37th edition

RESEARCH
Q2 2023 (APRIL - JUNE 2023)

NAREDCO | Knight Frank

KNIGHT FRANK-NAREDCO

REAL ESTATE SENTIMENT INDEX

Q2 2023 (APRIL-JUNE 2023)

The Real Estate Sentiment Index is developed jointly by Knight Frank India and the National Real Estate Development Council (NAREDCO). The objective is to capture the perceptions and expectations of industry players to gauge the sentiment of the real estate market.

FOREWORD

Shishir Baijal
Chairman and Managing Director
Knight Frank India Pvt Ltd

The global economic scenario continues to evolve as stubborn headline inflation persists in many developed markets even though it can be seen slowing down in the United States. The Russia-Ukraine war has dragged on for nearly 17 months now. With no decisive end in sight, it has prolonged the distress in the Euro zone. The slowdown in China's economy after strong performance in the first quarter post reopening from Covid-19 lockdowns indicates weak domestic demand.

In the backdrop of these tumultuous global developments, India's firm positioning as the world's fastest growing economy influenced stakeholder sentiments positively in Q2 2023. This led the Current Sentiment Index Score to jump from the previous quarter's 57 to 63. The Indian economy's bounceback amid high inflation in developed markets has led stakeholders to remain confident about the domestic economic climate and the real estate sector performance for the next six months. Though retail inflation has spiked from 4.25% in May to 4.81% in June 2023 due to the high price of vegetables owing to seasonal patterns, it remains within the Reserve Bank of India's tolerance band of 2-6 percent. Despite this interim rise in inflation, the Future Sentiment Score has increased from 61 in Q1 2023 to 64 in Q2 2023 as the policy environment remains supportive of growth.

Amid this backdrop, I present to you the 37th edition of Knight Frank-NAREDCO Real Estate Sentiment Index for Q2 2023 (April-June 2023). This quarterly report captures the current and future sentiment towards the real estate sector, the economic climate and the funding availability as perceived by the supply-side stakeholders and financial institutions.

I thank all the industry participants for taking the time to participate in this survey and sharing their valuable market insights with us. I hope you find this report insightful and interesting.

PARTNERS' TAKE ON THE SECTOR

Rajan Bandelkar
President – NAREDCO
Managing Director – Raunak Group

“It becomes evident that India's strong position as the fastest growing global economy has had a positive influence on stakeholder sentiments. This is reflected in the significant jump in the Current Sentiment Index Score from the previous quarter, reaching 63. The bounceback of the Indian economy, coupled with inflation remaining within the Reserve Bank of India's tolerance band, has instilled confidence among stakeholders in the domestic economic climate and the real estate sector's performance for the next six months. The Future Sentiment Score also witnessed an increase, thanks to stakeholder optimism regarding the Indian economy's trajectory and the sustained demand in the real estate sector. While zonal scores surged in all zones except the South where caution prevails, the overall scores for all regions remained firmly in the optimistic zone. This signifies a greater sense of confidence in the performance of these markets in the upcoming six months.

The residential market outlook is highly optimistic, with stakeholders expressing confidence across all parameters, including sales, launches, and pricing, for the next six months. Despite the potential threat of recession in developed markets, stakeholders maintain an upbeat outlook due to strong demand from India-facing businesses, the flexibility offered, and the rise of global capability centers within the country. This resilience further reinforces the positive sentiment in office leasing.

These findings present a promising landscape for the real estate sector, highlighting the confidence and positive outlook among stakeholders. It is an encouraging sign for the Indian economy and the continued growth of the real estate industry.

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.

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.

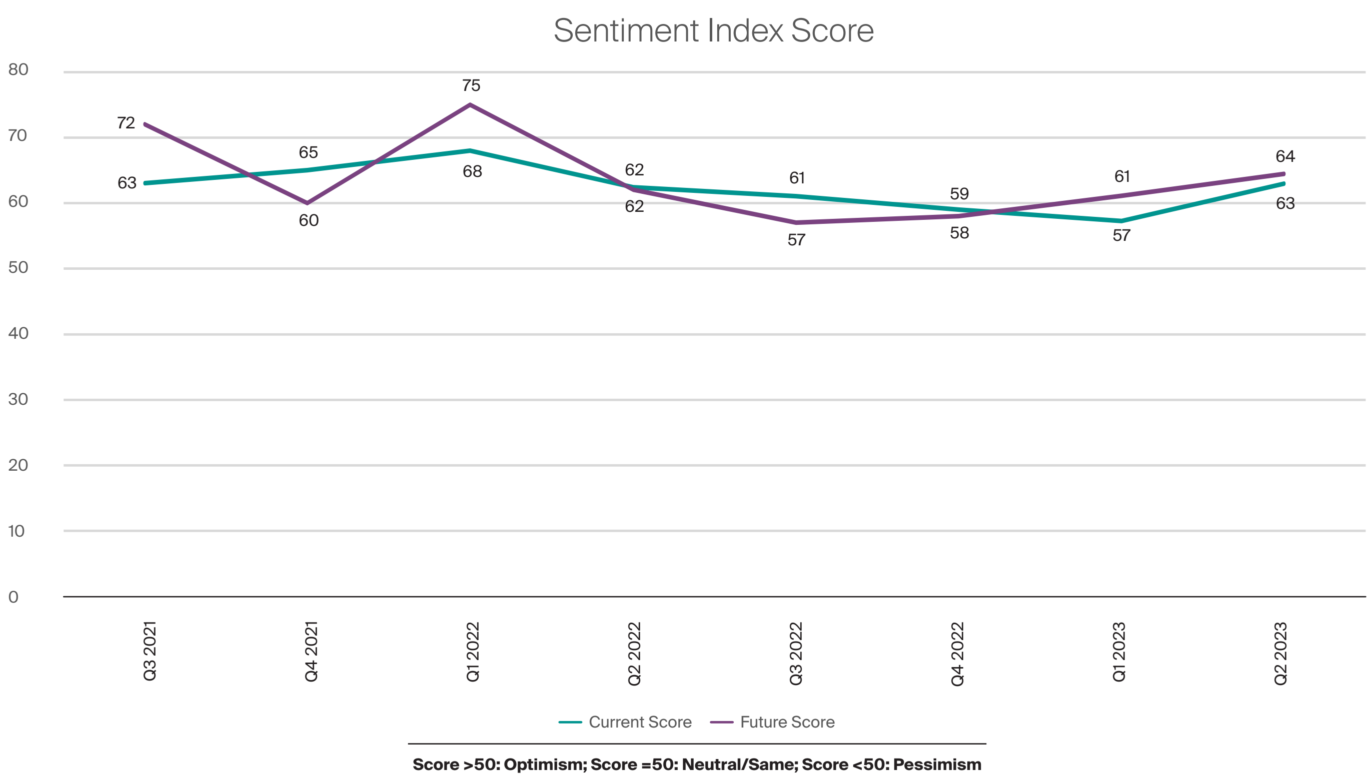
Section B focuses on the analysis of future sentiments of the stakeholders on different aspects such as the geography of stakeholders, stakeholder type (developer/non-developer), outlook specific to the residential and office markets, and outlook on the economy and funding scenario at large.

This survey edition is for the period June 2023 i.e., Q2 2023 and was conducted from 21st June 2023 to 10th July 2023.

SENTIMENT INDEX SURVEY FINDINGS

SECTION A: OVERALL SENTIMENT SCORE

CURRENT AND FUTURE SENTIMENT SCORES SCALE UP



Source: Knight Frank Research

A1. Current Sentiment Score

- In Q2 2023, the Current Sentiment score scaled up from the previous quarter's 57 to 63, both comfortably in the optimistic zone. This is due to the continued resilience of the Indian economy amid a recessionary environment globally.
- The Current Sentiment score signifies stakeholders' current outlook in comparison to the preceding six months. The Current Sentiment score's increase reinstates stakeholder confidence in the Indian economy and the real estate sector performance.

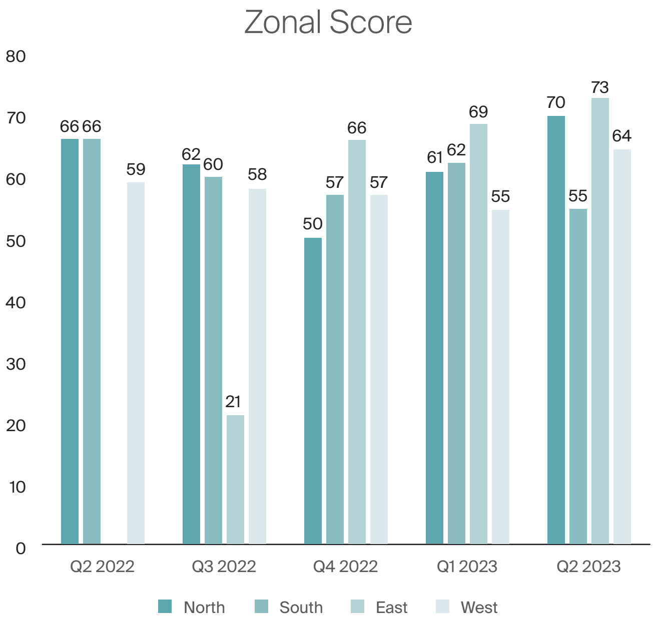
A2. Future Sentiment Score

- During Q2 2023, the Future Sentiment score increased from 61 in Q1 2023 to 64 in the optimistic territory as India's macro-economic indicators remained firm, despite monthly variations.

SECTION B: FUTURE SENTIMENTS

B1. Zonal Future Sentiment Score

ZONAL SCORES REMAIN IN OPTIMISTIC ZONE



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

Source: Knight Frank Research

B2. Stakeholder Future Sentiment Score

DEVELOPER AND NON-DEVELOPER SENTIMENT SCORES INCH UP

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

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

Findings

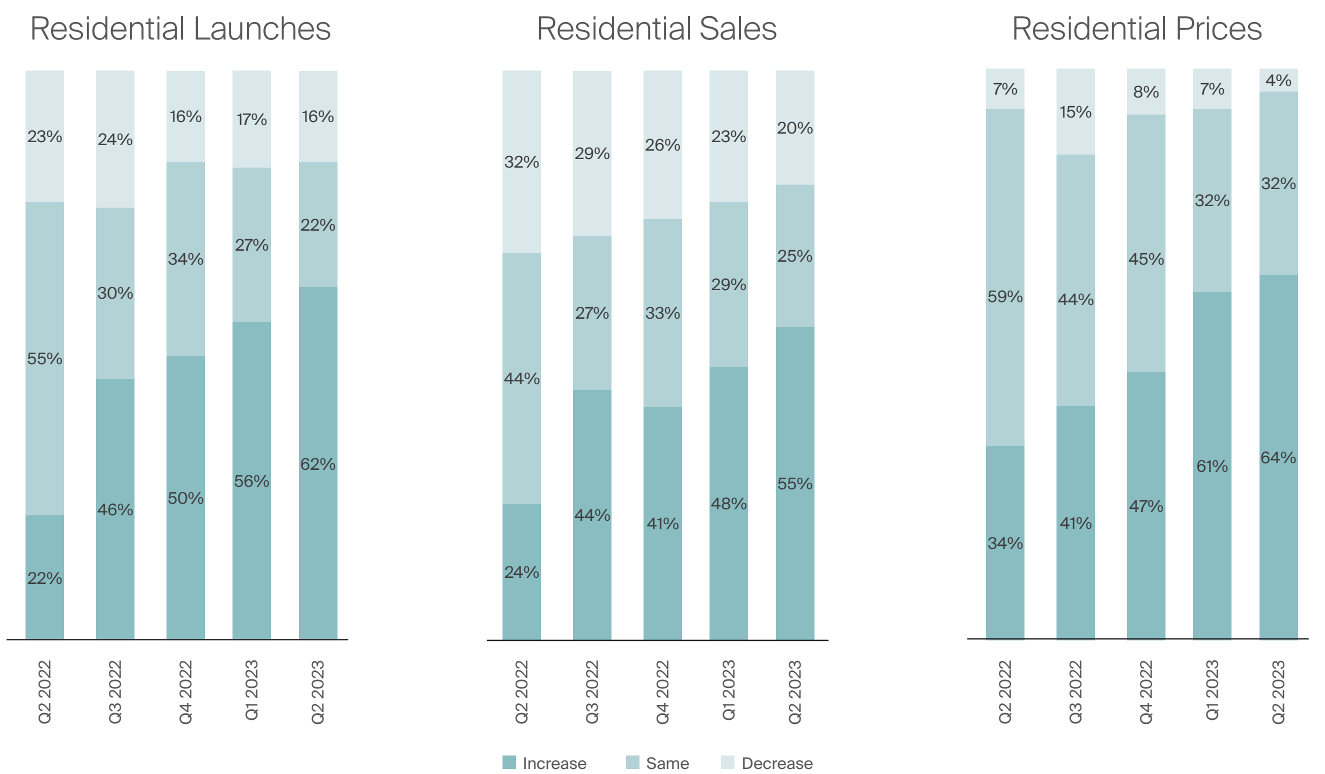
- In Q2 2023, the Future Sentiment scores surged in all the zones except the South Zone, as stakeholders in this region remain optimistic, yet cautious on the outlook for the real estate sector in the next six months. Whilst the score in the North Zone rose from 61 in Q1 2023 to 70 in Q2 2023, South Zone noted a decline from 62 to 55 in this quarter.
- Despite the moderation in the score for the South Zone, the scores for all remained comfortably above 50 in the optimistic zone signifying greater confidence in performance for these markets in the next six months.

Findings

- The Developer Future Sentiment score has increased from 61 in Q1 2023 to 65 in Q2 2023. With a brief pause in interest rate hike in the recent two monetary policy committee meetings of Reserve Bank of India (RBI), real estate developers remain optimistic about the next six months as the underlying demand for real estate remains firm.
- The Non-Developer (the segment which includes banks, financial institutions, PE funds) Future Sentiment score increased from 61 in Q1 2023 to 62 in Q2 2023. The institutional investors who remained watchful in the past periods, indicated enhanced confidence in the Indian economy. The pause in the interest rate hike cycle by the Reserve Bank of India (RBI) also influenced them positively.

B3. Residential Market Outlook

ROBUST FUTURE OUTLOOK



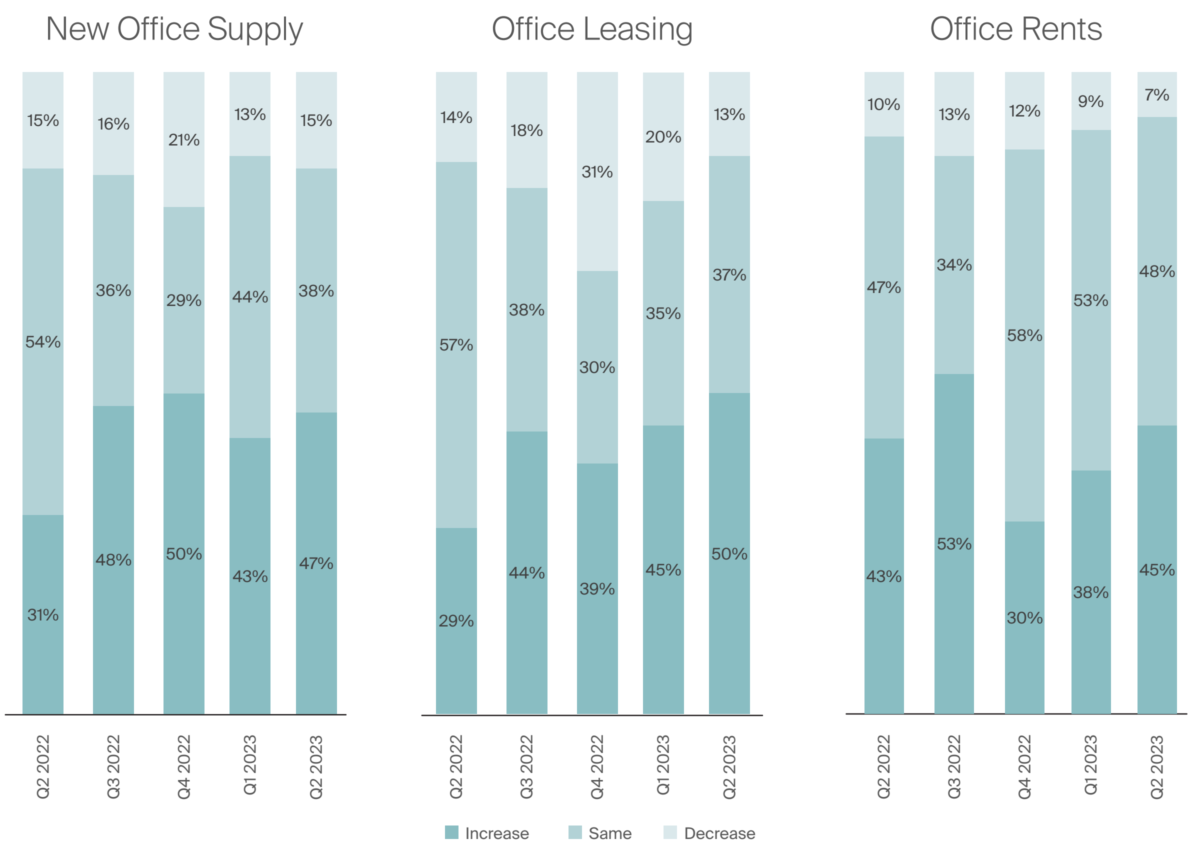
Source: Knight Frank Research

Findings

- In Q2 2023, the residential market outlook reflects enhanced optimism as stakeholders remain confident on all parameters – sales, launches and pricing for the next six months. Compared to the past quarter, the percentage of stakeholders who expect residential sector growth has increased on all fronts. In particular, with each passing quarter since the past one year, the stakeholder sentiments on increase in residential launches and pricing, have only improved.
- In Q2 2023, 55% of the survey respondents expected residential sales to increase in the next six months. In comparison, 48% of the respondents were of the same opinion in the previous quarter. The pause in the interest rate hike cycle has spiked stakeholder sentiments about the sustenance of the current demand momentum in the next six months as the residential sector stands on a firm footing, supported by policy measures and the rally witnessed in 2022.
- In Q2 2023, 62% of the stakeholders opined that residential launches will improve in the next six months. In Q1 2023, 56% of the stakeholders held a similar view. With steady sales in the residential market, stakeholder outlook towards introduction of new launches remained robust.
- In Q2 2023, 64% of the survey respondents expect residential prices to increase in the next six months on the back of steady demand for residential assets. In comparison, during Q1 2023, 61% of the survey respondents had held a similar view.

B4. Office Market Outlook

OFFICE MARKET OUTLOOK BUOYANT



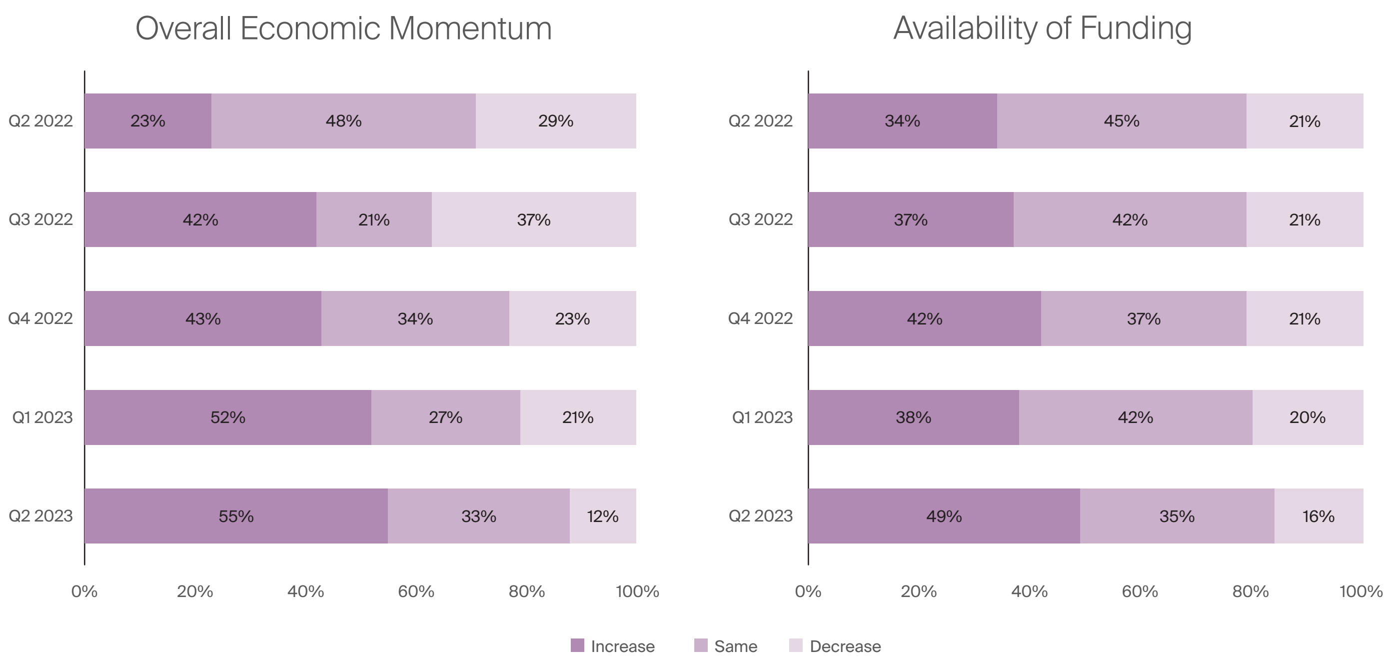
Source: Knight Frank Research

Findings

- In Q2 2023, half of the survey respondents opined office leasing to increase in the next six months. In the previous quarter, 45% held a similar view about the same. Despite a threat of recession in some major developed markets, stakeholders remained upbeat about the India growth story and its resilience, to continue in office leasing on account of strong demand from India facing businesses, flex and rise of global capability centres in the country.
- In Q2 2023, 47% survey respondents expect office supply to improve in the next six months. In the previous quarter, 43% survey respondents held a similar opinion.
- In Q2 2023, 45% of the survey respondents expect office rents to increase, whereas in the previous quarter, 38% of the survey respondents held a similar view.

B5. Economic Scenario and Availability of Funding

ECONOMIC OUTLOOK UPBEAT



Source: Knight Frank Research

Findings

- Based on the findings of our survey, stakeholder sentiments have only strengthened with each passing quarter on the overall economic momentum in the past one year. As compared to 52% in Q1 2023, 55% survey respondents in Q2 2023 indicated an increase in their expectation on this parameter. India's firm positioning as the fastest growing economy in a bleak global environment became more prominent with the bounceback post pandemic. RBI's timely policy intervention to support growth gave more confidence to stakeholders that the economic resilience is likely to continue, and the economy has come out of the shadow of the pandemic.
- Due to global geopolitical developments, stakeholder sentiments towards funding availability also improved as India has a powerful appeal for attracting investments from foreign funds. In Q2 2023, 49% stakeholders opined that the availability of funding would increase in the real estate sector in the next six months. In Q1 2023, 38% stakeholders expressed a similar view.

CONCLUDING REMARKS

The RBI has maintained its GDP growth projection for the current fiscal year 2023-24 at 6.5% as the Indian economy and its financial sector demonstrate resilience amidst global challenges. The supply-side stakeholders like developers and financial institutions remain bullish for India's office and residential sectors. Whilst they remain watchful of the evolving global scenario, they are confident that such events will not have an adverse impact on the growth trajectory of the country's real estate sector in the next six months.

Knight Frank

Knight Frank LLP is a leading independent, global property consultancy. Headquartered in London, Knight Frank has more than 20,000 people operating from over 487 offices across 53 markets. The Group advises clients ranging from individual owners and buyers to major developers, investors and corporate tenants. For further information about the Company, please visit www.knightfrank.com.

Knight Frank India is headquartered in Mumbai and has more than 1,400 experts across Bangalore, Delhi, Pune, Hyderabad, Chennai, Kolkata, and Ahmedabad. Backed by strong research and analytics, our experts offer a comprehensive range of real estate services across advisory, valuation and consulting, transactions (residential, commercial, retail, hospitality, land & capitals), facilities management and project management. For more information, visit www.knightfrank.co.in

Vivek Rathi
National Director - Research
Vivek.Rathi@in.knightfrank.com

Divya Agarwal
Vice President - Research
Divya.Agarwal@in.knightfrank.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.

Preeti Singh
Additional Director General - National Real Estate Development Council
naredco@naredco.in
www.naredco.in

CIN No. – U74140MH1995PTC093179