

RESEARCH



KNIGHT FRANK-NAREDCO

# Real Estate Sentiment Index

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33<sup>rd</sup>  
edition

Q2 2022 (APRIL - JUNE 2022)

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.

As we transition to the second half of the calendar year 2022, a host of factors are playing out globally. Russia's continued aggression in Ukraine, the expected slowdown in Europe's economy, and recessionary fears in the United States have taken centre stage giving rise to caution amongst businesses.

Additionally, the new variants of Covid-19 and reinfections remain a cause of watchfulness globally.

In case of India, global headwinds slowed India's GDP growth to 4.1% in Q4 FY 22, and although growing, early high frequency indicators have moderated in June 2022. The global developments have kept inflation levels elevated and forced the Reserve Bank of India (RBI) to action monetary policy tightening to break the high inflation level, which has persistently stayed above its upper tolerance band of 6%. As a result, after a cumulative 90 basis points increase in May and June this year, a third repo rate hike in August appears imminent.

The pandemic situation lingers with the recent increase in Covid-19 cases in big Indian cities. However, with wide vaccination coverage and booster shots, mobility and travel are not restricted, and there is a semblance of normalcy.

In terms of real estate sector performance in India, the residential and office markets have continued to post robust growth on the back of inherent demand conversion in the first half of 2022. The strong preference for home ownership which came to the fore during the peak of pandemic in 2020 has continued thus far translating into a housing market upcycle. Similarly, in the office sector, 'return to office' is the norm now and improvement in physical occupancy levels in offices is driving leasing volume, bringing them back to pre-pandemic levels gradually. Nevertheless, with the current global challenges, stakeholders in the real estate sector remain watchful, yet optimistic for the future.

With this backdrop, I present to you the current edition of Knight Frank-NAREDCO Real Estate Sentiment Index for Q2 2022 (April-June 2022). This quarterly publication is a survey-based take on the real estate sector, economy and funding availability by the key supply-side stakeholders and covers residential and office asset classes. The report endeavors to provide a holistic view of the current and future sentiments prevailing in the real estate sector.

I hope you find the 33<sup>rd</sup> edition of this report a valuable tool in understanding the current and future outlook of the real estate sector. I am thankful to all the industry participants for taking the survey and sharing their valuable market insights.

Stay healthy and be safe.

## PARTNERS' TAKE ON THE SECTOR



**Rajan Bandelkar**  
President - NAREDCO

The Indian real estate sector is one of the few bright spots in the global economy. The sector has been performing well and has been stable for the past few quarters. While the overall economic scenario and world order are of caution, strong fundamentals of the Indian economy and the real estate sector continue to give strength to various stakeholders, including the developers, the development authorities, policymakers, and the end consumers. With the government's focus on reforms to tighten the monetary policy and the economy, we can look forward to an even stronger real estate sector in future.

The market trends visible over the past two to three quarters prove that despite headwinds, the sector will remain stable. While there has been a significant increase in the number of first-time homebuyers in the market, a rebound in activities in the post pandemic period is led by a rise in employment, home ownership and investments in the sector.

The Government's thrust on the development of cities and infrastructure, promotion of affordable housing and the sector's focus on deliveries will collectively increase the housing supply and lead to further stability.

## 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 April-June 2022 i.e., Q2 2022 and was conducted from 21st June 2022 to 5th July 2022.



# SENTIMENT INDEX SURVEY FINDINGS

## SECTION A: OVERALL SENTIMENT SCORE

CURRENT AND FUTURE SENTIMENT SCORES MODERATE, YET OPTIMISTIC

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

Sentiment Index Score



Source: Knight Frank Research

### A1. Current Sentiment Score

- In Q2 2022, the Current Sentiment Index Score moderated from the previous quarter's all-time high of 68 to 62. Despite a resolute economic outlook in Q1 2022, the two consecutive repo rate hikes in May and June 2022 have altered the stakeholder sentiment towards the real estate sector.
- The Current Sentiment Score signifies stakeholders' current outlook in comparison to six months back. Whilst the Current Sentiment Score has inched down, it is indicative of optimism. The real estate supply side stakeholders remain watchful of tripartite global risks - economic turmoil in the United States, Russia's continued aggression in Ukraine and Europe's economy slipping into a slowdown.

### A2. Future Sentiment Score

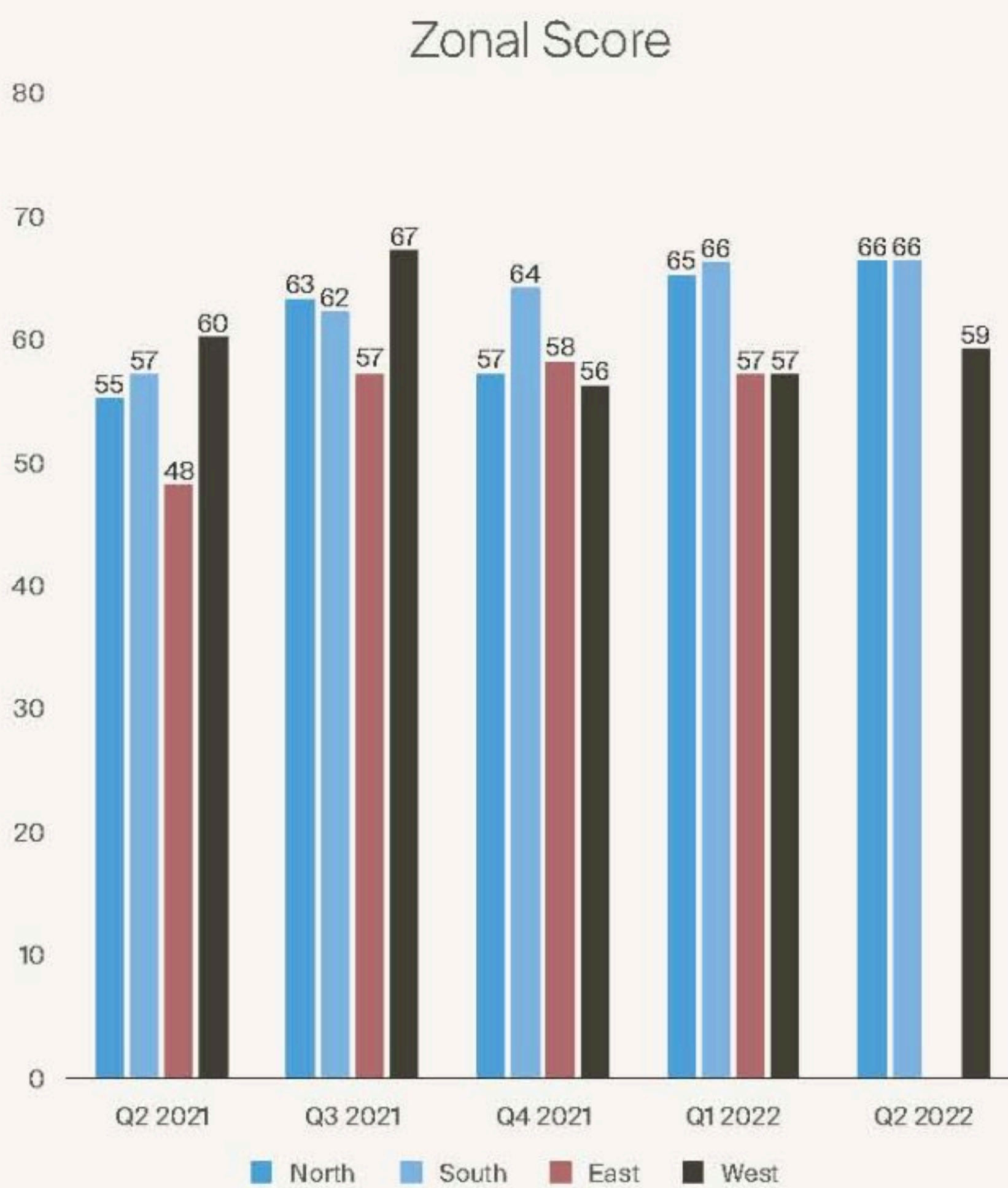
- The Future Sentiment Score has shrunk from its historic high of 75 in Q1 2022 to 62 in Q2 2022. The outlook of stakeholders reflects caution amidst global challenges.
- In Q2 2022, the Current Sentiment Index score and Future Sentiment Score are equivalent as stakeholders are confounded by the current economic climate where housing affordability has been impacted and the effects of a slowing global economy on India's real estate sector is yet to play out.

## SECTION B: FUTURE SENTIMENTS

### B1. Zonal Future Sentiment Score

ZONAL SCORES INDICATIVE OF STABILITY

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



Source: Knight Frank Research

#### Findings

- In Q2 2022, the Future Sentiment scores inched up in both the North Zone and the West Zone. Whilst the score in North Zone inched up from 65 in Q1 2022 to 66 in Q2 2022, West Zone noted an increase from 57 to 59 in the same period.
- In South Zone, the future stakeholder sentiments remained at par with the previous quarter, with a score of 66.
- Stakeholders in these zones remained hopeful of the real estate demand upcycle continuing in the next six months. The real estate sector's transformational changes in the past few years are the key reason behind stakeholder optimism even as interest rates have started rising.

### B2. Stakeholder Future Sentiment Score

DEVELOPER SENTIMENTS SCALE UP, NON-DEVELOPERS WATCHFUL

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



Source: Knight Frank Research

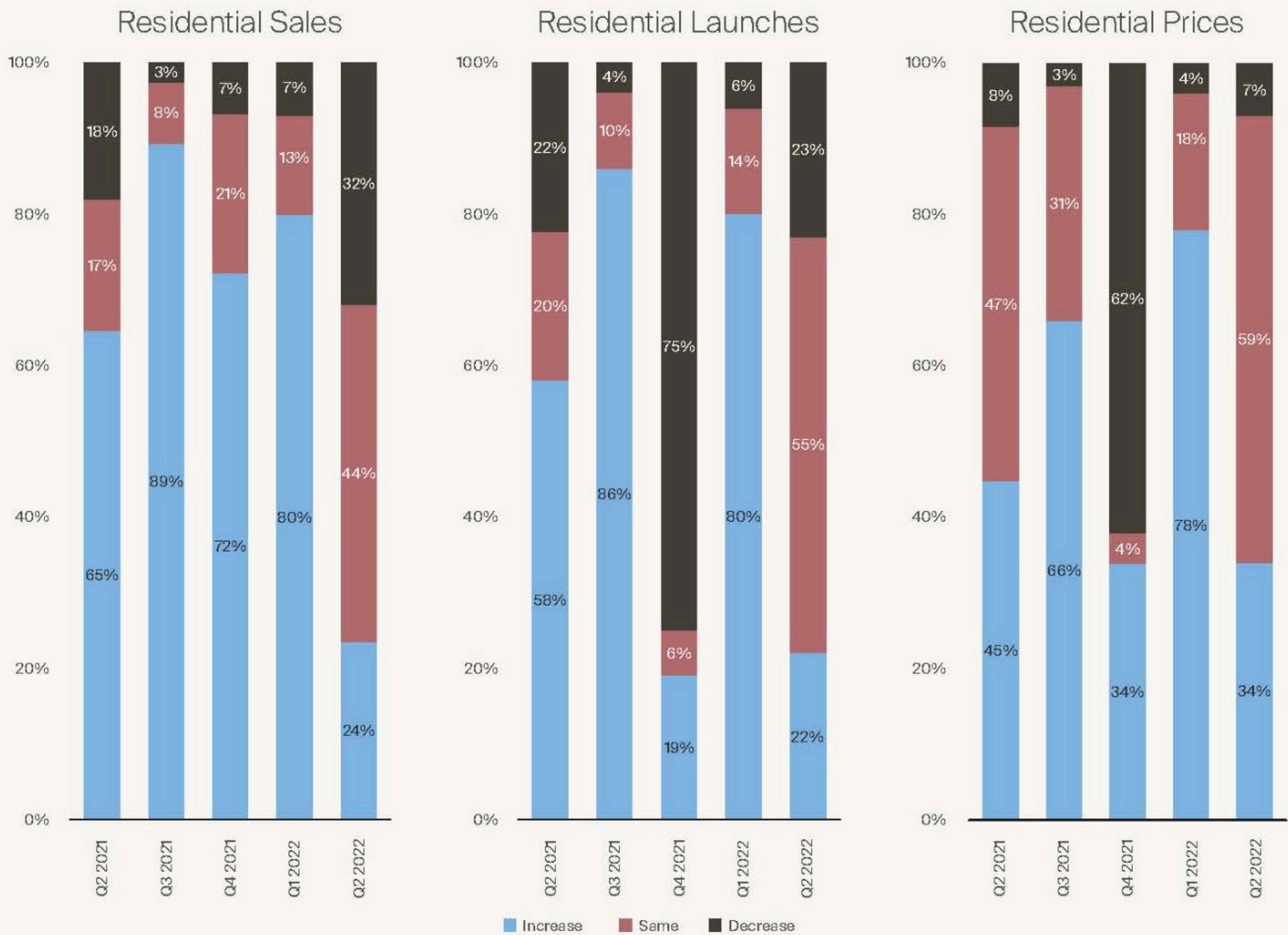
Note: Non-Developers include banks, financial institutions and PE funds

#### Findings

- The Developer Future Sentiment Score has increased from 56 in Q1 2022 to 61 in Q2 2022. In Q2 2022, developers remained optimistic about the next six months despite rising cost pressures and home loans getting expensive. This is largely due to the strong demand upcycle on the back of homebuyers looking to close home purchases before the interest rates and property prices rise further.
- In contrast, the Non-Developer (which includes banks, financial institutions, PE funds) Future Sentiment Score has declined from 67 in Q1 2022 to 64 in Q2 2022. The institutional investors' outlook remains strong yet watchful for the next six months as there is a semblance of normalcy due to widespread vaccinations and no restrictions on movement.

**B3.** Residential Market Outlook

CAUTIOUS FUTURE OUTLOOK



Source: Knight Frank Research

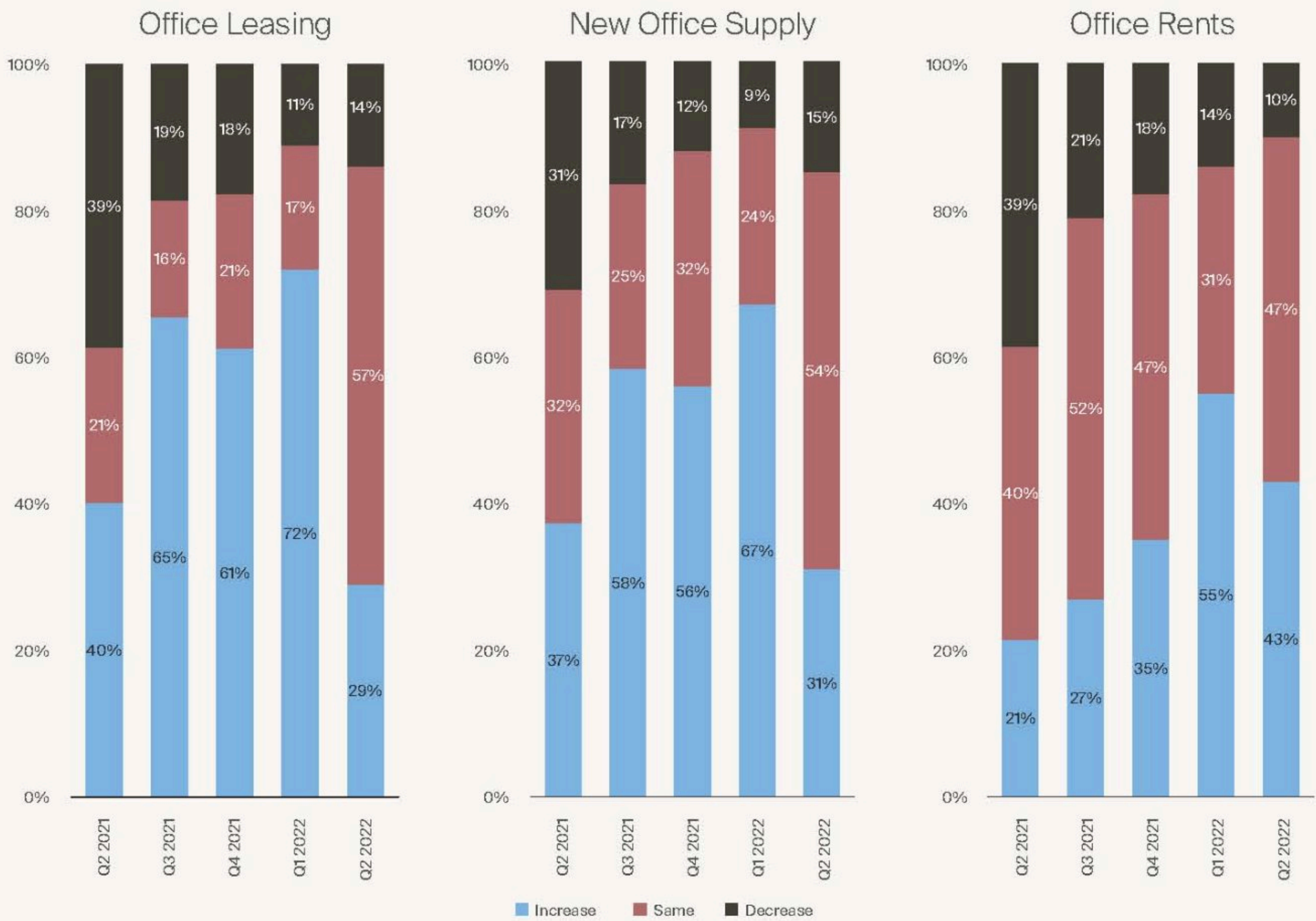
**Findings**

- In Q2 2022, 44% of the survey respondents expect residential sales to remain stable in the next six months. This is in sharp contrast to Q1 2022, when 13% of the respondents held a similar view.
- Stakeholder sentiments about residential launches are also impacted for the next six months. 55% of the stakeholders opine residential supply to remain stable in the next six months.
- In the current quarter, 59% of the survey respondents expect residential prices to remain stable for the next six months. In comparison, during Q1 2022, only 18% of the survey respondents had a similar take. At a time when housing affordability has been adversely impacted, the majority of stakeholders opine that there may not be further room for a price rise.

**B4. Office Market Outlook**

OFFICE MARKET OUTLOOK REFLECTS PRUDENCE

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



Source: Knight Frank Research

**Findings**

- With no restrictions on mobility and travel, 57% respondents feel that office leasing in the next six months will remain at par with the current high volume. In Q1 2022, only 17% held a similar view.
- In Q2 2022, 47% survey respondents' outlook for office rents is stable. In the previous quarter, 31% survey respondents had a similar opinion. Although moderated

- from 55% in Q1 2022, 43% respondents expect an increase in office rents.
- As transaction volume remains stable, the stakeholder outlook for new office supply mirrors a similar view. In Q2 2022, 54% of the survey respondents expect that new office supply will remain stable, whereas in Q1 2022, 24% of the survey respondents had expected the same.

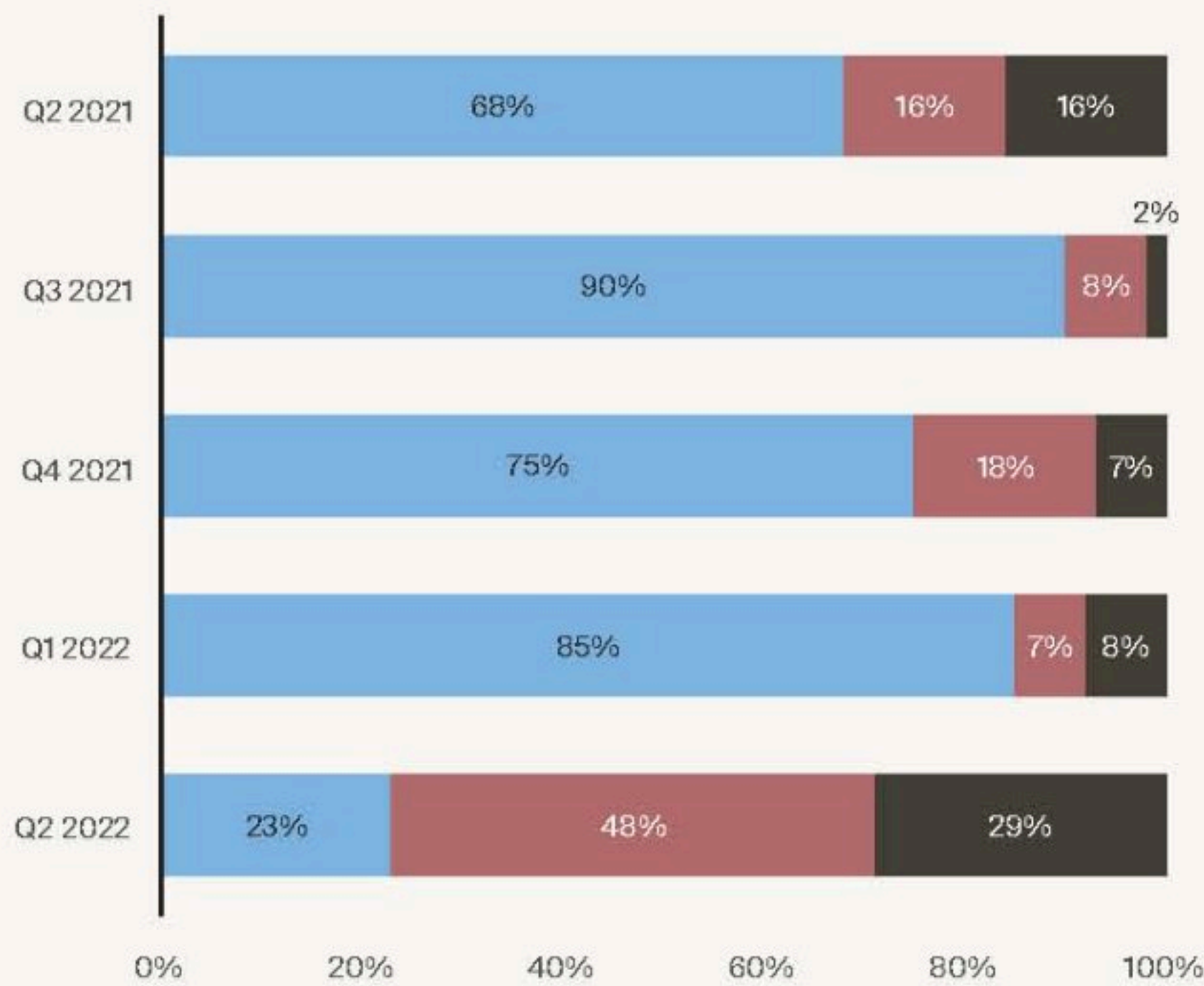


**B5.** Economic Scenario and Availability of Funding

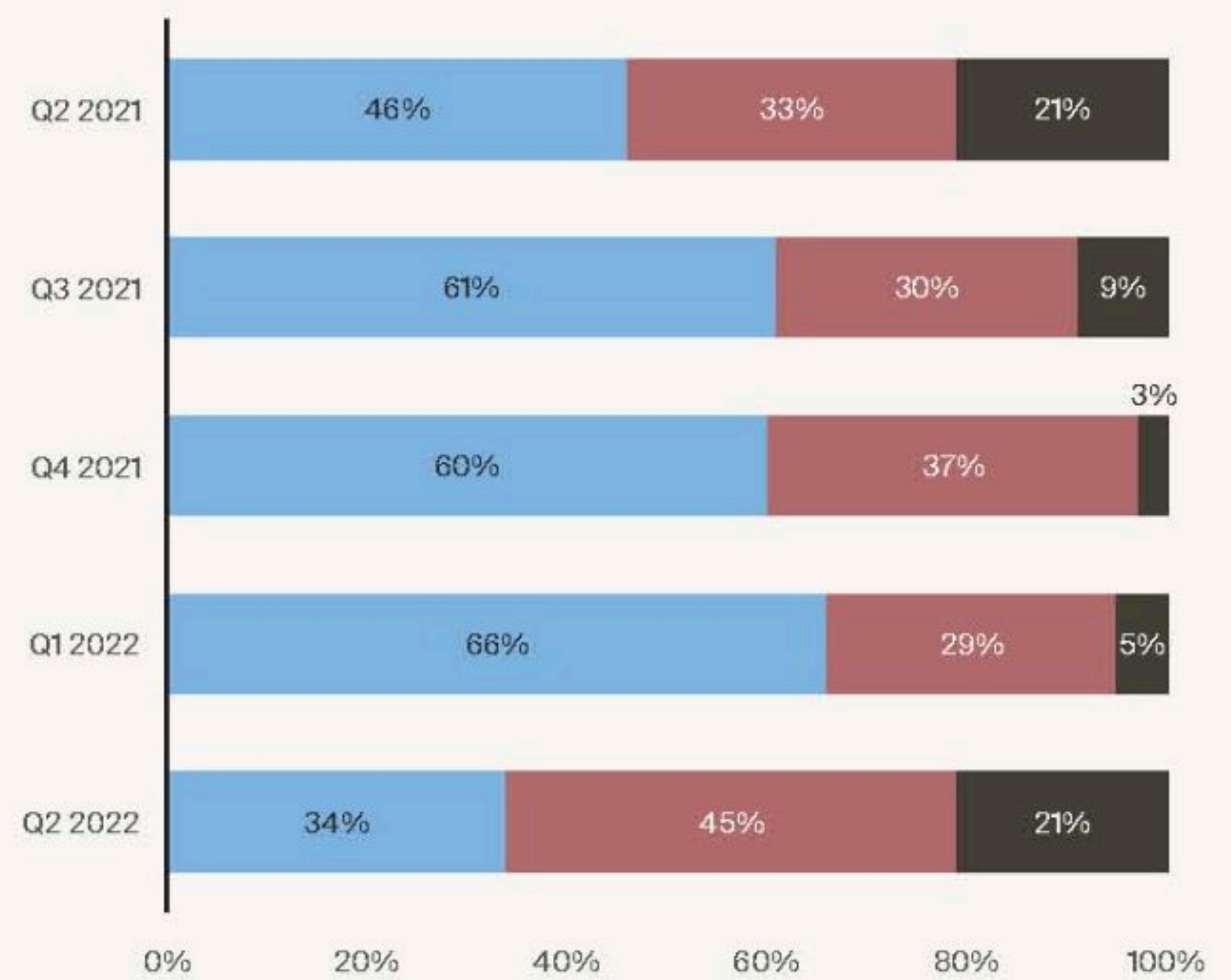
ECONOMIC OUTLOOK REFLECTS RESILIENCE

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

Overall Economic Momentum



Availability of Funding



■ Increase ■ Same ■ Decrease

Source: Knight Frank Research

**Findings**

- Tightening government policies in world's major economies, a falling rupee, growing current account deficit and concerns over imported inflation have cast a shadow on the outlook for the Indian economy. This has impacted the stakeholder view for the next six months.
- As the current scenario evolves, 48% of survey respondents in Q2 2022 expect the overall economic momentum to remain the same in the next six months.
- Despite the evolving economic turmoil globally, stakeholders are confident of the investment activity remaining stable in the real estate sector in the next six months. In Q2 2022, 45% survey respondents are of the opinion that funding availability will remain the same in the next six months, while 34% expect funding availability to increase, and 21% expect it to decline in the same period.

## CONCLUDING REMARKS

Global headwinds have kept the domestic inflation level elevated raising expectation for continued monetary tightening by central banks. However, FY 2023 economic growth expectation for India and real estate sector's fundamentals remain healthy. This has ensured that stakeholder sentiment towards the real estate sector, though moderated, yet remain positive for the next six months.



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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 fulfil this endeavour.

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