



RESEARCH
Q1 2023 (JANUARY - MARCH 2023)



KNIGHT FRANK-NAREDCO

REAL ESTATE SENTIMENT INDEX

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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 domestic consumer inflation in India has edged down in March 2023 as well as softened in major economies such as the United States. In Europe, the prices continue to accelerate in many of the region's top economies as inflationary pressures persist. In India, the Reserve Bank of India (RBI) took a pause in the interest rate hike cycle in April 2023 keeping the repo rate unchanged at 6.5%. As India's macro-economic indicators continue to demonstrate resilience, consumer confidence remains strong. The demand for residential real estate shows signs of stability and banks are offering special rates to lure customers amid increased home loan interest rates.

During Q1 2023, the threat of the global economic slowdown influenced stakeholder sentiments, yet the Current Sentiment Index Score remains comfortably in the optimistic zone. Despite the uncertainty visible at the global stage, stakeholders remain optimistic about the Indian economy and the real estate sector performance for the next six months. Softening of inflation and RBI measures place India on a strong footing compared to its global peers. As a result, the stakeholders remain very optimistic about the next six months.

In the wake of these events, I present to you the 36th edition of Knight Frank-NAREDCO Real Estate Sentiment Index for Q1 2023 (January-March 2023). This quarterly publication captures the current and future sentiment towards the real estate sector, the economic climate and funding availability as perceived by the supply-side stakeholders.

I hope you find this report insightful and interesting.

I thank all the industry participants who took this survey and shared their valuable market insights with us.

Stay healthy and be safe.

PARTNERS' TAKE ON THE SECTOR



Rajan Bandelkar

President – NAREDCO India

Managing Director – Raunak Group

“ Moving into the second quarter of 2023, the Indian economy and real estate sector are showing resilience and an optimistic outlook despite the possibility of a global economic slowdown. Although the Current Sentiment Index Score has decreased from the previous quarter, we still have confidence in India's real estate market due to the rise in the Future Sentiment Score. The Northern region has seen a significant increase in stakeholder optimism, while the developer Future Sentiment Score has decreased. However, non-developer stakeholders such as banks, financial institutions, and PE funds have shown increasing optimism. Overall, the residential market is expected to do well in terms of sales, launches, and pricing, and the office leasing and rents are also projected to be positive, indicating a strong real estate sector in India.

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.

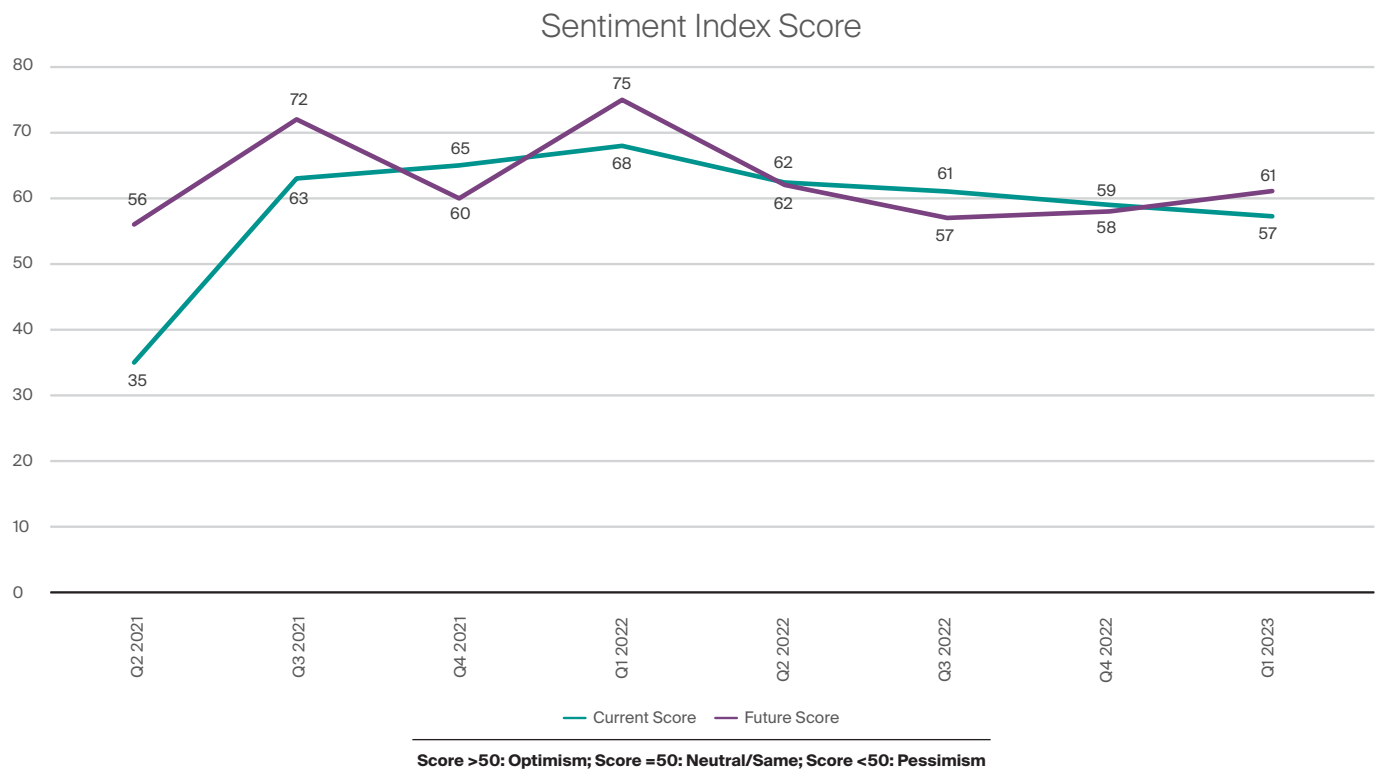
This survey edition is for the period January-March 2023 i.e., Q1 2023 and was conducted from 3rd April 2023 to 17th April 2023.



SENTIMENT INDEX SURVEY FINDINGS

SECTION A: OVERALL SENTIMENT SCORE

BOTH CURRENT AND FUTURE SENTIMENT SCORES INDICATE OPTIMISM



Source: Knight Frank Research

A1. Current Sentiment Score

- The Current Sentiment score has scaled down in the optimistic zone from 59 in Q4 2022 to 57 in Q1 2023 mainly on account of stakeholder perceptions of the global recessionary environment.
- The Current Sentiment score signifies stakeholders' current outlook in comparison to the preceding six months. Whilst the Current Sentiment score has inched down, it is within the optimistic zone as the Indian economy and the real estate sector performance remains resilient.

A2. Future Sentiment Score

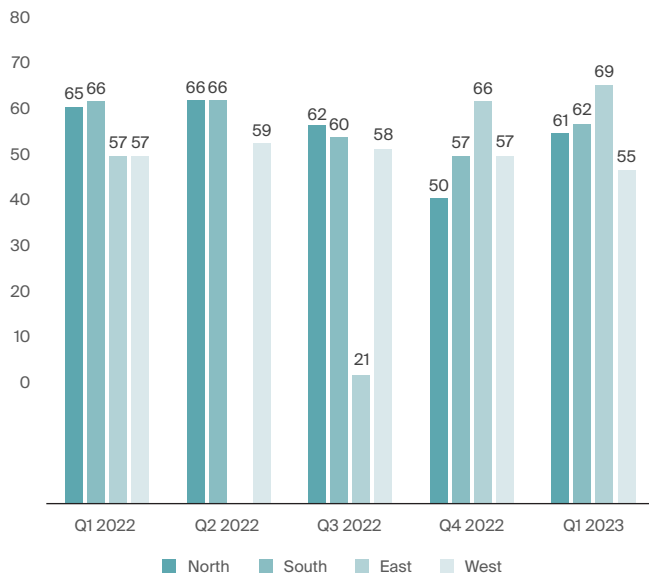
- The Future Sentiment score has increased from 58 in Q4 2022 to 61 in Q1 2023 on account of the resilience of India's macro-economic indicators and improving domestic consumer confidence. Despite the uncertainty visible at the global stage, stakeholders remained optimistic about the Indian economy and the real estate sector performance for the next six months.

SECTION B: FUTURE SENTIMENTS

B1. Zonal Future Sentiment Score

ZONAL SCORES SCALE UP IN OPTIMISTIC ZONE

Zonal Score



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

Source: Knight Frank Research

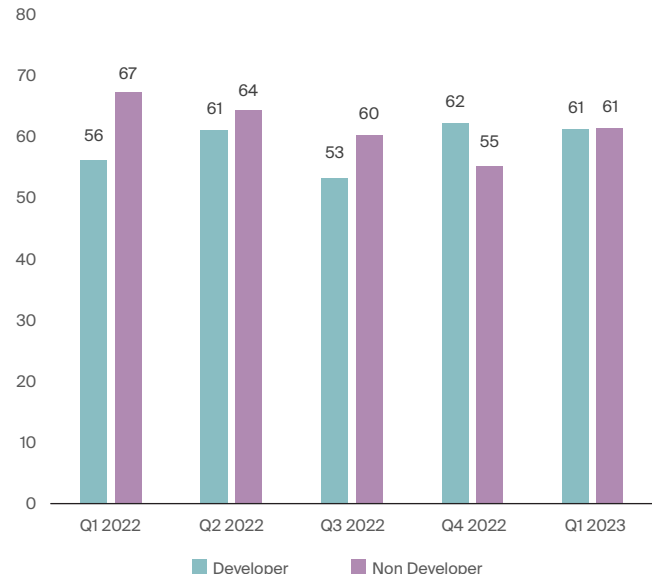
Findings

- In Q1 2023, the Future Sentiment scores scaled up in all the zones except the West Zone, as stakeholders in this region remain cautious on the outlook for the real estate sector in the next six months. Whilst the score in North Zone rose from 50 in Q4 2022 to 61 in Q1 2023, West Zone noted a marginal decline from 57 to 55 in this quarter. Despite the moderation, the scores remained optimistic in the West Zone.
- In South and East Zones, the future stakeholder sentiments scaled up to 62 and 69 respectively.

B2. Stakeholder Future Sentiment Score

NON-DEVELOPER SENTIMENT SCORE SURGES

Stakeholder Score



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

Source: Knight Frank Research

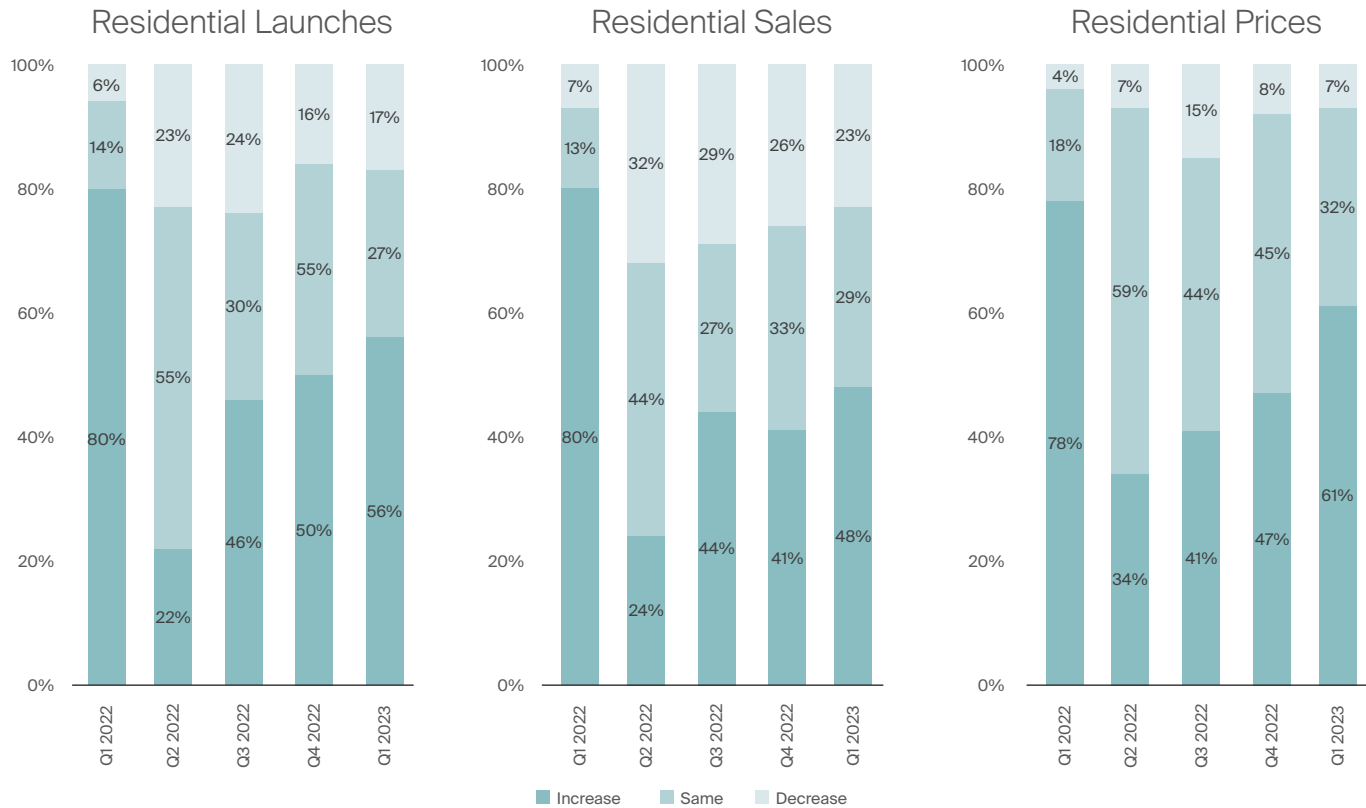
Note: Non-Developers include banks, financial institutions and PE funds

Findings

- The Developer Future Sentiment score has moderated slightly from 62 in Q4 2022 to 61 in Q1 2023. The developer fraternity remains optimistic about the next six months as the underlying demand for real estate as an asset class remains strong. While housing affordability remains a concern due to previous interest rate hikes, the performance of the residential sector has boosted developer sentiments for the next six months.
- Interestingly, the Non-Developer (the segment which includes banks, financial institutions, PE funds) Future Sentiment score increased from 55 in Q4 2022 to 61 in Q1 2023. The institutional investors, who remained watchful in the past periods, indicated enhanced confidence in the resilience of the Indian businesses to bounce back. The pause taken in the interest rate hike cycle by the Reserve Bank of India (RBI) also impacted them positively and fortified their commitment to investments in India.

B3. Residential Market Outlook

BUOYANT FUTURE OUTLOOK



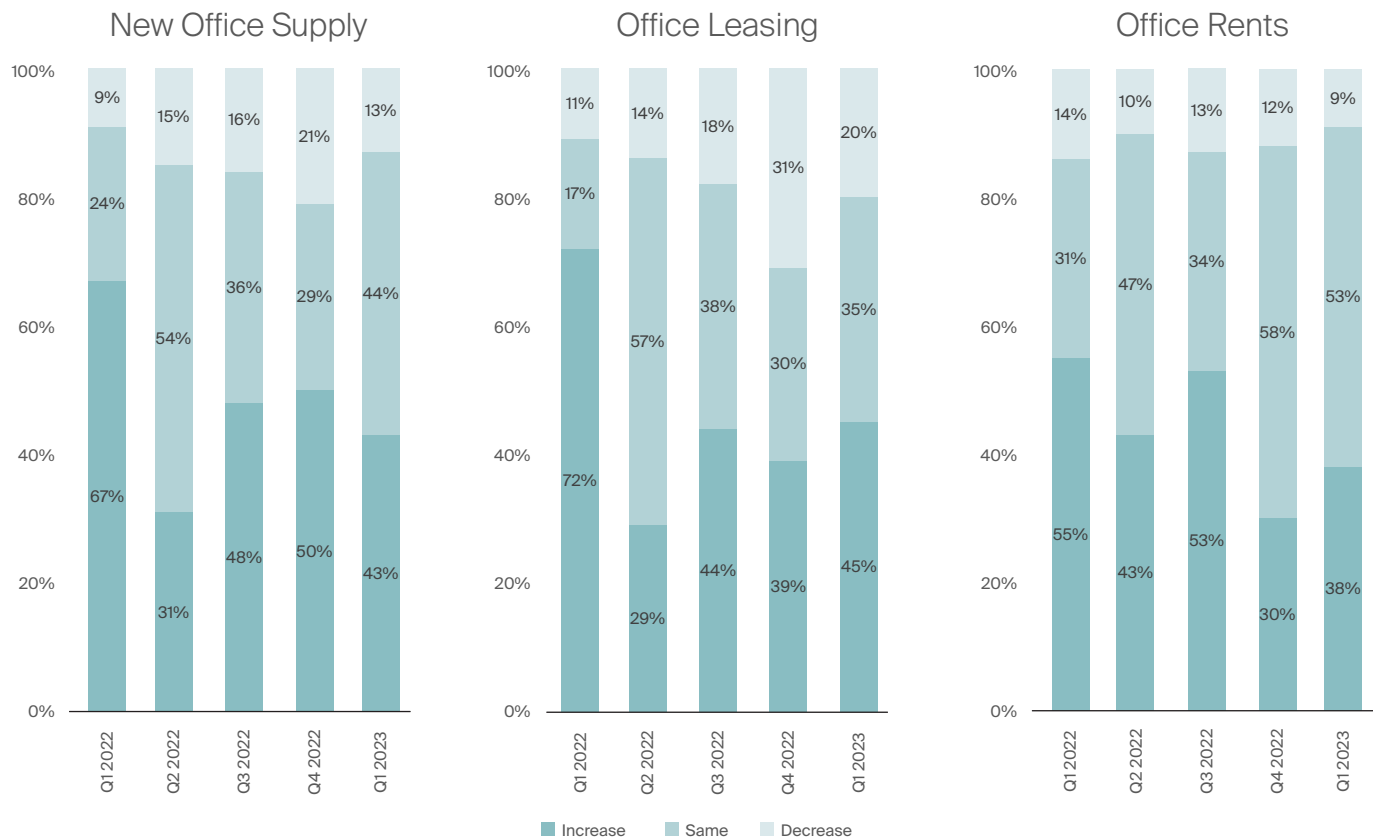
Source: Knight Frank Research

Findings

- The residential market outlook in Q1 2023 reflects optimism as stakeholders remain bullish on all parameters – sales, launches and pricing for the next six months. Compared to the past quarter, the percentage of stakeholders who expect growth has increased this time on all fronts.
- In Q1 2023, the percentage of survey respondents that expect residential sales to increase rose to 48%. In comparison, 41% of the respondents had opined the same in Q4 2022. The stakeholders are hopeful that the current demand momentum will sustain in the next six months in the residential segment, with the pause in the interest rate hike cycle.
- In Q1 2023, the stakeholder sentiments about residential launches improved as 56% stakeholders surveyed expect an increase on this parameter. In Q4 2022, 50% of the stakeholders shared a similar view. Steady sales in the residential market has given an impetus for new projects to be launched in the market as indicated by the survey respondents.
- In Q1 2023, 61% of the survey respondents expect residential prices to increase in the next six months. In comparison, during Q4 2022, 47% of the survey respondents had held a similar view.

B4. Office Market Outlook

OFFICE MARKET OUTLOOK UPBEAT



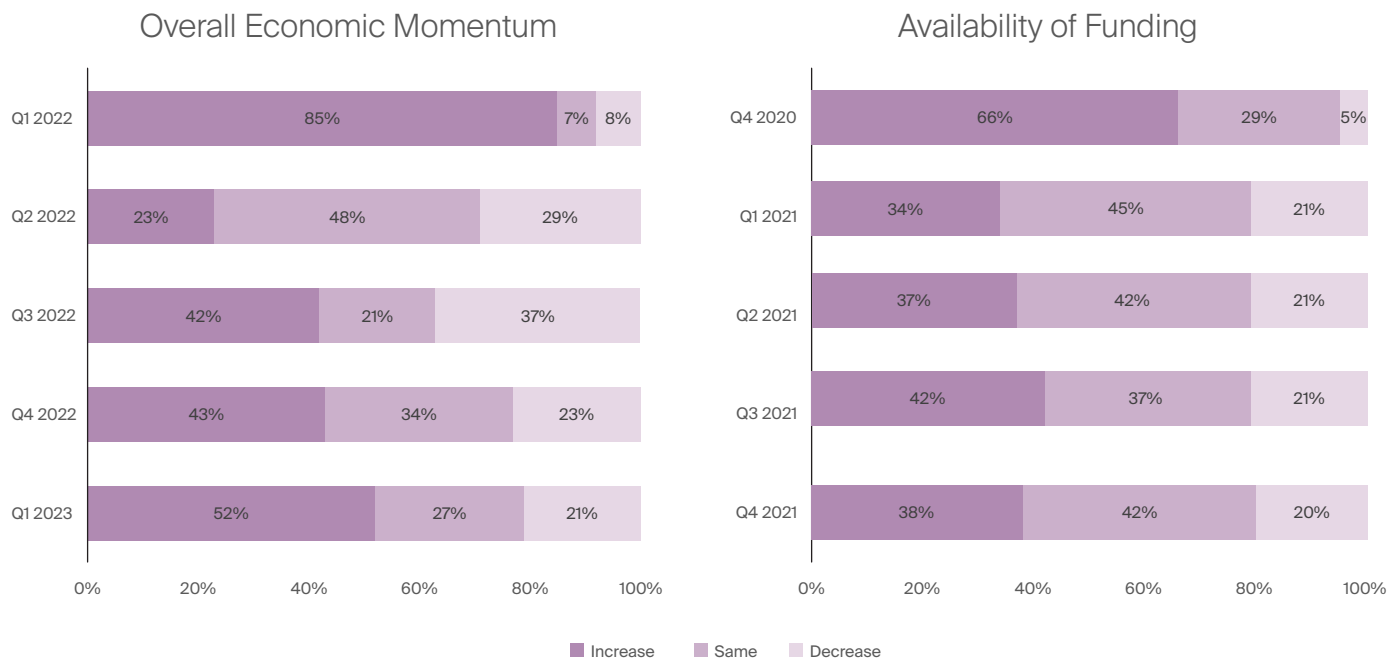
Source: Knight Frank Research

Findings

- In Q1 2023, 45% of the survey respondents opined office leasing will increase in the next six months. In contrast, 39% held a similar view in Q4 2022. Despite global headwinds, stakeholder sentiments remained upbeat towards office leasing on account of strong demand from flex, engineering and BFSI companies.
- In Q1 2023, 43% survey respondents expect office supply to improve in the next six months. In the previous quarter, 50% survey respondents held a similar opinion.
- In Q1 2023, 38% of the survey respondents expect office rents to increase, whereas in Q4 2022, 30% of the survey respondents held a similar view.

B5. Economic Scenario and Availability of Funding

ECONOMIC OUTLOOK IMPROVES



Source: Knight Frank Research

Findings

- Compared to 43% in Q4 2022, 53% survey respondents in Q1 2023 indicated an increase in their expectation on the economic front. Despite the uncertainty visible at the global stage, stakeholders remained optimistic about the Indian economy and the real estate sector performance for the next six months. Softening of inflation and Reserve Bank of India's pause in the repo rate hike cycle places India on a strong footing compared to its global peers.
- Due to global developments, stakeholder sentiments towards funding availability largely remained similar to survey results of the previous two quarters at 80%. In Q3 2022 and Q4 2022, 79% stakeholders opined that the investment activity would increase or remain stable in the real estate sector in the next six months.

CONCLUDING REMARKS

India continues to be a resilient economy despite signs of moderation in growth outlook for FY 2023-24. Whilst the risk of a potential global slowdown remains, the stakeholders remain optimistic for India's real estate sector performance in the next six months for both office and residential sectors. At the same time, they remain watchful on the availability of funding due to delays in decision making by global investors.



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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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