Impact of Corona Virus on Indian Real Estate

Ar. Garima Singh

Abstract: This paper talks about the impact of corona virus on Indian Real Estate in terms of Demand, Rates of property, impact on Indian housing market, home buyers in India, builders in India, office space in India. What interventions government should take in response to COVID-19 to boost the demand and what sales strategy real estate developers taking post lockdown.

I. INTRODUCTION

In the previous few months, COVID-19 pandemic has modified the manner we have a tendency to live, work and socialize. The long-run effects of this pandemic are expected to bring in lasting changes in our built-environment, reworking the real estate landscape round the world. Real estate sector in India is coming back to terms with this reality and companies are operating towards adapting to the new traditional.

The impact of Covid-19 on the Indian real estate sector was stifling to the purpose that it brought property transactions to a near-halt last year once the nation went into a whole lockdown between March and June 2020. Since then, the market has taken many strides towards recovery, and simply once it appeared the revival wasn’t way, the country was affected by another wave of the virus, this time, and way more fatal.

From halted construction activities to a mass exodus of migrant workers, the year 2020 was a watershed year within the history of economic downturns. From very few homebuyer enquiries and site visits to incessant curbs on the construction activities, the crisis caught the real estate sector unawares. After a series of lockdowns and restrictions, the country began to go back to its feet by July 2020.

II. THE SCALE OF IMPACT TILL NOW

The unprecedented scale of the impact of Corona Virus on Indian real estate is gauged from the actual fact that the sector has incurred a loss of over Rs 1 lakh crore since the pandemic bust out (Source: KPMG). in step with the report, the pandemic resulted in a very serious liquidity crunch for real estate developers. The credit shortage brought down the residential sales from four lakh units in 2019-20 to 2.8 lakh units in 2020-21 across the top seven cities of India. If a report by India Ratings (Ind-Ra) is referred to, the general residential demand declined by over 40 % in H1 of FY21. The agency believes that the sales can stay hampered till the COVID-19 situation is controlled effectively. However, the new project launches across India increased by 71 % between January and June 2021. (Source: Knight Frank). This boost in new launches can be attributed to the stamp duty reductions in varied States. The restricted movement and cautious buyer sentiment translated into an unprecedented increase within the unsold inventory as well. According to a report by Liases Foras, the Corona Virus-led lockdown resulted during a surge in unsold inventory from over 15 quarters at the end of FY-20 to over 19 quarters towards the end of H1 FY21. The unsold stock got exacerbated by awfully low sales in Q1 and dampened recovery in Q2 2020.

III. INDIAN HOUSING MARKET’S INITIAL REACTION TO COVID-19

Much has modified with the Coronavirus hit the world in December 2019. Amid countries applying extreme measures to contain the pandemic, businesses came to a grinding halt across the world, forcing financial agencies to slash growth forecasts for the world economy, India included.

In its World Economic Outlook October 2020 report titled, ‘A Long and Difficult Ascent’, the International Monetary Fund (IMF) has said that the Indian economy would grow at a 10.3% rate in 2020 – a downgrade of 5.8% points from the agency’s June estimate.

After the gross domestic product (GDP) numbers for the first quarter of FY21 showed a decline of 23.9% over the same quarter last fiscal earlier, global rating agencies S&P, Moody’s and Fitch also projected Indian economy to contract by 11.5% and 10.5%, respectively, in the current fiscal.

S&P global Ratings, on 14th September 2020, cut its FY21 growth forecast for India to 9% against 5% calculable earlier, as the number of infections within the country touches record levels. “One factor holding back private economic activity, is that the continued escalation of the COVID-19,” S&P global Ratings Asia-Pacific social scientist, Vishrut Rana said.
While the adverse effects of the pandemic are already being felt across the globe, varying opinions are rising on COVID-19’s impact on the real estate sector, a health emergency that force-launched the largest ever work-from-home experiment globally, putting a question mark on the relevancy of workspaces in a very post-Coronavirus world.

In India, where the economic contraction indicates towards a delayed start of the long-arduous road to recovery, a prolonged lockdown — that started from from 25th March 2020, and was eventually extended until 7th June 2020, amid a dramatic rise within the number of infections — worsened the situation in Asia’s third-largest economy.

As is evident, research agencies are predicting a near-term halt in growth of real estate in India. PropTiger.com information show housing sales in India’s eight major cities declined by 66% in the period between July-September 2020.

| Table 1 Housing Market In India’s Top 8 Cities (April-June 2020) |
|---------------------------------------------------------------|
| **Sales** | Down 79% |
| Project launches | Down 81% |
| Inventory | 738,335 units |

Source: PropTiger DataLabs

A. Rates Of Property Firming Up In Eight Residential Markets

The average values of properties in India’s eight prime residential markets have shown a marginal increase from April to June period of 2021, show information available with PropTiger.com. When cities like Hyderabad & Ahmedabad have recorded a rise in rates of new apartments by 5 percent in comparison to the prices in the same period in 2020, other cities have seen a lot of lower growth. Expulsion the Mumbai Metropolitan Region, costs have moved upwards, albeit marginally, throughout a time when the second wave of the Corona virus pandemic affected the economy badly.

| Table 2 Price Growth: City Wise Break Up |
|------------------------------------------|
| **City** | **Average price as on June 30, 2021 (in Rs per sq ft)** | **Annual growth in %** |
| Ahmedabad | 3,251 | 5 |
| Bangalore | 5,495 | 4 |
| Chennai | 5,308 | 3 |
| Hyderabad | 5,790 | 5 |
| Kolkata | 4,251 | 2 |
| MMR | 9,475 | No change |
| NCR | 4,337 | 2 |
| Pune | 5,063 | 3 |
| National average | 6,234 | 3 |

Source: Real Insight: Q2-2021

“Demand and supply, both of them remained largely hit during the first 2 months of Q2 CY 2021 when most states put in place fragmented lockdowns to the curb the spread of the virus. However, some ground on both the symptoms were covered during the June month, when states began to open up. the same is reflected in Q2 demand and supply numbers. We expect some improvement on both these indicators of real estate heath in the coming quarters, since India’s inoculation programme is probably going to cover a large part of its population,” said Mr. Dhruv Agarwala, group CEO, Elara Technologies.
B. Covid-19 Impact On Indian Housing Market

The Coronavirus unfold has further delayed a recovery which may have seemed possible, because of varied government measures to revive demand, despite the fact that, right now, it doesn't look like costs can go down immediately.

Niranjan Hiranandani, national president, NAREDCO, states that “Salvaging Indian real estate, the second-largest employment generator is important, not solely from the gross domestic product (GDP) growth perspective however also for employment generation, since the sector incorporates a multiplier impact on 250-plus allied industries.”

The centre within the recent past had declared higher tax breaks and lower interest rates on home loans to form purchases a lot of profitable, apart from setting up an Rs 25,000-crore stress fund for stuck projects.

The demand slowdown within the residential segment has already curtailed housing sales, project launches and price growth in India’s residential real estate sector, that has been reeling beneath the pressure caused by mega regulatory changes, like the Real Estate Regulatory Authority (RERA), the goods and Services Tax (GST), demonetization and therefore the benami property law.

Figure 1 Covid-19 Impact

According to rating agency ICRA, the pandemic, if not contained soon, wouldn't only considerably impact the economy however also adversely hit developers’ cash flows and project delivery capabilities.

“In case of a extended outbreak though, the impact on overall economic activity is probably going to be deeper and more sustained, which might end in a more important impact on developer cash flows and project execution abilities, giving rise to wider credit-negative implications,” ICRA said during a recent note while also adding that the three-month moratorium declared by the RBI on March 28 on loans will offer some comfort to builders. This moratorium, which was subsequently extended by the RBI, on May 22, 2020, until August 31, 2020, might even see additional extension because the economic scenario is seen deteriorating.

“The injected liquidity of Rs 3.74 lakh crore (by the RBI) along with the moratorium on all term loans by monetary financial can alleviate short-term liquidity issues and facilitate developers, similarly as home buyers. It’s a giant relief for developers and buyers to assist them mitigate the challenges faced by them presently,” says Ramesh Nair, chief executive officer & Country Head of JLL India.

Expecting delays in project completion and increasing support to the builder community, the government has also said developers might get project deadlines extended by six months through the RERA citing the tragedy clause.
IV. IMPACT ON THE CONSTRUCTION INDUSTRY AND MIGRATORY WORKERS

Not solely the real estate sector however the allied industries dependent on the development sector also inflicted heavy losses throughout the year 2020. On average, 250 small and medium-sized businesses, like aluminum panels, steel bars, construction machinery elements, and lots of others, are directly associated with the real estate business. All of those industries reported losses in 2020 along with a rise in prices, additional hampering sales.

In the year 2021, developers and manufacturers are more positive since they're better ready to handle the crisis. Pritam Chivukula, Co-Founder and Director, Tridhaatu real estate, avers, “The current situation might not be a priority for the big & medium sized developers as much because it would be for smaller developers. Whereas the established players are already taking necessary precautions at their sites, the small developers and those undertaking redevelopment projects might not have enough area for labor camps.”

Ashok Mohanani, President, NAREDCO Maharashtra, adds, "After the record spike in COVID-19 cases, the next phase of vaccination to those above eighteen years of age may be a great move by the govt. It'll boost the construction activities because it will facilitate the laborers to get vaccinated at the earliest. we hope that the vaccination drive is expedited more, mitigating the risk factor. we had requested the govt. to permit the vaccination drive for laborers between the age-group of 20-45 years as most of the laborers fall in this age category. It'll also address the difficulty of reverse migration as after vaccination, the laborers can feel safe.”

A. Safety Of Workers On Construction Sites

Several developers came ahead and claimed that laborers are the foremost very important and integral a part of real estate development which taking utmost care of them is their predominant responsibility. Whereas a few of them provided shelter and food to their employees, some additionally sponsored their antigen and RTPCR tests, along with different medication and healthcare costs. Developers were ready to sponsoring the vaccination of their labor on priority.

Commenting on the well-being of construction staff, Niranjan Hiranandani, National President, NAREDCO, says, “Across construction sites, safety precautions were taken, and protocols were followed mandatorily. Testing was conducted every fifteen days. The opening of vaccination for eighteen year olds and above has impacted the construction site workers in a positive approach. The vaccination method has boosted the boldness of the complete sector. Also, it'll increase the protection level at construction sites, and can go a long way in handling the second wave of COVID-19.”

B. Plans For Availability Of Migrant Labour Post Lockdown

As per the survey conducted by IIM Bangalore’s Real Estate Research Initiative (RERI) in April/May 2020 with the participation of 294 developers across India.
Indian cities witnessed a mass exodus of migrant laborers throughout the lockdown. Realty sector is one among the biggest employers of migrant laborers. IIM Bangalore’s survey show that 56 of the respondents selected to retain migrant laborers on site by providing them accommodation, food and basic sanitation facilities throughout the lockdown. However, it’s unclear what percentage of the laborers chose to remain back post the lock down as results of misinformation and poor coordination between authorities. Bringing back migrant laborers and restarting construction activity again on site is that the second key challenge that the developers face throughout recovery phase which may end in significant delay and price overruns. Restarting activities on site got to be carried out in a phased manner prioritizing projects that are nearing completion. A long resolution is to employ technology in construction activities to reduce over-dependence on labor and guarantee timely delivery.

V. COVID-19 IMPACT ON OFFICE SPACE IN INDIA

Even though individuals are gradually returning to work in sectors wherever engaging from home is not an option, remote operating continues to be the most way of functioning for companies as of currently. Earlier, as infections increased drastically, companies worldwide proclaimed remote working for workers to contain the virus unfold, triggering a discussion if work-from-home might replace workplace spaces in future. Whereas the solution to that question depends on the ultimate level of success achieved by businesses through remote operating, a near-term jolt to the commercial real estate segment in India is inescapable. Even though developers in this section remain optimistic, because of higher access to liquidity and lower risk of defaults, the impact of the virus is visible on the workplace space, too. According to international property brokerage JLL, net leasing of workplace space fell by 50 percent within the quarter of July to September 2020, across seven major cities to 5.4 million sq ft as corporate and co-working players continuing to defer their growth plans following the pandemic. The net absorption of workplace space stood at 10.9 million sq ft in the year ago amount across seven cities, as well as Delhi-NCR, Mumbai, Kolkata, Chennai, Pune, Hyderabad and Bengaluru. Throughout the January-September period of 2020, the net workplace space leasing fell by 47 percent to 17.3 million sq ft from 32.7 million sq ft within the same period in 2019. The remote operating concept contributed to the fall in demand for workplace space, JLL said. “Increased workplace space consolidation and optimization ways of corporate occupiers, resulted in subdued net absorption levels, that couldn't keep up with new completions. This resulted in overall vacancy increasing from thirteen.1% in Q2 2020 to 13.5% in Q3 2020,” JLL said in an exceedingly statement. Experts, however, expect the pre-COVID-19 growth momentum during this phase to get fixed up eventually. According to numbers available with CBRE, gross workplace space absorption touched a historic high of 63.5 million sq ft in 2019, nearly 30% more than 2018. It is predicted that workplace stock across seven leading cities to cross 660 million sq ft at the end of 2020.

A. Steps By Companies To Ensure Profitability

As per the survey conducted by IIM Bangalore’s Real Estate Research Initiative (RERI) in April/May 2020 with the participation of 294 developers across India.
This brings us to the third key challenge of value management – both fixed charge and construction cost. On the fixed cost front, a minimum of 41 percent of the respondents considered pay cuts within the range of 10%-25%. The second possibility was to reduce fixed prices like rents and utilities by choosing work from home choices. A fifth of the respondents additionally considered saving within the vary of 10%-25%. Monitoring construction cost is additionally a serious challenge over consequent six months due to disruptions in supply chains, labor shortage and mounting finance prices.

The above challenges have highlighted the very fact that India’s construction sector that is poised to be one of the most important globally, continues to be extremely conservative regarding adopting new technology. As per the International Labor Organization (ILO) report revealed in 2018, India’s construction sector has high automation potential; however, the speed of adoption has been very low because of the fear of disrupting labor markets. This crisis has presented the developers with a unique chance to rethink their business strategies and to integrate technology altogether aspects of their business.

VI. GOVERNMENT INTERVENTION EXPECTED BY REAL ESTATE DEVELOPERS IN RESPONSE TO COVID-19

The government on its half has given a massive relief package so as to boost the economy post the lockdown. The government’s relief measures for the real estate sector declared between April 2020 to August 2020 can be classified under 3 major heads:

Increase liquidity within the system: Steps like lowering interest rates, infusion of INR 15,000 crores in NHB (in two tranches) to enhance future funding needs of NBFCs and HFCs, moratorium on all term loans for a period of 6 months and also the recent announcement of a one-time loan restructuring.

Compliance under RERA and IBC: invoking force majeure clause under RERA and extending project registration and completion timelines by 6 months for all projects registered under RERA. Increasing threshold limit for Insolvency proceedings from INR 1 L to INR 1 crore.

Reduction in taxes to spice up housing demand: Reduction in stamp duty on affordable housing projects by states like Karnataka (stamp duty reduced from 5 percent to 3 percent for properties valued less than 35L and to 2 percent on properties valued less than 20L) and Maharashtra (stamp duty reduced from 5%-2% between September-December 2020 and to 3 percent from January to March 2021 in urban areas across price segments), reduction in TDS on sale of property by 25 percent and extension for filing GST and tax.

All of the above steps have provided much-needed relief to the residential real estate sector, by addressing issues of liquidity, debt servicing, delay and demand a minimum of for the short term. This article will address the trends that emerge in strategic selections of developers to boost cash flows within the next 6-12 months.
VII. SALES STRATEGY POST LOCK-DOWN

The third vital concern is to finance construction of in progress projects. One-time restructuring of loans for corporate and individuals, a recent step taken by RBI (in August 2020), is predicted to produce much required respite to the real estate sector. On the supply side it'll facilitate developers impacted by COVID reconstitute their existing loans with a 2 year moratorium without classifying these loans as Non-Performing Assets (NPAs). This will facilitate residential developers raise last mile funding for their projects stuck because of Corona Virus. On the demand side, restructuring individual home loans can facilitate consumers who are impacted by job loss and pay cuts to manage their EMIs. However, recent disposition to the sector from Banks and Non-Banking Finance companies (NBFC) will remain subdued as their focus are on restructuring of existing loans.

VIII. CONCLUSION

The year 2021 was slated to be a year of recovery, and also the confidence was seconded by the vaccination drive extended by the Union Government. Though the recent upsurge in COVID-19 cases in numerous pockets of India (especially Maharashtra) had compelled the capitalist community to stay in a cautious mode, the declining number of cases and resurgent homebuyers' interest has paved the way for a recovery. The availability of credit for the real estate sector has emerged as one of the key factors hampering the enlargement. The already unsure surroundings fueled by the recent revival of the pandemic have compelled the monetary institutions to avoid risky investments. This could increase the woes of the already cash-strapped real estate sector. However, the lowest interest rates and stamp duty reductions in varied States can facilitate in boosting the housing demand. Moreover, the completion timeline extensions provided by State RERA authorities have provided extra time for project completion to the real estate developers. As per a report by Knight Frank, the non-public Equity (PE) investment within the real estate sector in 2020 stood at around $4 billion. This was considerably less than the PE investment in 2019 at around $7 billion. The report highlights that the taming of the resurgent second wave, speed of the vaccination drive and sense of structural changes will solely boost the investors' confidence within the sector. In the year 2021, real estate players have refrained from giving festive schemes and haven't promoted their projects in media, thinking that the interest of the customers might not be as high as it was as in previous years because of the revival of COVID-19 and rising uncertainties. However, contrary to the expectations, we've got found that buyer's enthusiasm to own a flat/home is even higher compared to the last 3 months. Thus, it is positive sign to attain superior sale figures compared to earlier months.”

Though the Indian real estate market is reeling underneath the COVID-19 impact, market specialists say that it can be a really positive time for home buyers as they're at an unprecedented advantage to negotiate smart deals on ready-to-move-in choices. Homebuyers are likely to profit from all-time-low interest rates of 7.15 to 7.8 per cent on home loans. specialists also illustrate that the COVID-19 lockdown has accelerated technology-led home buying in India, making it potential to examine properties on-line likewise as negotiate and finalize deals.
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