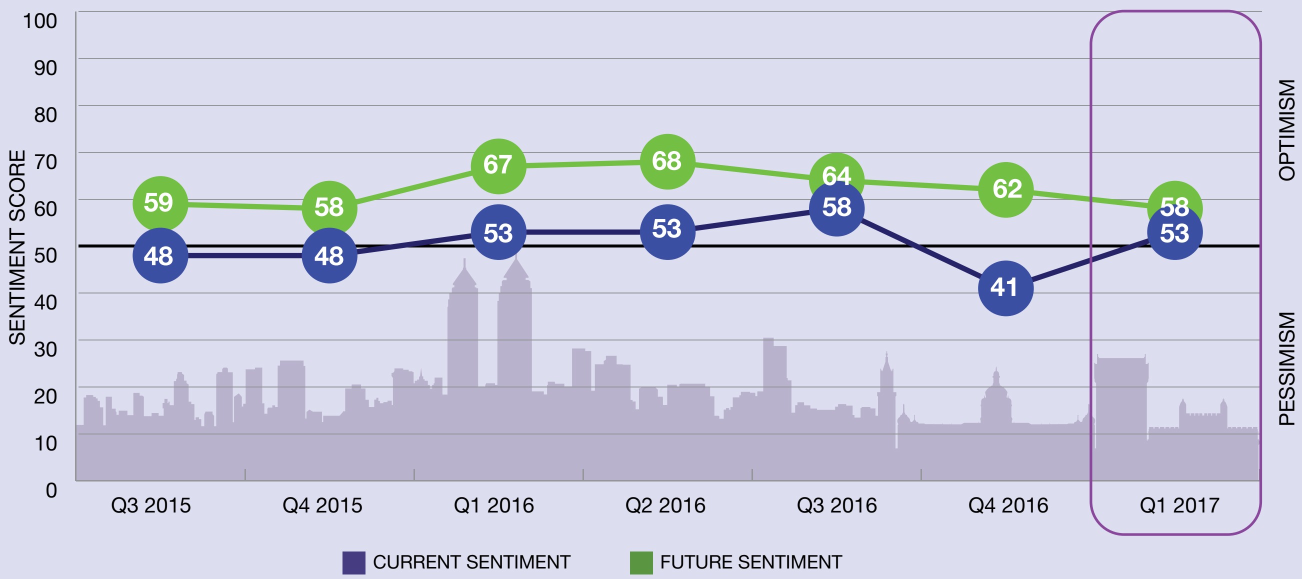
APPROACH

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 analyses and focuses only on the future sentiments of the stakeholders. This survey was conducted from January–March 2017.

SECTION A - OVERALL CURRENT AND FUTURE SENTIMENT

THE UPTICK IN CURRENT SENTIMENTS COULD HERALD A RECOVERY IN THE REAL ESTATE MARKET; LACK OF CLARITY MARS FUTURE OUTLOOK



FINDINGS

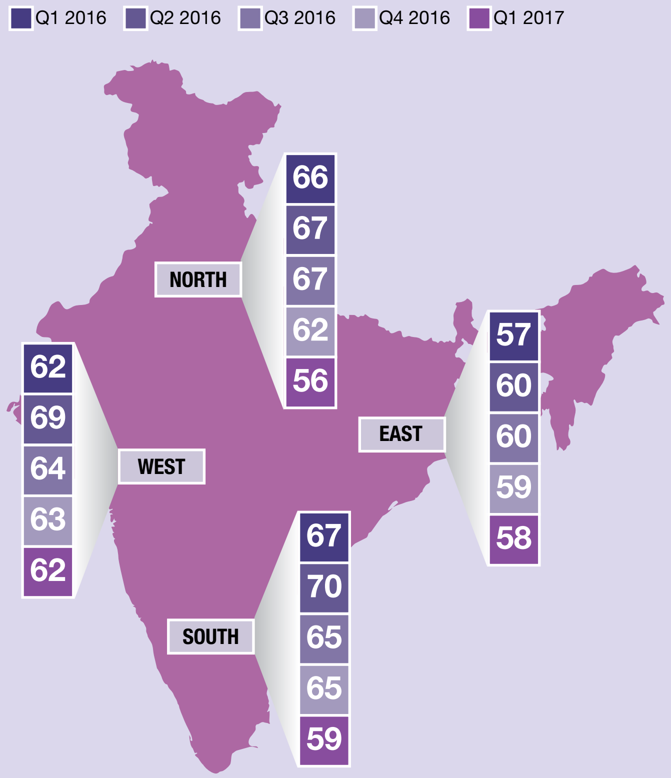
- Post the policy intervention by the Government of India in November 2016 that shook the real estate sector, the current sentiment score (53) has seen a substantial uptick from the drastic fall seen in Q4 2016 that had pushed the score to 41, which is the worst in the last three years. This substantiates the transitory impact of the demonetisation policy initiative. However, in a YoY comparison, the current score has seen no improvement. 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.
- Though the future sentiment score has been on a constant decline since Q3 2016, the respondents are still showing positivism in sentiments for the next six months. This fall in sentiment score can be attributed to the lack of lucidity of various policy initiatives of the government. The future score of 58 for Q1 2017 though reflects a positive sentiment, but it is below the Q4 2016 score of 62. This conveys that the stakeholders are not very clear about the ultimate impact of the changing environment, largely because of policy interventions like Real Estate (Regulation & Development) Act, 2016 (RERA) and Benami Transactions (Prohibition) Amendment Act, 2016 and Goods and Services Tax (GST)

SECTION B - FUTURE SENTIMENTS

ZONAL SENTIMENT SCORE

WEST ZONE HOLDS ON TO SENTIMENTS; OTHERS SLIP

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



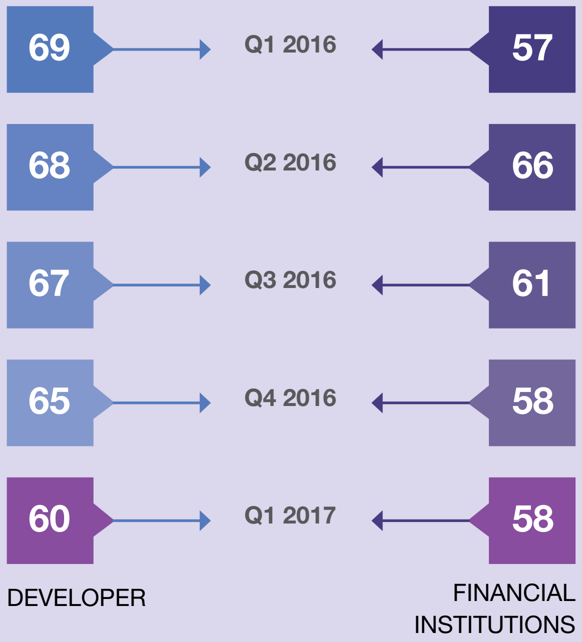
FINDINGS

- All the zones, barring West, show a de-growth in sentiments in Q1 2017. This optimism comes from the fact that Maharashtra, being one of the largest states in the west, is the front runner in putting systems and processes in place for RERA, which in turn has uplifted zonal sentiments towards the future.

STAKEHOLDER SENTIMENT SCORE

WAIT-AND-WATCH MODE SLIGHTLY PULLS DOWN DEVELOPERS' SENTIMENTS

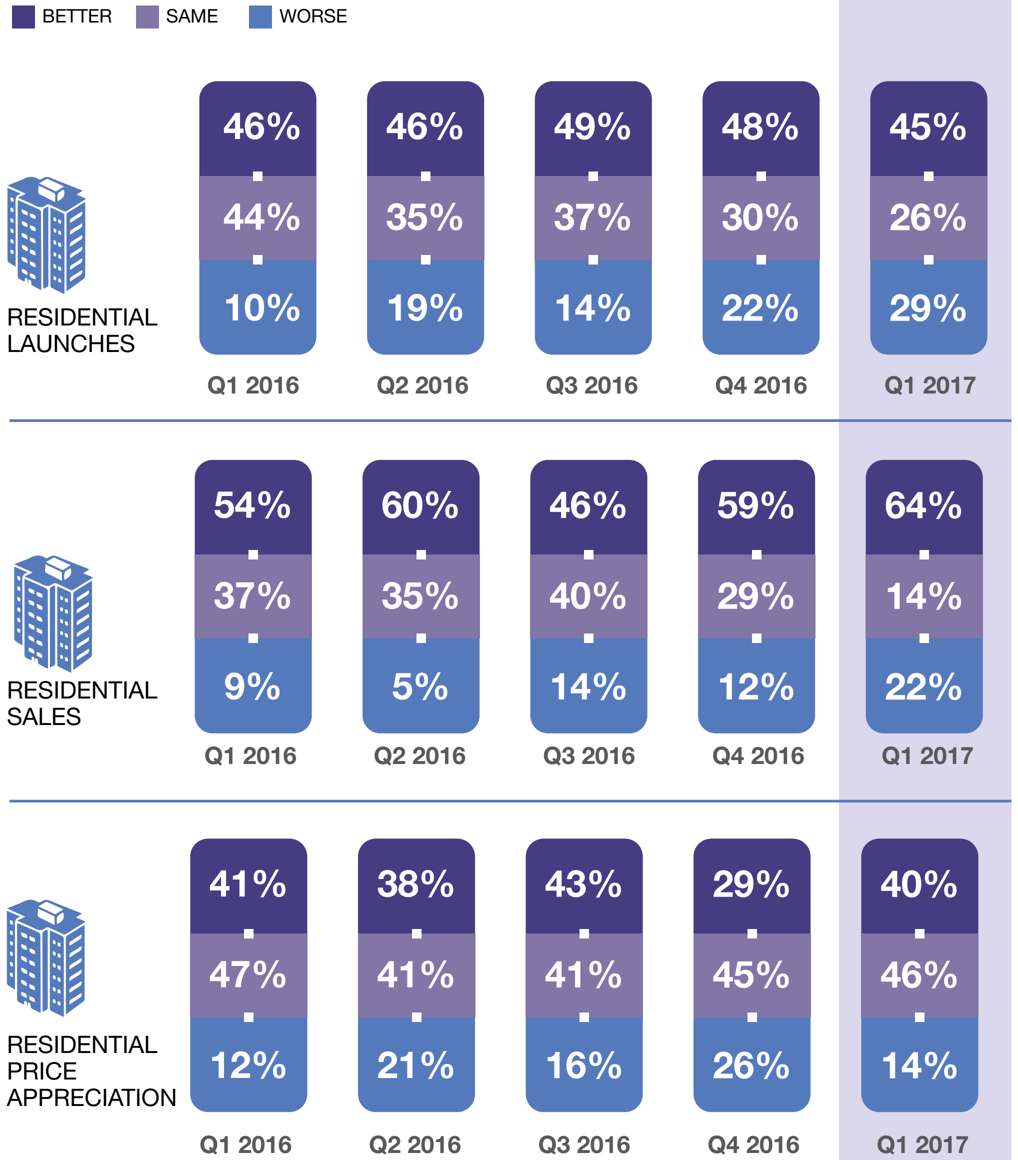
SCORE>50: Optimism SCORE=50: Same/Neutral
SCORE<50: Pessimism



FINDINGS

- Both, the developer and financial institutions, have a positive outlook for the future with their scores pegged above 50. However, the lack of clarity on recent developments such as slackening of price growth and adjustments to the new norms laid out in the RERA guidelines, have adversely impacted the developers' sentiments, leading to a drop in their scores in Q1 2017. Financial institutions on the other hand register a slight uptick in sentiments in the first half of 2017, which can be attributed to the increasing transparency in the real estate sector through various policy measures that in turn will give a boost to the lending scenario.

RESIDENTIAL SECTOR FIGHTING HARD TO STAY AFLOAT

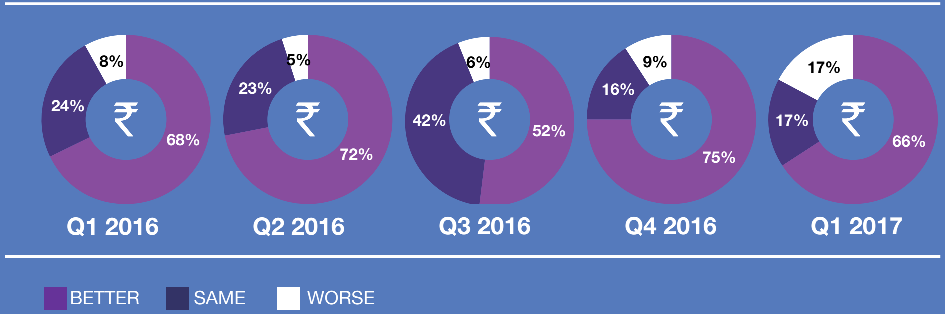


FINDINGS

- The residential sector is going through a difficult phase, and the stakeholder sentiments reflect the same. Developers today are unclear on the processes and systems of the RERA guidelines and will take time to accordingly recalibrate their businesses.
- There is a striking recovery in the sentiments of residential sales in Q1 2017. At the highest in nearly two and a half years, 64% of the stakeholders are of the view that residential sales are going to improve in the coming six months. Reasons such as increasing transparency in the sector, lower interest rates (banks have already started to slash home loan rates), attractive prices and a robust economic outlook, altogether have uplifted the sentiments of the market.
- In contrast to this, the Q1 2017 survey reveals that 60% of the stakeholders are not too optimistic on the residential price appreciation in the real estate sector in the coming six months. Huge inventory along with slow sales velocity, are some of the major reasons for this stagnation in prices.

OPTIMISM REIGNS OVER FUNDING SCENARIO

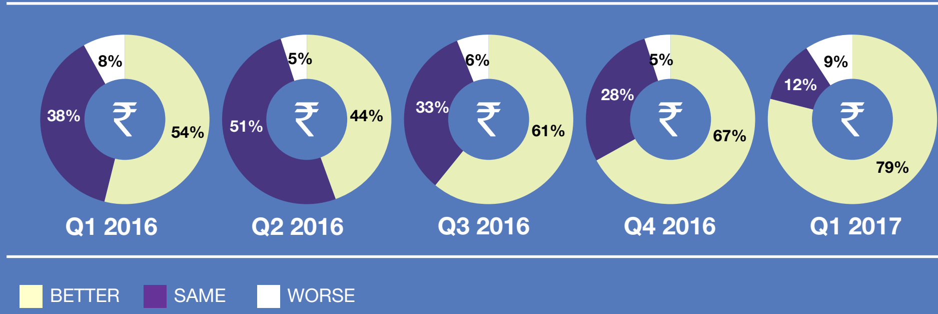
ECONOMY



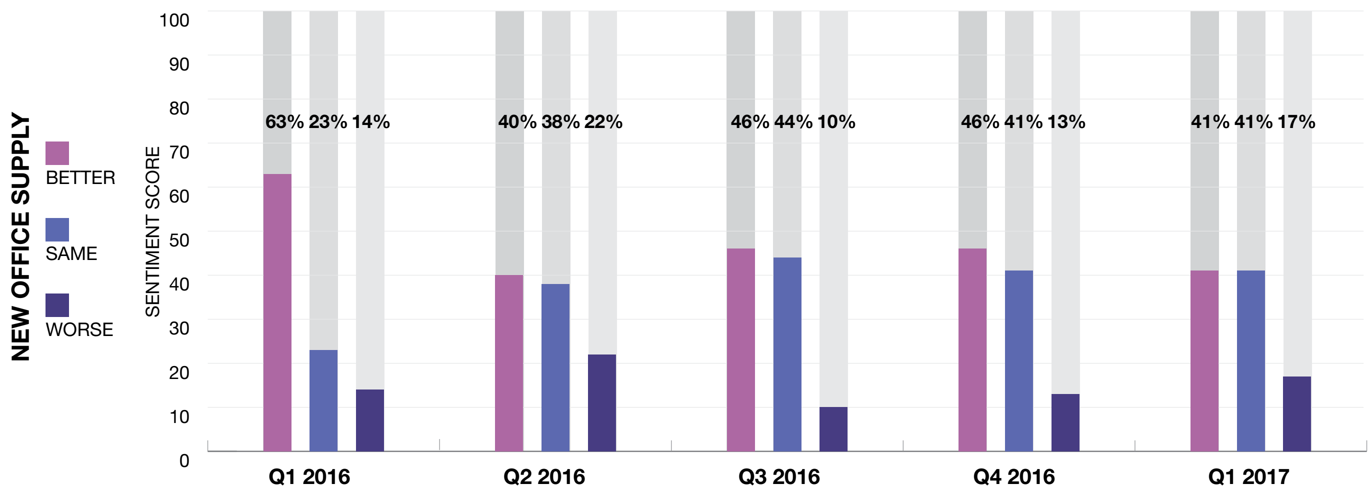
FINDINGS

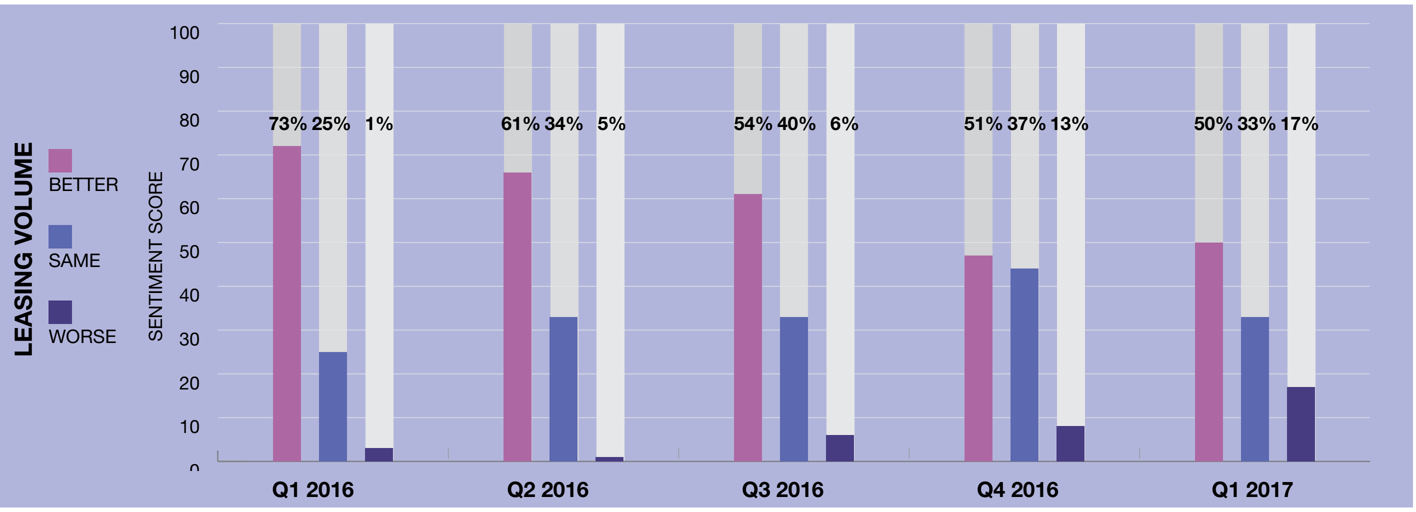
- Sixty-six per cent of the stakeholders expect that the economic scenario will become better in the coming six months.
- Stakeholder sentiments are optimistic about the future flow of funds into the real estate sector. Seventy-nine per cent of the stakeholders – the highest ever – have opined that availability of funds in the sector would be better in the next six months. The government's efforts in bringing transparency in the sector, which till now was low, will play a major role in attracting institutional funds including banks, whose participation in the sector was at a modest level.

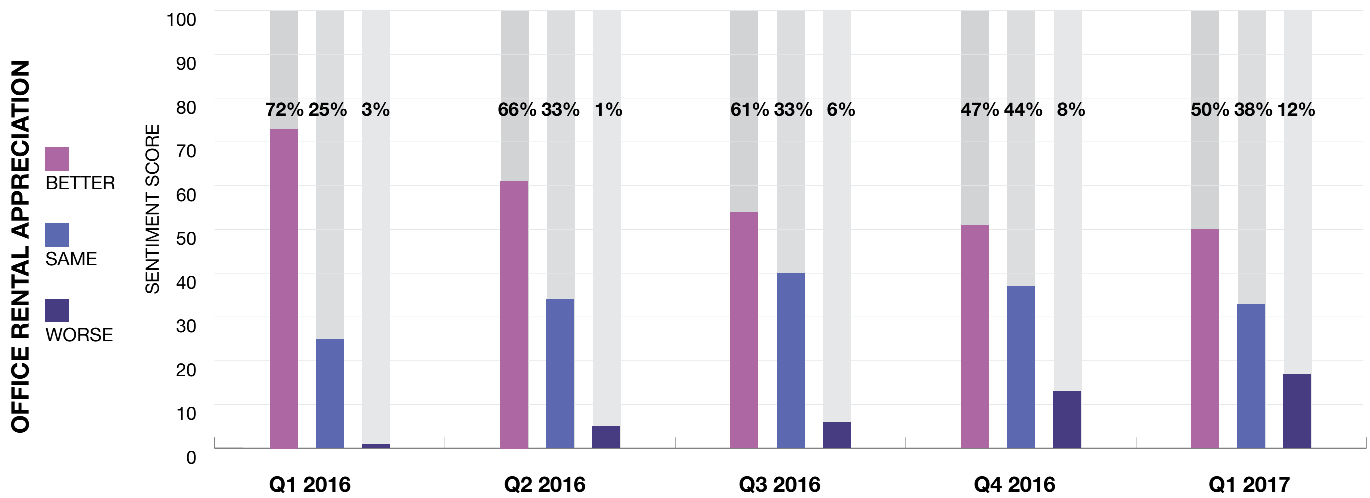
FUNDING SCENARIO



OFFICE MARKET – PERSISTENT DEMAND AND A LACKADAISICAL SUPPLY

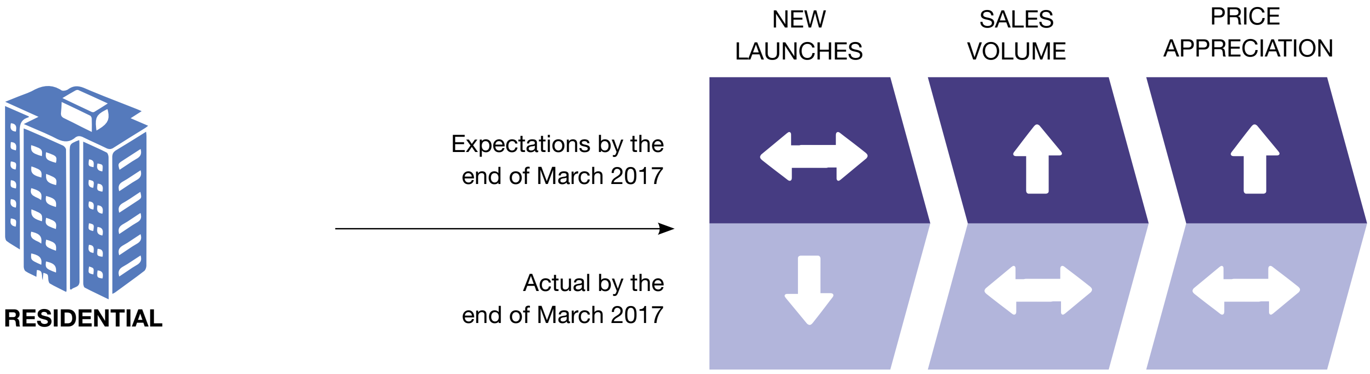


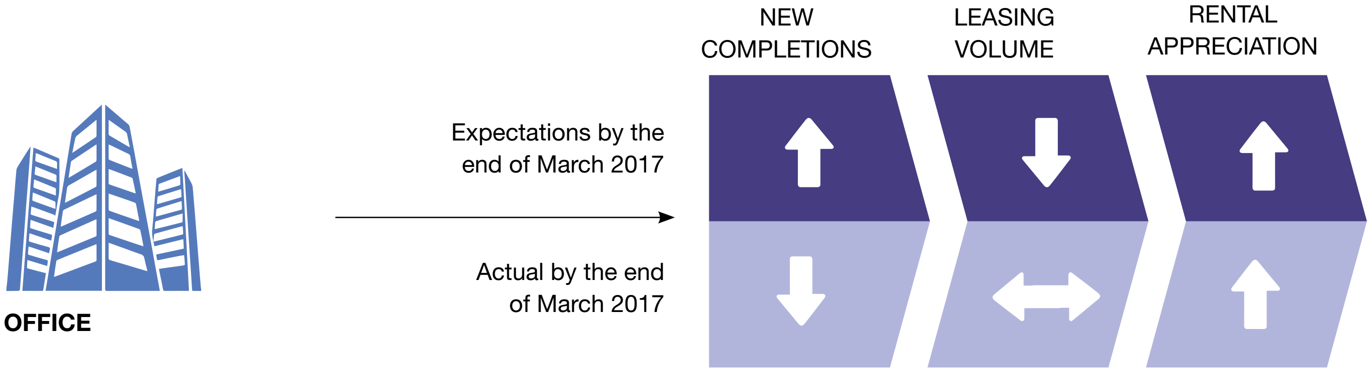




FINDINGS

- Stakeholders believe that new office supply will sparingly hit the market in the coming six months and this coincides with the market reality as well. The year 2016 saw very few new completions in all major cities in the country due to which occupiers were unable to close transactions despite strong demand.
- The office markets in key cities have been growing from strength-to-strength in leasing volumes in the past few years. However, due to challenges being faced by the IT sector; a core driver of office leasing in the country, 83% of the stakeholders believe that there will not be much increase in leasing space. So transactions will hold steady in the next six months. However, the lack of office space will put an upward pressure on rentals. This is corroborated by the fact that even with a higher base, 50% of the respondents feel office rents in prime office buildings will further inch upwards in the coming six months.





CONCLUDING REMARKS

The analysis of the stakeholder expectations from the residential and office sectors for March 2017 versus the actual market statistics reveals interesting insights into the real estate market. The survey that was conducted in Q3 2016 (July–September 2016) gave a positive future outlook for both, the residential and office sectors. In contrast, the situation on the ground is somewhat different, largely in the residential property sector because of the government's policy intervention. The expectations in our survey in Q3 2016 revealed optimism about the residential price appreciation, in the next six months; however, in the present scenario property prices have largely remained stable. Late project deliveries, and a marred buyer confidence forced buyers to stay away from the market and this has arrested any significant increase in the property prices across all major cities. Similarly, in the survey conducted in Q3 2016, majority of the respondents felt that sales would improve in the next six months; the picture on the ground is similar to what it was six months back.

On the office front, office space leasing volumes have been holding steady in Q1 2017 vis-a-vis expectations that it would go down. In terms of rentals, more than half of the respondents in Q3 2016 felt that office rentals would firm up in the first quarter of 2017 and this is in line with the actual market reality as well. This increase in rents, is due to the lack of quality office supply in key locations across all major cities.

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