



Impact of Covid-19 on Indian Real Estate Industry

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ABSTRACT

The COVID-19 pandemic will undeniably transform the way we live and work for the predictable future, and new trends will emerge that will become part of our new normal. In the Indian circumstance, the impact of COVID-19 outburst appears devastating. With the national GDP falling into negative numbers, the country seems like facing one of its horrible economic recessions. The real estate sector touched the lowest of lows during the nearly three-month-long national lockdown. The real estate industry in India has experienced a slowdown in the advancement of projects under construction and delayed consumer decisions to purchase the properties. Some of the challenges faced by the industry are the liquidity crisis, migration of workers and interruptions in the supply chain for building materials. Furthermore, the sentiment in the market has become worse in recent times. This paper outlines the major real impact of Covid-19 on Indian real estate industry. And also present some Indian government initiatives which would benefit the sector and take it to its glorious past.

Key words: Real Estate, Covid 19, liquidity crisis, Government initiatives

INTRODUCTION

The spread of Corona virus has additionally delayed a regaining of real estate sector that might have seem like possible, due to several government measures to wake up demand, even though, it does not look like prices will get decreased immediately.

Niranjan Hiranandani, National President, NAREDCO, states that “Retrieving Indian real estate sector, the second-largest employment generator is dangerous, not only from the GDP growth viewpoint but for generation of employment also, since the sector has a multiplier effect on 250-plus real estate associated industries in India.”

The Central Government had declared higher tax breaks and lower interest rates on home loans to make purchases more beneficial, apart from establishing Rs 25,000-crore stress fund for wedged projects.

The go-slow trend in the residential real estate has previously reduced housing sales, project launches and price growth in India’s residential sector, which has been revolving under the pressure caused by major regulatory modifications, such as the Real Estate Regulatory Authority (RERA), Demonetisation, Goods and Services Tax (GST), and the benami property law.

According to ICRA, the pandemic, if not controlled rapidly, would not only considerably affect the economy but also had adverse hit on the developers’ cash flows and project delivery competences.

“The injected liquidity of Rs 3.74 lakh crore by the RBI besides with the moratorium on all the term loans by financial institutions will improve the short-term liquidity issues and support developers and also home consumers. It is a great relief for buyers and developers to help them diminish the challenges confronted by them at present,” says **Ramesh Nair, CEO & Country Head of JLL India**.

Anticipating delays in project accomplishment and extending support to the real estate developers, the government also has announced that developers could get project deadlines stretched by six months through the RERA referring the force majeure clause.

EFFECT OF COVID – 19 ON REAL ESTATE SECTOR

Work from home may basically change buyer behaviour and the office-space market: Compulsory work from home restrictions might lead more players to lessen office space renting in the future. On the other hand, this offers a potential opportunity to corporates to streamline portfolios and embrace facilitating technologies.

- **Top-line cash-flows related to unearned (rent) revenue at risk:** Real estate investment administrators intensely exposed to at-risk groups are directly impacted, like hotel and retail space and to a reduced extent residential units and office space.

- **Damages in tangible assets may have its impact on balance sheet and income statement:** For companies with real assets on their balance- sheet, loss of income/revenue generated through real assets may lead to devaluations, extremely affecting bottom-line and financial performance.
- **Leveraged capital structures are at menace:** Property developers and investors financing operations with debt may principally be at risk of defaulting, inflating their credit lines, and struggling to sustain liquidity.
- **Digital investments appear to pay off:** Sector players who invested considerably in digital competencies seem to be better able to carry on activities during crisis.
- **Constructions planning impaired due to international labour force:** Construction companies and property developers depend on foreign labour may have their plans troubled due to international travel limitations. Likewise, construction plans are kept on hold and may face some delays.
- **Interruptions in procurement can affect the complete supply-chain:** During this pandemic state, the interdependence of supply-chains such that, if one organisation is facing difficulties, may affect the entire chain. The supply-chain and its interdependencies must be coped as a whole.
- **Development companies impacted by interruptions in the value chain:** Property developers are greatly impacted by market uncertainties and customer confidence resulting in less or delayed private sales.
- **Registered real estate companies' stock value and share prices have vanished** in expectation of deteriorating leasing fundamentals because of social distancing and lock-down.
- **Parties in at-risk categories must plan post-crisis accordingly:** Real estate investment executives must reconsider their asset allocation policies, contractual and financial provisions and effectiveness of their risk management processes.

Indian real estate after Covid-19 : Major 11 predictions

1. Location visits to fall, impacting sales statistics and figures.
2. Project deadlines to prolong, pushing completion beyond.
3. Total project cost to increase amidst delays and supply restrictions.
4. Inventory levels upsurge, increasing pressure on developers.
5. Prices might increase in spite of sluggish demand.
6. Housing loan interest rates to reduce after repo rate cut to 4%.
7. Remote working to earn grip in future as companies adopt work from home culture.
8. Higher investment to be expected in future office spaces to make them better organized for crisis conditions.
9. Occupancy levels in office spaces to drop while remote working increases.
10. Amid rupee fall, NRI investment in real estate may expand.
11. Builder insolvency cases might upsurge as liquidity situations deteriorate.

GOVERNMENT INITIATIVE TO REVIVE THE SECTOR

The Government of India during April to August 2020 has announced various revival measures for the real estate in India. Some of them are as follows:

- **Tax reduction:** TDS decline on a property sale by 25%, Decrease in stamp duty on affordable housing plans, extension for recording Income Tax and GST helped realtors to grow gradually.
- **Benefits for NBFCs:** The Indian Government's release of Rs.30,000 crore exceptional liquidity helped in the real estate market's regular cash flow, who are the primary borrowers of NBFCs.
- **Compensation for migrant workers:** Most of the states in India offered financial help to the migrant labourers for their loss of work, food and shelter. This helped in the continuity of construction projects.
- **Reduced Repo Rate:** By decreasing the Repo rate, Reverse Repo Rate, and CRR, realtors are now released from the burden of obtaining the land, and this is serving ventures come out of the asset crunch.

CONCLUSION

With communal transmission of the novel Corona virus, the Indian real estate sector has steadied itself for a substantial effect than previously believed. Due to the risk of an infection, the real estate sector has already experienced a reduction in the site visits and potential buyers' interest. With the backing of policy measures by the Government, the real estate sector is on the track of recovery, though at an unhurried pace.

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