



COVID - 19 Real Estate Upshots

The Analysis, Impacts & Measures



DEB Infra Homes Pvt Ltd.



COVID- 19: IMPACT ON ECONOMY

- The outbreak of the COVID- 19 Novel Coronavirus, that has emerged in China, that has affected the ways beyond the world's foretaste. It would not be wrong to assume the implications of the virus portion towards a financial spread in coming months.
- COVID-19 has infected over 21,59,450 people across more

than 200 countries and has taken over 1,45,568 lives since of infection (April 17 2020 figures). The unpredicted virus has led to major counties like India, USA, China, Italy, Germany, France, Russia and Japan to lockdown. The Governments across the globe are focusing across on destroying the virus and observing lockdowns.

Impact of COVID-19 on World Economy:

- The world economy is expected to decline this year with most of trillion dollars, s per report of UN trade & Development agency.
- China and India will observe slower GDP growth forecasts before recovering in FY2021
- In India, the 21-day lockdown is expected to cost approximately USD 120 billion which is around 4% of the Indian GDP, as assessed by Barclays.
- The equity markets in the country have seen a steep fall of 35% from January peak

“CHINA occupies a key position in global output, trade, tourism and commodity market, much of the concern is regarding the active trading ties that most countries have with CHINA. The constriction of trade with China will strain the supply side, particularly affecting the manufacturing and pharmaceutical industries”

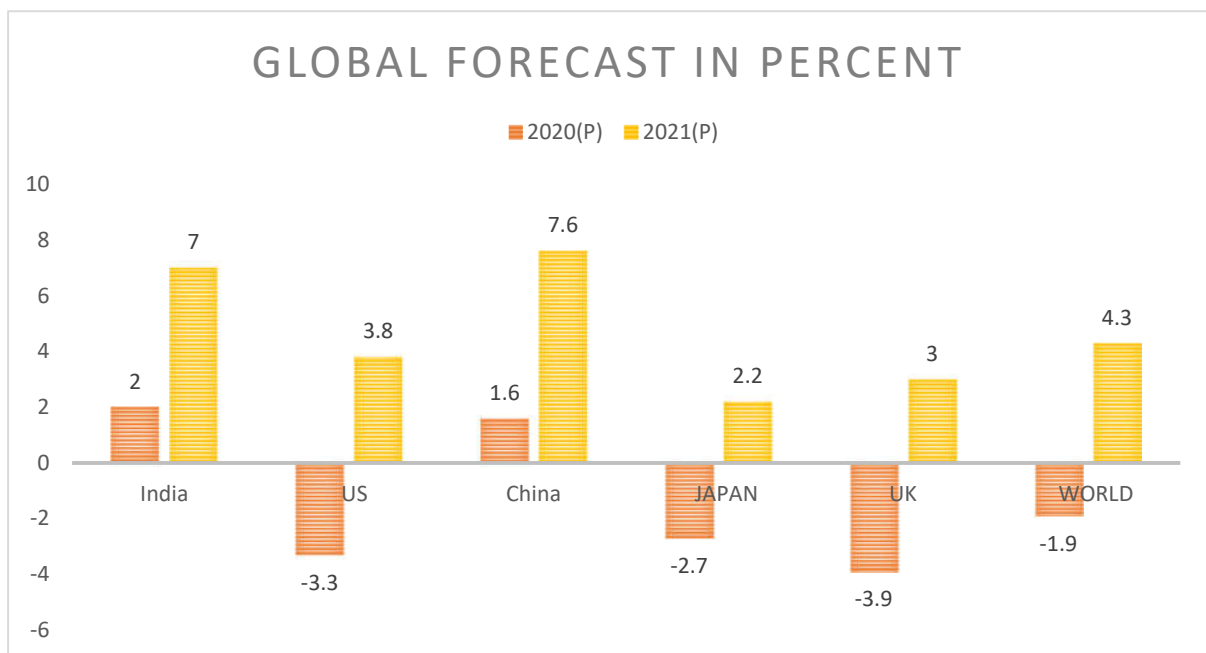




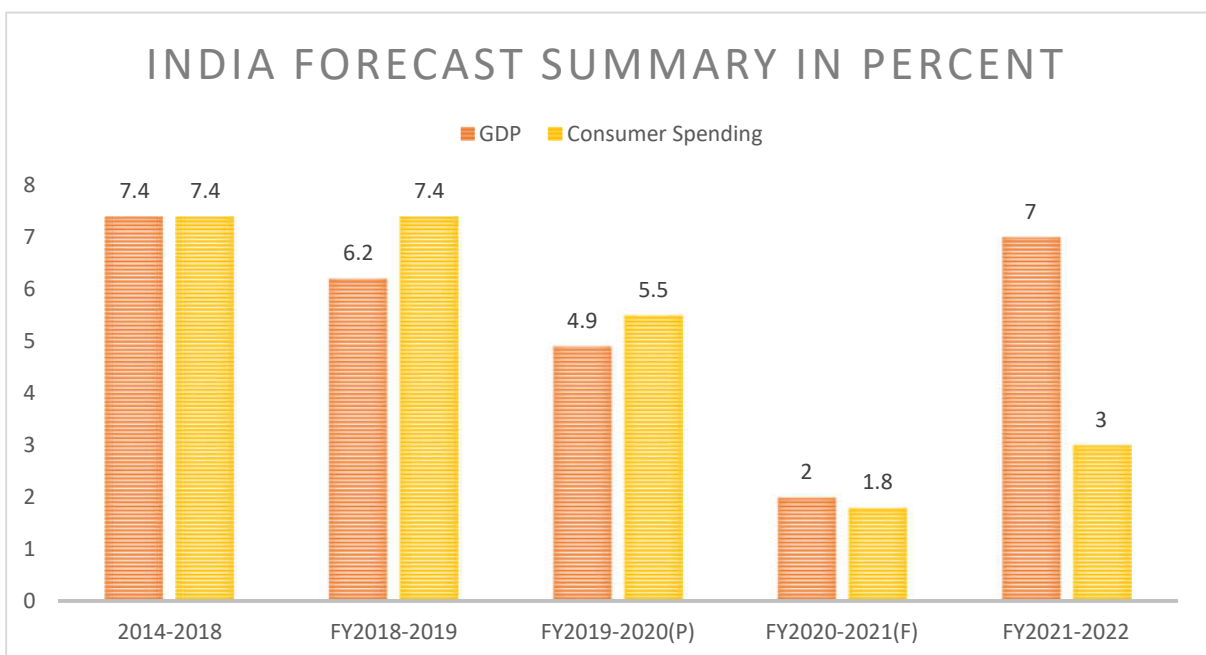
INDIAN ECONOMY TO TAKE A HIT:

Considering the challenges, the India economy is expected to witness a lower growth in the last quarter of the current fiscal. The current scenario COVID- 19 continuing, growth is likely to remain less in the first quarter of financial year 2020-2021, considering negative impact of supply chain disruption, travel restriction, subdued consumption and investment level.

The Asian Development Bank, in latest report, projected Indian growth to slow down to 4% considering government’s COVID-19 containment effect. It is expected that the micro, medium and small-seized and the service segments likely to be affected in FY20-21.



Source: Fitch Ratings Global Economic Outlook – Crisis Update: April 2020



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Government across the globe is sorting out the recovery plan before their respective economy sinks in deeper. India has announced several relief measures as well, in order to battle the onslaught of economic adversity brought forth by the COVID-19 pandemic. Significantly, although world's economy is predicted to get into recession this year with a loss of trillion dollars income due to COVID-19 pandemic. As per latest report (UN Trade Report) India and China are likely to be considered exceptions amongst the developing countries. These two economies will continue to observe a slowdown before recovering in 2021.

"In the meantime, it is worth noting that difficult times, such as these, also provide economies with retrospection and opportunities to overcome their shortcomings, and perhaps, in the long term, the impact of the COVID-19 pandemic outbreak would leave them fundamentally stronger"

Source: Vestian report 2020, outlook India, money control, economic times

COVID-19 IMPLICATIONS FOR REAL ESTATE SECTOR:

- The country is already struggling with its economic situation, its loosening growth impacting the real estate sector.
- Expected new Year 2020 would resolve the NBFC woes through the various remedial measures announced, confront the global headwinds and chart an upward growth trajectory, albeit at a steady rate.
- The Real estate sector that has been dependent on strongly performing commercial segment, expected all round growth in the market followed by residential market where easing unsold inventories through initiatives such as lowering interest rates and stressed realty project funds and like.
- These expectations, as of today, remain challenged by the outbreak of COVID-19, a prolonged situation carrying serious concerns for the real estate industry of the country.
- While reformatory policy changes such as demonetisation, GST and RERA, brought about much-required transparency and accountability to the sector, it also observed a consolidation in the market.
- Today, with the COVID-19 state of affairs, it is expected that developers with diversified portfolios and deep pockets would be in a better position to manage the prevailing risk situation arising due to reduced collections and projects overdue.
- The past five years have been monumental in redefining the structure of the real estate sector in India, its course affected by various compliance-related complexities.

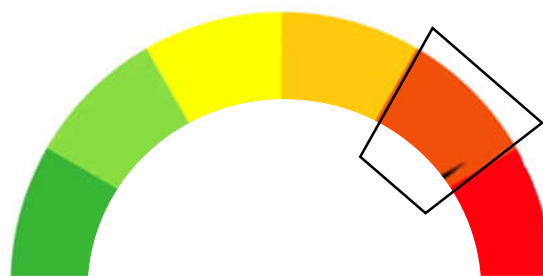


IMPACT ON RESIDENTIAL SECTOR:

- There was significant decline of 40% in new launches in during Q1 of FY2020 across tier 1 cities as compared to last quarter.
- The residential market, that was already observing a slowdown in growth owing to factors such as liquidity crunch, large scale unsold inventory, subdued demand and reduced affordability, is expected to further weaken with the COVID-19 outbreak.
- Developers are likely to postpone launches in coming period, one of the main reasons being the inability of clients visiting the project location due to lockdown.
- Decline of net cash flow are expected in short term as construction activities become over due over long period of time.
- Cost of finance will be increased due to stalled projects which in turn will increase liabilities on bank and decrease the demand for construction finance.
- Eventually, in a longer outbreak scenario, developers with adequate balance sheet and minimal liquidity issues, who can handle collection delays and manage increase in costs due to the lockdown, are expected to sail through the ensuing hardships.
- As RERA guidelines provide one year of extension in project execution timelines, in case of events that extend beyond promoter's control.

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UPSHOT METER:





IMPACT ON RETAIL SECTOR:

- The Indian retail realty sector, before the COVID-19 outbreak, had already been performing fairly low-key, with only a handful of malls functioning profitably across the country.
- The footfalls in malls, shopping centres, multiplex and other recreation revenues have seen a sharp decline on account of restriction on crowded places.
- Social distancing and lockdowns in place in order to contain the virus, consumer spending on leisure avenues such as F&B, entertainment centres and shopping malls, is projected to fall significantly in the current year.
- However, not only malls or any other recreation places have seen decline but also retail stores have also seen supply chain disruption.
- Lag in supply of construction raw materials would add to project delays.
- There is also the possibility of retail players willing to renegotiate terms of leasing with landlords and developers, major Indian multiplex players such as PVR, Inox Leisure, Cinapolis India and Carnival Cinemas, have decided to invoke the 'force majeure' clause and suspend rentals on their leased properties during the time cinemas remain shut due to the Covid-19 crisis.
- Moreover, apprehensions regarding adverse economic conditions as a result of the outbreak, coupled with job insecurities, will also curb consumer spending to a large extent.

“Further, investors and mall developers would be re-strategizing their business and operation plans regarding retail projects in order to optimise growth and reduce cost burdens owing to the predicament brought forth by COVID-19.”

UPSHOT METER:



Source: Vestian report 2020, outlook India, money control, economic times

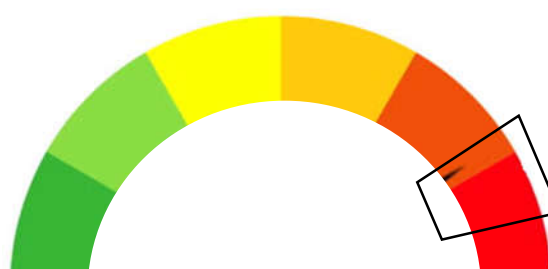


IMPACT ON HOSPITALITY SECTOR:

- Occupancy across hotels in key cities have declined in the first quarter to around 45% compared to previous year.
- While foreign tourist arrivals into the country were allowed till March 21, the Indian Government suspended travel visas from 22nd March till 3rd May 2020, which might see an extension in case the pandemic continues to spread unabated. Domestic flights were taken off air from 25th March. This has hit the hospitality sector and demand has come down to a very low margin. There are even high possibilities that foreign travel won't pick up even after the ban on international flights are lifted up.
- Thus, with flights suspended and all other demand segments such as MICE, business, social and sporting events cancelled or postponed indefinitely, the forthcoming period for the hospitality sector appears to be extremely difficult.
- In total, as per HVS estimates, the revenue of the Indian hotel sector is expected to decline in the range between USD 8.85 billion to USD 10 billion, depicting a loss of 39% to 45% compared over the last year.

“As per HVS, the hotel owners will also sustain losses owing to fixed operating expenses, debt repayments, interest payments and several other compliances required to be undertaken as part of the sector.”

UPSHOT METER:





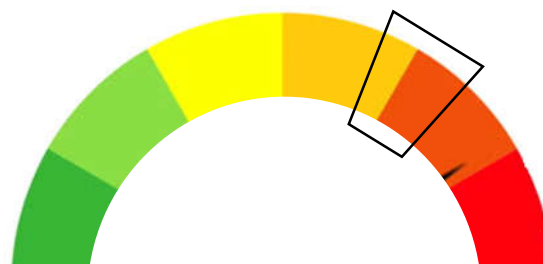
IMPACT ON OFFICE SECTOR:

- COVID-19 pandemics and lockdown effect, is largely seen as short-term impact on the office space as well rental scenario.
- Corporates are expected to defer their decisions on fresh offtake of commercial spaces by at least a quarter, owing to the indefinite nature of the outbreak. This could, over a period of time, limit capital expenditures.
- Office space supply scheduled to enter the market during 2020 was estimated to be around 50 million sqft across the top seven cities of the country, majority of which, at present, looks unlikely to be completed on time.
- While leasing decisions may go in for deferment and re-evaluation in some cases, supply is expected to be hampered substantially. Construction will take a hit on account of the labour force staying away during the lockdown and delay in the supply of raw materials, thus increasing the cost of labour remobilisation and accumulation of interest.
- In some quarters, demand for deferment or waiver of rentals on commercial properties may arise, by way of invoking force majeure/act of God in the existing rental agreements

“Office Demand: On preliminary grounds, the COVID-19 pandemic is largely seen as bearing a short-term impact on the office space demand scenario. Despite relative optimism, it remains to be seen whether the projected net office space absorption for 2020, pegged at around 45 million sqft, is met, given the magnitude of the outbreak in the US and other European countries.”

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Source: Vestian report 2020, outlook India, money control, economic times



RELIEF MEASURES:

The government of India and Reserve Bank of India announcing several relief measures:

Measures under the Reserve bank of India and Government:

- The finance minister provided relief to the people effected by COVID-19 such as labourers and daily wages workers. The RBI has come out with the extra ordinary measure to structure the economy by announcing rate cuts in interest to a record low, boosting liquidity.
- The RBI also reduced the reverse repo rate by 90 basis points to 4% to disincentivise banks from hoarding money, as lower rates will now oblige banks to utilize the amount for credit offtake, to safeguard continued liquidity.
- The RBI reduced interest rates by 75 basis points to 4.40% from the earlier 5.15% and continued its accommodative stance.
- It was also announced that all the commercial banks and NBFCs are permitted to allow a three-month moratorium on payment of instalments of all term loans, thereby mitigating debt servicing burden to prevent transmission of financial stress to real economy, and provide relief to borrowers.
- CRR has been cut to unlock liquidity and is expected to release INR 1.37 Lakh Cr liquidity in the market.
- This amount would be extended under the Pradhan Mantri Gareeb Kalyan Scheme in order to protect urban and rural poor, farmers and migrant workers. The direct benefit transfer is expected to keep the rural and urban economy functioning effectively.
- The government of India announced INR 1.7 Lakh crore (approximately USD 22.6 billion) economic stimulus plan to provide direct cash transfers and food security measures, providing relief to millions of poor people hit by a nationwide lockdown triggered by the COVID-19 pandemic.

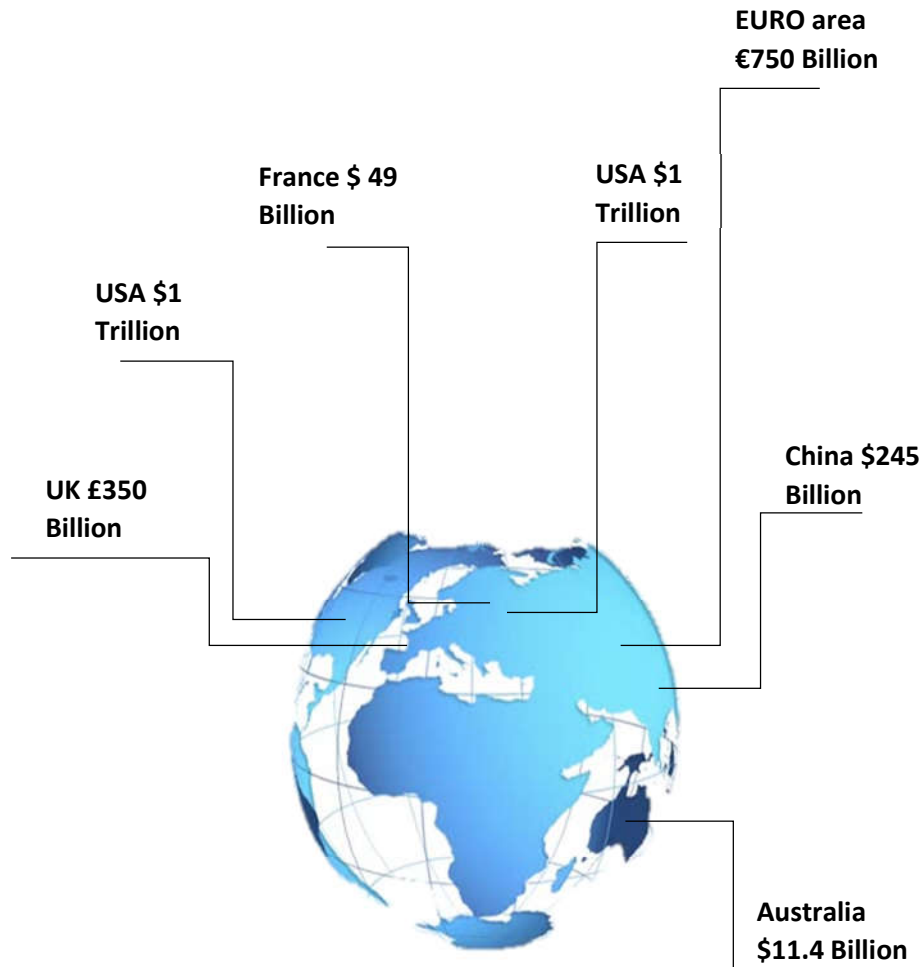
The World Bank and Global Relief Measures:

- Meanwhile, various countries have offered relief measures to combat the threat of COVID-19.
- The World Bank approved USD 1 Billion emergency financing for India to tackle the COVID-19 outbreak – this being the largest chunk of emergency financial assistance from a set of aid projects

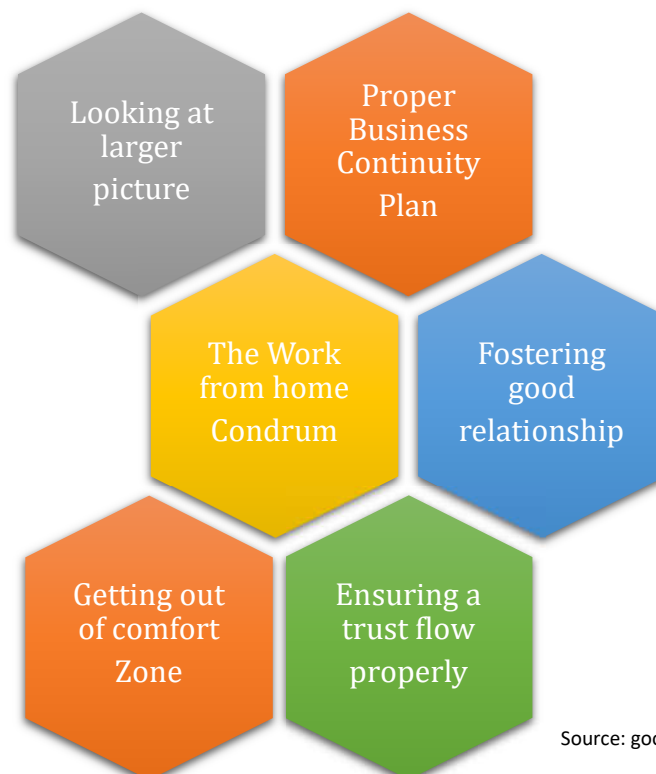
Source: google, outlook India, economic times



GLOBAL RELIEF MEASURES:



CLOSING NOTES:



Source: google, outlook India, economic times