IMPACT OF COVID-19 ON REAL ESTATE INDUSTRY IN INDIA

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ABSTRACT

The Covid-19 had a very big impact on the real estate all of a sudden in the first wave for various reasons. The economy lockdown had far reaching impact with the vacant office buildings, empty shopping malls and abandoned flats in metropolitan areas. The sector is characterized by the migrant labourers, heavy dependence on logistics and supply chain, reliance on cash transactions, inter-dependence on other businesses and services in the economy. The uncertainty loomed largely on the suppliers and customers. The disruptive developments and the Government support and the like were initiated to bring the new normal. The present research paper is a study of the real estate sector in the backdrop of Covid-19 scenario.

Keywords: Crisis, Real estate, mortgages.

INTRODUCTION

The COVID-19 pandemic has disordered economies and businesses across the world. In India, while the pandemic has affected multiple sectors, its impact on the manufacturing and services sector is the most, unlike the earlier three recessionary phases that led to softening of agricultural growth. Noted analysts and thinkers are predicting a paradigm shift in the way different stakeholders will perceive real estate in times to come. While there is surely a change in perception and this sudden change poses challenges, it also provides opportunities to innovate and reinvent.

In the last decade, India's real estate sector has experienced several disruptions led by technology and changing preferences. However, these disruptions have only expanded the gamut of real estate offerings while redefining the way we live and work. On one hand, consolidation of the residential market is likely to further gain momentum with strong emphasis on credibility and financial strength and on the other, de-densification and splitting up of offices are likely to gain centre stage. We are seeing fast-paced adoption of technology and artificial intelligence and these are most likely to be the new catalysts of growth in the next normal. The focus on health, sustainability and wellness is also seeing a renewed vigour and is becoming the leitmotif across asset classes.

The impacts of COVID-19 on the global and national economy are far-reaching and well-documented — the sudden shutdown of businesses, enormous unemployment claims, years of GDP growth lost in a matter of weeks and record-setting government stimulus packages are in the news daily against a backdrop of continued uncertainty regarding the long-term health and economic effects of the virus. In this environment, the valuation of real estate, a highly subjective endeavor in normal times, is made more arduous by the absence of real-time data — a direct impact of the near shutdown of the real estate leasing and transaction markets for most sectors beginning in March. The data that does exist provides mixed signals — the National Council of Real Estate Investment Fiduciaries (NCREIF) Index, which tracks core property values reported by institutional funds, reported a quarterly increase of 0.71% as of 31 March 2020; however, as of that date, US equity REIT share prices declined by 24.20% since December 2019, implying that stock market investors, at least, believe that the real estate underlying these shares had lost value. (Ernest and Young, June 2020)

IMPACT ON REAL ESTATE INDUSTRY IN INDIA

The COVID 19 pandemic brought the planet to a halt in the year 2020, unsettled different verticals of the world. Businesses have been hit hard, stocks have reached new lows, and COVID-19 has shaken the real estate industry, which has been on a development path over the past few years. Since March 21, 2020, almost 1.3 billion residents have been quarantined, halting the largest business leading to the national economy. According to the ANANROCK H1 2020 PAN India Residential Market survey, the most impacted quarter was Q2 2020, with the lowest number of launches since 2013. This year, fresh launch availability fell by 97 percent compared to Q1 2020 and 98 percent compared to the same quarter last year.

In terms of launch, selling, and acquisition, both residential and commercial real estate are affected. Due to a shortage of materials and labour, the whole method has been sluggish and erratic. Despite the fact that developers and builders have braced themselves for setbacks, the real estate sector's turnaround has been moved farther out! The recovery of the real estate market is mostly dependent on the labour force. And the labour climate does not seem to be promising.

The consequences of this pandemic can be divided into three categories: labour situations, global business conditions, and the path to recovery ahead.

As soon as the lockdown was declared, workers and lower income households began to experience financial difficulties. People earning regular salaries were still confronted with their greatest fear and struggled to make ends meet here. The majority of the population returned to their hometowns, leaving those who remained without jobs. When it comes to labour conditions, we might conclude that they are caught in a catch-22 a vicious cycle in which the symbiotic partnership is broken by the absence of one of the two. In this situation, laborers are unemployed since building materials are in short supply, and even though ample raw materials are affordable, many contractors have put their projects on hold. Residential units scheduled to be completed in 2020, according to specialist property consultancy ANAROCK 4.7 lakh, may face delays when migrant workers return home and supply chains for raw materials are disrupted. Under these days of recession, businesses have taken it upon themselves to make it easier for workers to survive. Construction site laborers, site managers, and other human capital were given simple hygiene kits, dry rations, a place to reside, and financial support. While the national lockdown implemented in March 2020 has a significant effect on new launch operation in Q2 2020, the lab or crisis did not affect project work because a large portion of staff choose to remain and work. As a result, there will be no unexpected delivery delays.

REVIEW OF LITERATURE

Jyoti Bhoj (2020) opines that the recent pandemic has affect economies of various countries and India is no exception. The IMF projected Indian growth rate at 1.9 percent for the financial year 2021which was previous estimated at 5.8 percent. This possesses a great threat for Indian economy. This effect of COVID-19 will be felt across sectors. Indian real estate which was already recovering from the aftermath of demonetization and various reforms was jolted by this pandemic with lockdown construction activity has stopped, real estate sales are not happening. The Indian real estate should prepare itself to brace for a post COVID-19 world and should prepare itself to utilise various new and tech driven steps to come back on track. This article deals with understanding the pre pandemic real estate industry and analysing the impact of COVID-19 on Indian real estate industry. It also presents the threats and opportunities available to different real estate market participant (Jyoti Bhoj, May 2020).

Pusarla and Mamillapalli (2020) contends that Corona virus pandemic has hit over millions of people in the world and definitely not the first epidemic the world is witnessing. In fact, the world has seen at least five such epidemics, namely, SARS (Severe Acute Respiratory Syndrome), Avian Influenza, Swine Flu, Ebola and Zikain last one decade or so. All of these had a significant impact on the global as well as domestic share markets. It was observed that nifty 50 up to 15 % during these difficult times, but also recovered over 90% return in the next following year. The impact of this pandemic is felt by all sector of the economy. The real estate industry in India is no exception to this.

Boris CournedE et.al (2020) propounds that the COVID-19 pandemic has hit the housing sector particularly hard, but governments have swiftly responded with an array of measures to alleviate the negative consequences of the crisis for tenants, borrowers, builders and lenders. However, some of these measures, unless they are temporary, can stand in the way of a robust recovery and/or impair the responsiveness of the housing market to the evolving needs of society. For example, rental market restrictions help tenants in the short term but typically also weaken supply responses, as they make housing investment less responsive to changes in demand and can pose obstacles to residential mobility.

Rakesh Kumar Beniwal (2020) propagates that the global economy seems to be in one of the biggest downturns in last years. For about three months, the real estate industry is much more valuable. The resumption of work was made more difficult due to the surprising return of the workers to the laborers from underground. Developers found it difficult to find an adequate amount of job-producing work since the labour market was seriously hampered.

People are burdened by the great pestilence that's threatening the nation. As a result, home values dropped, and the supply of new housing decreased, the state's revenues declined significantly. The market appears to be heating up as well, with people taking advantage of lowered demand and improved negotiating power in the short-power supply market. Work has already begun on the locations, albeit at a slower rate.

THE CORONA EFFECT

The announcement of COVID-19 as a global pandemic and are yet to see the full scale effects caused by this global pandemic. Considering the early signs, the pandemic is predicted to have the following effects on the RE industry:

- Labors form the backbone of the RE industry. The current crisis of labors due to lockdown has stopped the progress of construction of the housing projects. The labors have migrated to their villages for quarantine and their return to work remains unknown as factors like the performance of the rural economy and health will have a major role to play in this regard.

The discontinuation of the technical service providers such as Architects, Structural Engineers, and Electrical Engineers etc. because of social distancing and lockdown is collaboratively leading to much delay in completion of Projects.

- The present crisis could lead to a shortage of Raw materials prices critical to construction industry such as tiles, electrical fittings, switches, pipes, construction chemicals etc might face escalation in days to come. This is mainly due to the scarcity of supply in consideration to the demand amid lockdown.
- The Commercial Spaces hired to the Retail & Hospitality Sector are closed due to the lockdown and has minimum expectation to receive the rent. The mentioned sectors are the worst hit under and the recurring expenses relating to various taxes has put the industry under huge stress. In Case of Shopping Malls additional expenses are being incurred such as food and sanitization requirements which are being provided to the manpower associated with the grocery sections which is open at present. present scenario left with no business. With practically no earnings from the rented commercial spaces
- To add to the woes, the payments from customers which was already irregular since mid-last year, has become miserable at present scenario with almost 65% customers are defaulting in paying the instalments linked to construction. All this have already started to impact the RE Sector financially resulting in loss.
- At Present Social Quarantining has created a drastic drop in sales which has further impacted finance flows to the projects. This may in days to come lead to capital crunch for the RE Companies which is expected to take around 6 months' time to recover under present scenario.
- China, the epicenter of Corona virus is also the biggest supplier to the Indian real estate industry. After India has closed its border with neighboring countries, the Real Estate sector could see an acute shortage of supplies due to absence of supplies from China.

- According to a Report in The Economic Times, Strained situations with the RE Sector may also lead to 35% Job Cut in this labor intensive sector if the present situation continues for around 3 months.(Indian Chamber of Commerce)

INDIAN HOUSING MARKET'S INITIAL REACTION TO COVID-19

Much has changed 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 monetary agencies to slash growth forecasts for the global 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 percentage 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 September 14, 2020, cut its FY21 growth forecast for India to -9% against -5% estimated earlier, as the number of infections in the country touch record levels. "One factor holding back private economic activity, is the continued escalation of the COVID-19."

While the adverse effects of the pandemic are already being felt across the world, varying opinions are emerging on COVID-19's impact on the real estate sector, a health emergency that force-launched the biggest ever work-from-home experiment globally, putting a question mark on the relevance of workspaces in a post-Coronavirus world. In India, where the economic contraction indicates towards a delayed start of the long-arduous road to recovery, a prolonged lockdown — which started from from March 25, 2020, and was eventually extended till June 7, 2020, amid a dramatic rise in the number of infections — worsened the situation in Asia's third-largest economy.

"While the Chinese economy has been reeling under the impact of the Coronavirus contagion since December 2019, the situation started to get worrisome in India only in March 2020. The lockdown, which virtually brought to a standstill most economic activity in the country, has hurt all sectors, including real estate. The adverse impact of the Coronavirus is visible on housing sales in the last quarter of the last fiscal because March is usually one of the biggest month for sales".

INDIAN RESIDENTIAL MARKET

The average values of properties in India's eight prime residential markets have shown a marginal increase during the April-June period of 2021, show data available with PropTiger.com. While cities like Hyderabad and Ahmedabad have recorded an increase in rates of new apartments by 5% when compared to the prices in the same period in 2020, other cities have seen much lower growth. Barring the Mumbai Metropolitan Region, prices have moved upwards, albeit marginally, during a time when the second wave of the Coronavirus pandemic affected the economy badly.

Table
Price growth in Residential markets: 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	5,083	3
National average	6,234	3

(Source: Real Insight: Q2-2021)

"Demand and supply, both remained largely hit during the first two 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 indicators were covered during the June month, when states started 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 upcoming quarters, since India's inoculation programme is likely to cover a large part of its population".

BENEFITS FOR THE REAL ESTATE SECTOR

- Support to MSMEs will help revitalise them, aid in economic recovery through employment generation. This will have a positive impact in enhancing consumer sentiment and help suppliers of key raw materials such as cement, steel etc., thus have an important bearing on real estate

- Provident fund contribution for low wage workers and funds for 3.5 million registered construction workers will directly benefit the realty sector
- Easing of liquidity is likely to help the NBFCs and HFCs to support the real estate sector through restructuring of existing loans and resetting of repayment schedules
- Affordable rental accommodation scheme for migrant workers and urban poor will increase availability of organised housing facilities. This will lead to decongestion of urban spaces by reducing unauthorized occupancy & encroachment and thus, facilitate better town planning
- Auction of airports and additional investment by private players likely to open up new business opportunities for real estate in the areas of retail, office space and logistics
- Creation of GIS based database of industrial land bank availability will act as an important tool to identify and aid investment in new land parcels
- Agri Infrastructure Fund for farm-gate infrastructure will provide a boost to the warehousing sector
- Extension of CLSS in mid segment coupled with attractive mortgage rates will improve consumer sentiments and boost demand, mainly in affordable and mid segments
- Invocation of ‘force majeure’ will give required elbow room to developers to complete construction
- Additionally, the lowering of repo rates and the central bank’s announcement with respect to moratorium on loan instalments and relaxation of NPA classification norms will benefit both homebuyers and developers.

COVID-19: MITIGATING IMPACT ON THE REAL ESTATE SECTOR

To help businesses tide over the COVID-19 crisis, the government has recently announced a slew of tax and regulatory relief measures providing compliance breather to businesses. However, businesses still need to remain vigilant to minimise the adverse impact of COVID-19 on their people and operations. The real estate sector, which showed signs of recovery pre-lockdown, is once again staring at long-term challenges related to labour, finance and demand.

SHORT TO MEDIUM-TERM STEPS

Rent restructuring

- Uncertainty will continue in post-lockdown period. Malls and multiplexes may not be able to resume business activities for a long time
- Developers with significant commercial real estate interests should proactively reach out to their customers and retailers with effective communication on COVID-19 impact on their businesses. If need be, a flexible rent payment plan for customers can be agreed upon. This will not only help developers foster their relationship with customers, but also help both the parties plan the next course of action.

Liquidity management

- In the current scenario, it is expected that new sales (including fresh booking, resale and rental) will drop significantly and even existing customers may defer their instalment payments resulting in severe cash crunch for developers
- Developers and property owners can reach out to their existing customers and agree on a part payment plan till the situation normalizes.

Use of technology

- High-quality virtual and self-guided tours will transform buying and leasing experiences
- Companies can strengthen their digital strategies
- Marketing mix and budgets can be reassessed according to new and emerging challenges

Under-construction projects

- Real estate companies should reassess the risk of misappropriation or any kind of damage of inventory maintained on-site
- This will help in taking appropriate insurance and other measures to safeguard all key materials on-site

Relief measures

- Businesses need to keep a track of relief measures announced by central and state governments
- They may need to evaluate the loan moratorium scheme being offered and take appropriate decisions after doing a careful cost-benefit analysis

Workforce management

- Transition from 'work-life balance' to 'work-life integration' for the workforce
- Identify mission-critical work to help teams prioritise and allocate resources appropriately
- Decentralise authority to empower rapid response by setting-up cross-functional and agile teams to complete mission-critical work

LONG-TERM STEPS

Portfolio rebalancing

- Relook at your product mix and make changes to address post-COVID demands
- The employment market will be severely hit; gig economy will rise with more contractual opportunities Customers will defer decisions to buy apartments; co-living is expected to boom
- Develop products that have a higher ratio of rent yield, so that developers can expect yields higher than that of commercial properties

- Relook at the planned use of land banks

Affordable housing

- The current crisis may transform some real estate trends significantly. The concept of joint families amongst the middle class in India is expected to rapidly change, with change in people-to-room ratios. This will lead to increased demand for new affordable homes
- With mortgage rates for affordable housing at an all-time low, demand is expected to go up significantly

CONCLUSION

The Covid-19 had a financial impact on the various sectors in the economy. Real estate sector was also majorly hit as the customers and developers had to pass through a very rough phase. The customers were impacted through the delays in the completion of the projects, fluctuations in the market value, uncertainties and the like. The developers were falling short to meet the contractual obligations, drop in demand, staggering work progress, rising bargaining power and the like. The supply of the inputs was put to halt. These and many other challenges led the intervention from the Government and other authorities. The covid first and second wave brought about disruptions in the economy with implications on the economic activities and services. The real estate sector was definitely impacted. The fall in the prices of properties in the metros and cosmopolitan cities has affected the builders and developers. The Governement regulatory measures no doubt have offset the implications. The sector is still in the recovery mode realizing the new normal post the covid scenario.

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