

COVID 19

Impact on the Indian RE Sector



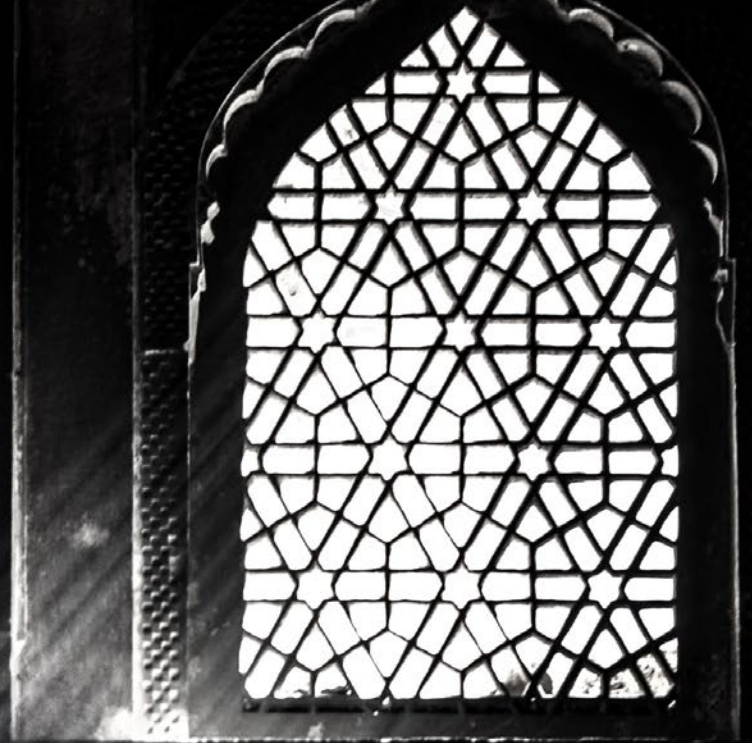
COMMERCIAL



RETAIL



RESIDENTIAL



INTRODUCTION

COVID-19: Will it reset the Indian Real Estate sector?

The Coronavirus outbreak, which originated in China, has infected lakhs of people worldwide. Simultaneously, it has disrupted industries, trade, and business cycles, thus halting global economic activity significantly.

Indian real estate sector, which was already struggling to re-emerge from the past turbulence of structural changes, policy reforms, and the liquidity crisis, is now set to witness another major fallout. In usual times, the ongoing period normally sees an uptick in residential real estate activities owing to festivals like Ugadi, Gudi Padwa, Akshaya Tritiya and Navaratri when new launches and housing sales spike up. Upcoming vacation time for Indian schools beginning April till June-end also gives time to homebuyers to make purchase decisions.

Unfortunately, 2020 seems to be different. Country-wide lockdown until mid-April has halted all activities. As evident, project sites are shut, site visits have stopped, and construction activity has come to a grinding halt, eventually impacting housing sales. Also, developers have deferred their new project launches for an unknown period.

Besides residential segment, commercial real estate is also not immune to the Covid-19 fallout. Corporate occupiers are seen delaying their leasing decisions and still several MNCs and businesses are testing new waters of the work-from-home option. If proved successful, it could impact leasing activities in the future.

Retail businesses, highly dependent on consumer spending, are also witnessing a momentary slowdown and reduced interest from global brands who may now consider revising their expansion plans.

SECTION 1

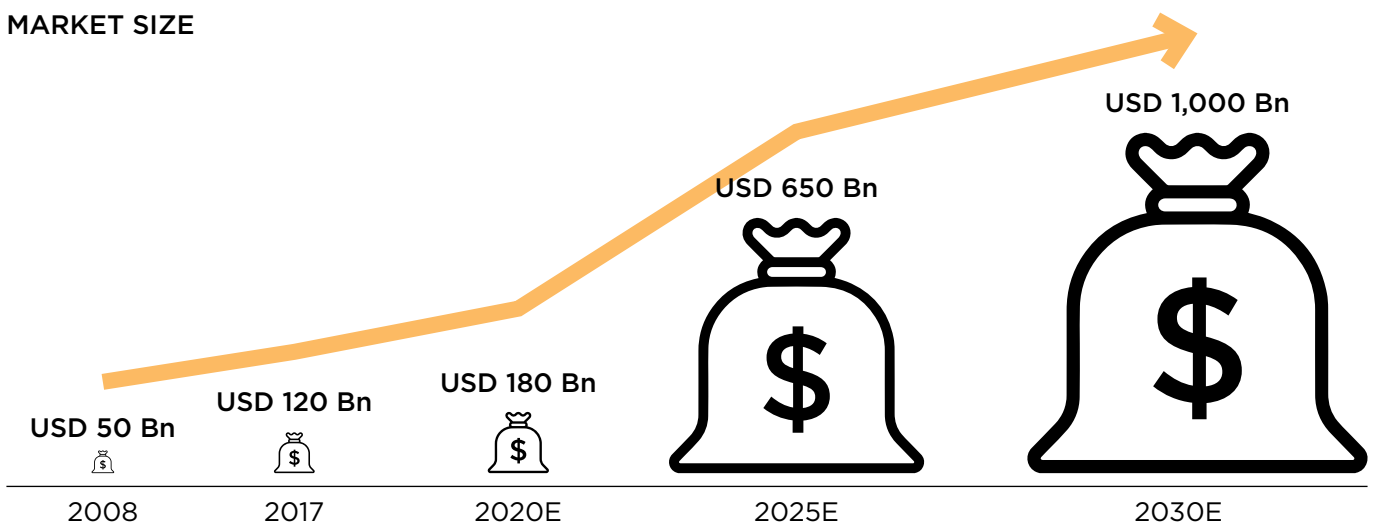
Indian Real Estate: Pre-COVID-19 Outbreak Overview

Market Size & GDP Contribution

Indian real estate was just beginning to come to terms with the multiple reforms and changes brought in by demonetization, RERA, GST, IBC, and subvention scheme ban. While the sector found it difficult to align with the slew of reforms and changes, these measures helped fortify the sector and instil transparency, accountability and fiscal discipline over the last few years.

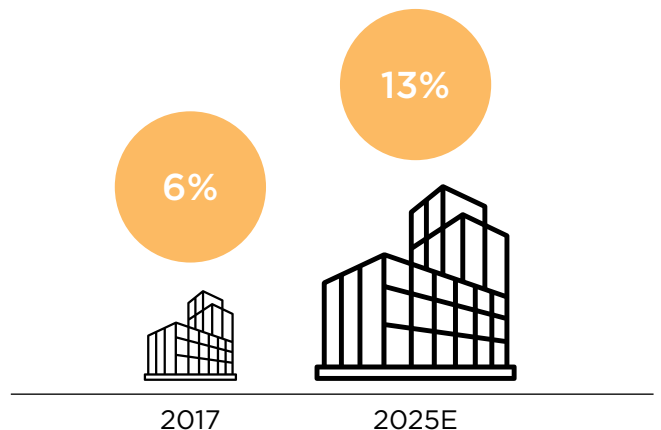
While the sector was on a growth trajectory since the last few years and was likely to emerge stronger than before, the current coronavirus lockdown has surely put brakes on its growth momentum. Industry estimates of the Indian real estate market, prior to COVID-19 outbreak, was projected to be USD 650 Bn by 2025 and USD 1,000 Bn by 2030. This certainly seems tough amidst the current circumstances.

MARKET SIZE



Residential, commercial and retail are the three key asset classes, which have primarily been contributing to the sector’s growth. Real estate contributed nearly 6% to India’s GDP in 2017. As per the projected growth trends during the pre-COVID-19 era, the sector’s contribution was likely to rise to 13% of India’s GDP by 2025.

REAL ESTATE CONTRIBUTION TO GDP



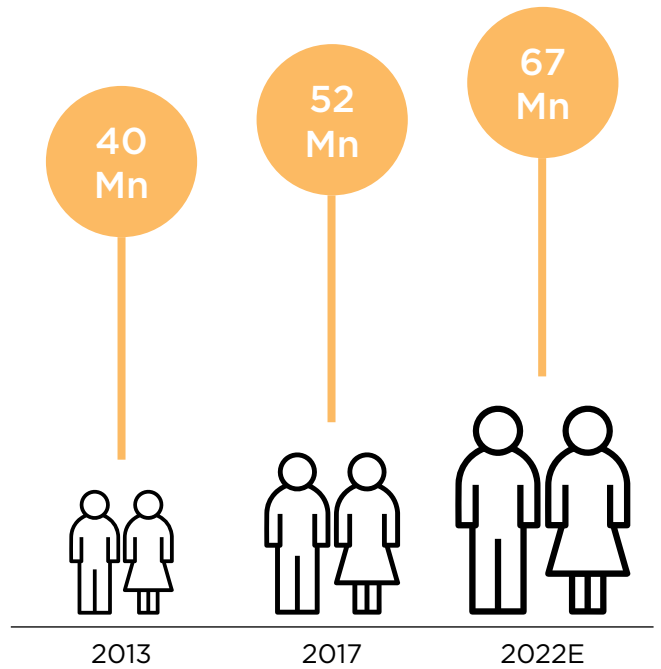
Employment

After agriculture, real estate is the largest employment generator in the country. The sector creates tremendous opportunities for the skilled and unskilled workforce. It has also been instrumental in employing large masses of migratory populations that come to the metropolitan cities in search of work.

As per industry estimates, 90% of the workforce employed in real estate and construction sector is engaged in the construction of buildings, while the rest 10% is involved in building completion, finishing, electrical, plumbing, other installation services, demolition and site preparation. Over 80% of the employment in real estate and construction constitutes of minimally skilled workforce, while skilled workforce accounts for over 9% share, and the remaining are spread across work classes such as clerical, technicians and engineers.

As per the Economic Survey 2017-18¹, employment is expected to grow at a compounded rate of 5%. These figures are mainly for construction and development.

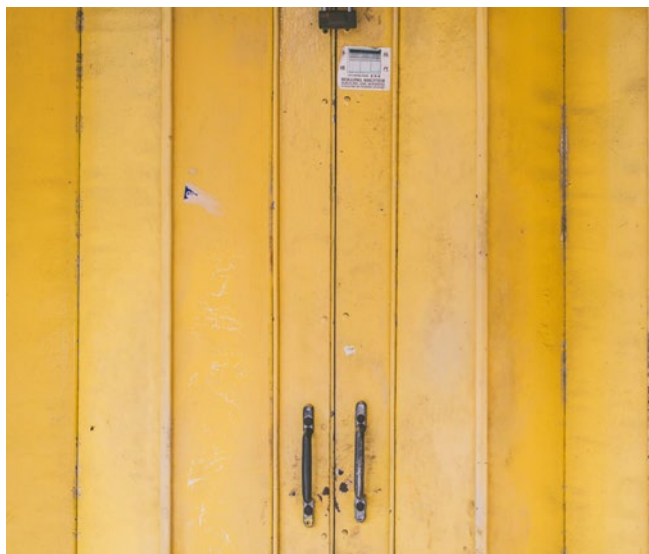
EMPLOYMENT IN RE SECTOR



Source: ANAROCK Research



¹ Latest information; Employment details for Indian real estate was not published in Economic Survey 2018-19



However, since majority workers are immigrants, labour shortage could emerge as a major challenge for the sector post COVID-19's current lockdown. Several migrant workers who were forcefully trying to migrate to their hometown were stopped by the authorities and forcefully quarantined at the state borders. While a few are likely to go back to their villages, others may come back to the project sites sooner. As a result, construction activities are set to be delayed with many developers and contractors facing shortage of labour and a more pronounced liquidity crisis.

As is, the Indian residential sector was caught in the grip of delayed project deliveries, liquidity squeeze for developers, high unsold inventory and a growing proportion of stalled projects. The liquidity crisis also led to significant job losses in the past. As per industry estimates, around 300,000 workers had to be laid off as developers were unable to process their bills.

While many developers were overleveraged, the current pandemic has made the situation grim to sustain employment levels. It is anticipated that in the short-to-medium term, employment levels are likely to be affected significantly.

Apart from construction, the retail sector is another major source of employment. As malls and non-essential business establishments have been currently shut down and will continue to remain so until the pandemic is under control, we believe that there will be a reduction in manpower to the tune of 10% to 20%, primarily those employed in the housekeeping, merchandising and maintenance of facilities.

FDI in Construction

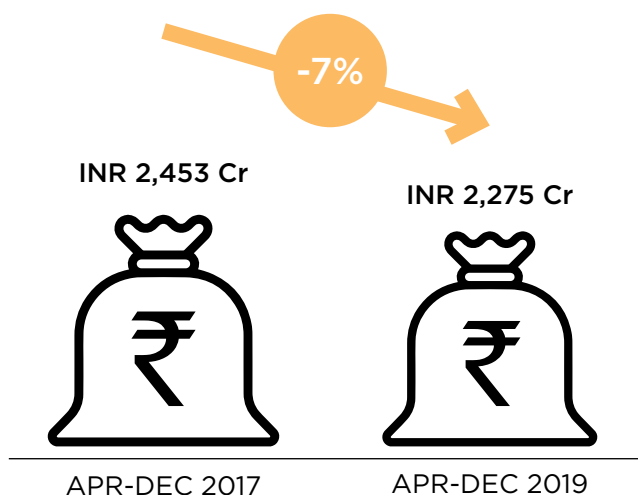
Foreign Direct Investment (FDI) in construction development: townships, housing, built-up infrastructure currently accounts for only 6% of the total inflows from April 2000 to December 2019. A quick comparison of the absolute inflows between Apr-Dec 2017 with Apr-Dec 2019 shows that the investments in the sector in 2019 reduced by 7% as compared to 2017, indicating that FDI has already slowed down.

Amidst the COVID-19 uncertainty, it is anticipated that the forthcoming quarter of the current year may witness a further decline in FDI inflows into the sector.

The Indian real estate sector needs to exhibit immense resilience to overcome the current situation imposed by the novel coronavirus. The sector has been successful in overcoming many challenges in the past and has stood up in the most turbulent times. Unfortunately, the testing period and the trials keep coming back at regular intervals and it is surely going to hurt the sector but may also fortify for the years to come.

India's improved rank on Ease of Doing Business and the courage to implement reforms such as DeMo, RERA, and IBC are indeed creditworthy. These are expected to yield fruitful results in the future and help establish Indian real estate as a preferred destination for global investors, occupiers, and homebuyers.

FDI IN CONSTRUCTION DEVELOPMENT





Indian Commercial
Office Sector:
COVID-19 to break
growth momentum

SECTION 2

Indian Commercial Office Sector: COVID-19 to break growth momentum

Indian commercial office sector has been on a growth trajectory with corporate expansions led space absorption attaining a peak in 2019. Major occupiers committed to large spaces to accommodate their ambitious growth plans.

Despite global slowdown early this year due to trade war, Indian office market remained insulated as occupiers looked to expand their operations. Ability of Indian cities of offering sub-dollar rental values for ITeS companies and sub-one and half dollar rental values for IT companies drove consistent growth in leasing. Net absorption in top 7 cities was recorded at 40 Mn sf in 2019, growing by 19% over 2018.

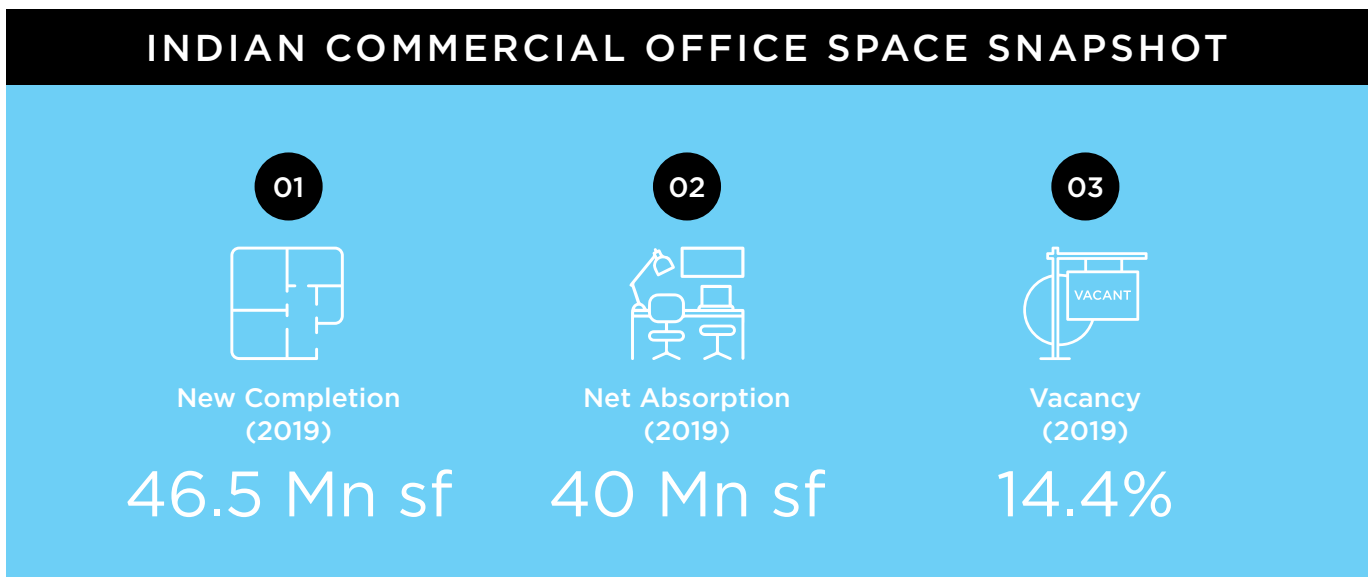
New completions also kept pace with rising demand and stood at 46.5 Mn sf in 2019, recording 21% yearly growth. Overall vacancy remained almost stable at 14.4% by 2019-end.

However, this vigorous run of office real estate over last three years is expected to witness some deceleration in 2020. Shrinking Indian economic growth coupled with global economies' sharp reaction to the ongoing COVID-19 pandemic will certainly impact Indian office segment.

As is, India's GDP growth rate slipped to 4.7%, nearly 7-year low, in Oct-Dec 2019 quarter and amidst the current turmoil, its improvement surely seems bleak.

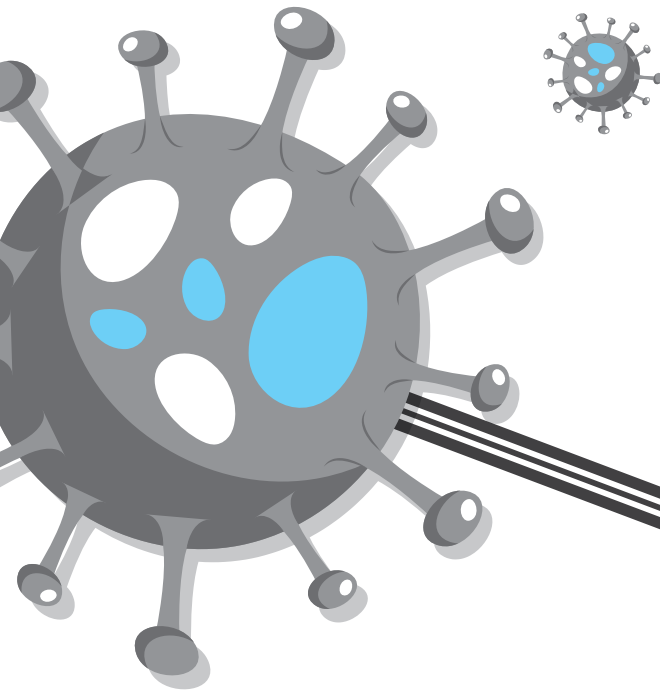
Magnitude of the current slowdown on office segment is tough to predict as the world, particularly the First World, is still reeling under the impact of the virus. Considering the present scenario and assessment of past global crises in the last decade, ANAROCK Research estimates that supply and net absorption will be significantly lower in 2020.

Predictions for 2020 are based on previous period of sluggish demand experienced in India during 2012-14 and the global economic crisis of 2008. Both these periods seem relevant as the Indian office segment has a direct and proportionate correlation with economic activities. It is also heavily dependent on global companies that expanded their operations in India and have been driving demand for Indian office real estate.



Note: Data for top 7 cities; Grade A offices only.
Mn sf: million square foot

Source: ANAROCK Research



INDIAN OFFICE SPACE

A few notable trends likely to emerge amidst the current COVID-19 situation

01

Delays in construction activities to impact supply

The office segment has been growing at an impressive rate over the last three years. The supply has been on the rise each year and the absorption has also been good. Based on the trends, it was estimated that the supply would have been around 47 Mn sf in 2020. This would have been the highest supply infusion in the decade.

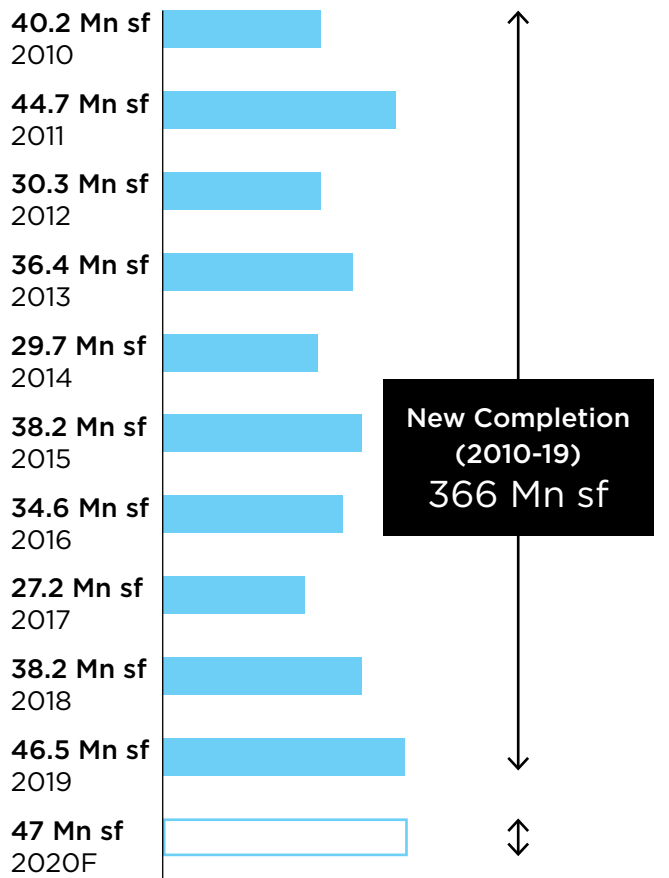
Projects that have significant levels of preleases and are nearing completion may get delayed by a quarter or two but are likely to be ready for fit-outs by this year end. Some developments that are still to secure leases and commitments from occupiers may get spilled over to the next year as some developers may not be willing to pay out large fee for Occupancy Certificates (OC) if majority of their projects' space is not leased. However, owing to the prevailing crisis, the supply is surely going to be affected. Delay in construction and absence of labour and material will result in a significant decline in supply and is estimated to be lower by 15% to 30% over Pre-Covid estimate.

Source: ANAROCK Research

Note: Data for Top 7 cities only; Includes only Grade A office.

Base case estimates assume the pandemic to settle down in one quarter and adequate stimulus provided to the sector. Downside case estimates assume that the pandemic extends more than a quarter with negligible or no stimulus for the sector.

NEW COMPLETION TRENDS

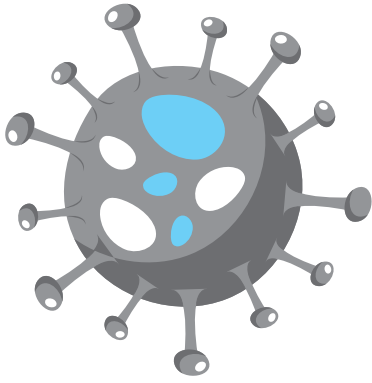


Pre-Covid Estimate (2020F)

47 Mn sf

2020 Revised Estimate

Base Case	Downside Case
40 Mn sf ↓ 15%	33 Mn sf ↓ 30%



02

Reduced demand

Amidst the pandemic and the global health crisis, the demand for office space is likely to drop. As many occupiers may not be able to assess the impact until the situation is resolved, they will reassess their position. While there will be some significant slowdown in their businesses, the expansion or consolidation plans may also be shelved.

ANAROCK Research examines the situation in the light of previous impacts of economic slowdown and the global economic crisis. **Net absorptions in 2020 to drop by 17% to 34% from the Pre COVID-19 estimates.**

The U.S. headquartered companies lease typically lease between 40%-50% of annual net offtake of office space in India. Given the high chance of USA economy suffering due to COVID-19 impact, its negative effect will be felt in India with a drop-in office space leasing. European Union (EU) headquartered companies do not influence India's annual office space offtake as much as their contribution typically hovers around 10%-12%, but much of that is going to evaporate given the very high adverse impact of COVID-19 in Western and Southern Europe and in the UK.

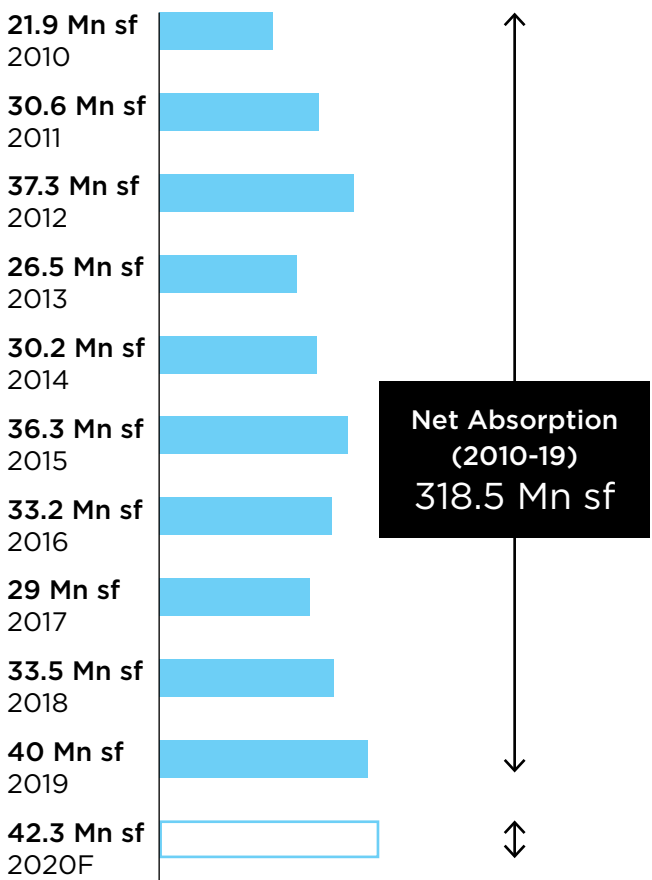
Given the sluggish business environment and that is likely to be prevalent post the COVID-19 outbreak period, it will put rentals under tremendous pressure. While we expect that the vacancies may not rise significantly owing to the supply-demand equilibrium, the occupiers would like to re-negotiate the cost and other terms.

Source: ANAROCK Research

Note: Data for Top 7 cities only; Includes only Grade A office.

Base case estimates assume the pandemic to settle down in one quarter and adequate stimulus provided to the sector. Downside case estimates assume that the pandemic extends more than a quarter with negligible or no stimulus for the sector.

NET ABSORPTION TRENDS



Pre-Covid Estimate (2020F)

42.3 Mn sf

2020 Revised Estimate

Base Case

35 Mn sf ↓ 17%

Downside Case

28 Mn sf ↓ 34%

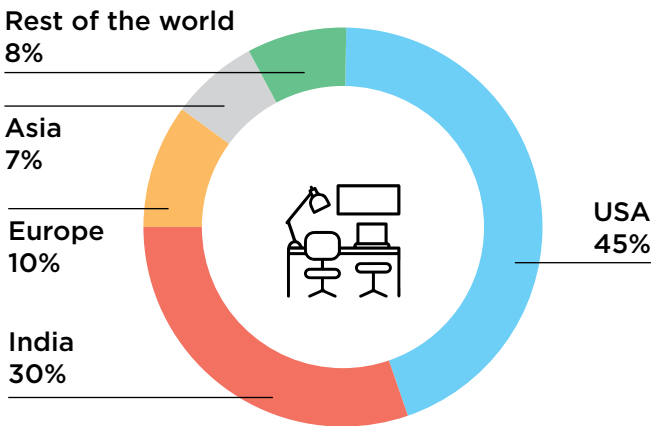


03

Rentals to come under pressure

As most corporate occupiers in Indian office space are MNCs in the IT-ITeS sector, which are headquartered in Europe or the U.S., they are likely to revisit their business plans for the coming years. ANAROCK analysis further indicates that US-based companies account for 45% occupiers, followed by India-based companies at 30%. Incidentally, countries within the European Union – one of the worst affected - contribute 10% of the overall leasing in the Indian office market. However, the current testing time will compel many Indian operators to explore various options that can be leveraged in the future to optimize cost.

OFFICE SPACE OCCUPIERS: GEOGRAPHICAL SPREAD



Source: ANAROCK Research

Given the present situation, if the U.S. is able to arrest the spread of the pandemic and capable of preventing the economic contraction, the demand for corporate spaces may remain intact. The economy of the countries in the Euro Zone are severely impacted and are likely to contract post the COVID-19. Large leases, renewals and commitments are likely to be affected causing rentals and renewals to be negotiated.

Large occupiers who have not been able to operate to their full strength during the pandemic may factor this period while renewing and would negotiate the rentals. Consolidation plans may be to move to peripheral locations to contain the rental pay-outs. In our opinion, rentals are likely to come under pressure, as renewals and new leases are likely to be negotiated intensely.

04


Demand for flexible spaces on the rise; relook at office space requirement

Layout of workstations and production areas may be revisited to optimise real estate requirements basis a new work schedule and regime. Occupiers may consider flexible working schedules based on rostered days of works; thereby reducing the space requirement resulting in reduced operations cost.

Tele commuting and rostered timings may become the new norm for offices depending on the nature of business. While all occupiers may not change, there will be many that will prefer technology enablement and flexible schedules to optimise cost.

According to Global Workplace Analytics, employers can save over USD 11,000 per half-time telecommuter per year. Having experienced telecommuting during the COVID-19 pandemic, many companies may consider this as a long-term strategy, which will result in optimizing their real estate requirement and operations cost.





COVID-19 pandemic has disrupted office segment which was on a growth trajectory for the last three years. The incident will open new business models which makes the players more reliant on technology for ensuring business continuity. However, the massive construction activities that are currently underway in India and other emerging economies face uncertainty. The corporate world may be forced to revisit their requirements keeping personal health and hygiene as the topmost priority for their assets and employees.

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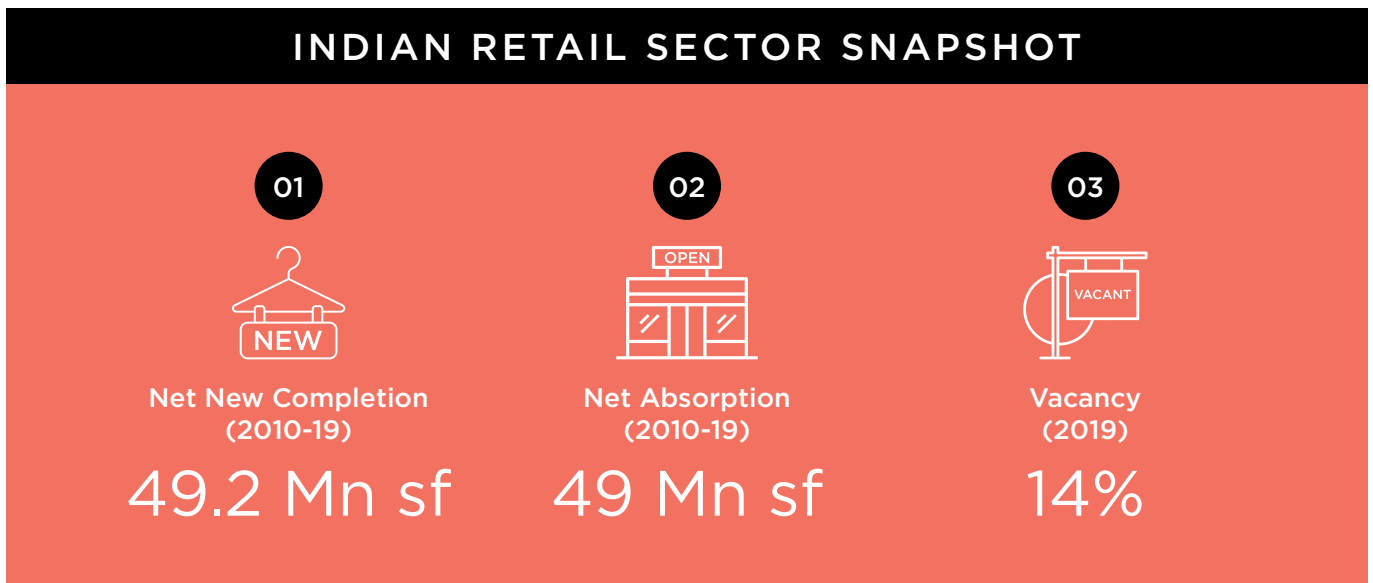
COVID-19 to
challenge Indian
Retail Sector

SECTION 3

COVID-19 to challenge Indian Retail Sector

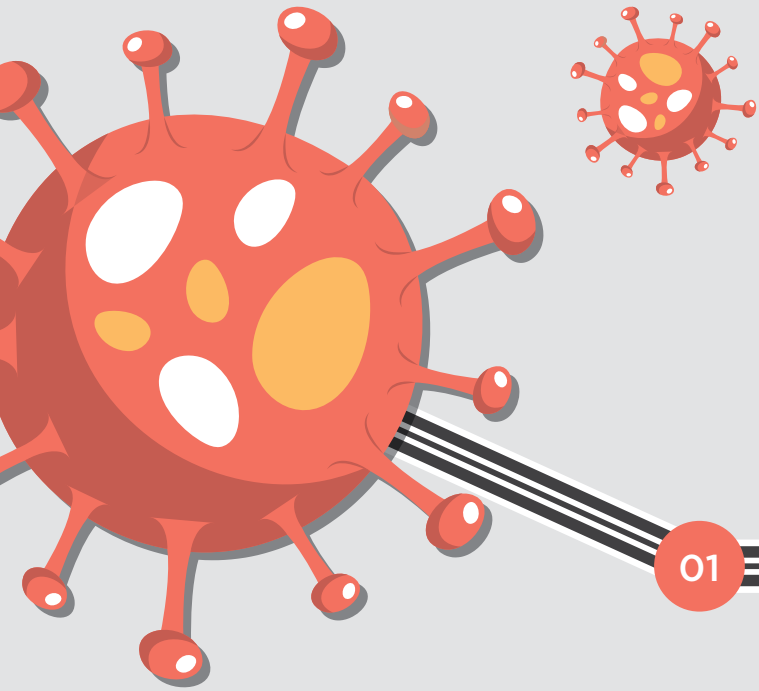
The Indian retail realty sector was already reeling under the contrast of vacant spaces at a few unsuccessful malls and no or low vacancy in successful ones and, more lately, tepid consumer demand resulting into dropping sales for the retailers. As for the issue of failed malls, there was improvement in the past three years or so with wrongly developed products being knocked off the shelf and new malls being developed keeping in mind consumer interest and experiential shopping being the epicentre of developments. Global retailers had begun to take keen interest in the burgeoning Indian retail market and as per our pre-COVID-19 estimates, net absorptions were looking northwards and vacancies declining.

COVID-19 has already hit the country and pressures are mounting on the Indian retail market with all cities under lockdown mode, at least until mid-April 2020 (as per current advisory). While India is in the early stages of COVID-19, shutting down of retail malls and high-streets has raised serious questions on the growth of this key asset class within the Indian real estate sector.



Note: Data includes only Grade A malls sized more than 2 lakh sf, excludes standalone anchors.
Mn sf: million square foot

Source: ANAROCK Research



INDIAN RETAIL SECTOR

A few notable trends likely to emerge amidst the current COVID-19 situation

01

02

Dip in consumer spending

Buoyed by a strong economy, rising household income, socio-economic factors and change in spending pattern, consumption expenditure has been on a rise in India. As per World Bank statistics, final consumption expenditure in India increased from USD 1.10 Tn in 2010 to USD 1.92 Tn in 2018, a CAGR of 7%.

This time around, the situation seems to be different. Retailing as a business is seasonal and the current COVID-19 crisis indicates that during this year’s vacation season, Indians will be either locked down in homes or prohibited to congregate, thus there will be muted buying and muted spend on eating out, recreation and entertainment. As a result, in our opinion, consumer spending is likely to dip in the current year. Not only lockdowns and social distancing but also the overall economic gloom and employment uncertainty are likely to bear an impact on consumer spending.

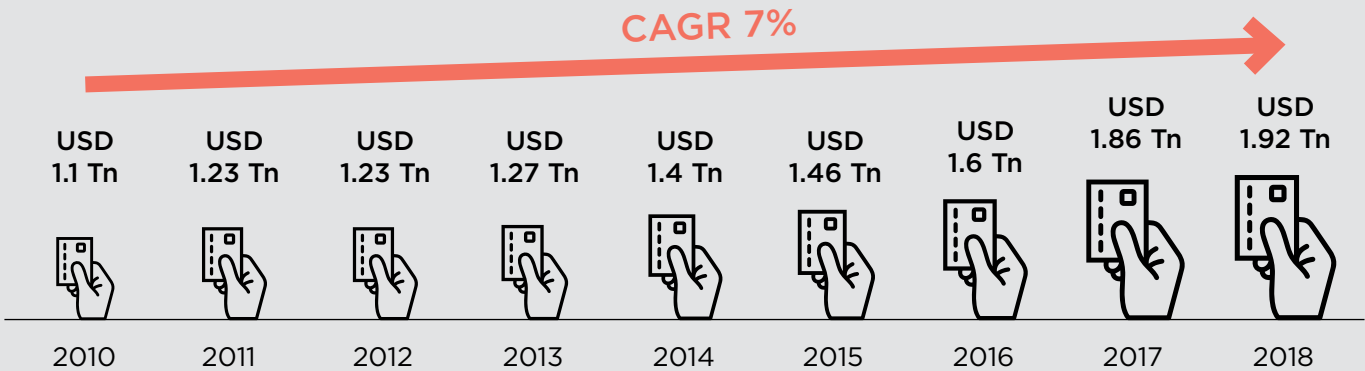
New mall completion delays

As per pre-COVID-19 ANAROCK estimates, around 8.4 Mn sf mall space was planned to complete across the top 7 cities in 2020.

Considering the possibility of further decline in consumer spending, social distancing being the new norm, possible delays in new leasing activity, and the dearth of skilled and unskilled labour to complete projects, the planned new completions across the top 7 cities might drop to between 30%-50% overall in 2020 as there may be a minimal activity in H1 2020 and the subsequent second half may also remain fairly muted.

Also, new mall additions in tier II cities may be relooked by developers and investors as there will emerge investment or acquisition opportunities in the tier I cities itself due to the unprecedented crisis that has hit the Indian retail sector.

FINAL CONSUMPTION EXPENDITURE



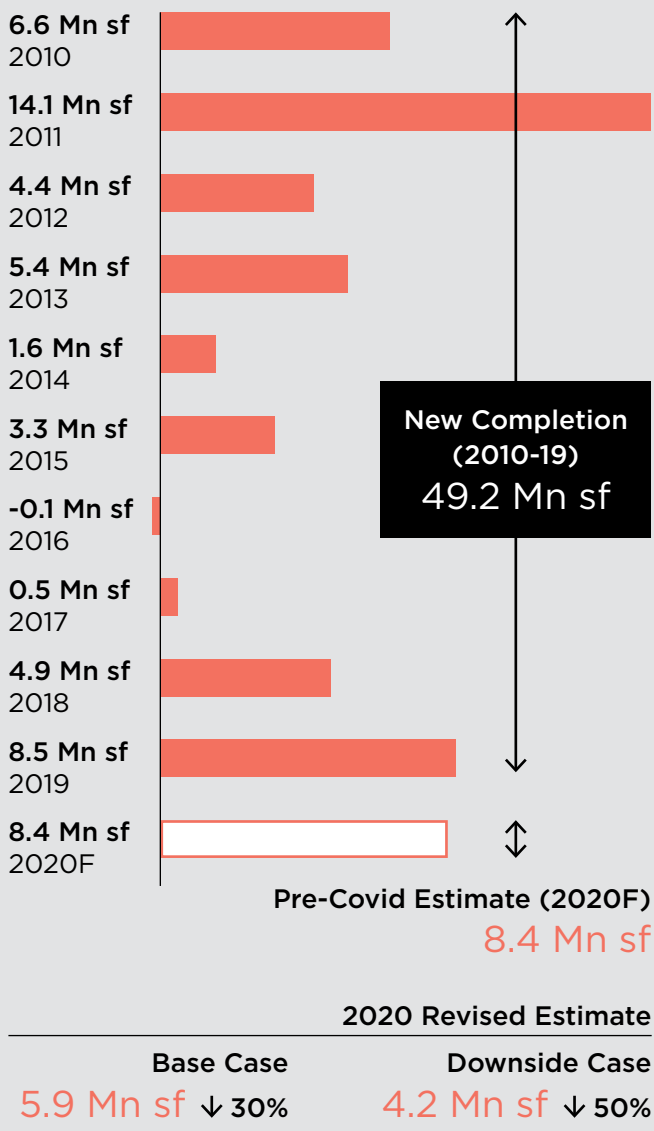
Source: World Bank

Leasing activity slowdown

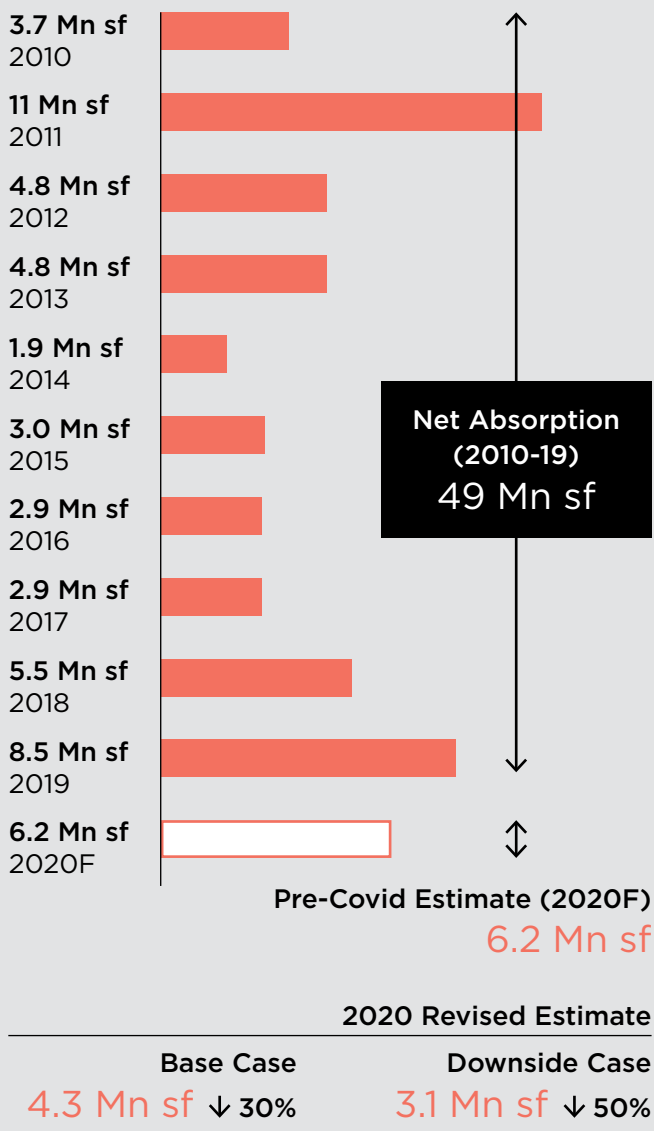
Presently, malls across the top 7 cities have an overall vacancy rate of around 14%, declining steadily over the last few years. It was due to a combination of factors including restricted supply and improving leasing activity. However, amidst the current COVID-19 pandemic, we believe that leasing activity might slow down significantly as retailers may go on a wait-and-watch mode.

Both domestic and global brands may re-strategize their expansion plans as business will be impacted for a significant part of H1 2020. In the years to come, we might witness a polarized absorption scenario with malls at good locations depicting higher occupancy while retailers may move out of other locations which do not generate significant footfalls. Also, even after the lockdown ends, there might be restrictions on the footfalls as the social distancing norms may extend for malls which have a high population density. Amidst low footfalls, the leasing activity may continue to be slow in 2020.

NEW COMPLETION TRENDS



NET ABSORPTION TRENDS

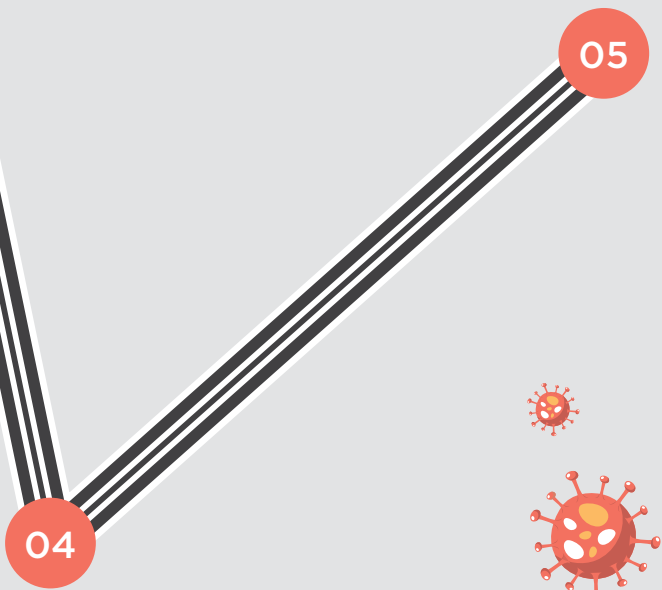


Source: ANAROCK Research

Note: Data for Top 7 cities only; Data includes only Grade A malls sized more than 2 lakh sf, excludes standalone anchors.

Base case estimates assume the pandemic to settle down in one quarter and adequate stimulus provided to the sector.

Downside case estimates assume that the pandemic extends more than a quarter with negligible or no stimulus for the sector.



Rise in vacancies

With slowdown in leasing activity, we may witness momentary increase in vacancies across malls. Amidst the current COVID-19 outbreak, retailers will either delay or defer getting into new deals considering that business will remain muted for the next few months following decline in footfalls.

Business models relooked

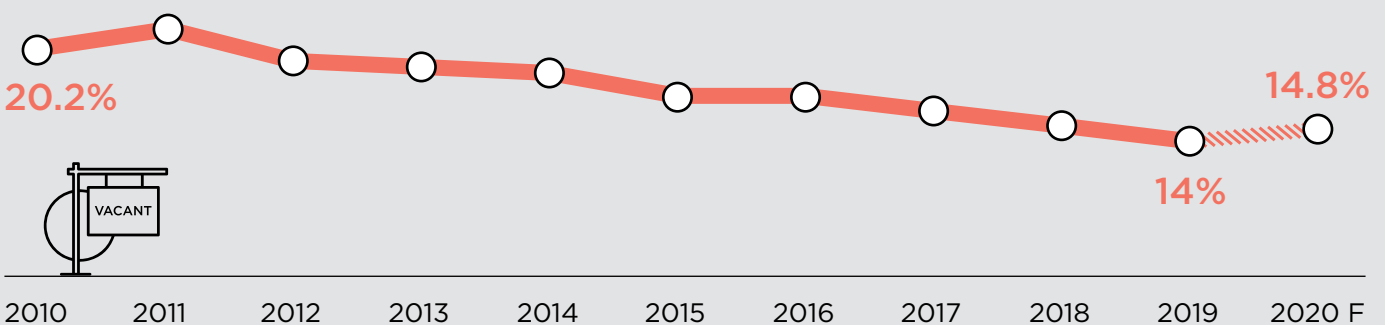
Many retail chains are already in discussions with mall owners for a possible exemption or rebate in rentals as businesses have been severely impacted. For those on revenue-sharing arrangements, retailers are seeking for lower pay out.

Going forward, revenue-sharing arrangements will become dominant. Retailers would prefer to partner with mall owners to mitigate risks arising due to decline in footfalls during such unprecedented crises.

All-in-all, mall owners' rental collections are likely to be impacted severely, followed by a spill-over impact on their business. Decline in month-on-month rental collections not only affect mall operations but also disrupt developers bank payments and future rental generation capability. **In our opinion, we may witness a significant pressure on rentals to the tune of 10%-15% in 2020 in terms of effective collection from retailers to the mall owners.**

Also, the retailers may consider focussing more on increasing their omni channel presence so as to be prepared for such future incidences.

VACANCY TRENDS



In a nutshell, COVID-19 outbreak has added enormous pressure to already delicately poised Indian retail sector. New completions will be deferred, leasing activity to be delayed, rentals may come under pressure, vacancies may see a momentary rise and the sector's overall growth rate will be slowed down.

India's consumption story was dwindling for the past few quarters as depicted in the sales slowdown of FMCG products, automobiles, etc. and the current COVID-19 outbreak has worsened the situation. The nationwide lockdown has brought retail business to a standstill and it may take several quarters for the sector to recover from the aftermath of the coronavirus impact.

In our opinion, once the lockdown is over, consumers may start to venture out gradually for purchasing necessities and as a result, we may witness some amount of activity at the retail malls and other shopping destinations. While India's consumption base is wide, the current pandemic outbreak has had a global impact and as a result, uncertainty grapples the future in terms of employment and sustainability. As a result, we believe that Indian consumers may not embark on a shopping spree of non-essential goods immediately post the end of lockdown. However, considering that retail malls have transformed into community centres where people meet, greet and eat, once the lockdown is over, consumers may once again congregate at these centres to satisfy their socializing needs.

To make up for the lost time, we may see retailers and mall owners luring the consumers by preponing the July/August sale period and organizing events, performances, offers, etc. to revive the footfalls and also spread the word that malls are operational like pre-COVID-19 outbreak days and there is nothing to worry now. While the business situation may improve in the months to come, the recovery will surely be gradual and not steep and the entire impact of this pandemic and the likely future growth path can only be assessed once the situation returns to normalcy.

However, there surely lies an opportunity in every crisis and we believe that the Indian retail sector might embark on a different growth trajectory in the years to come with the emergence of businesses with sustainable business models and a strong foothold on technology.



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COVID-19 to hurt
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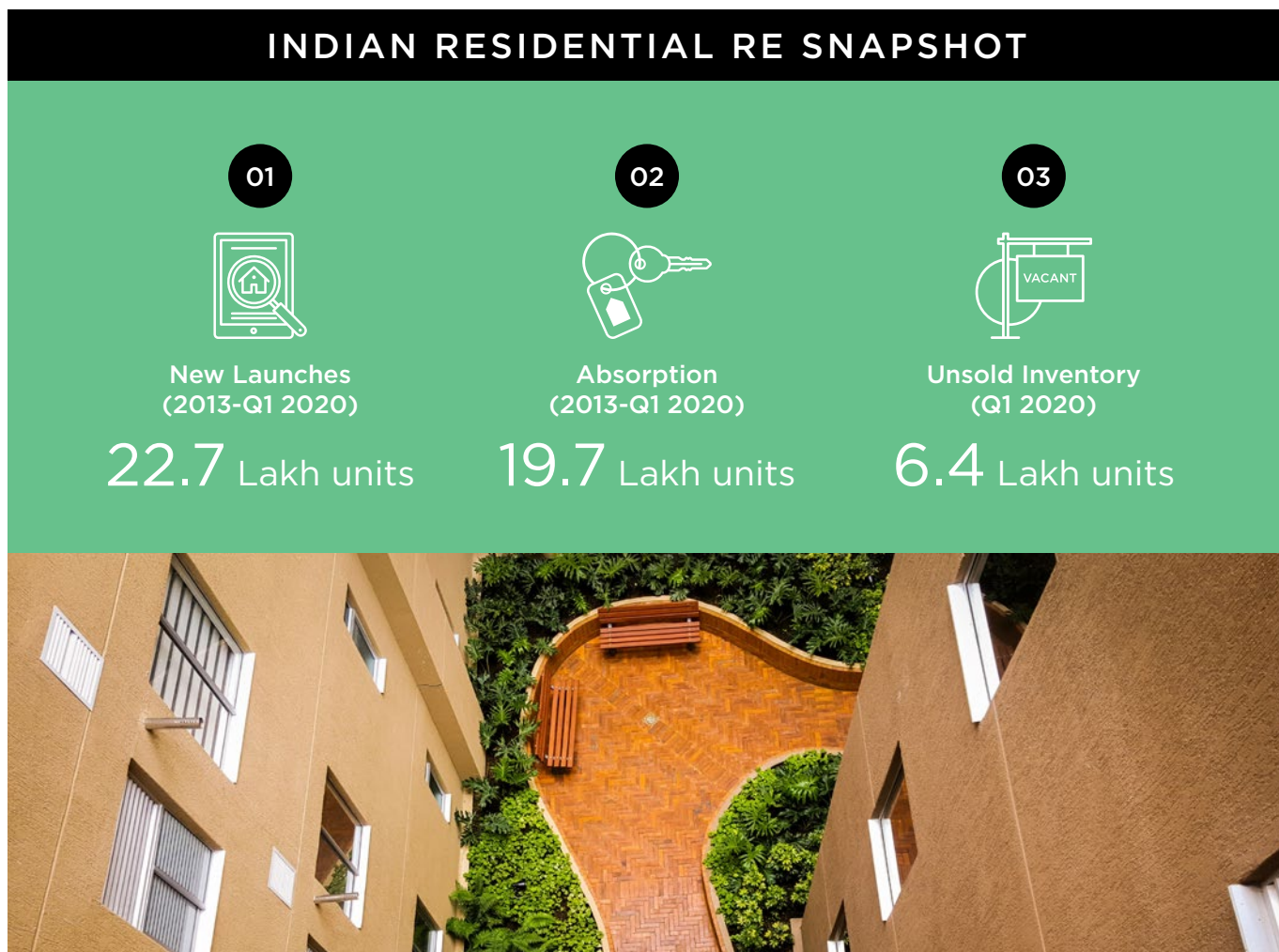
SECTION 4

COVID-19 to hurt Indian Residential RE already grappling with subdued demand & liquidity crisis

The Indian residential sector has been grappling with subdued demand for the past few years. In an attempt to stay afloat amidst changing dynamics, developers tried to pull all levers like restricting supply, focussing on execution, reducing unit sizes and developing affordable housing projects. However, the liquidity crisis initiated by IL&FS fiasco and subsequent fallouts of various financial institutions further impacted residential sector.

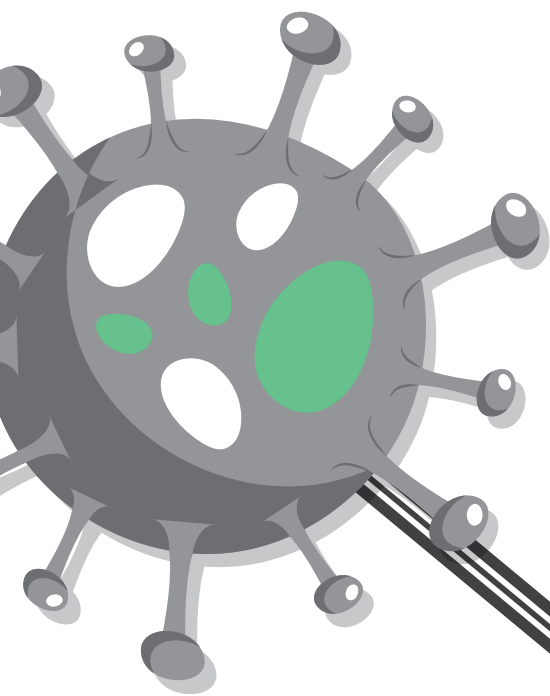
Amidst these changing dynamics, PE players shifted their attention totally towards commercial assets. As per ANAROCK Research, residential PE investments’ share of the overall inflows declined from 53% in 2015 to a mere 8% in 2019.

COVID-19 has severely hit residential real estate business and the sector has come to a standstill. With a screeching halt to site visits, discussions, documentation and closures, the early indicators depict that we are likely to face a tough time for the next few quarters and the sector’s recovery has been pushed further away by at least a couple of years.



Note: Data for Top 7 cities in India: NCR, MMR, Bengaluru, Chennai, Hyderabad, Kolkata & Pune.

Source: ANAROCK Research

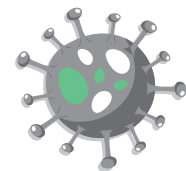


INDIAN RESIDENTIAL SECTOR

A few notable trends likely to emerge amidst the current COVID-19 situation



01

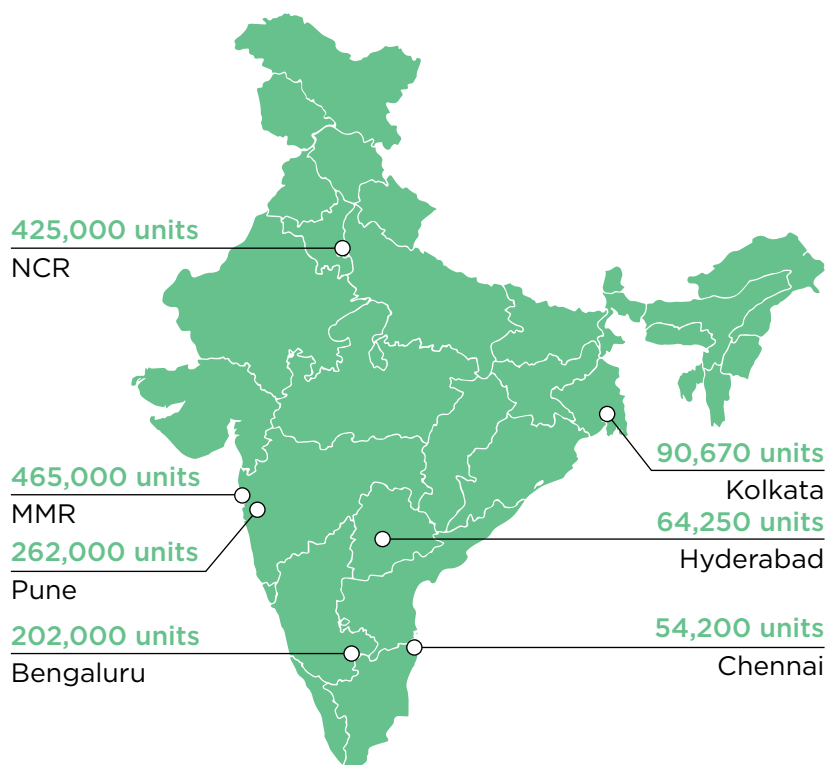


Construction delays

As per ANAROCK Research, more than 15.62 Lakh units launched between 2013 till 2019 across the top 7 cities of India are in various stages of construction. Of this, MMR and NCR together comprise of 57% or about 8.9 Lakh units. With India being locked down until mid-April 2020 (as per the current advisory) there will be massive disruptions in the construction material supply even after the lock down ends, leading to disturbances and delay in the construction activity.

In our opinion, construction delays might run up to several months for well-funded projects, while for others, the delays may even be to the tune of a couple of years. Being declared a national disaster, even RERA will be ineffective in getting homebuyers to recover any penalties. Thus, they will have to brace for construction delays.

UNDER-CONSTRUCTION UNITS (TOP 7 CITIES)



Source: ANAROCK Research



Nearly 4.7 lakh units across top 7 cities of India were likely to complete in 2020 and these face a high risk of being delayed to later year.

02

Decline in new launches

The new launches across the top 7 cities of India began recovering gradually since 2017 as the dust of structural changes and policy reforms settled down. However, owing to liquidity crisis, the pace of new launch growth declined gradually. On annual basis, new launches grew by 33% in 2018 over the previous year and in 2019 growth seen was only 21%.

Amidst the current COVID-19 outbreak, we are likely to witness major disruptions due to construction delays and financing issues. Moreover, this time around the festive season and summer vacation period which is the most opportune for new launches may take a beating. As is, the third quarter of any calendar year is slow for new launches due to the ongoing monsoons and 'shraad' period.

In this backdrop, in our opinion, in 2020, new launches are likely to register an annual decline to the tune of 25%-30%.

NEW LAUNCHES (TOP 7 CITIES)



2020 Estimate



Base Case
177,500 units ↓ 25%

Downside Case
165,600 units ↓ 30%

03

Sales slowdown

Sales across top 7 cities of India remained muted in 2017 due to DeMo and other structural reforms. In 2018, sales improved by 18% over the previous year with RERA being in place and fence-sitters starting to come back to the market. However, the euphoria was short-lived and amidst the liquidity crisis and an overall gloom in the economy in 2019, sales improved only 9% over the previous year.

Considering that residential real estate sales are highly dependent on physical site visits, interactions, discussions and physical documentation, we believe that sales in 2020 might be significantly hit due to the current COVID-19 outbreak in India. Many homebuyers will consider postponing their decisions either to stay away from the project sites or in the expectations of a price correction.

In our opinion, in 2020, residential real estate sales are likely to register an annual decline of around 25%-35%.

ABSORPTION (TOP 7 CITIES)



2020 Estimate



Base Case
196,000 units ↓ 25%

Downside Case
170,000 units ↓ 35%

Source: ANAROCK Research
Note: Data for Top 7 cities only

Base case estimates assume the pandemic to settle down in one quarter and adequate stimulus provided to the sector.
Downside case estimates assume that the pandemic extends more than a quarter with negligible or no stimulus for the sector.

04

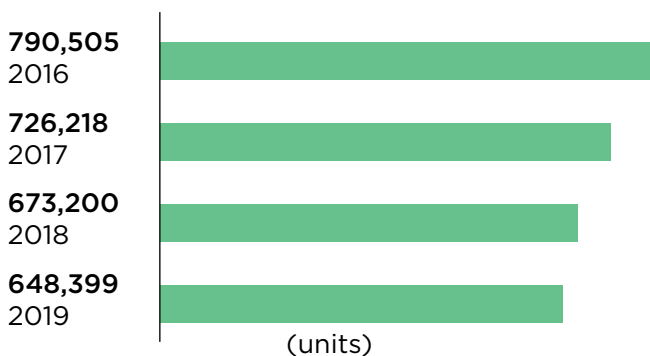
Unsold inventory to remain stable

Amidst restricted supply and marginally improving demand, unsold inventory across the top 7 cities of India has been declining during the past few years. In 2018, the annual decline in unsold inventory was 7% while it declined by 4% in 2019.

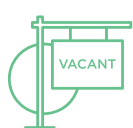
With new launches coming to a screeching halt at least for the next few months until we see COVID-19 containment in the country, homebuyers may spring into action during the second half and select from the existing unsold inventory from projects across various stages of construction.

In our opinion, in 2020, unsold inventory is likely to remain largely stable with a single digit annual decline of around 1%-3%.

UNSOLD INVENTORY (TOP 7 CITIES)



2020 Estimate



Base Case
630,000 units ↓ 3%

Downside Case
644,000 units ↓ 1%

05

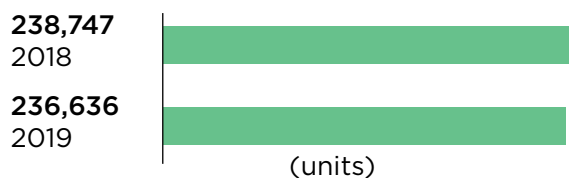
Affordable housing segment tested

Nearly 40% of new launches added across the top 7 cities of India during the past few years have come in the affordable housing segment (units priced < INR 40 Lakh). The government's strong push on 'Housing for All' mission and extension of several sops to the homebuyer and developer of this segment led to a wave of affordable housing developments. Also, land being a scarce resource in the core parts of many cities, new developments began to emerge in the affordable peripheral destinations.

Amidst the current COVID-19 outbreak, we believe that the most affected segment of the working population is the target group for affordable housing developments. These homebuyers with limited income and lack of work from home facilities may have to face loss of pay or even jobs and may reconsider their purchase decisions. With affordable housing units accounting for around 36% of the overall unsold inventory across the top 7 cities as of Q1 2020, this segment was already being tested and the current pandemic outbreak has further worsened the situation.

In our opinion, the unsold inventory in the affordable housing segment will register an annual increase of 1%-2%.

UNSOLD INVENTORY - AFFORDABLE SEGMENT (Units priced < INR 40 Lakh)



2020 Estimate



Base Case
239,000 units ↑ 1%

Downside Case
241,500 units ↑ 2%

Source: ANAROCK Research

Note: Data for Top 7 cities only

Base case estimates assume the pandemic to settle down in one quarter and adequate stimulus provided to the sector.

Downside case estimates assume that the pandemic extends more than a quarter with negligible or no stimulus for the sector.

06

Massive consolidation

The Indian real estate sector has been consolidating for the past few years. With the onset of RERA, financially weak players found it difficult to adhere to compliance norms and were either going out of business or consolidating with larger players. The liquidity crisis further worsened the situation and a new wave of consolidation was kicked off.

Survival of the fittest and financially strongest is the new norm in Indian real estate and we have witnessed a rise in the share of new launches by branded players. As per our research, the share of tier I developers in 2018 new launches was around 56% as compared to 41% in 2015. In 2019, this share increased as liquidity crisis hit the weaker players significantly.

In our opinion, this consolidation phase is likely to continue amidst the current COVID-19 outbreak and as we emerge from this pandemic, many weak players may cease to exist.

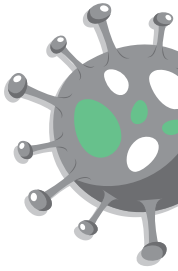
07

Consumer sentiments to dip further

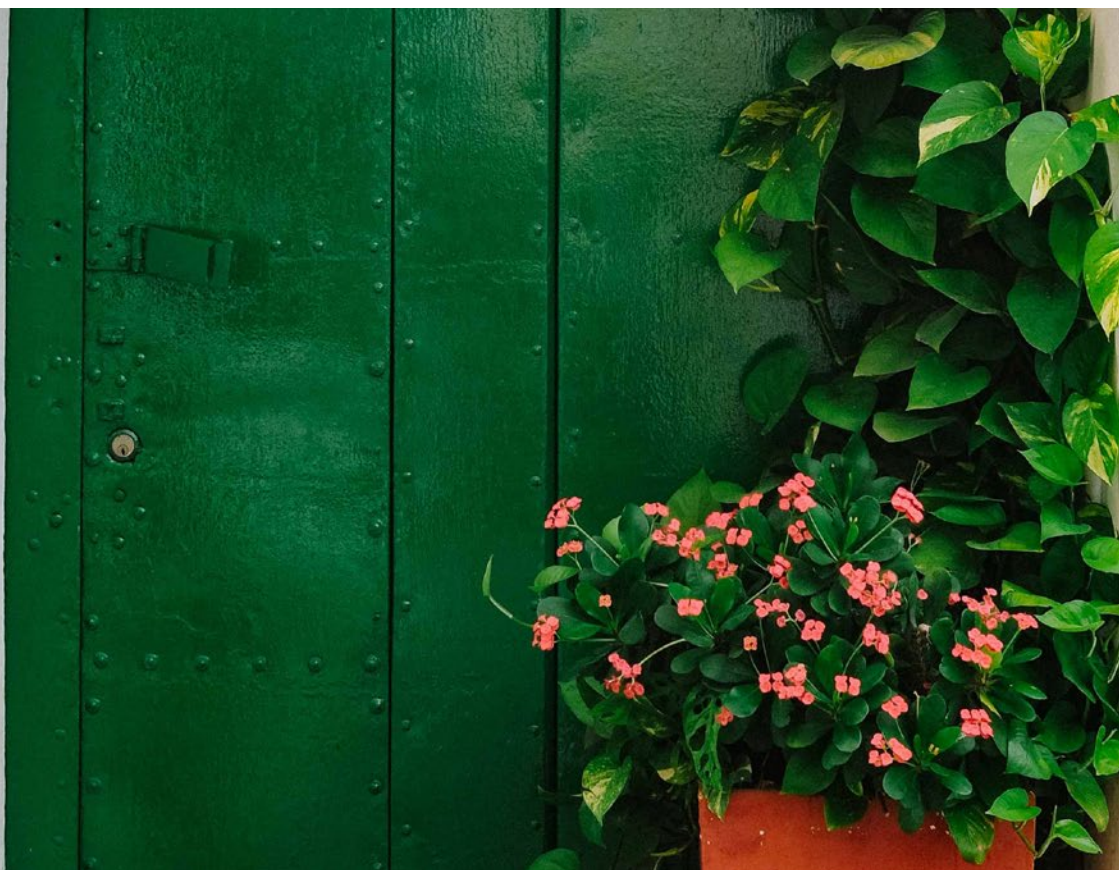
Indian residential real estate has been grappling with subdued demand and low consumer sentiment for more than 3 years now. Structural changes and policy reforms including DeMo, RERA, GST, and IBC imbued some confidence and consumers began to relook at this asset class. However, markets transformed to be end-user driven with sales dependent on buyers looking for self-use.

Amidst the current COVID-19 outbreak, consumer sentiments have been severely shattered not only due to the possibility of construction delays and decline in new launches but also due to rising uncertainty on overall economic growth. This is also visible in the stock market indices as fear of pandemic grapples the institutional and retail investors alike.

In our opinion, consumer sentiments are likely to remain weak for the rest of the year 2020 unless India can contain the coronavirus within the stipulated lockdown period and also there is some amount of sector-specific economic revival package announced by the government.



The unprecedented crisis put across by the current COVID-19 outbreak has surely impacted the Indian residential real estate significantly. The sector had already been grappling with subdued demand and liquidity crisis for a long period and the pandemic has led to a screeching halt of new developments and pushed the probable recovery further away by a few years.



SECTION 5

COVID-19 Outbreak: Relief measures offered by various countries

All countries affected by the impact of COVID-19 outbreak have announced fiscal stimulus packages to maintain liquidity and economic continuity at these times of distress. While many nations have directly infused liquidity into the system some have also ensured public distribution of food and sustenance measures.

1. UK



- £350+ Bn lifeline for economy.
- Includes £350 Bn in loans, £20 Bn in other aid.
- A business rates holiday, and grants for retailers & pubs.
- Help for airlines is also being considered.

2. Canada



- Canada's financial regulatory body lowered bank reserve requirements, allowing banks to lend an additional USD 214 Bn.
- On the fiscal side, the Canadian government announced USD 7.1 Bn in loans to businesses to help them cope with the damage the coronavirus is doing to the economy.

3. USA

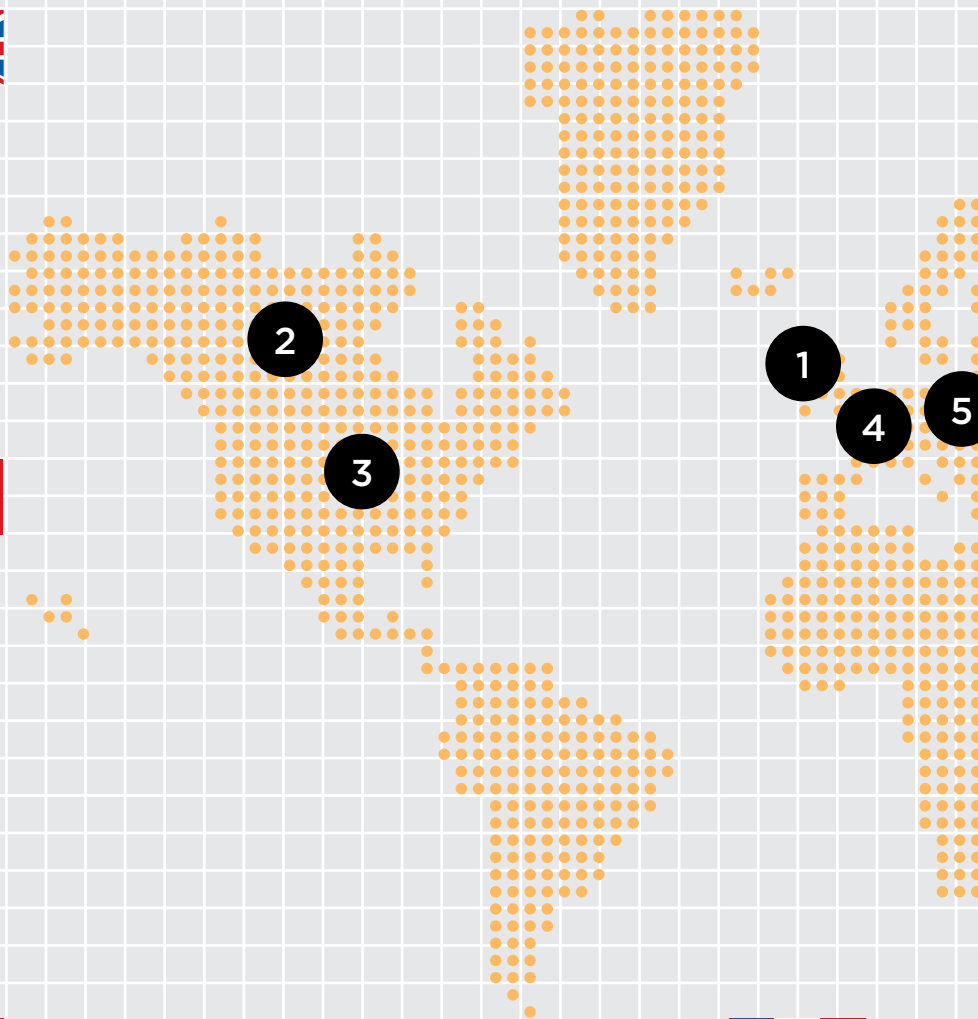


- USD 1 Tn stimulus package, nicknamed "Phase Three".
- USD 500 Bn in direct payments, including a more than USD 1,000 payment to all U.S. adults, excluding millionaires and billionaires.
- USD 50 Bn in bailouts for the airline industry.
- Upwards of USD 500 Bn for small businesses and other expenditures.

4. France



- French Finance Minister, Bruno Le Maire announced a USD 49 Bn aid package that includes:
 - Substantial social-security tax cuts
 - Unemployment benefits for people forced to work part time
 - A fund to help shopkeepers and the self employed
- In addition, Minister Le Maire said that they would guarantee bank loans of up to USD 327 Bn to help businesses.



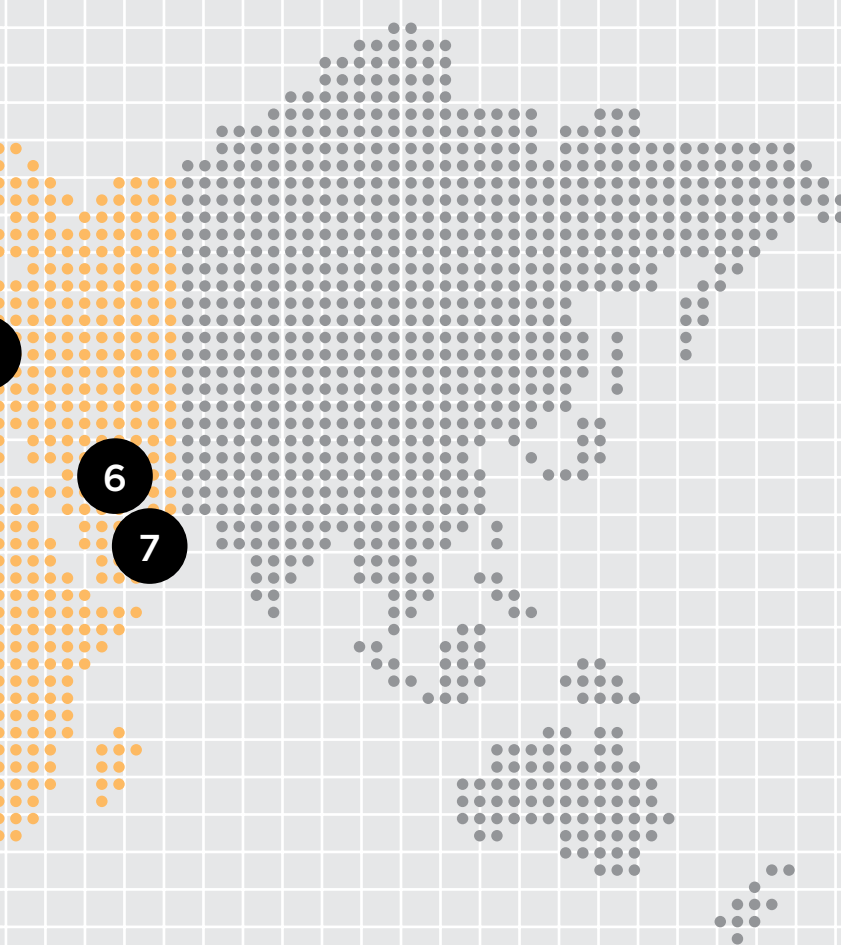
Eurozone



- ECB has launched emergency €750 Bn (USD 820 Bn; £700 Bn) package to ease the impact of COVID-19. ECB will buy government and company debt across the eurozone, including that of troubled Greece and Italy. ECB boss Christine Lagarde: “There are no limits”to our commitment to the euro zone.



IMF stands ready to mobilize its USD 1 Tn lending capacity to help member countries



6

7

5. Germany



- Germany authorised its state bank (a bank run by government, but not a central bank), KfW, to lend out as much as USD 610 Bn to companies to cushion the effect of the coronavirus.
- Bavaria region announced a fund worth up to €10 Bn to help the region withstand the virus.

6. UAE



- Initiatives to boost SMEs; has pledged AED 100 Bn (USD 27.2 Bn).
- Includes AED 5 Bn of water & electricity subsidies for citizens & industries.
- Curbed toll taxes till the end of 2020.
- AED 3 Bn has been allocated to SME credit guarantee scheme.
- The stimulus package also includes AED 1 Bn to establish market funds to enhance liquidity.
- Announced 20% refund on rent paid by tourism & entertainment sectors.

7. Saudi Arabia



- Unveiled SAR 50 Bn (USD 13.3 Bn) to help private businesses survive the COVID-19 pandemic.
- SMEs will also be supported through SAR 6 Bn loan guarantee scheme announced by the government.

COVID-19 Outbreak: Relief measures offered by various countries

8. Thailand



- The Thai cabinet has approved USD 17.6 Bn to help alleviate the impact. It includes THB 150 Bn of soft loans at 2% interest rates.
- Setting up a THB 20 Bn fund to help firms or workers affected by the coronavirus outbreak.
- The government has urged central bank to protect debtors and has decided to offer relaxed debt repayments and lower interest rates for businesses suffering due to the coronavirus outbreak.
- Moreover, the government has decided to exempt import duties on materials used for making face masks.

9. Malaysia

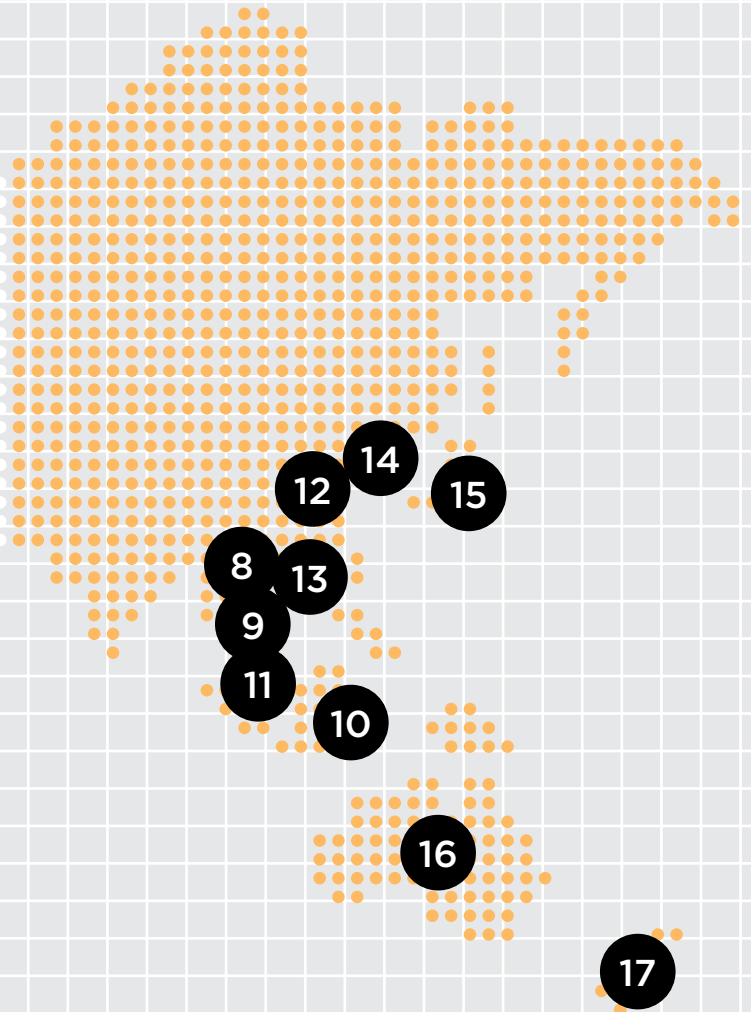


- The Malaysian cabinet has approved MYR 20 Bn (USD 6.6 Bn) financial stimulus to tackle the impact of coronavirus.
- Announced travel agencies, hotels, airlines, shopping malls will get 15% discount on monthly electricity bills for six months beginning from April. Hotels will be exempted from service taxes till the month of August.
- Public transport drivers and tourist guides affected by coronavirus will be given MYR 600 each.
- Doctors, medical staff, who are involved in containment of coronavirus in Malaysia, will be given special monthly critical allowance of MYR 400 from February until the end of the outbreak.
- Immigration and frontline workers will receive an allowance of MYR 200 for their services.

10. Indonesia



- Initially announced IDR 10.3 Tn (USD 727 Mn) rescue package to support consumer spending and tourism in the country. Followed up by a second stimulus package of IDR 120 Tn (USD 8.1 Bn) to further support its economy.
- An amount of IDR 22.9 Tn has been allocated from the package to aid loan disbursement towards businesses affected by the pandemic. In addition, government has given 30% corporate tax discount for the next 6 months.
- Apart from that, workers in the manufacturing sector with income below IDR 200 Mn would be exempted from paying income taxes for the upcoming six months.
- Finally, the Indonesian government will also allocate some funds from the rescue package on social welfare and rural development as well as on measures to boost household expenditure.



11. Singapore



- Announced a USD 4 Bn “Stabilisation and Support Package” to provide job and cash-flow support to help firms retain and retrain workers in light of a looming slowdown. Another USD 8.3 Bn has been set aside over three years to spur enterprises and the economy to transform and grow.
- Earmarked USD 5.6 Bn to help businesses and families through the economic slowdown.

12. China



- The People’s Bank of China (PBOC), has implemented several policy measures aimed at providing monetary stimulus.
- On February 3, the PBOC expanded reverse repo operations by USD 174 Bn. This means that the central bank extended the amount of loans to keep money markets (markets for very short-term loans) stable and allow banks to have more cash on hand. It added another USD 71 Bn on February 4.
- The PBOC also cut the one-year medium-term lending facility rate (the rate at which it lends to banks) by 0.10% on February 16. It followed this up by cutting its one-year and five-year prime rates (the rate at which banks lend to the most credit-worthy corporations) by 0.10% and 0.05%, respectively.
- The PBOC lowered bank reserve requirements on March 13, freeing up about USD 79 Bn to be lent out.

13. Hong Kong



- HKD 30 Bn relief package.
- HKD 1,200 cash subsidy to all adult permanent residents.
- Paying one month’s rent for people living in public housing.
- Cutting payroll, income, property, & business taxes.
- Low-interest, government-guaranteed loans for businesses.
- Extra months’ worth of payments to people collecting old-age or disability benefits.

14. South Korea



- South Korea unveiled a USD 13.7 Bn stimulus package on March 4 that would provide funding to address: Healthcare costs, provide support to small and medium enterprises impacted by the crisis, and help make up for expected shortfalls in tax revenues.

15. Japan



- Japan has passed two packages of small business loans: USD 4.6 Bn package in February, and USD 15 Bn package on March 11.
- The most recent spending bill also included USD 4 Bn for a number of programs including boosting mask production and stopping the virus from spreading to nursing homes.
- On the monetary side of things, the Bank of Japan announced a significant increase in QE on March 16. It said it would be doubling the rate at which it was purchasing ETFs from USD 56 Bn a year to USD 112 Bn.
- Increased purchases of corporate bonds and commercial paper.
- In addition, it announced a new program of 0% interest loans to increase lending to businesses hurt by the virus.

16. Australia



- Australia has so far announced one stimulus package to shield the economy from the impact of coronavirus outbreak. The country had unveiled AUD 17.6 Bn (USD 11.4 Bn) on March 12. This comes in addition to the AUD 2.4 Bn boost to health services.

17. New Zealand



- Announced an amount of NZD 12.1 Bn (USD 7.3 Bn) stimulus package to fight the pandemic. Out of the total amount, NZD 5 Bn will be allocated for wage subsidies, NZD 2.8 Bn for income support, NZD 2.8 Bn in business tax relief. An amount of NZD 600 Mn has been allocated for the airline industry.

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Key Learnings from the crisis

SECTION 6

Key Learnings from this crisis

To beat any crisis, all industries innovate and rectify their inherent flaws. And, Indian real estate is no different. It has been adapting to rapidly changing environment. It now realises that extraordinary situations such as Covid-19 warrant inimitable measures. Decisions to mitigate or combat crisis arises from deep introspection of the situation and business requirements. The learnings may not be uniform across the entire spectrum of industries, but some rudimentary practices are universal.

Indian real estate sector comprising developers and service providers along with occupiers would have deliberated on the following factors to deal with global Covid-19 pandemic.

1. Business continuity planning

Business continuity and disaster recovery planning prevents against disruptions and subsequent recovery from situations that potentially threat productivity and jeopardise the services of any company. This is critical during times of exigencies when it becomes challenging to maintain continuity of services.

While most multinationals already have a contingency plan in place during eventualities, these plans are predominantly localised to a certain geography. In India, the preparedness was limited to bandhs or curfews that get imposed. Many large corporations have operations spread across various cities and thus far been able to mitigate such crisis. However, in situations like COVID-19 such plans are impossible to implement. Hence, the policy needs to be revisited and reinforced in the light of the prevailing situation to ensure better preparedness.

2. Space optimisation for cost rationalisation

Prevailing crisis of COVID-19 will result in innovative solutions or rostered work shifts and timings. Many companies, depending on their nature of businesses will reduce their dependency on utilisation of office premises and resources. This may result in operating from smaller spaces which will save rent and maintenance cost. This can be an eye opener for many to revisit their plans and create case studies for space optimisations. It will be an important measure to rationalise cost, particularly in times of turbulence.

3. Adaption to technology

Since travel restrictions were imposed, virtual meetings gained prominence. This practice needs to be continued even after the pandemic recedes, so as to lower the cost of operations. Companies who have adapted to artificial intelligence (AI) and virtual reality (VR) are likely to be better prepared for any future disruptions. Real estate companies that have already implemented such practices would have continued with some business trickling in even during these distress times. Investment in technology upgrade will not only help companies tide during such crisis but will yield rich dividends in the long term.

4. Focus on online presence and transactions

Most real estate businesses are currently highly dependent on physical visits, face-to-face discussions and transactions. In the connected world of the internet, industry leaders have been propagating the adoption of an omnichannel strategy. However, many businesses have not invested enough time and effort to make it meaningful. With 451 million monthly active internet users, India is now second to China in terms of internet users, as per the Internet and Mobile Association of India (IAMAI). However, with the penetration rate is just 36% compared to China which has 61.2%, the upside potential is phenomenal.

It is thus imperative to increase online presence as the digital mode of business including product display, discussions, comparison and transactions is relatively less affected by such pandemic and other crisis-like situations that deter consumers from physically visiting business centers.

5. Risk management practices

Practices and policies pertaining to risk management need to be taken seriously by all businesses and not be restricted to the financial sector. It needs to be practiced with all earnestness to improve the preparedness for any future disasters and ability to mitigate situations. Incessant monitoring and preparedness can help to focus the actions and steps to be taken at the time of a crisis and help protect and preserve business assets.

Real estate developments require deployment of large volumes of stock and machinery. To procure and use them, huge cost is incurred. Hence their safety and availability become important and critical to a business. Developers and contractors need to focus on risk management more effectively to ensure efficiency and profitability.

6. Focus on liquidity and cash flow management: the need of the hour

Businesses across various sectors have been previously impacted by several short-term and long-term disruptions. With changing global environment, the frequency of such disruptions has been on a rise. In the Indian context, demonetization, implementation of GST, RERA, natural calamities such as earthquake, tsunami, floods, are instances that have affected businesses in the recent past. As these instances emerge as a new normal, there is a dire need for the businesses to focus on liquidity and cash flow management to ride over the uncertain times.

Amidst such uncertain situations, companies need to deliberate on a prudent trade-off between pushing the top line and concurrently managing the cash flows. When unforeseen events demand business continuity, cash is the king and only businesses that have a robust cash flow management can ride over the tide.

In the current COVID-19 pandemic situation, the governments and central banks across the world are introducing innovative measures and stimulus packages to ensure that the economy keeps on ticking during this tough time.



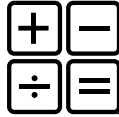
The Government of India and the Reserve Bank of India have also announced several measures to combat the social and economic crisis arising out of the COVID-19 breakout.



01

Lowering the interest rates

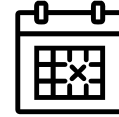
Repo rate and reverse repo rates were reduced by 75 bps and 90 bps, respectively. Hereafter, the revised repo rate stands at 4.4% and the reverse repo rate at 4%. This is going to make credit more attractive and infuse liquidity in the system. The reduction in reverse repo rate is a strategic move to discourage banks from parking their excess funds with the central bank as lower rates will now compel banks to deploy the amount for credit offtake to ensure continued liquidity.



02

Reduction of the Cash Reserve Ratio (CRR) by 1%

The Reserve Bank has reduced the CRR by 1% which is likely to release primary liquidity of around INR 1.37 Lakh crore across the banking system of the country. The minimum daily CRR balance has also been reduced from 90% to 80%. This is a one-time dispensation available up to 26th June 2020.



03

3 months of moratorium for all loans

Anticipating a rise in defaults following the recent COVID-19 pandemic, the Reserve Bank has allowed a moratorium of 3 months to all term loans from all institutions. The central bank has been sensitive to the ongoing issues and has assured that this will not impact asset classification downgrade. This is an important step to regulate and supervise the monetary system of the country and may help individuals and companies to manage their working capital and ensure business continuity.

Besides, the government of India has also announced a slew of measures to ensure that the poor can sustain during these difficult times. Under the Pradhan Mantri Gareeb Kalyan Scheme, INR 1.7 Lakh crore has been offered to protect urban and rural poor, farmers and migrant workers. This scheme aims to provide food and nourishment to the daily wagers, widows, Self Help Groups, pensioners, farmers and physically challenged. The direct benefit transfer will help to keep the rural and urban economy active.

ANAROCK Group

ANAROCK is India's leading independent real estate services company with a presence across India and the Middle East. The Chairman, Mr. Anuj Puri, is a highly respected industry veteran and India's most prominent real estate thought leader.

The Company has diversified interests across the real estate lifecycle and deploys its proprietary technology platform to accelerate marketing and sales. ANAROCK's services include Residential Broking and Technology, Retail, Commercial, Investment Banking, Hospitality (via HVS ANAROCK), Land Services, Warehousing and Logistics, Investment Management, Research and Strategic Advisory & Valuations. The Company has a unique business model, which is an amalgamation of traditional product sales supported by a modern technology platform with automated analytical and reporting tools. This offers timely solutions to its clients, while delivering financially favourable and efficient results.

ANAROCK has a team of over 2,000 certified and experienced real estate professionals who operate across all major Indian (Mumbai, Navi Mumbai, Pune, Ahmedabad, NCR - Delhi, Gurugram, Noida, Ghaziabad, Chennai, Bengaluru, Hyderabad, Kolkata, Lucknow) and GCC markets, and within a period of two years, has successfully completed over 300 exclusive project mandates. ANAROCK also manages over 80,000 established channel partners to ensure global business coverage.

Our assurance of consistent ethical dealing with clients and partners reflects our motto - Values Over Value.

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