

The background features a series of thin, light blue wavy lines at the top and bottom. On the left side, there are two sets of vertical blue bars of varying heights, resembling a bar chart. On the right side, there are several overlapping, light green wavy lines that resemble a line graph or a series of curves.

FICCI-Knight Frank Real Estate Sentiment Index

Q1 2015 (January–March 2015)

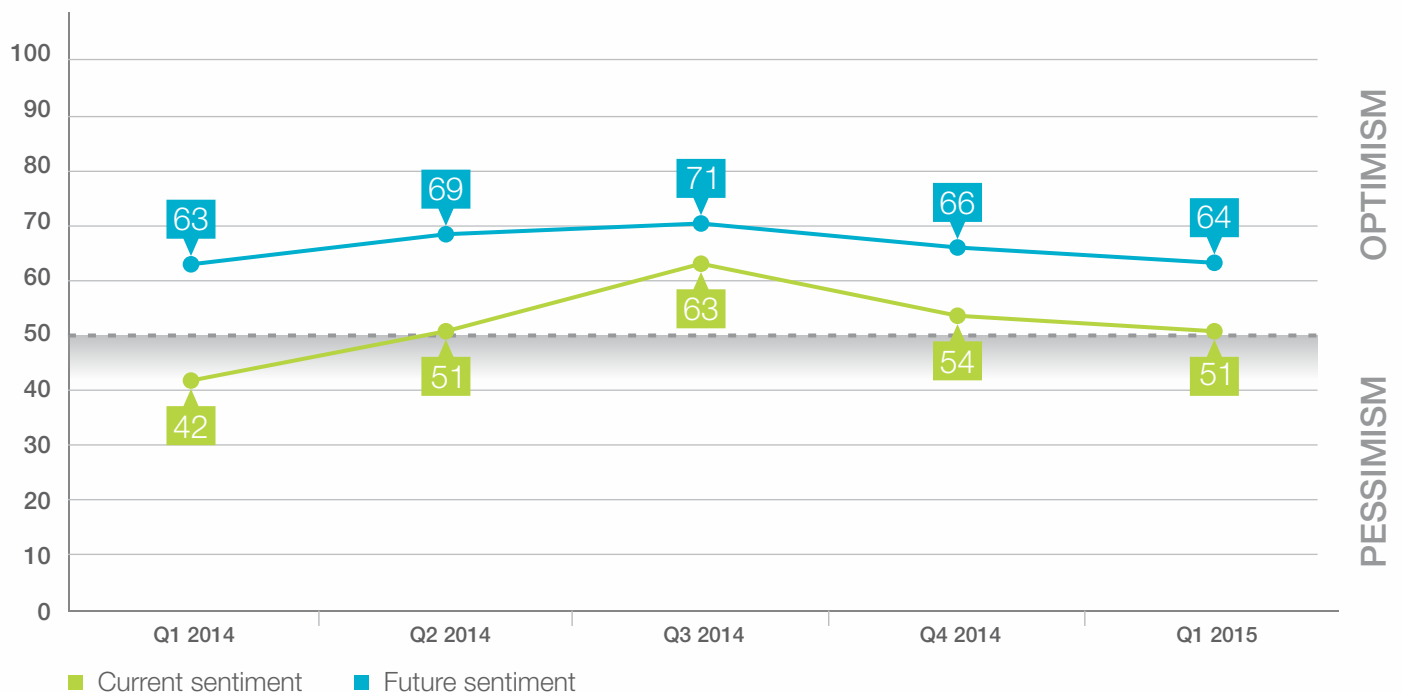
The real estate sentiment index is developed jointly by Knight Frank India and the Federation of Indian Chambers of Commerce and Industry (FICCI). The objective is to capture the perceptions and expectations of industry leaders in order to judge the sentiment of the real estate market.

APPROACH

The index is based on a quarterly survey of key supply-side stakeholders, including 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 a negative sentiment. In order to present a holistic view of the real estate industry, two indices are computed. The current sentiment index indicates the respondents' assessment of the present scenario compared to six months ago, and the future sentiment index represents their expectations for the next six months. However, the rest of the analysis focuses only on future sentiment. The survey was conducted during January–March 2015.

STAKEHOLDER SENTIMENT CONTINUES TO FALL IN Q1 2015



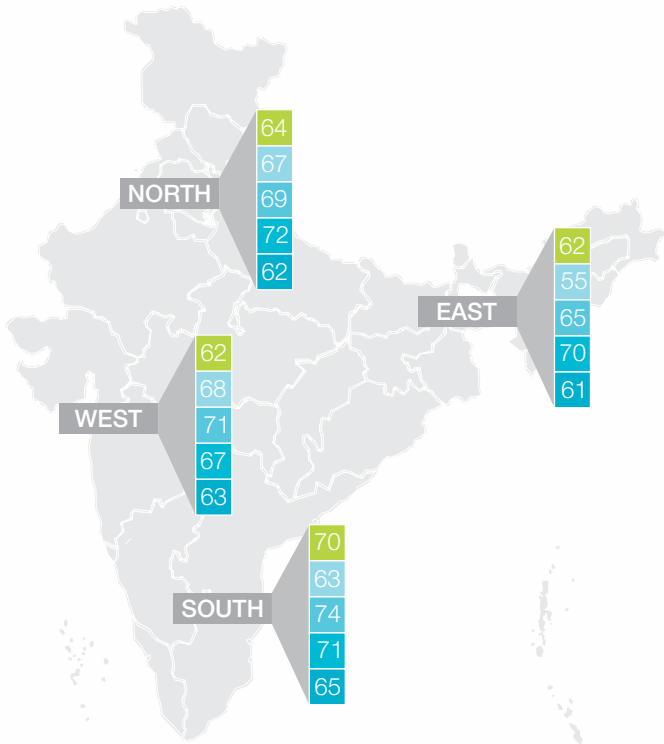
FINDINGS

- The stakeholders' sentiments continue to reflect a declining trend post the results of the landmark 2014 elections. This is depicted clearly by a further fall in both current and future sentiment scores during Q1 2015, albeit by a small margin.
- Although the macroeconomic fundamentals are in place, the challenges faced during the state elections in the recent past and the large number of ordinances passed during the present government's regime seem to have shaken stakeholder confidence. Such an unprecedented number of ordinances reflects the challenges faced by the present government in the upper house of the parliament.
- While the current sentiment score, at 51, is barely positive, the future sentiment score still stands at a healthy 64, indicating a strong positive undercurrent. The current initiatives towards creating a business-friendly climate and the push for the 'Make in India' programme have lifted the stakeholders' sentiments, particularly in the office market.

ZONAL SENTIMENT SCORE (FUTURE)

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

■ Q1 2014 ■ Q2 2014 ■ Q3 2014 ■ Q4 2014 ■ Q1 2015

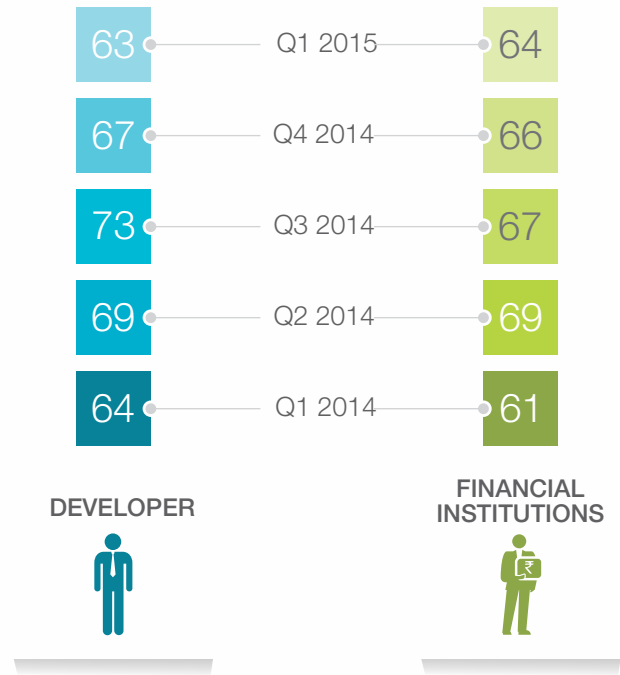


FINDINGS

- Although stakeholders across the country continue to be optimistic about the future, the north and west zones experienced a dip in sentiment levels during Q1 2015 compared to the preceding quarter.
- Since Delhi and Mumbai are the driver cities in these zones, the recent political upheaval and a contentious development plan have weighed heavily on the sentiments.
- The south and east zones saw a revival in sentiments during the same period.

STAKEHOLDER SENTIMENT SCORE (FUTURE)

SCORE >50: Optimism SCORE 50: Same/Neutral
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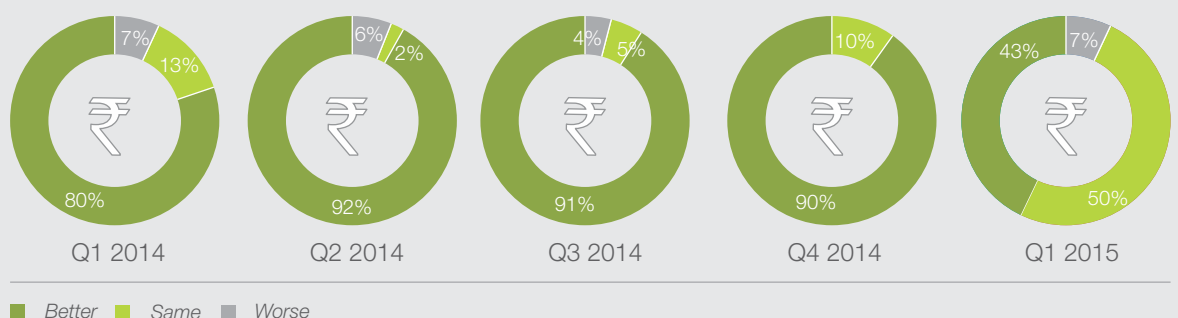


FINDINGS

- Both developer and financial institutions continue to show optimism for the future. However, limited focus on real estate in the last budget seems to have affected the sentiments, leading to a marginal drop in the scores.

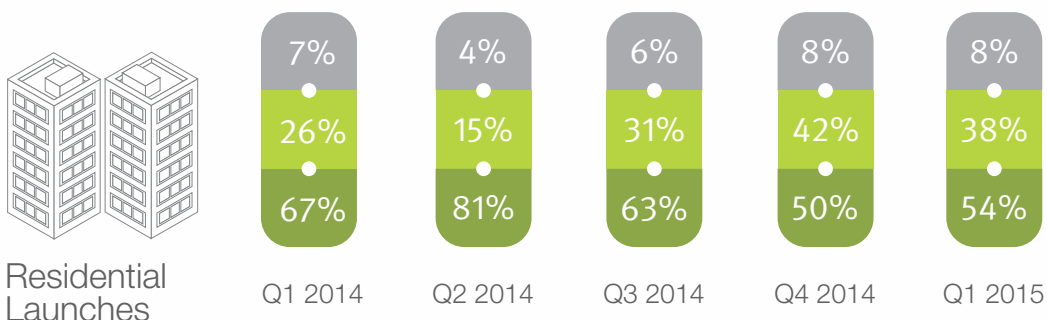
Economy

ECONOMIC GROWTH TO MAINTAIN STATUS QUO; OPTIMISM ON FUNDING SCENARIO

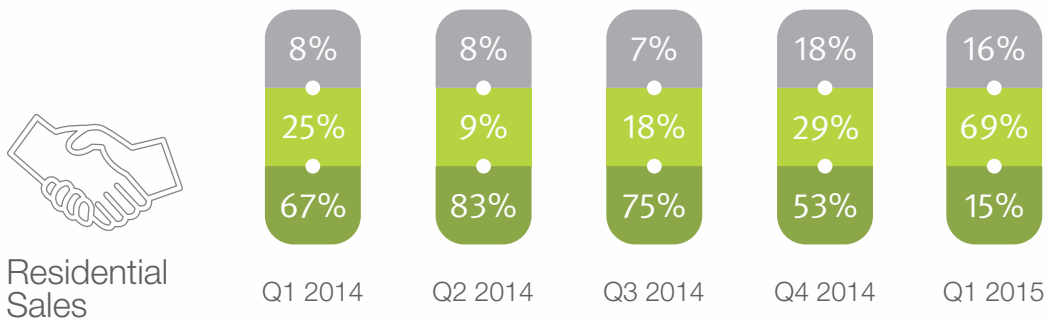


THE RESIDENTIAL SECTOR SENTIMENT SHOWS CONSIDERABLE DECLINE

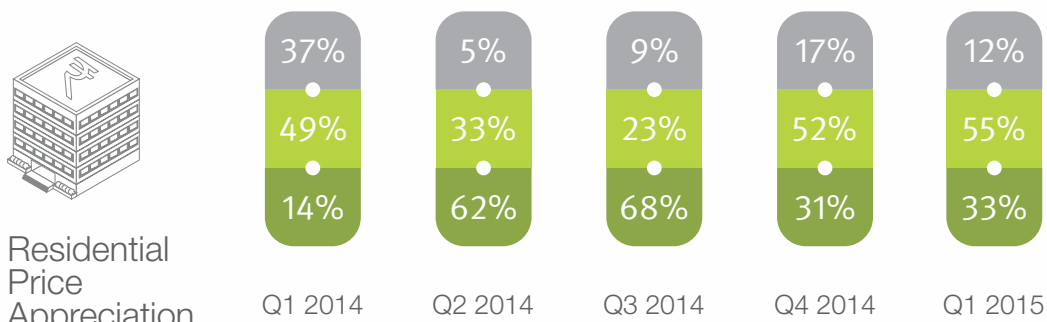
■ Better ■ Same ■ Worse



Residential Launches



Residential Sales

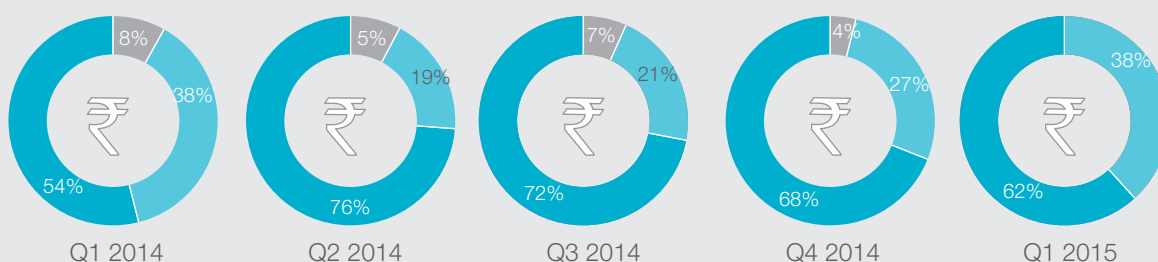


Residential Price Appreciation

FINDINGS

- The on-going lull in the residential market, reflected in the lacklustre sentiment levels and the continuous fall in launches and absorption across markets, has bogged down stakeholder sentiments.
- Stakeholders were bullish about residential sales post the general election in Q2 2014. However, over a period of time, the increased sales did not materialise and as a result the sentiments collapsed. Merely 15% of the respondents expect the residential sales to be better in the coming six months.
- The proportion of respondents expecting an increase in prices has reduced to less than half since Q3 2014. Currently, just 33 per cent of the respondents believe that prices will increase in the following six-month period.

Funding Scenario



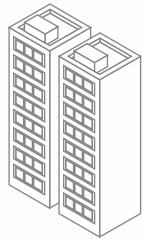
■ Better ■ Same ■ Worse

FINDINGS

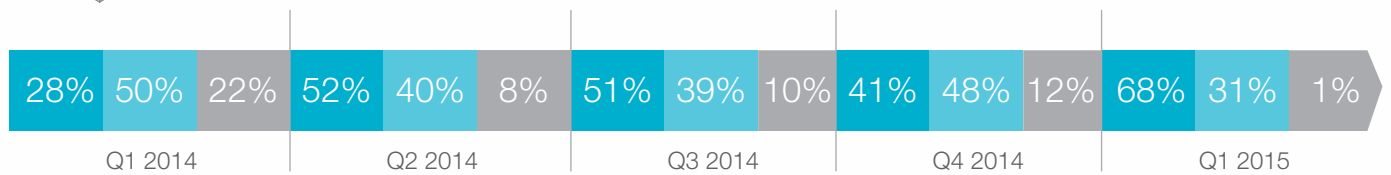
- Stable macroeconomic indicators have led to an optimistic sentiment for the future. Over 90 per cent of the respondents expect the economy and funding scenario to be either the same or better in the next six months.
- A majority of the stakeholders believe that the growth momentum in the economy will be maintained in the coming six months.

COMMERCIAL OFFICE SPACE MARKET POISED FOR BETTER TIMES

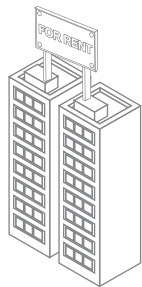
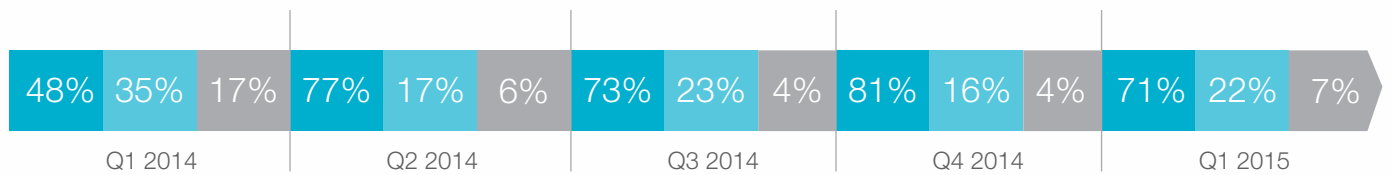
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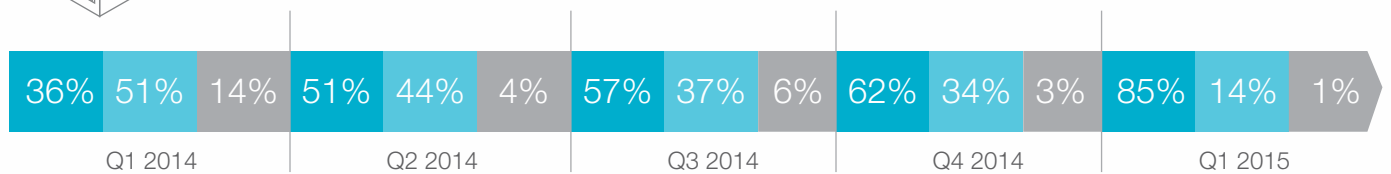
New Office Supply



Leasing Volume



Office Rental Appreciation



FINDINGS

- The stakeholders' sentiments remain strong regarding the health of the office market during Q1 2015.
- The fact that the economy looks to be revving up coupled with REITs in place has led 68 per cent of the respondents to believe that new office supply will see an uptake in the following six months.
- Sentiments regarding office space rental appreciation are at their highest since the inception of the survey (six quarters). A significant 85 per cent of the respondents believe that the rentals have already bottomed out and should see an increase, going forward.

CONCLUDING REMARKS

Having completed six rounds of quarterly surveys gives us the opportunity to evaluate how the real estate market has performed in comparison to the expectations of the stakeholders. The survey we conducted during Q2 2014 (April-June 2014) gave us positive results on all real estate parameters for the subsequent six months. While the ground reality for the six months ending December 2014 is consistent with the expectations in case of the office space market, it has not been in line with reference to the residential market trends. New unit launches as well as absorption levels have dropped in the face of higher expectations for the same period.



Residential

Expectation for the end of December 2014

Actual by the end of December 2014

New Launches



Sales Volume



Price Appreciation



Office

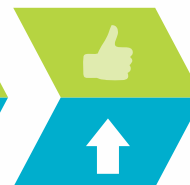
Expectation for the end of December 2014

Actual by the end of December 2014

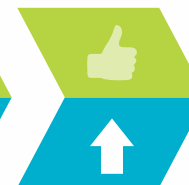
New Completions



Leasing Volumes



Rental Appreciation



The post-election euphoria seems to be rationalising since the last two quarters, which explains the downward trend in the future sentiment score. Although the future score has dropped by two points, it is very much in the positive range. Stakeholders are quite optimistic about the future, in view of the strong economic fundamentals – GDP growth rate, controlled inflation, and the current and fiscal deficit levels. High unsold inventory levels in the residential markets and liquidity constraints in the residential sector explain the cautious, yet positive outlook for the sector, going forward. On the other hand, stakeholders are fairly positive about the office sector.

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