Webinar – Impact of Covid-19 on Real Estate in India- 12th April 2020

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The panellists for the webinar were Mr. Anuj Puri, Chairman of Anarock and Mr. Shobhit Agarwal, CEO of Anarock Capital Markets. It was moderated by Mr. Hussain Lalani, Director Lalani Group.

Every crisis brings a new opportunity—World War II marked the entry of women into the work-force and the SARS epidemic helped open the floodgate for e-commerce giants like Alibaba. A lot of businesses will change this time too. Businesses should not only think about the next 1-6 months, but also focus on how they can pivot their businesses for the long term. While cost optimisation will be a big theme going forward, one should also consider how they can use technology to enhance productivity.

Key sectoral impacts from a real estate point of view are:

Offices: Easiest to analyse this as it is directly correlated to how the American economy behaves (American corporates like IBM, Microsoft, etc lease more office spaces in India than Indian corporates do). A good example of this correlation can be seen in the data from the subprime crisis—office leasing demand in India fell from 3.5 crore square feet to 2.1 crore square feet in 2009. Most office owners have so far not given any leeway or discounts to their tenants for the premises where servers are still on.

Retail: Retail will be the worst affected sub-set within real estate because the burden cannot be completely borne by either the landlords or the tenants. Malls were the first ones to be shut down and will be the last ones to open up, and the footfall will continue to be extremely low for a while. Theatres and food courts which pulled large number of people into malls will continue to remain shut or operate at very low capacity, as people will be increasingly conscious of social distancing norms. To make matters worse, consumers will become accustomed to shopping online. Additionally stocks, especially in the fashion segment will be outdated by the time things get back to normal. Retail real estate demand may see a drop of 30-50%. Landlords were encouraged to compromise and work collaboratively with their tenants. Getting new tenants in case one's existing tenant leaves will also be challenging.

Residential : Data from China shows us that within real estate, residential sector has been the first to bounce back (Data from Capital Economics shows that the top 30 cities of China which sold 5,000 homes a day prior to the corona pandemic, is already back to 30% of that number in March). It is also estimated that residential demand from NRIs will pick up, given the favourable rupee-dollar conversion rate. Surveys show that other factors that may induce home buyers would be the desire to own a home in an uncertain economic and social environment, increased volatility in the stock market, falling interest rates. Therefore, while residential real estate may also see a price correction, the impact would be lesser than what will be seen in some other sectors like hotels and retail.

Hotels and Restaurants: Just like the retail sector, hotels will also bear the burden of this crisis. When things re-open, hotels and resorts which are at driving distances from cities may see some tourists. Restaurants may have to start putting daily signboards certifying that their staff have been tested for Covid-19 and also be cognisant of the fact that guests will not prefer buffets anymore. Also, given the social distancing norms, restaurants may have to increase the space between tables.

Industrials and Warehousing: Industrial real estate is expected to be the biggest gainer in the post-Corona world. Given the current geo-political climate, a lot of industries may move out of China or at least set up base in another country for manufacturing which will invariably benefit emerging markets like Vietnam and India. However, a lot would depend on how the Indian government capitalizes on this opportunity. Nevertheless, increased online penetration and growth of e-commerce will give a boost to warehousing demand.

Land: Land will go through a demand and price shock with lower liquidity and stressed cash flows. Land owners who would see an impact on their businesses will be willing to sell their land at discounted prices.

Financing for Real Estate Developers: A special fund called the SWAMI fund promoted by the Government of India (a partnership between LIC and SBI) is a good window for real estate developers who are seeking funding. This has already funded 33 developers by providing adequate finances to ensure that the project gets completed and the home buyers are safeguarded. In the case that a real estate developer is not eligible for the SWAMI fund, they could receive money from special situation funds.

Co-living and Co-working spaces: This sector will also be impacted as these are high density assets and people may be uncomfortable sharing space with unknown people.

Other important points to note:

- House buyers should not be lured by huge discounts and are urged to focus on the quality and stability of the developer or buy houses in completed projects (ready assets). High end houses will see a higher impact on demand and prices than affordable housing. Pre-leased assets with tenants may also be a good investment after 3-4 months, once rents are negotiated and the uncertainty is over.
- In terms of economics, home ownership will never win over renting as rental yields are still extremely low. Investors should not buy homes for rental yields but first-time home buyers may ignore the low rental yields and go ahead with their purchases if their incomes support them.
- Stimulus measures that the real estate sector has requested from the authorities are 1) One-time restructuring of loans from RBI 2) Input credit pass through GST 3) Tax exemption on interest of home loans 4) Relaxation or reduction on stamp duty for some time.
- Subject to risk factor, REITs could be looked at as an asset class within real estate. REITs are securities linked to real estate that are traded on the stock exchange, similar to a mutual fund. REITs invest in physical real estate that is tenanted by Grade A tenants and the rent income gets distributed among the unit holders. Besides regular income from rents and leases, gains from capital appreciation of real estate also form an income for the unit holders.
- Hyderabad, Pune and Gujarat are micro markets within India that will continue to do well in the long term. Within Bombay, upcoming areas such as New Bombay, Panvel and Dombivali may do well going forward.

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