

RESEARCH



29th
edition

KNIGHT FRANK-FICCI-NAREDCO

Real Estate Sentiment Index

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Q2 2021 (APRIL - JUNE 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.

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FOREWORD



Shishir Bajjal

Chairman and Managing Director
Knight Frank India

India went through a severe, second wave of COVID in Q2 2021 that caused significant damage to health and loss of human lives. While the impact on human life was substantial, the economic impact was moderate because of graded regional lockdowns that did not restrict activities like construction. The real estate sector performance during Q2 2021 broadly mirrored the trajectory of market realities. Lockdowns caused delays in the residential real estate business, while a temporary halt to space expansion plans was seen in commercial real estate. Come June and the country started bootstrapping its way back to normalcy with the help of large scale, pan-India vaccination efforts. Mobility restrictions started to be relaxed gradually in many cities, facilitating the re-opening of offices and businesses.

The Q2 2021 edition of our Sentiment Index Report has captured the movement in stakeholder sentiments shaped by the second COVID wave during April to June 2021. As indicated by the Current Sentiment score of 35, stakeholder sentiments did falter during the second wave, but not as severely as they did during the first wave, when the score had hit an all-time low of 22. The Future Sentiment score reflected the market resilience as it continued to remain in the optimistic zone in Q2 2021, unlike Q2 2020, when it had slipped into the pessimistic zone. Though the pandemic is still ongoing and there are fears of a third wave, vaccination has helped offer a much needed respite to people. Further, drawing from their experience of the first wave, people are better prepared and resilient, bouncing back from the pandemic-induced slowdowns. All of these together have helped create a positive

outlook for the near future.

With this backdrop, I present to you the 29th edition of the Knight Frank-FICCI-NAREDCO Sentiment Index Report. I hope you find the Index valuable in understanding the current and future outlook of the real estate sector.

I thank all our survey participants for their valuable market insights.

Stay safe.

PARTNERS' TAKE ON THE SECTOR



Dr. Niranjan Hiranandani

National President, NAREDCO and
MD, Hiranandani Group

The Future Real Estate Sentiment Index from Knight Frank – FICCI – NAREDCO report divulges several key indicators for the way forward in FY 2021-2022. The Current Sentiment Index score in Q2 2021 reflects the impact of piecemeal restrictions in April and May followed by easing of curbs in June 2021. The calibrated reopening of economic activities with an accelerated inoculation drive has resulted in an upward trajectory of home buying demand and sales in June on the back of stability and security it offers during the deep crisis.

The pent up demand on festive tailwinds, fiscal impetus in the form of a stamp duty waiver, unchanged ready reckoner rates, historic low home loan interest rates and deal sweeteners by developers - cumulatively resulted in the demand impetus from domestic as well as the NRI home buyer segment. The positive sales velocity has resulted in lowering of ready to move inventory by renters turning into first-time home buyers and existing homeowners upgrading to larger luxurious apartments to incorporate a new normal lifestyle. This trend will continue to garner sales traction in the following quarters as a safe bet investment portfolio.

The future of housing remains bullish in view of optimistic economic growth, new project launch pipelines, rising GDP, improved core sector indicators, credit availability to branded developers, growing employment rates coupled with an attractive investment climate, resulting in the positive future sentiment score.

The outlook for commercial office market has also been progressive

in Q2 2021, for both leasing and rentals. The demand for office or dispersed commercial portfolios will expand on the back of a consolidation trend and expansion of satellite offices following the hub and spoke model. Value offices near value homes in an integrated township that offers a complete live-work-play lifestyle that helps to reduce carbon footprint, enhances productivity and increases employee retainability will be an ideal future of the work scenario. The remote, work near home trend will give fillip to new commercial development in suburban business districts as the city of Mumbai witnesses linear growth towards the rise of suburbia. Thus, the next few quarters should see an alignment to the new normal work trend shaping up in the work-sphere.

PARTNERS' TAKE ON THE SECTOR



Mr Getambar Anand

Co-Chair, FICCI Real Estate Committee &
Chairman & Managing Director, ATS Infrastructure Ltd.

Despite the debilitating impact of a pandemic, the outlook of the realty sector is positive. This is reflected in a recent Knight Frank- FICCI-NAREDCO study, which reports the future sentiment score of 56 in Q2 2021, an impressive rise from the Q2 2020 score of 41. There are several factors behind the growing positive sentiment. The nationwide vaccination drive has been a tremendous sentiment booster for the sector. The industry is also doing its bit by strengthening health infrastructure to support COVID patients and by initiating vaccination drives to inoculate over 2 crore construction workers. Furthermore, the sector is aggressively adopting 21st-century digital technologies to streamline the supply chain, attract home buyers, and most importantly, ensure business continuity.

In the initial phase of 2021, we were gearing up for a spirited turnaround, which was disrupted by the second wave. The real estate sector, however, has been capitalising on certain positive trends and emerging opportunities. Despite lockdowns, developers have completed some major commercial projects and have put them up for possession and lease. This shows the stronger confidence of developers in business opportunities in the new normal.

In the premium housing segment, the global uncertainties have led to higher NRI investments in Indian realty. It is estimated that NRIs have already invested over USD 13 billion in Indian realty in FY 2021. The affordable housing sales have shown strong growth, with figures in the Q4 of FY 2021 almost returning to pre-COVID levels. Additionally, the

sector is actively involved in kickstarting under-construction projects because brands that have performed and delivered in the past are seeing positive traction. A good off-take of ready to move in properties by end-users is another positive.

The realty sector is prepared to combat foreseeable future challenges and expects to record a strong growth number in the next three quarters, provided there is no third wave. Along with accounting for 6-7% of the Indian GDP, the sector is the second largest employer of skilled and unskilled labour from the economically weaker sections in the country and is a business generator for more than 100,000 MSMEs and ancillary industries providing over 250 items used in the making of a home. Therefore, it is a major growth driver and the backbone of the Indian economy. Overall, the real estate industry will continue to show greater self-reliance, resilience and agility in overcoming the forthcoming challenges and in building a promising future for the nation and our stakeholders.

STAKEHOLDERS' TAKE ON THE SECTOR



Mr K. T. Jithendran

CEO

Birla Estates Private Limited

“The residential real estate market was on a strong resurgence mode in Q4 2020 and the momentum continued in 2021 until the second COVID wave struck the nation in mid-March. The severity of this second wave and the graded lockdowns in different parts of the country during April and May impacted the business momentum during these months. However, things started picking up in mid-June as the wave subsided and the rate of vaccination increased. We are expecting a major revival in residential demand in the ongoing quarter (July-September 2021) as despite the second wave, all the fundamentals of the economy have remained intact. Housing loan rates are at an all-time low which is a huge impetus. People’s sentiments towards owning real estate are currently very strong as the pandemic has reiterated the emotional security associated with home ownership. Also, home has become very important post-pandemic as people are now spending a lot more time there. Thus, aspects such as design and layout, light and ventilation of the home, a slightly larger format of home with extra space, proximity to amenities and facilities have all gained significant emphasis. The pandemic has also reiterated the need for responsible and sustainable living thus boosting the demand for green, environment-friendly and low density living residential projects. Thus, there are numerous factors boosting residential demand at present. Further, real estate has always grown on the back of infrastructure development and significant progress has been made on numerous infrastructure projects during the second wave, especially in Mumbai. Government has also introduced a few new laws such as the Model Tenancy Act that

are likely to bring back investors into the housing market. Thus, there exist numerous factors to ensure a strong momentum in residential real estate segment in the coming months. The real estate industry has gone through a phase of significant consolidation in the last few years on account of several key events. As a result, the new recovery in real estate market will be largely led by corporate developers with good reputation and national footprint that focus on customer centricity. This coupled with technological developments such as digital platforms for virtual site visits and customer relationship management applications will play a huge role in connecting with customers and channel partners that will in turn help keep the sales momentum going. Thus, residential real estate demand is slated for a massive resurgence once the economy stabilises. Resurgence in commercial real estate demand will take slightly longer than the residential segment as work from home and hybrid working models have become a reality because of the pandemic. However, as soon as the pandemic settles down and vaccination penetration increases, the possibility of the occurrence of another wave will eventually subside. Once we overcome the fear of this pandemic, there will be a massive, quick rebound in the economy and on the back of that economic revival, commercial real estate market will rebound strongly. Science, technology, engineering and data centre industries will be the demand drivers of commercial real estate segment in the future.”

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.

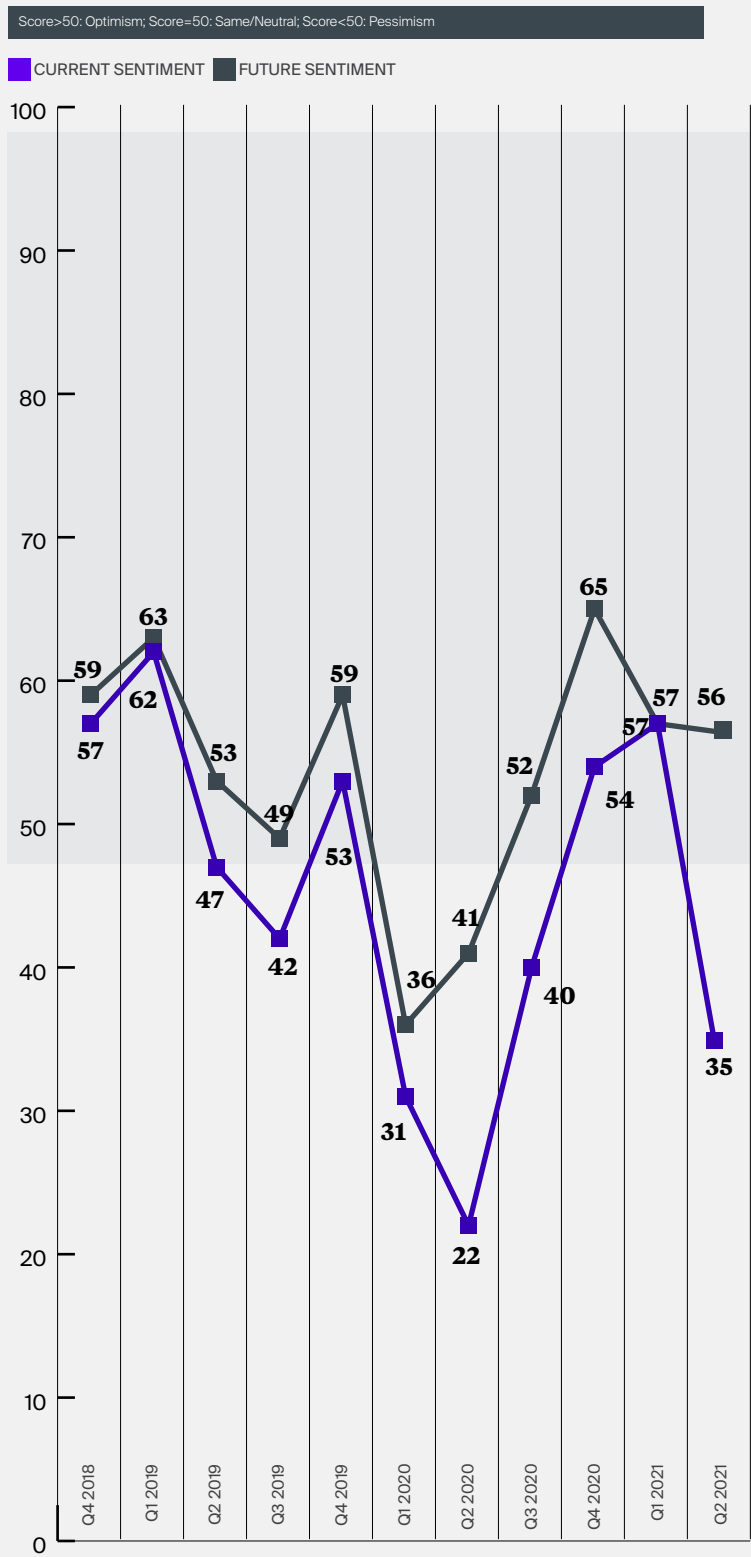
Section B focuses on the analysis of future sentiments of the stakeholders on different aspects such as the geography of stakeholders, stakeholder type (developer / non-developer), outlook specific to residential and office market, and outlook on the economy and funding scenario at large.

This survey edition is for the period April - June 2021 i.e. Q2 2021 and was conducted from 22nd June 2021 to 6th July 2021.

SENTIMENT INDEX SURVEY FINDINGS

SECTION A: OVERALL SENTIMENT SCORE

CURRENT SENTIMENT FALTERS, FUTURE OUTLOOK REMAINS OPTIMISTIC



Source: Knight Frank Research

A.1. CURRENT SENTIMENT SCORE

- The Current Sentiment score takes into account stakeholders' current outlook vis-a-vis six months back. The score dropped from 57 in Q1 2021 to 35 in Q2 2021, lowest in the last 12 months, moving into the pessimistic zone.
- Market sentiments were severely hit by the second COVID wave which started in March 2021. While a nationwide lockdown was avoided this time, all states went through phases of partial to complete lockdowns during March to June 2021. This impacted economic activity of both residential and office real estate segments as has been captured by the fall in the Current Sentiment score for this quarter.
- Though the second wave of the pandemic was more damaging to health and life than the first one, the negative impact it had on market sentiments was comparatively less. After the onset of the first wave of the pandemic, the Current Sentiment score had recorded an all-time low score of 22 in Q2 2020. A score of 35 in Q2 2021, although still in the pessimistic zone, is indicative of a more resilient market compared to the last time.

A.2. FUTURE SENTIMENT SCORE

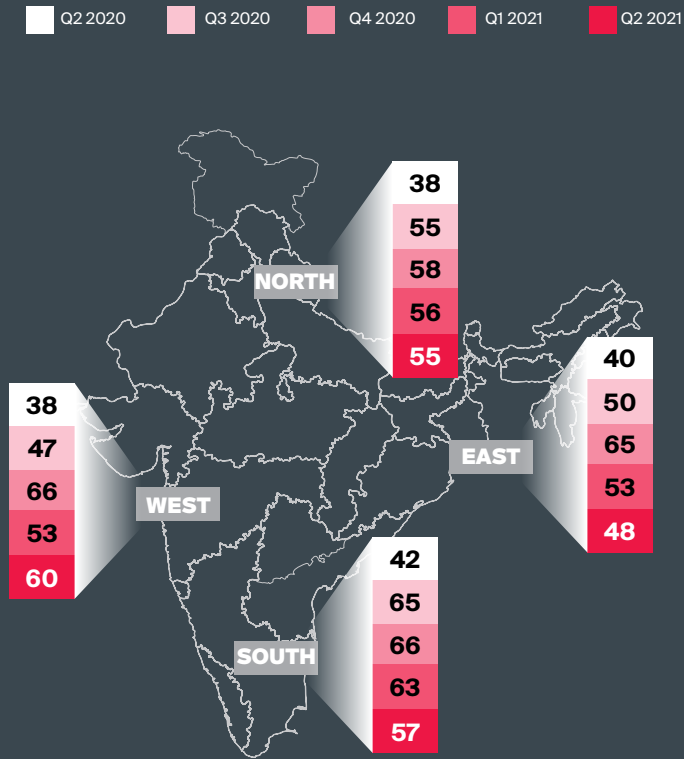
- The Future Sentiment score takes into account stakeholder outlook of the real estate sector for the coming six months. The score inched down marginally from 57 in Q1 2021 to 56 in Q2 2021, indicating the continuity in a positive outlook of market stakeholders.
- As lockdowns are being gradually lifted, mobility restrictions are being relaxed phase-wise, offices are opening up and the country is transitioning into the post-second wave phase. These developments have helped keep the stakeholder outlook positive for the next six months.
- The impact of the second wave was lesser on the Future Sentiment score than on the Current Sentiment score reflecting the market's preparedness to bounce back from the temporary disruptions caused by the harrowing phases of the pandemic.

SECTION B: FUTURE SENTIMENTS

B.1 ZONAL FUTURE SENTIMENT SCORE

FUTURE SENTIMENTS STAY OPTIMISTIC IN MOST REGIONS

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



Source: Knight Frank Research

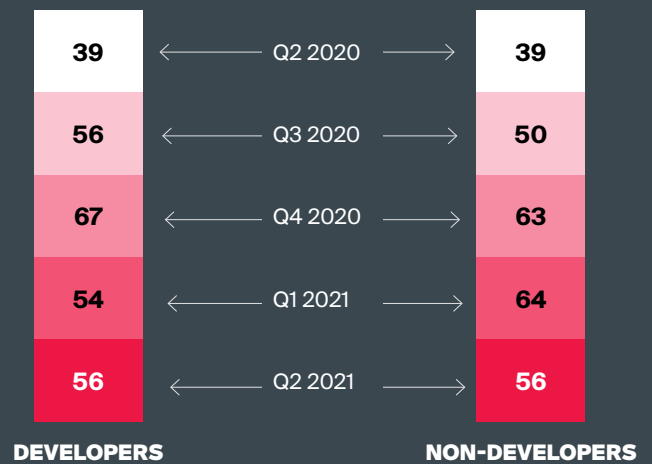
FINDINGS

- Buoyed by the post-second wave resumption of economic activity, Future Sentiments of stakeholders for the next six months have remained in the optimistic zone across most regions.
- North zone's Future Sentiment score has inched down marginally from 56 in Q1 2021 to 55 in Q2 2021, while for the South zone, the score has fallen from 63 in Q1 2021 to 57 in Q2 2021.
- The Future Sentiment score of the East region has entered the pessimistic zone with a fall from 53 in Q1 2021 to 48 in Q2 2021.
- In contradiction to such drops, West zone's Future Sentiment score has climbed up this quarter, going from 53 in Q1 2021 to 60 in Q2 2021.

B.2 STAKEHOLDER FUTURE SENTIMENT SCORE

DEVELOPER OUTLOOK IMPROVES, NON-DEVELOPER OUTLOOK WEAKENS

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



Source: Knight Frank Research;

Note: Non-developers include banks, financial institutions and PE funds

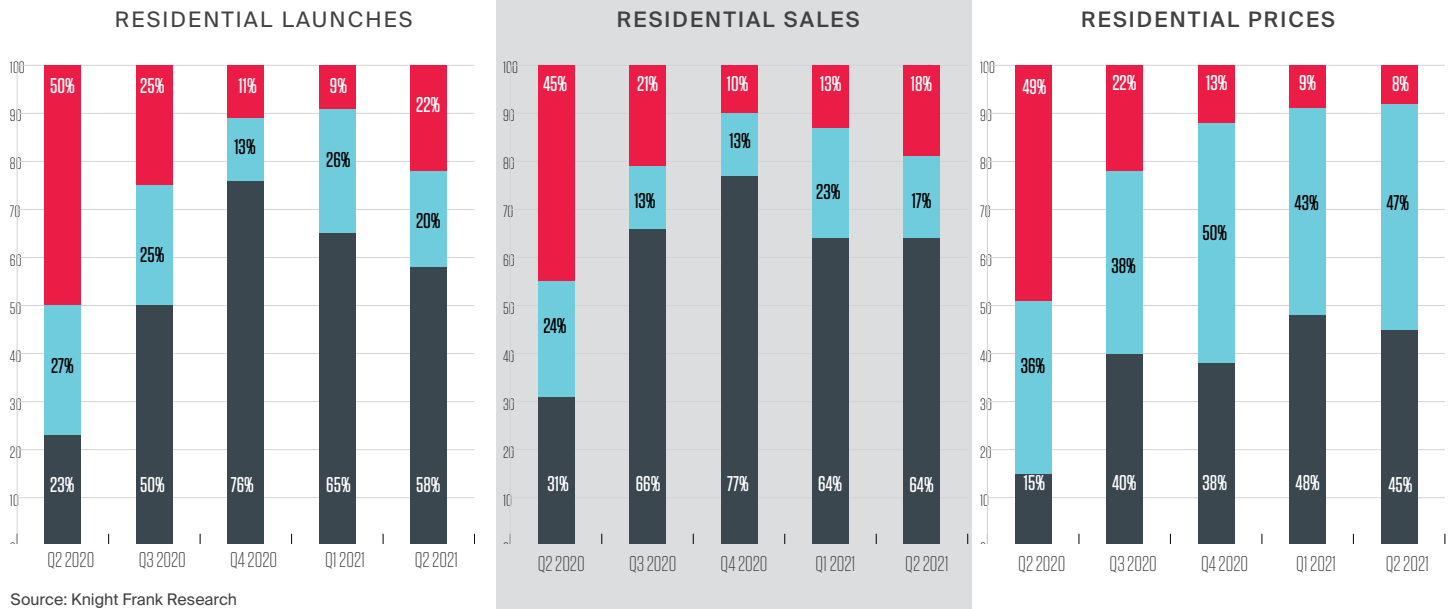
FINDINGS

- The future outlook of both developers and non-developers (includes banks, financial institutions and PE funds) remains in the optimistic zone in Q2 2021, although there has been a significant fall in the sentiment score for non-developers.
- Developer sentiments have improved marginally from 54 in Q1 2021 to 56 in Q2 2021 indicative of their positive expectations from the real estate business in the coming six months.
- Non-developer sentiments, on the other hand, have fallen from 64 in Q1 2021 to 56 in Q2 2021 indicative of the caution in their outlook for the next six months.

B.3 RESIDENTIAL MARKET OUTLOOK

RESIDENTIAL MARKET OPTIMISM CONTINUES

■ INCREASE ■ SAME ■ DECREASE



Source: Knight Frank Research

FINDINGS

- The residential real estate segment has recorded strong recovery across cities post the onset of the pandemic. Driven by the heightened need for home ownership, residential sales have gained momentum across ticket-sizes over the last year. Reflecting this positive performance, stakeholder outlook for the residential real estate segment has been recording a positive outlook since the past few quarters. This optimism was only slightly mellowed in Q2 2021 due to the second COVID wave exigencies.
- In Q2 2021, 64% of the survey respondents, the same as in Q1 2021, expect residential sales to increase in the next six months. The share of survey respondents that believe sales will decline in the next six months increased from 13% in Q1 2021 to 18% in Q2 2021.
- On the supply front, the share of respondents expecting a decline in new project launches increased from 9% in Q1 2021 to 22% in Q2 2021. At the same time, the share of survey respondents with the opinion that launches would either increase or remain at the current levels in the next six months fell from 91% in Q1 2021 to 78% in Q2 2021.
- With regard to residential prices, 47% of the Q2 2021 survey respondents – up from 43% in Q1 2021 – expect prices to remain

stable in the next six months, while 45% of Q2 2021 survey respondents believe that prices will increase.

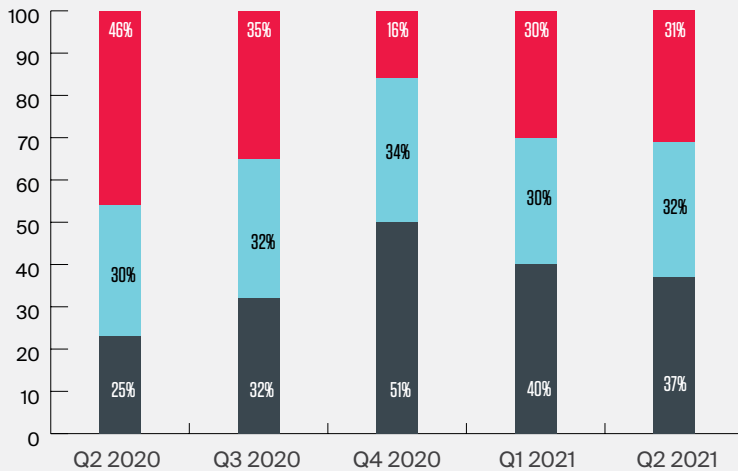


B.4 OFFICE MARKET OUTLOOK

OFFICE MARKET OUTLOOK IMPROVES

■ INCREASE ■ SAME ■ DECREASE

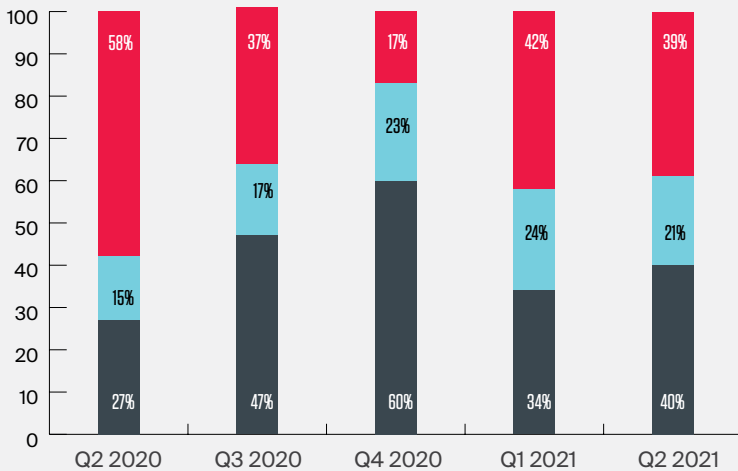
NEW OFFICE SUPPLY



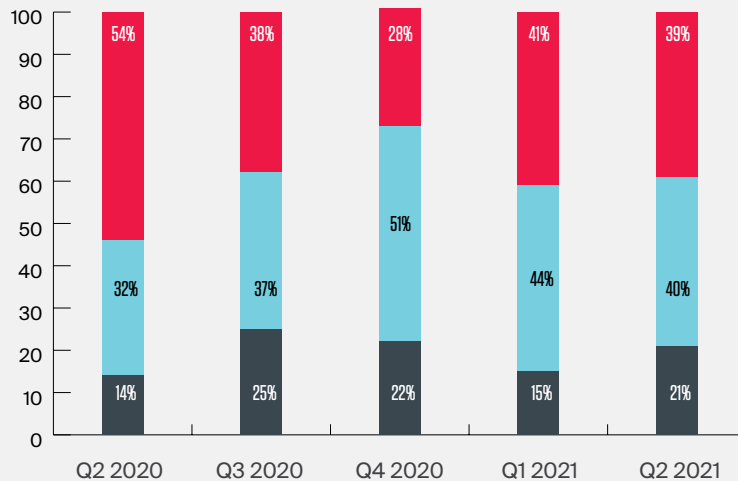
FINDINGS

- Stakeholder outlook on office market has improved for the parameters of leasing and rents in Q2 2021. After weathering the lockdown-induced lull in the second quarter, offices have started to re-open across cities. Buoyed by the lifting of lockdowns and relaxing of mobility restrictions since June, stakeholders expect a pick-up in office market activity in the coming six months.
- On the demand front, 40% of the Q2 2021 survey respondents – up from 34% in Q1 2021 – expect office space leasing to increase in the next six months.
- In terms of supply, 69% of the Q2 2021 survey respondents – marginally down from 70% in Q1 2021 are of the opinion that new office supply will either increase or remain the same over the next six months.
- 21% of the Q2 2021 survey respondents – up from 15% in Q1 2021 - expect office rents to increase in the next six months, while 40% expect rents to remain stable.

OFFICE LEASING



OFFICE RENTS



Source: Knight Frank Research



B.5. ECONOMIC SCENARIO AND AVAILABILITY OF FUNDING

ECONOMIC SCENARIO EXPECTATIONS STEADY, OUTLOOK ON CREDIT AVAILABILITY IMPROVES

OVERALL ECONOMIC MOMENTUM

INCREASE SAME DECREASE



	Q2 2020			Q3 2020			Q4 2020			Q1 2021			Q2 2021		
	33%	20%	47%	57%	12%	31%	82%	11%	7%	68%	17%	15%	68%	16%	16%

AVAILABILITY OF FUNDING

INCREASE SAME DECREASE



	Q2 2020			Q3 2020			Q4 2020			Q1 2021			Q2 2021		
	25%	28%	47%	38%	31%	31%	59%	28%	13%	41%	40%	19%	46%	33%	20%

Source: Knight Frank Research

FINDINGS

- Key macroeconomic indicators showed an impact of the second COVID wave which was not as damaging as the last wave. For instance, the Manufacturing PMI (Purchasing Managers' Index) dropped to 50.8 during the second wave in May 2021 whereas during the first wave in May 2020, it had seen a dramatic drop to 30.8. Similarly, the Service PMI dropped to 46.4 in May 2021 as against the 12.6 recorded in May 2020. (PMI is a leading economic indicator that gives a sense of expected manufacturing and services sector growth, going forward.)
- Given this backdrop, 84% of the Q2 2021 survey respondents – down marginally from 85% of Q1 2021 – still expect the economic scenario to improve or remain at the present levels for the next six months.
- With respect to credit availability to the real estate sector, the stakeholder outlook remains optimistic in Q2 2021. 46% of the Q2 2021 survey respondents – up from 41% in Q1 2021 – expect the credit situation to improve in the next six months, while 33% expect capital availability to stay at the current levels.

CONCLUDING REMARKS

The second COVID wave impacted the current sentiments of real estate stakeholders, although not as severely as the last wave did. The optimistic future outlook shows resilience in stakeholder sentiments regarding the performance of the real estate sector in the coming six months.



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In India, Knight Frank is headquartered in Mumbai and has more than 1,200+ 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. The company completed 25 years of serving our clients as their partners in India. For more information, visit www.knightfrank.co.in

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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:

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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 fulfill this endeavour.

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