

KNIGHT FRANK-NAREDCO

# Real Estate Sentiment Index

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34<sup>th</sup>  
edition

Q3 2022 (JULY-SEPTEMBER 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 Bajjal

Chairman and Managing Director  
Knight Frank (India) Pvt. Ltd.

The global economic contraction is closer than expected. By the end of 2022 or early 2023, the economic slump in the United States, China and the Euro regions could deepen. The tightening of economic policies in the United States, China's property sector slump and extended COVID-19 restrictions, a spillover from the Russia-Ukraine war, and the energy crisis in Europe – could all choke global growth.

As estimates of global growth have been pared down in all countries, India is no different. India's growth forecast has been revised downward by several agencies, including our central bank. As per the Reserve Bank of India (RBI), the gross domestic product (GDP) projection for FY 2022-23 has been reassessed from 7.2% to 7%. The impact of extended geopolitical tensions, the slowdown in external demand and the high inflation poses a serious threat to our businesses. Whilst the GDP forecast has been revised, India's real GDP growth remains

the highest among major global economies.

In terms of the real estate sector performance in India, the residential and office markets have continued to rally consistently since the second wave of the pandemic. With the exception of a minor blip due to fears of the Omicron variant early in 2022, the demand side fundamentals have remained strong which gave a much-needed fillip for resurgence of new supply for both asset classes. However, with a cumulative 190 basis points increase in the repo rate in 2022, the homebuyer's affordability has begun to get impacted which may eventually start to reflect in purchasing decisions. The office market, however, continues to post strong growth. Rents have stabilized or grown across the markets as leasing volumes continue to improve.

In the wake of these global events, I present to you the 34th edition of Knight

Frank-NAREDCO Real Estate Sentiment Index for Q3 2022 (July-September 2022). This quarterly publication aims to capture the current and future sentiment prevailing in the real estate sector, the economic climate and funding availability as perceived by the supply-side stakeholders.

I hope you find 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 with us.

Stay healthy!

## PARTNERS' TAKE ON THE SECTOR



**Rajan Bandelkar**  
President - NAREDCO

India is a proven economic superpower. Policy and reforms measures undertaken in the recent past, including the announcement of the National Logistics Policy, the incentives offered under the Production-Linked Scheme and the rollout of 5G services, are evidence of the country's economic prowess. As the country positions itself as a manufacturing and innovation hub, it offers favourable business conditions and abundant talent. The country is also a favourite investment destination for foreign funds. The growth has caught their attention and has attracted them to invest in growth areas. A resilient housing sector complements the growth we witness now. The sector has been consistently growing in housing sales

and volumes for the past several months and has shown resilience despite the global uncertain economic conditions and soaring inflation. Despite inflationary pressures, prospective homebuyers will continue to invest in the market. The market has several reasons favouring homebuyers. After increasing the repo rate sequentially over the past few months, the RBI will likely increase the key policy rate again in December. But the sequential rise in repo rate has very little impact on mortgages in the affordable housing segment. First-time homebuyers will also receive tax incentives to buy now. With an abundant supply of good-quality housing projects, homebuyers can strike a good bargain while transacting.

## 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 July-September 2022 i.e. Q3 2022 and was conducted from 27th September 2022 to 12th October 2022.



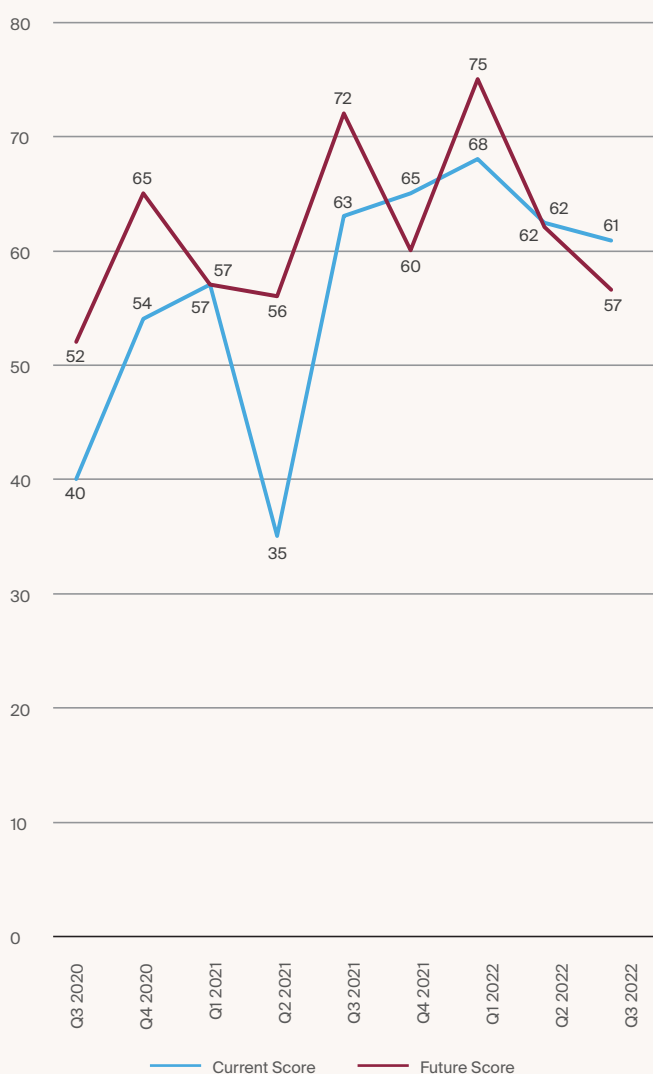
# SENTIMENT INDEX SURVEY FINDINGS

## 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

- The Current Sentiment score has scaled down marginally from 62 in Q2 2022 to 61 in Q3 2022 mainly on account of the dark global economic outlook and the current geopolitical risks due to the Russia-Ukraine war.
- 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 indicative of optimism as the sentiment towards the Indian economy and the performance of the real estate sector have remained resilient thus far.

### A2. Future Sentiment Score

- The Future Sentiment score has shrunk from 62 in Q2 2022 to 57 in Q3 2022 on account of increasing global uncertainty and recession forecast in major developed markets, and which can impact Indian businesses. As inflation remains high in India, tightening monetary policy measures and a lowered economic growth forecast has impacted the stakeholder sentiment for the next six months.
- In Q3 2022, the Current Sentiment Index score and Future Sentiment score have both moderated as stakeholders remain cautious in the current economic climate.

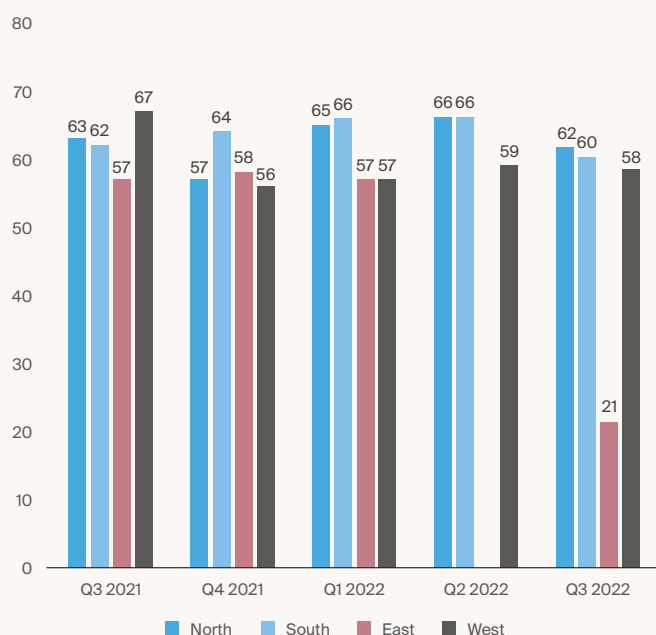
## SECTION B: FUTURE SENTIMENTS

### B1. Zonal Future Sentiment Score

ZONAL SCORES SCALE DOWN

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

#### Zonal Score



Source: Knight Frank Research

#### Findings

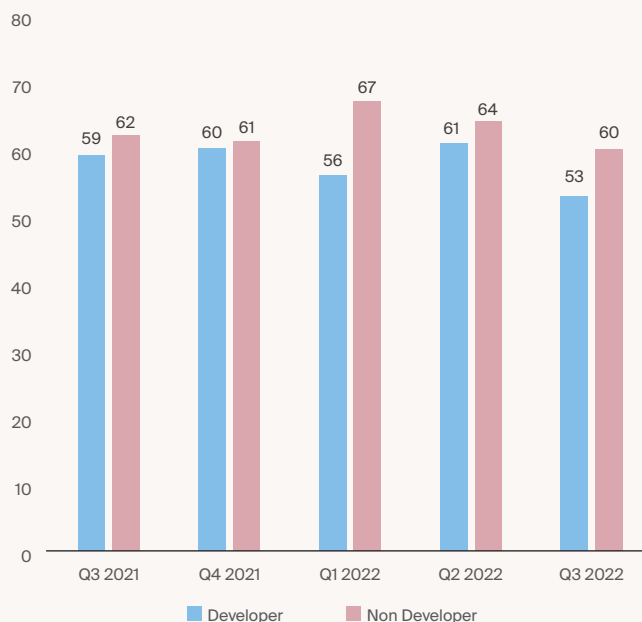
- In Q3 2022, the Future Sentiment scores inched down in all the zones as stakeholders across the country remain watchful of the impact on the real estate sector in the next six months. Whilst the score in North Zone came down from 66 in Q2 2022 to 62 in Q3 2022, West Zone noted a similar marginal decline from 59 to 58 in the same period.
- In South Zone, the future stakeholder sentiments declined from 66 in Q2 2022 to 60 in Q3 2022.
- Despite a downward trend observed in the zonal scores, stakeholders remained optimistic about the momentum of the real estate demand and supply continuing in the next six months. The real estate sector's recovery during the pandemic years is a key reason behind stakeholder optimism even as repo rates continue climbing northwards.

### B2. Stakeholder Future Sentiment Score

BOTH DEVELOPERS AND NON-DEVELOPERS REMAIN GUARDED

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

#### Stakeholder Score



Source: Knight Frank Research

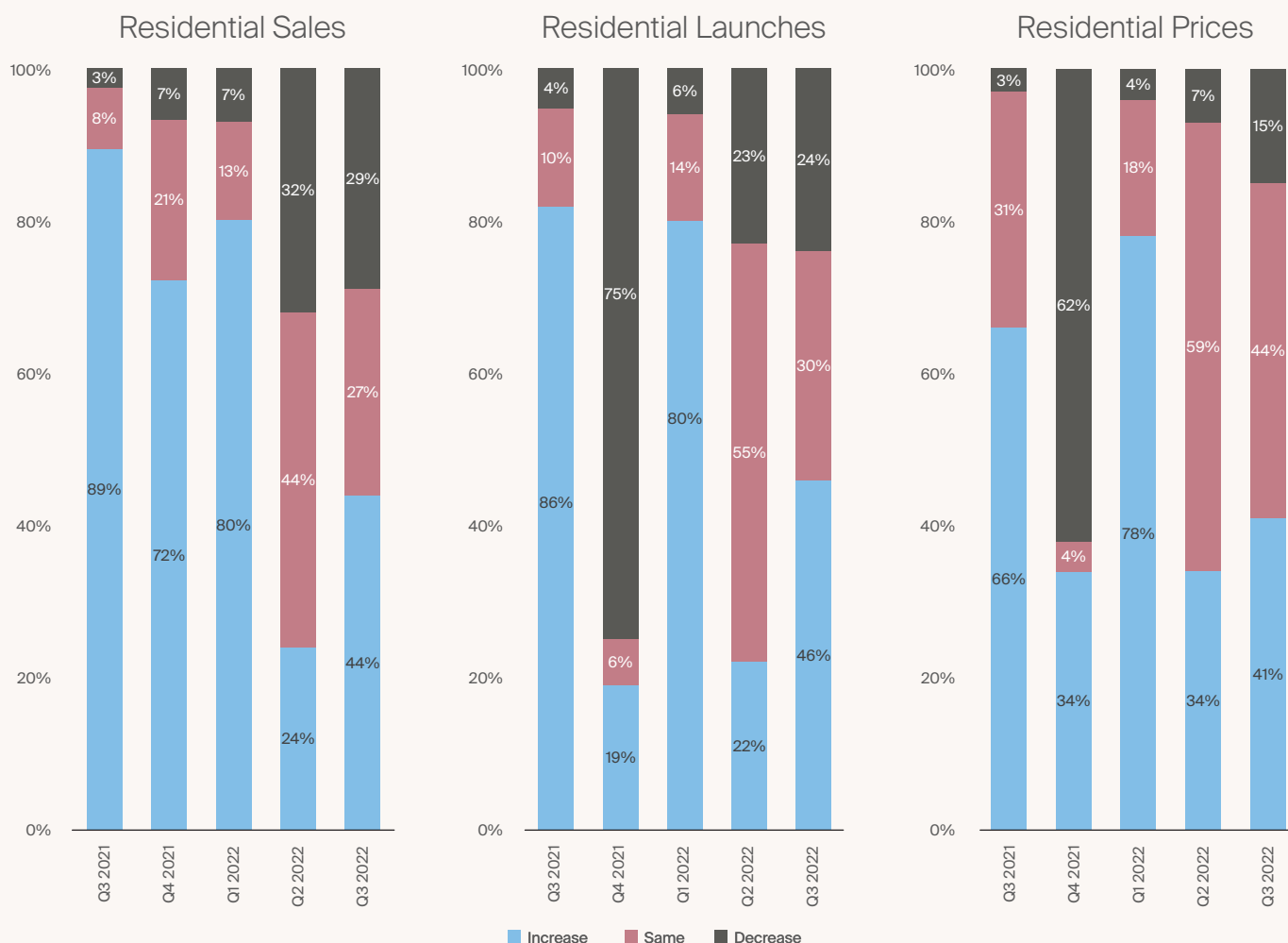
Note: Non-Developers include banks, financial institutions and PE funds

#### Findings

- The Developer Future Sentiment score has declined from 61 in Q2 2022 to 53 in Q3 2022. Whilst the developers were optimistic about the next six months, they remain concerned about demand translating into new home purchases as home loans keep getting expensive. The cumulative 190 basis points increase in the repo rate during 2022 has translated into a 70-100 basis points increase in home loan rates so far in the year, which is a concern within the developer fraternity.
- The Non-Developer segment (which includes banks, financial institutions, PE funds) Future Sentiment score also decreased from 64 in Q2 2022 to 60 in Q3 2022. The institutional investors remain watchful for the next six months.

**B3. Residential Market Outlook**

STEADY FUTURE OUTLOOK



Source: Knight Frank Research

**Findings**

- In Q3 2022, 44% of the survey respondents expect residential sales to increase in the next six months. This is in sharp contrast to Q2 2022 when 24% of the respondents held a similar view. The discounted interest rates announced by some banks as part of their festive offering in October 2022 have also helped stakeholder sentiments.
- Stakeholder sentiments about residential launches have remained largely similar to the Q2 2022 period. In Q3 2022, 76% of the stakeholders expect residential supply to either increase or remain stable in the next six months while in Q2 2022, 77% shared a similar view.
- In the current quarter, 41% of the survey respondents expect residential prices to increase in the next six months. In comparison, during Q2 2022, only 34% of the survey respondents had a similar take.

**B4. Office Market Outlook**

OFFICE MARKET OUTLOOK INDICATES BUOYANCY

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



Source: Knight Frank Research

**Findings**

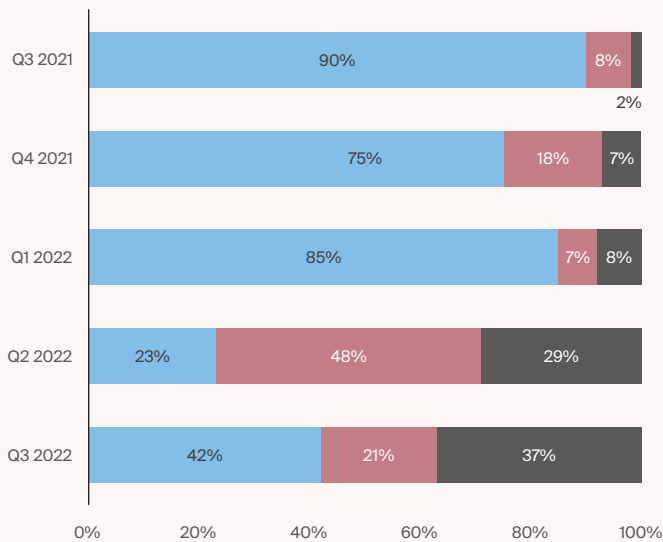
- The outlook for office leasing continued to strengthen in Q3 2022. In contrast to 29% in Q2 2022, 44% respondents in Q3 2022 feel that office leasing in the next six months will continue to rally.
- In Q3 2022, 48% survey respondents expected office supply to improve in the next six months. In the previous quarter, 31% survey respondents had a similar opinion. With office leasing improving, office supply is also being ramped up by developers steadily.
- As transaction volumes have remained high, the stakeholder outlook for office rents has also improved. In Q2 2022, 43% of the survey respondents expected office rents to increase, whereas in Q3 2022, 53% of the survey respondents held the same opinion.

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

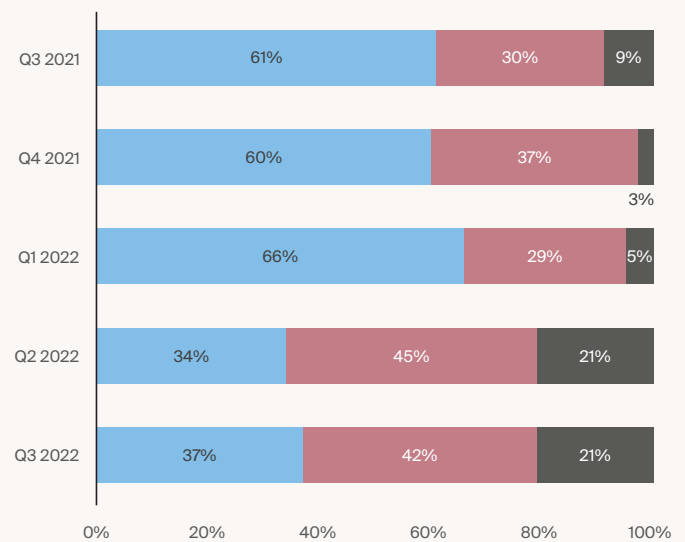
STABLE OUTLOOK DESPITE GLOBAL RISKS

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

Overall Economic Momentum



Availability of Funding



Source: Knight Frank Research

**Findings**

- Despite tightening government policies in world's major economies and an overall slowdown, the outlook for the Indian economy remains stable in Q3 2022. This is largely because the impact of the geopolitical risks is visible in the lower growth expectations for India, but it will continue to grow robustly in 2023.
- As the current economic environment unfolds, 42% of survey respondents in Q3 2022 expect the overall economic momentum to increase in the next six months.
- Despite the turmoil globally, stakeholders are confident of the investment activity remaining stable in the real estate sector in the next six months. In Q3 2022, 42% survey respondents are of the opinion that funding availability will remain the same, while 37% expect funding availability to improve.

## CONCLUDING REMARKS

The global economic outlook may have darkened, but the economic growth forecast for India despite moderation, remains a bright spot. As the three largest economies continue to stall, India will continue on an altered growth trajectory during FY 2023. If the rising inflation levels are tamed and monetary policy continues to respond proactively to these external challenges, India's recovery will be better and faster compared to other economies. In the current climate, India's real estate sector's performance has not been a reason for worry. This has ensured that stakeholder sentiment towards the real estate sector though altered, remain positive for the next six months.

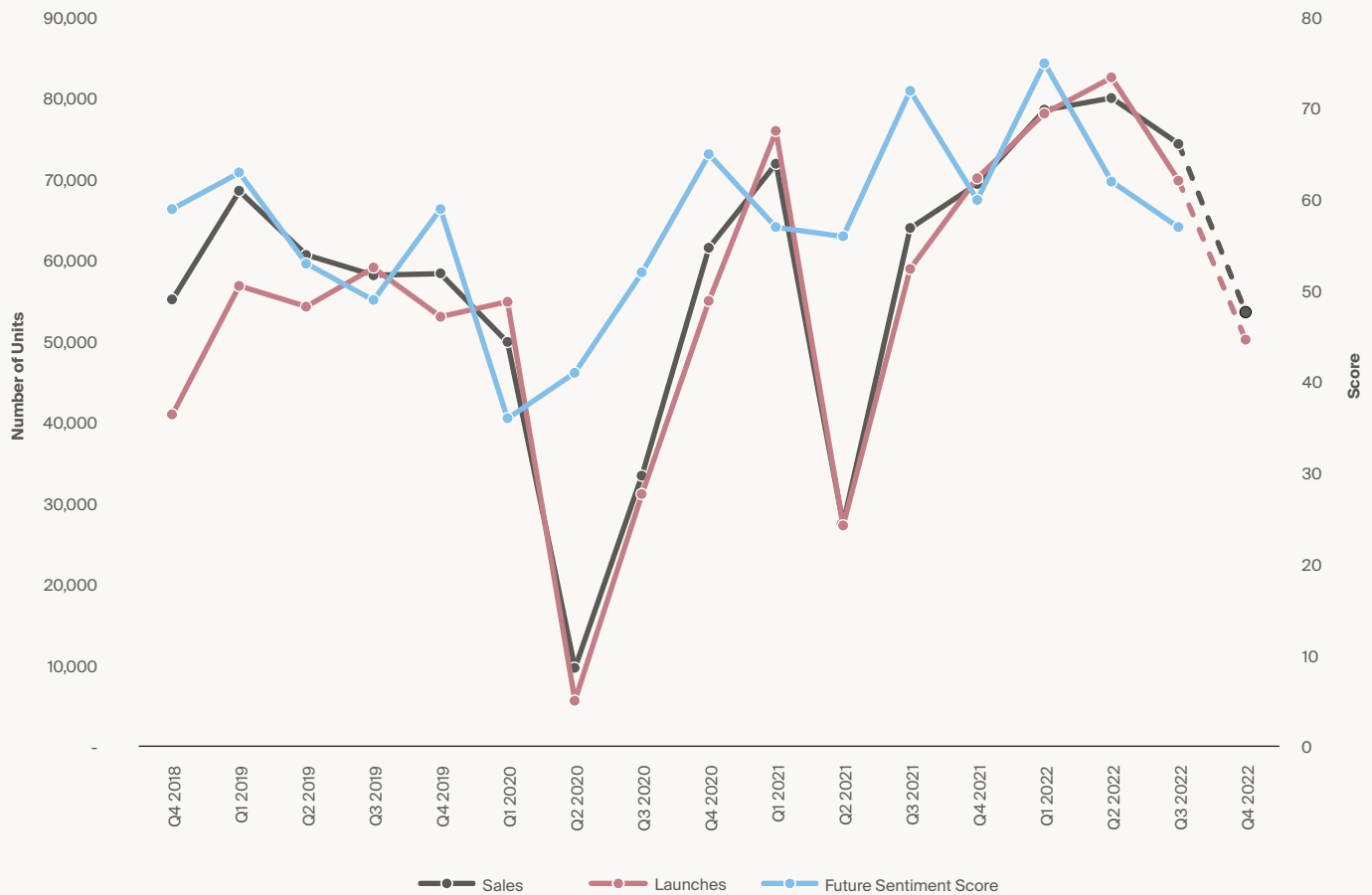
# REAL ESTATE SENTIMENT INDEX HINTS TOWARDS A REDUCTION IN HOUSING MARKET MOMENTUM IN Q4 2022

Except for Q3 2019 and the pandemic impacted quarters of Q1 and Q2 2020, the Future Sentiment Score derived in each quarterly survey has consistently remained above 50, demonstrating the prevalence of a positive homebuying sentiment in the market. During the past four years, multiple market forces have

impacted the sentiments of both homebuyers and real estate developers which reflects in the supply and demand volumes in the primary residential market. Whether it was weak consumption growth in 2019, structural shift towards homebuying due to the pandemic, product price pressure due to

elevated construction cost or the impact on housing affordability due to rising interest rates; the overall volume witnessed across the top eight Indian cities each quarter mirrored the trajectory indicated by the Future Sentiment Score in the preceding quarter.

India Residential



In the past 16 quarters, Q2 2022 witnessed the highest residential sales volume and number of new units launched in the top eight markets as coming out of the pandemic we witnessed a homebuying frenzy like never before. The Future Sentiment Score of 75 in Q1 2022, which was an all-time high for the Sentiment Index, also predicted the same trajectory. This reflects in the high correlation of sentiment score with housing sales and launches.

CORRELATION OF FUTURE SENTIMENT SCORE WITH PERFORMANCE OF KEY MARKET INDICATORS IN THE SUBSEQUENT QUARTER



Compared to residential sales which show a high correlation, since the Real Estate Sentiment Index survey captures the perception of the supply side stakeholders, residential launches have an even higher degree of sensitivity to Future Sentiment Score. Per the findings of our analysis, 65% and 62% variation in

residential launches and sales respectively, can be explained by the Future Sentiment Score. As the Future Sentiment Score has been a good parameter to indicate the health of the primary residential market, the Q4 2022 residential sales and launches have been projected basis the score derived in Q3 2022. Per our findings, the volume of residential sales and launches which have declined sequentially from Q2 2022

to Q3 2022, are likely to shrink further in Q4 2022 by 28% QoQ on both parameters. This is not surprising, as the impact of the cumulative repo rate hike of 190 basis points is yet to be passed on fully to homebuyers, the festive period discounts on home loans will no longer be available after October 2022 and the geopolitical tensions and inflationary risks will continue to persist in the foreseeable future.





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In India the company is headquartered in Mumbai and has more than 1,400 experts across Bengaluru, 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](http://www.knightfrank.co.in)

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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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