FICCI-Knight Frank Real Estate Sentiment Index

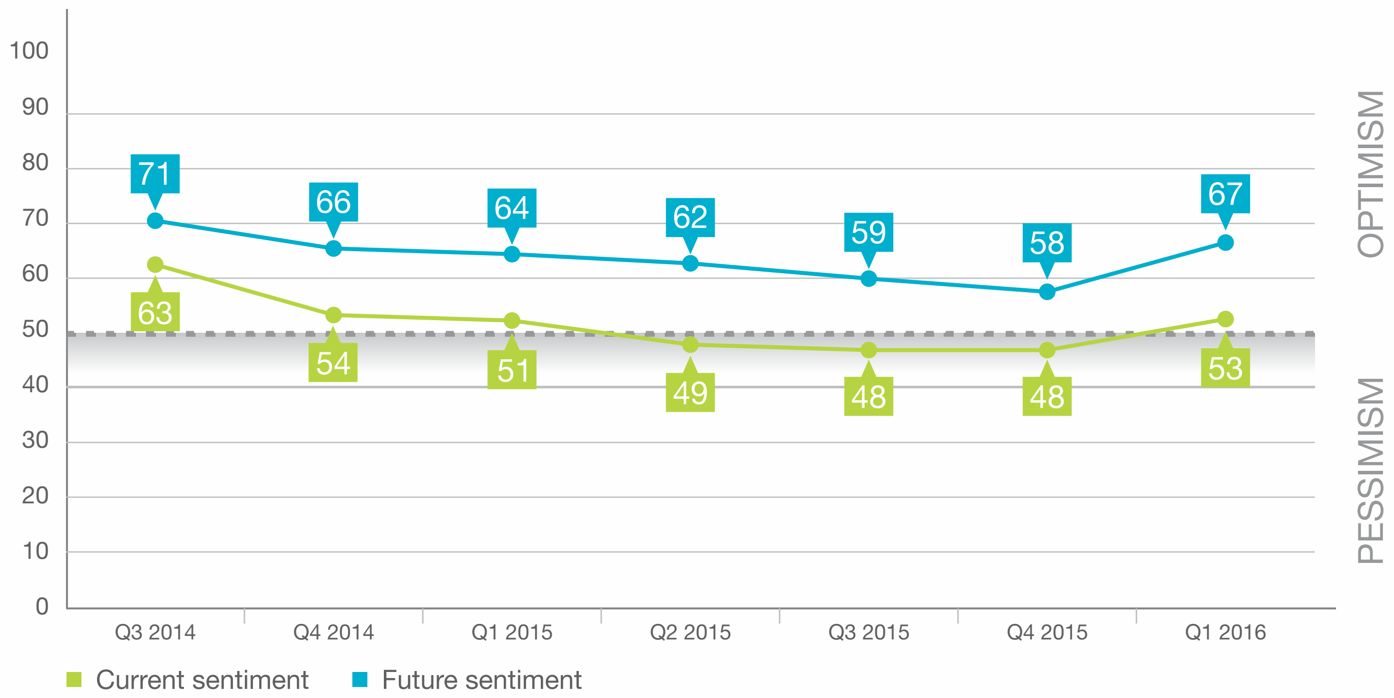
Q1 2016 (January-March 2016)

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 andnon-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. However, the rest of the analysis focuses only on the future sentiment. This survey was conducted from January to March 2016.

THE SHARP TURN IN THE REAL ESTATE SENTIMENT COULD HERALD A RECOVERY

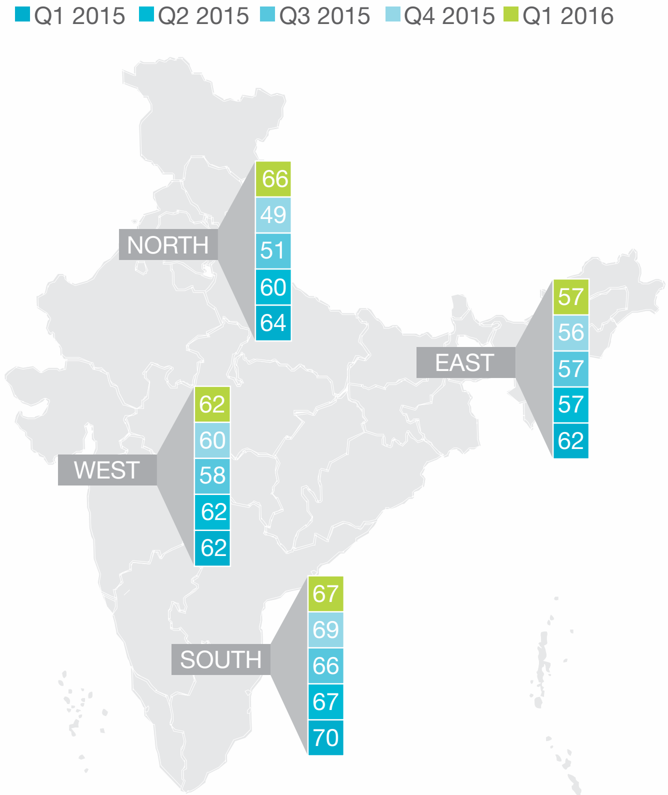


FINDINGS

- After a lull that lasted five quarters, the current and future sentiment scores saw an upturn in Q1 2016.
- While the current sentiment has just breached the 50 mark, the future sentiment score jumped up to 67 –a nine points rise compared to the last quarter, indicating a revival in stakeholder sentiments. The Union Budget, which has offered immense benefits to boost the real estate sector from both the supply and demand sides, has had a huge bearing on the future sentiment score.
- Additionally, the Real Estate Regulation Bill becoming an act, progressively reducing interest rates and an improving funding scenario with the imminent entry of REITs in the market also provide significant tailwinds to a long malaise real estate sector.
- At 53, the current score bounced back into positive territory after three quarters. A positive score implies that stakeholder confidence has strengthened in Q1 2016 and they believe that the real estate market is stabilising.

ZONAL SENTIMENT SCORE (FUTURE)

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

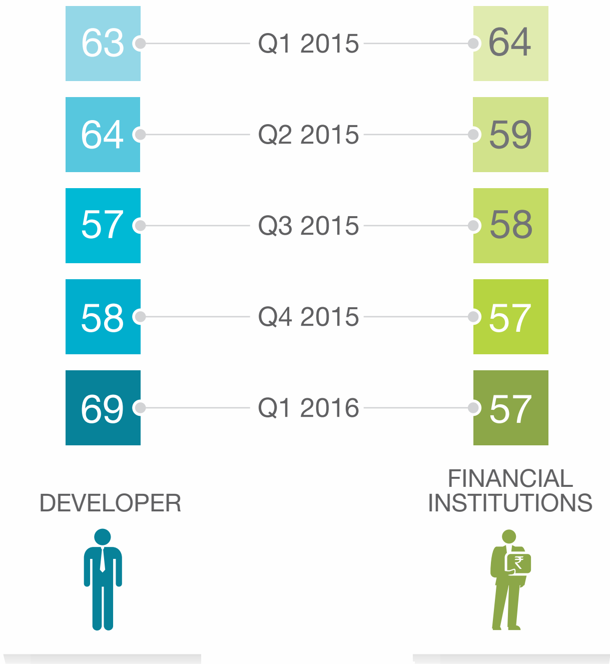


FINDINGS

- The north zone witnessed a substantial recovery in the future sentiment score in Q1 2016. This score stood below the positive mark in the last quarter; however, now at 67, it indicates that sentiments have strengthened and stakeholders are quite optimistic about the real estate market in the next few months.

STAKEHOLDER SENTIMENT SCORE (FUTURE)

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

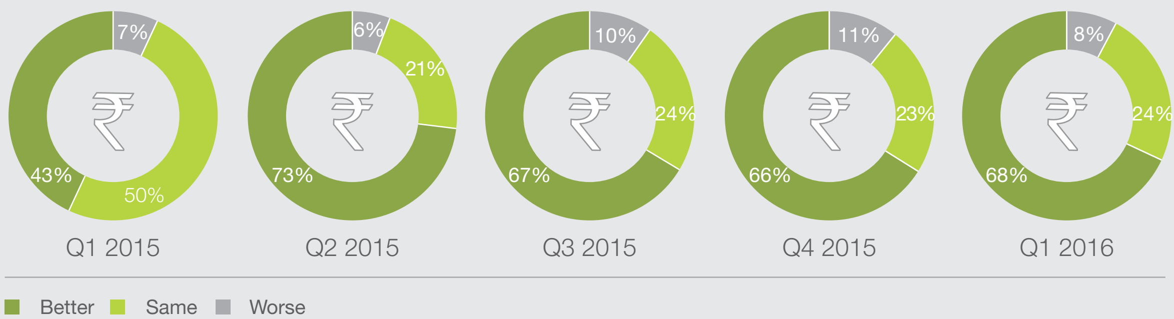


FINDINGS

- The Union Budget's focus on infrastructure, affordable housing and REITs has helped raise developer sentiments to a great extent. The lower interest rate regime is also a big positive point for the developer fraternity. Additionally RBI has hinted further rate cuts if inflation continues to ease and monsoon turns out to be good.
- Despite an apparent improvement in overall sentiments, the financial institutions are yet to show substantial increase in confidence levels.

FUNDING SCENARIO TO STRENGTHEN

Economy



RESIDENTIAL SECTOR ON A REBOUND

Better Same Worse

Residential Launches

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016
Worse	8%	25%	27%	27%	10%
Same	38%	35%	35%	33%	44%
Better	54%	40%	38%	40%	46%

Residential Sales

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016
Worse	15%	23%	30%	28%	9%
Same	69%	67%	44%	45%	37%
Better	15%	10%	26%	27%	54%

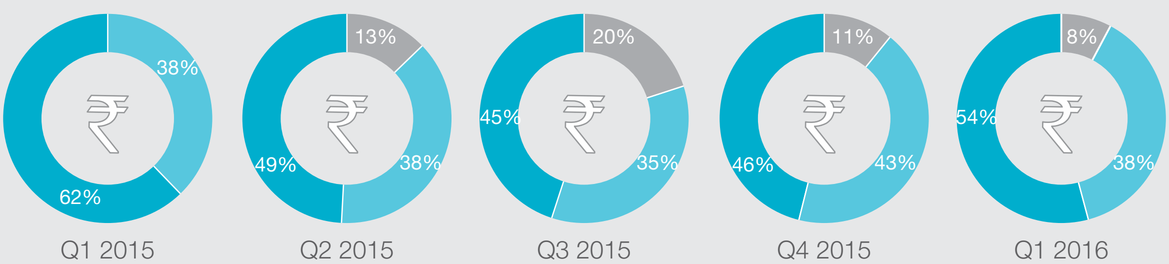
Residential Price Appreciation

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016
Worse	12%	30%	34%	31%	12%
Same	55%	52%	48%	52%	47%
Better	33%	18%	18%	17%	41%

FINDINGS

- Overall, there is a considerable improvement in the sentiments for the residential sector. The number of respondents with a positive outlook for the sector has gone up in Q1 2016.
- The pressure on unsold inventory has been reducing since the last four quarters due to the limited number of new launches. Developers have been focussing on project completions, in stilling confidence in buyers. The benefits provided to buyers in the Union Budget 2016 are also expected to push demand further. Stakeholders are quite optimistic about residential sales – nearly 54% of the respondents believe that the demand will pick up in the coming six months.

Funding Scenario



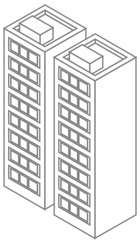
Better Same Worse

FINDINGS

- The stakeholder sentiments for the economy continue to be quite positive. Over 90% of them believe that the economic scenario will either improve or remain the same in the coming six months.
- Concerns about the funding scenario seem to be rationalising, as nearly 54% of the stakeholders believe that there will be an upturn in funding by the end of Q3 2016. The Union Budget 2016 also proposed the exemption of the dividend distribution tax –the last significant tax hurdle in the way of the REITs. This will facilitate fundraising in the coming months.

LEASING VOLUMES TO STRENGTHEN FURTHER

■ Better ■ Same ■ Worse

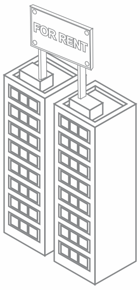


New Office Supply

	Worse	Same	Better
Q1 2015	0%	31%	69%
Q2 2015	14%	35%	51%
Q3 2015	19%	37%	44%
Q4 2015	12%	39%	49%
Q1 2016	14%	23%	63%

Leasing Volume

	Worse	Same	Better
Q1 2015	8%	21%	71%
Q2 2015	6%	21%	73%
Q3 2015	16%	22%	62%
Q4 2015	12%	23%	65%
Q1 2016	1%	26%	73%



Office Rental Appreciation

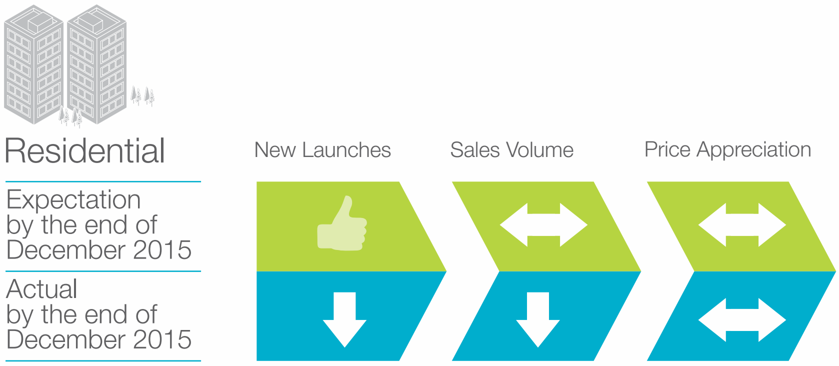
	Worse	Same	Better
Q1 2015	0%	14%	86%
Q2 2015	7%	38%	55%
Q3 2015	18%	31%	51%
Q4 2015	8%	37%	55%
Q1 2016	3%	25%	72%

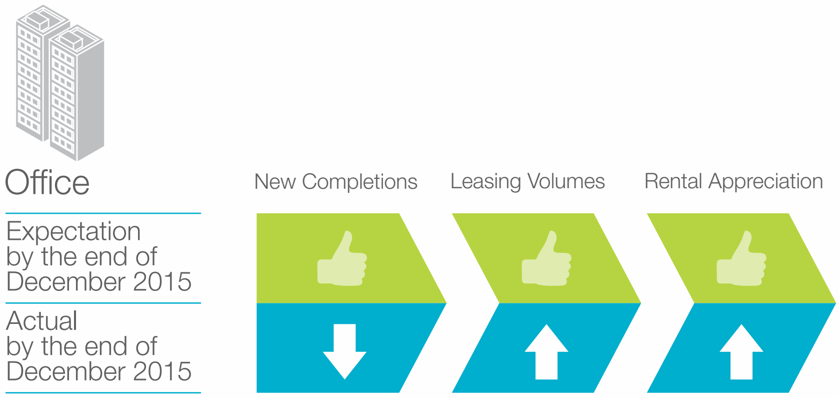
FINDINGS

- The stakeholders are quite optimistic about the office market, especially in terms of leasing volumes and rental appreciation. With the government announcing 100% Foreign Direct Investment in e-commerce marketplace, demand for office space is likely to witness an upsurge. Nearly 73% of the respondents expect the leasing volume to improve in the coming six months.
- In view of the limited office supply and firming leasing volumes, the stakeholders are of the opinion that the office space rental appreciation rate will be better 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 2015 (April–June 2015) gave us positive results for both, the residential and office sectors for the subsequent six months. While the ground reality for the six months ending December 2015 post the Q2 2015 survey is consistent with the expectations in the case of office space leasing volumes and rental appreciation, new completions have reduced. In the residential sector, stakeholder expectations were positive for new launches; however, in reality, the launches have shrunk further. Similarly, the expectations in the case of the residential sales volume were slightly muted: stakeholders believed that the sales would remain at par with Q2 2015 levels. However, home sales have plummeted further. Expectations from the residential price appreciation were fairly rationalised in Q2 2015, when the survey respondents indicated that the rate of the residential price appreciation would remain steady, which is what happened on the ground as well.





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