



# FICCI-Knight Frank Real Estate Sentiment Index

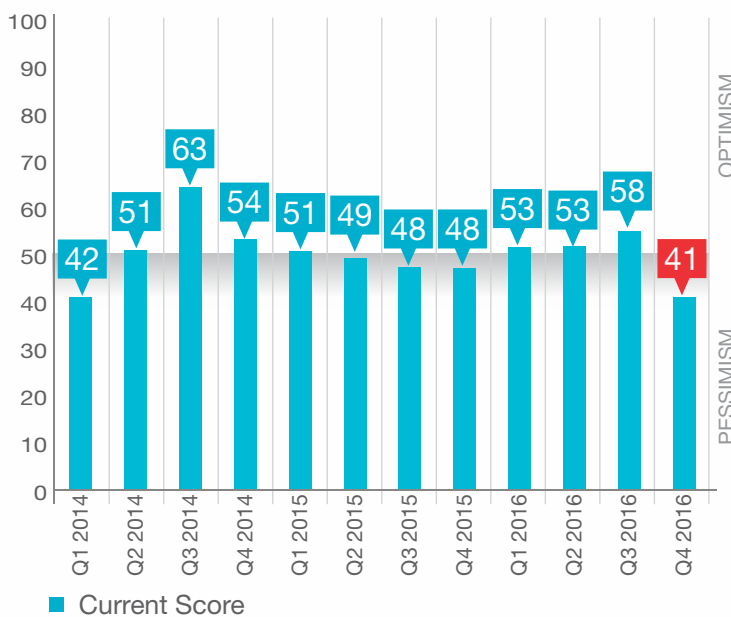
Q4 2016 (October–December 2016)

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.

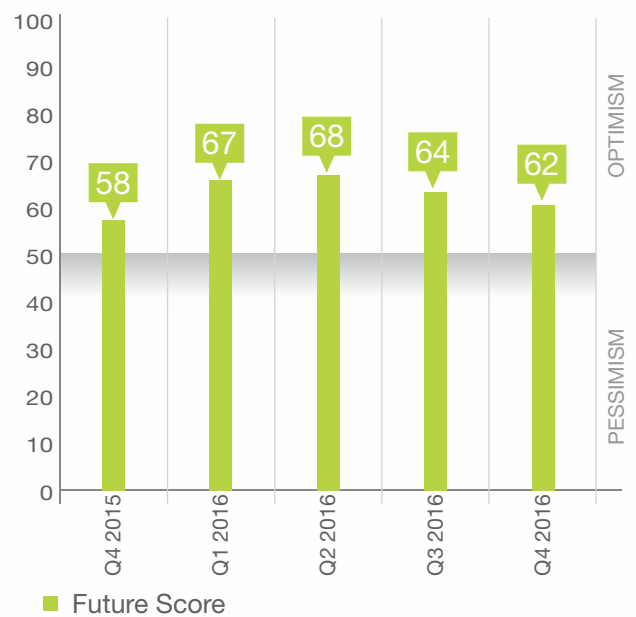
## APPROACH

The 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, two indices are computed: the current sentiment index indicates the respondents' assessment of the present scenario compared to six months prior, and the future sentiment index represents their expectations for the next six months. This survey was conducted from October–December 2016.

### DEMONETISATION PULLS STAKEHOLDERS' SENTIMENTS FOR Q4 2016 TO A NEW LOW - THE WORST IN THE LAST THREE YEARS



### LONG TERM GAINS-STAKEHOLDERS CONTINUE TO BE OPTIMISTIC ABOUT THE FUTURE



## FINDINGS

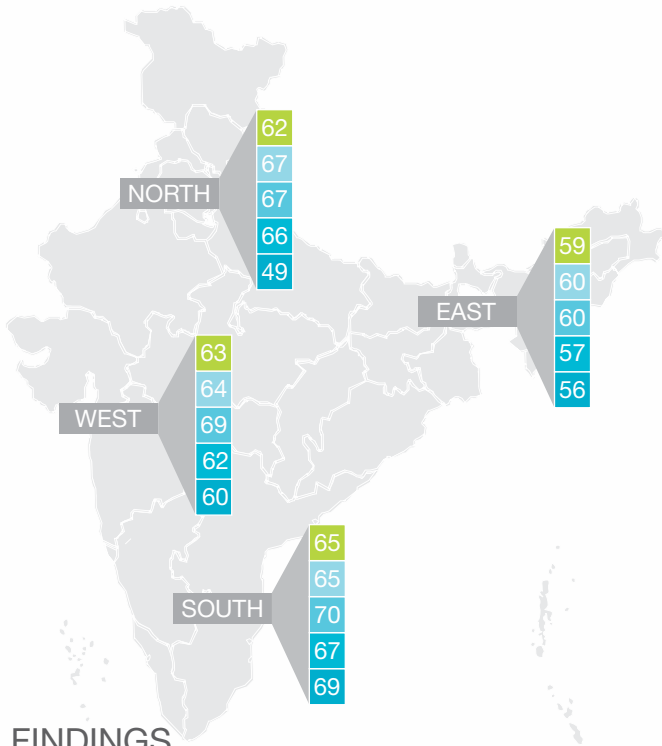
- The demonetisation of high value currency notes of ₹1,000 and ₹500 was the most sweeping change in recent history, which was a rude awakening for the Indian economy with the real estate sector being at the receiving end of this move. The impact of which can be gauged from the fact that the total residential sales of the top eight cities fell by 40% during Q4 2016 compared to Q3 2016. The fall was so intense that 2016 replaced 2015 as the worst performing year since the Global Financial Crisis. On the other hand, no significant impact of demonetisation was evident on the office markets of the top Indian cities.
- Consequent to the major disruption during Q4 2016, the current sentiment score has seen a drastic fall to below the threshold mark of 50 to become the worst quarter in the last three years. This implies that stakeholders' sentiments pertaining to Q4 2016 is pessimistic. The respondents are of the opinion that the situation during the last quarter of 2016 was significantly worse compared to six months prior, reflecting the short term adverse impact of demonetisation on Indian real estate.
- However, the impending landscape of transparency, efficiency and good governance strived by the demonetisation move, the Union budget's focus on making home purchases affordable and the probable implementation of RERA have been welcomed by the respondents. The future sentiment score of 62 is a good indicator of the robust optimism portended by the stakeholders for the real estate sector in the coming six months.
- The demonetisation move did infuse a high degree of uncertainty and confusion in the market but this impact seems to be transient in nature and the mid-to-long-term impact is expected to be positive.

## ZONAL SENTIMENT SCORE (FUTURE)

CONTINUED OPTIMISM, ALBEIT WITH SLIGHT DEGWORTH

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

■ Q4 2015 ■ Q1 2016 ■ Q2 2016 ■ Q3 2016 ■ Q4 2016



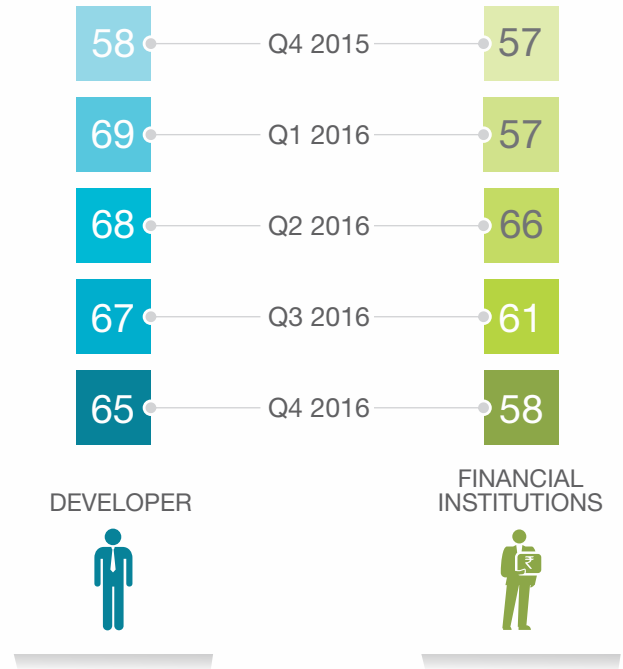
### FINDINGS

- While the stakeholders are largely optimistic about the future, all the zones (barring South) show a slight de-growth in sentiment in Q4 2016, mainly due to the constriction in recovery expected in the residential sector.
- Stakeholders from the Southern zone have remained steadfast regarding their optimism for the real estate sector, while the North zone that had consistently been showing improved optimism since the beginning of the year, has seen the steepest decline.

## STAKEHOLDER SENTIMENT SCORE (FUTURE)

SLIGHT DIP MARS CONFIDENCE

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

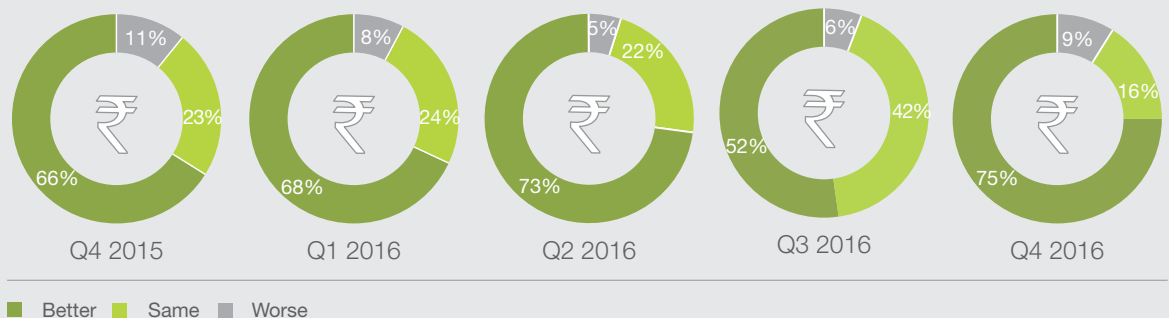


### FINDINGS

- On a positive note, both developers and financial institutions continue to show optimism for the future, with their scores pegged above 50. However, recent developments such as the demonetisation drive, slackening of price growth as well as forthcoming adjustments to the new norms laid out in the RERA guidelines, are likely to have impacted the developers' sentiments, leading to a slight drop in their scores in Q4 2016. Similarly, financial institutions also expect the real estate market to go through a short-term adjustment phase before there is economic stability and RERA becomes a reality.

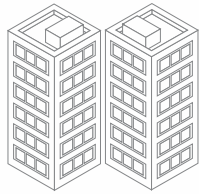
## Economy

### OPTIMISM REIGNS OVER FUNDING SCENARIO

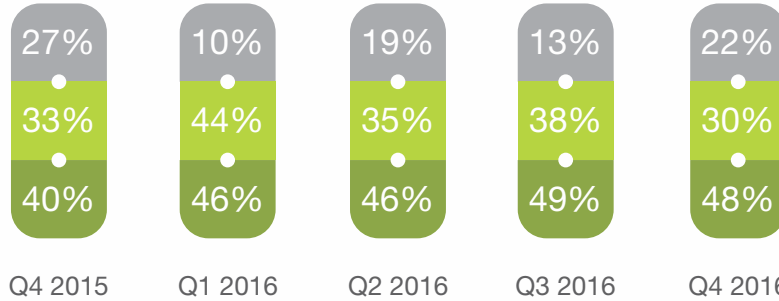


## RESIDENTIAL SECTOR STRIVING FOR STABLE GROUNDS

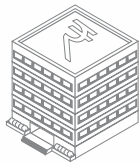
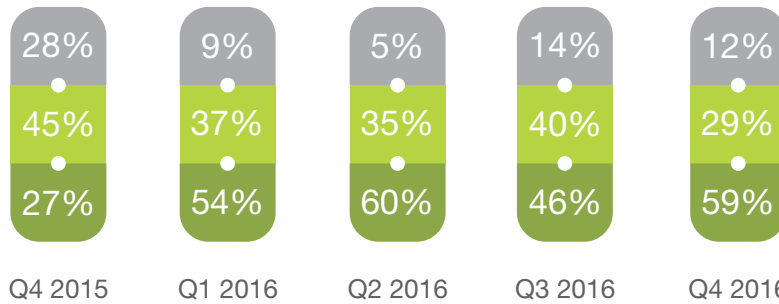
■ Better ■ Same ■ Worse



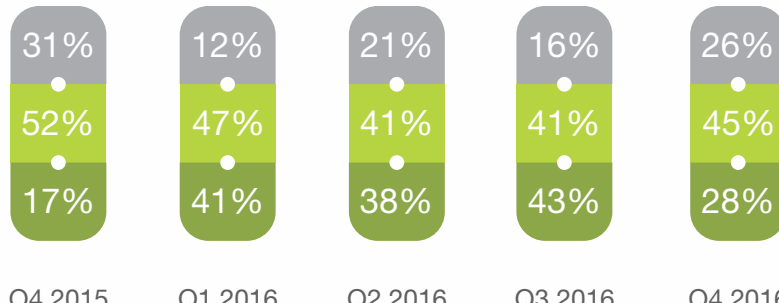
Residential Launches



Residential Sales



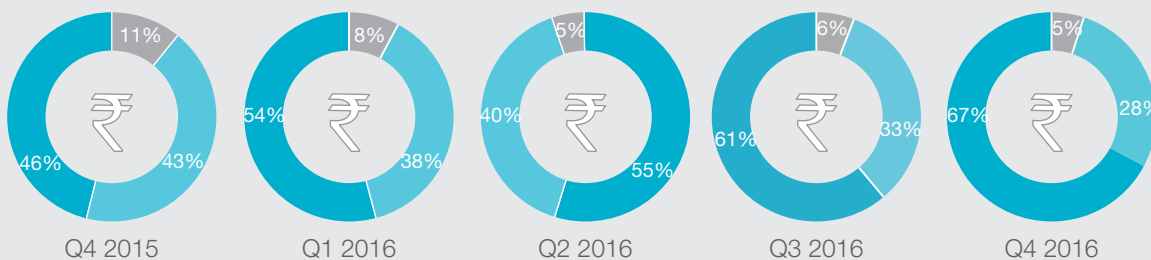
Residential Price Appreciation



### FINDINGS

- Although the residential sector is going through a difficult phase, the stakeholders are quite optimistic for the future, especially with regards to sales volume. The number of respondents with a positive outlook has gone up in Q4 2016; nearly 59% of the stakeholders believe that residential sales will improve in the coming six months, as against only 12% that believe to the contrary.
- In sharp contrast, sentiments regarding residential prices in Q4 2016 were not quite as upbeat. In the next six months majority of the respondents, to the tune of 45%, expect prices to remain stagnant. On the other hand 26% of the respondents expect a downward pressure on price appreciation, during the same period.

## Funding Scenario



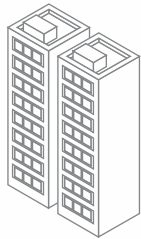
■ Better ■ Same ■ Worse

### FINDINGS

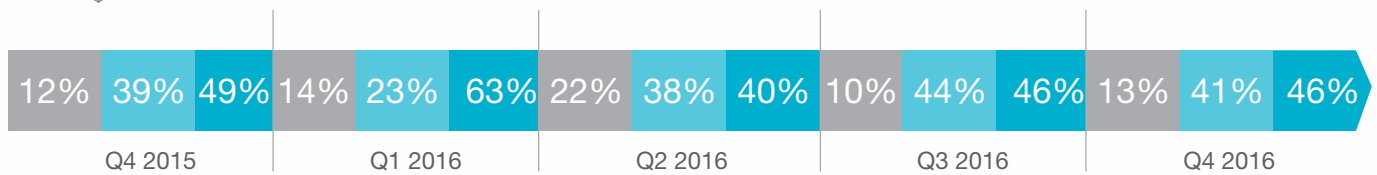
- Despite the constricted market scenario, a substantial number of stakeholders believe that the economy will opt for the better in the coming six months.
- On a similar note, stakeholder sentiments for the funding scenario have improved in Q4 2016; a whopping 67% of the respondents expect the availability of funds to be better in the next six months.

## OFFICE MARKET TO REMAIN PERSISTENT

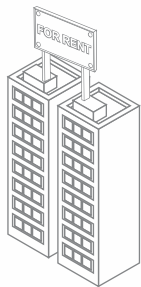
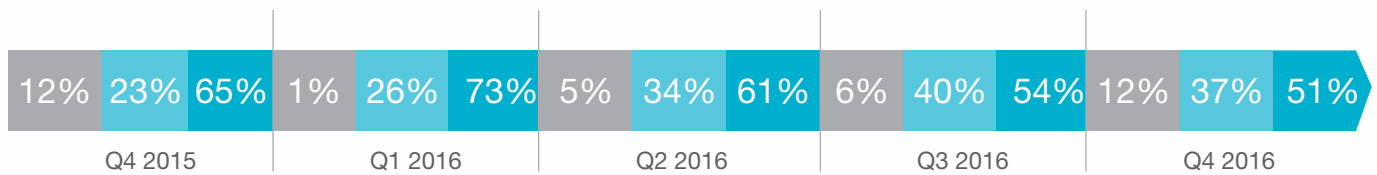
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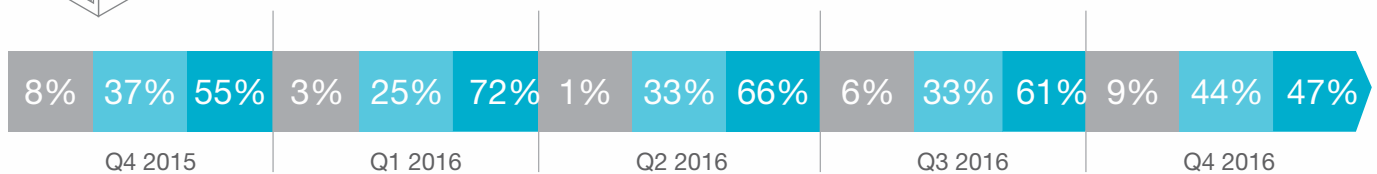
New Office Supply



Leasing Volume



Office Rental Appreciation



## FINDINGS

• The office markets in key cities have achieved a good base with leasing volumes moving from strength to strength in the past few years, leading to a gradual slowdown in the growth of the sector, as compared to the phenomenal growth observed in the past. Thus, while the Q4 2016 survey results show that the level of optimism for the leasing volume has come down compared to Q3 2016, it is still in the positive territory as nearly 88% of the survey respondents believe that

office space leasing volume will either remain the same or improve in the next six months.

## CONCLUDING REMARKS

The analysis of the stakeholder expectations from the residential and office sectors for December 2016 versus the actual market statistics reveals interesting insights into the real estate market. The survey that we conducted in Q2 2016 (April–June 2016) had provided us with an optimistic picture, portending positivity for both the residential and office sectors, for the subsequent six months. However, the actual figures for the six months ending December 2016 did not quite match up to the expectations. While the ground reality is consistent in case of residential price and office rental appreciation where the survey respondents indicated that the rate of the residential price appreciation would remain steady, the figures for the other parameters in both residential and office markets are not in line with Q2 2016 survey responses regarding their future expectations. In Q2 2016 the survey respondents were quite positive about the number of new residential launches and sales volume, and expected a rise in both parameters by the end of December 2016. However, in actuality, both new launches and sales volume saw steep declines. On the office front, the actual figures failed to meet the stakeholder expectations for the period ending December 2016 with the office market observing a decline in supply, while leasing volume remained steady in contrary to expectations of increased volume.



### Residential

Expectations by the end of December 2016

Actual by the end of December 2016

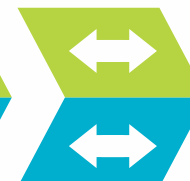
New Launches



Sales Volume



Price Appreciation



### Office

Expectations by the end of December 2016

Actual by the end of December 2016

New Completions



Leasing Volumes



Rental Appreciation



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