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INDUSTRY OUTLOOK

REAL ESTATE INDUSTRY: OUTLOOK AND CHALLENGES

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Industry Outlook

The real estate industry has faced many wounds starting from the Demonetisation in November 2016, subsequent changes in GST, NBFC liquidity crisis among others, and the latest blow is the Covid-19 outbreak. The sentiment (of developers and lenders) which showed certain signs of stimulation during the October-December quarter of 2019, has suffered an enormous slowdown due to the Covid-19 crisis with both current and future sentiment index falling to an all-time low in pessimistic zone [1]. The residential sector which already had concerns of weak demand may find it difficult to launch new projects and complete the ongoing ones due to construction halts and labour shortage. With the second wave of infection beginning Feb'21, with increasing daily cases (especially Maharashtra), challenges are again on the upside. It is largely realized now that instead of lockdown, rapid vaccination could be a second best measure.



The Government of India (GoI) allowed last year post-lockdown, resumption of construction activity in non-Covid hotspots, while following strict social distancing and safety measures. The government further allowed continuation of works in construction projects within the limits of municipal corporations and municipalities, where workers are available on site, and no workers are required to be brought in from outside. The government has also allowed construction of roads, irrigation projects, buildings, and all kinds of industrial projects in rural areas, that is outside the limits of municipal corporations. Real estate developers and property brokers adopted digital technologies to launch new projects and market their properties, due to the non-feasibility of site visits during lockdown. During October-November 2020 (last year) housing sales have showed uptick due to festival reasons and pent-up demand. The low prices and subdued interest rates offered by cash-starved developers with attractive offers incentivized buyer's interest to certain extent, though at a slower pace.

A positive in the real estate industry was the reduction in stamp duty on registration of properties in Maharashtra which provide a gateway for higher sales in two major markets -Mumbai Metropolitan Region (MMR) and Pune. The Maharashtra model can be replicated by some other states depending upon their fiscal feasibility to create an enabling atmosphere for all relevant stakeholders. With NBFCs facing major challenges including liquidity pressures, further schemes like Special Window for Affordable and Mid-Income Housing (SWAMIH) can be explored as well as stalled projects need to be expedited. With the wide adoption of WFH (Work From Home) across the IT sector, ITeS buildings may face medium vacancies through the first quarter of 2021 but as the threat of COVID is mitigated, greater absorption in Q2 and the second half of the year can be expected.



Government Initiatives

Extension of credit linked housing subsidy scheme for the middle income group (annual income between ₹ 6-18 lakhs) is to be extended till 31 March 2021. In an attempt to revive the residential segment, the government has initiated many targeted measures, especially in the affordable housing segment; flagship programmes like PMAY, JNNURM and "Housing for All" were some of the earnest attempts targeted at the housing segment. Another positive move by the GoI is setting up a fund "Special Window for Completion of Construction of Affordable and Mid-Income Housing Projects"(SWAMIH) fund to complete stalled housing projects. In the Union Budget 2021-22, the facility of additional deduction of interest, amounting to ₹ 1.5 lakh, for loan taken to purchase an affordable house, has been extended by one more year, to 31st March 2022. The additional deduction of ₹ 1.5 lakh shall therefore be available for loans taken up till 31st March 2022, for the purchase of an affordable house.

Further, to keep up the supply of affordable houses, it is proposed that affordable housing projects can avail a tax holiday for one more year –till 31st March, 2022.

2020 and 2021: Years of Caggy Moves

Private Equity (PE) Investments

Retail assets recorded private equity (PE) investments of USD 484 million during January-March 2021. This is, however, influenced by a major deal in Bengaluru between Blackstone and Prestige involving multiple retail, office and hospitality assets as a part of larger transaction. Private equity (PE) participation in real estate is based on many significant determinants like – interest rates, regulations governing capital inflow into the country, and implementation of key programmes such as ARHC scheme, Model Tenancy Act, “Atmanirbhar Bharat”/ “Self-Reliant India” and targeted policy announcements on real estate segments such as data centers and logistic parks among others.

Assessment about the private equity investment in Indian real estate in 2021 as compared to 2019:

- 19 per cent: Much worse, decline by 30 per cent or more.
- 47 per cent: Somewhat worse, decline up to 20 per cent.
- 34 per cent: Similar levels.

The last 2-3 years have seen notable interest in newer asset classes such as student housing, data centres, warehousing and opportunistic assets that offer a wide range of desired yields, and asset creation backed by strong fundamentals driving growth of these segments in the country. The strongest activity is likely to be observed in warehousing and data centres segments, followed by commercial office space and residential segment[2]. The residential segment could be buoyed by the developing strength of Affordable Housing and possibly also the emergence of rental housing in India on the back of recent Affordable Rental Housing Complexes (ARHC) guidelines [3].

Office Market Outlook

Status of various Office Markets: Q1:2021 (million square feet or msf)

Sl No.	City/Location	Total Stock (msf)*	Current Occupied Stock (msf)	Vacancy (per cent)	New Supply ('21-'23) msf	Rent (₹ per square foot per month)
1	Gurugram	93.15	66.66	28	19.47	83
2	Bengaluru	199.71	184.43	8	23.57	81
3	Mumbai	118.61	107.22	10	6.49	147
4	Pune	82.02	75.27	8	17.84	73
5	Hyderabad	95.75	83.42	13	57.53	66
6	Kolkata	33.32	28.49	15	1.93	55
7	Chennai	68.93	61.87	10	12.18	68

*million square feet (msf)

Source: Business Standard (13 April 2021).

Ahmedabad

The overall gross leasing for 2020 (~1.13 msf) is still lower by 26 per cent year-on-year (y-o-y) as occupiers continued to defer major expansion or relocation plans in a bid to control their capex spends. COVID induced transaction slippages and delayed decision making continued to make an impact on the office market activity in the city. North Ahmedabad and SG Highway North together dominated the leasing activity accounting for as much as 80 per cent of the overall demand. Q4 2020 saw the completion of 0.48 million square feet (msf) of office space, comprising of two projects in SG Highway North. Construction activity has resumed post the lockdown but has not picked up its full pace amidst labour / resource constraints.

Major Lease Transactions Q4:2020

Sl No.	Property	Sub-market	Tenant	Square Feet (SF)	Type
1	ATS Savvy	North Ahmedabad	Bank of America	361,200	Fresh Lease
2	Navratna Corporate Park (NCP)	SG Highway North	Baxter Pharmaceuticals	80,000	Pre-Commitment

MAJOR PROJECTS PLANNED AND UNDER CONSTRUCTION

Property	Sub-market	Major Tenant	Square Footage	Completion Date
World Trade Centre – Tower B	North Ahmedabad	NA	730,241	Q1 2022
Navratna Corporate Park – Tower B	SG Highway North	NA	525,940	Q1 2022
Sun Westbank	Central Business District (CBD)	NA	357,426	Q3 2021
Iconic Shyamal	Central Business District (CBD)	NA	285,161	Q2 2022

Source: Cushman & Wakefield <https://www.cushmanwakefield.com/en/india/insights/ahmedabad-marketbeat>

Bengaluru

A rise in COVID infection levels has resulted in occupiers adopting a cautious approach in decision-making. As occupiers are reconsidering their strategic exits, mid (30,000-40,000 sf) and large (>100,000 sf) office spaces continue to remain in demand as evident from space take-ups by occupiers like Teva Pharma, LAM Research and Mobileum, among others. While IT-BPM sector continues to account for a higher share (38 per cent) of leased space during the quarter, Healthcare & Pharma and Engineering & Manufacturing sectors followed with contribution of 30 per cent and 11 per cent respectively. Rentals remain reasonable.

Major Lease Transactions Q1: 2021:

Sl No.	Property	Submarket	Tenant	Square Feet (SF)	Type
1	Brigade Senate	Peripheral North	Teva Pharma	20,000	Fresh Lease
2	Prestige RMZ Startech	Suburban South	Navi Technologies	100,000	Fresh Lease
3	Embassy Prime	Sub Urban East	Mobileum	100,958	Fresh Lease
4	Bagmane Tech Park Quay	Sub Urban East	Cardinal Healthcare	72,000	Fresh Lease

Source: Cushman & Wakefield (Q1:2021) Office Outlook Report.

Chennai

Information Technology and Business Process Management (IT-BPM) emerged as the prominent occupier category with nearly 1.2 msf (76 per cent) of gross leasing in the first quarter of 2021 (Q1:2021). CohnReznick, FE Fund Info, MastechDigital, ObjectFrontierSoftware, Orangescape, etc; contributed to quarterly fresh leasing, which accounted to 28 per cent of the gross leasing activity. The city is likely to experience strong inflow of quality space of nearly 11.04 msf over the next 3 years from prominent developers such as DLF, RMZ Corp, CapitaLand, L&T, etc. Furthermore, Grade A rentals have largely remained stable during the quarter.

MAJOR LEASE TRANSACTIONS Q1 2021

Sl No.	Property	Submarket	Tenant	Square Feet (SF)	Lease Type
1	Olympia Tech Park	South-West	Cohn Reznick	56,356	Fresh Lease
2	Chennai One Opus	Peripheral South	Object Frontier Software	30,375	Fresh Lease

Source: Cushman & Wakefield (Q1:2021) Office Outlook Report.

Delhi NCR

Core Gurugram areas of Cyber City, MG Road, NH8 –Prime and Golf Course Road held a robust thirty nine per cent share in the city's overall leasing, beckoning occupier confidence in these areas. Some occupiers vacated spaces as part of their business continuity plans and ongoing remote work policies. Noida constituted a third of the quarter's leasing led by Noida Expressway. Professional services segment was the largest demand driver in Q1 with a 31 per cent share in leasing. While Noida Expressway constitutes a major share of the supply addition, Golf Course Extension Road and MG Road in Gurugram were the other micro-markets that saw new completions.

MAJOR LEASE TRANSACTIONS Q1 2021

Sl No.	Property	Submarket	Tenant	Square Feet (SF)	Lease Type
1	DLF Downtown	Cyber City	Syneos Health	210,000	Pre-commitment
2	Advant Navis Business Park	Noida	EY	180,000	Expansion
3	DLF Centre Court	Golf Course Road	Web help	114,000	Expansion
4	Delhi One Max Tower	Noida	Cyril Amarchand Mangaldas	88,853	Relocation

Source: Cushman & Wakefield (Q1:2021) Office Outlook Report.

Hyderabad

More than three-fourth of the total leasing was recorded in Madhapur while flexible workspaces accounted about thirty per cent of the total leasing activity (on par with Q4 2020) suggesting a steady growth in demand for flexible workspaces. Despite rising vacancies both in Madhapur and Gachibowli, headline rents have largely remained stable.

MAJOR LEASE TRANSACTIONS Q1 2021

Sl No.	Property	Submarket	Tenant	Square Feet (SF)	Lease Type
1	Divya Saree Orion B	Suburban (Madhapur)	Salesforce	261,484	Pre Lease
2	BSR Tech Park Tower -1	Suburban (Gachibowli)	MassMutual	68,592	Fresh lease
3	Salarpuria Sattva Parcel -4	Suburban (Madhapur)	Goldman Sachs	106,408	Fresh lease

Source: Cushman & Wakefield (Q1:2021) Office Outlook Report.

Kolkata

Professional services segment led the leasing activity with half the share of overall leasing, followed by engineering & manufacturing and BFSI segments with respective shares of thirty six per cent and eleven per cent. Salt Lake submarket garnered a major share of seventy two per cent in quarterly leasing, while Rashbehari Connector and Rajarhat submarkets had respective shares of fifteen per cent and thirteen per cent. New supply addition of 600,000 sf is expected in the Park Circus Connector submarket in the year ahead while Salt Lake will record further addition of around 170,000 sf. IT-BPM sector is likely to be a key demand driver with occupiers contemplating relocation strategies within the city.

MAJOR LEASE TRANSACTIONS Q1 2021

Sl No.	Property	Submarket	Tenant	SF	Type
1	Godrej Waterside	Sector-V, Salt Lake	EY	40,200	Expansion
2	South City Business Park	Rashbehari Connector	Siemens	28,000	Expansion
3	Ecocentre	Sector-V, Salt Lake	Samsukha	24,000	Relocation
4	Technopolis	Sector-V, Salt Lake	ICICI Bank	20,000	Expansion

Source: Cushman & Wakefield (Q1:2021) Office Outlook Report.
<https://www.cushmanwakefield.com/en/india/insights/kolkata-marketbeat>

Mumbai

The Thane-Belapur Road submarket was the most active with a twenty seven per cent market share of overall leasing activity in Q1, followed by BKC with a nineteen per cent share, and Andheri-Kurla and Powai submarkets with 11 per cent shares each. In terms of fresh leasing activity, Thane-Belapur Road and BKC continued to dominate with 30 per cent and 18 per cent shares respectively. The IT-BPM and Engineering & Manufacturing sectors accounted for 33 per cent and 18 per cent shares of overall leasing activity, respectively, while BFSI and professional services contributed 14 per cent and 7 per cent respectively of the quarterly leasing activity.

MAJOR LEASE TRANSACTIONS Q1 2021

Sl No.	Property	Submarket	Tenant	SF	Type
1	Mindspace Airoli, Building 8	Thane – Belapur Road	CitiusTech Healthcare	101,952	Fresh Lease
2	Trade Centre	BKC	GIA	89,299	Term Renewal
3	Ventura	Powai	General Mills	74,605	Term Renewal
4	G Corp Tech park	Thane	QVIA RDS (India) Private Limited	73,146	Term Renewal

Cushman & Wakefield (Q1:2021) Office Outlook Report;
<https://www.cushmanwakefield.com/en/india/insights/kolkata-marketbeat>

Residential Market outlook

Despite Covid-19 pandemic challenges, the residential segment outlook was supported by pent-up demand, festive demand, low interest rate, state government incentives like stamp duty reduction in Maharashtra, during the Q4 of 2020. For instance, micro markets like Bhiwadi in NCR, Halol in Gujarat, Jamshedpur, Jaipur, Jodhpur, Sohna in Gurgaon, Airoli in Navi Mumbai, Pirangut in Pune and Madhapur in Hyderabad has witnessed substantial demand for residential homes[4]. Further, with upward pressure on property prices at metropolitan cities demand in Tier-II emerging cities are also on the rise. Some positive factors that play in favour for the residential sector could be attributed to factors like loan moratorium reliefs, stamp duty reductions in Maharashtra, release of rental housing policy guidelines among others.

Flood of Litigations

Over the last couple of years the Indian real estate industry has been marred by various litigations against builders, where majority of cases have been filed by the homebuyers who have invested their hard-earned money but failed to get possession of property in time. In most of the cases, complaints are lodged against builders delay in giving possession of property[5]. Before the enactment of the Real Estate (Regulation and Development) Act, 2016 [RERA], a common grievance in the real estate sector remains as the delay or even non completion of projects. Though RERA seeks to change this by imposing strict regulations on the developer to ensure projects are completed well within the stipulated time, the expedition of enactment is not uniform across states. States like Maharashtra have even gone a step ahead and instituted a conciliatory forum for allottees and promoters, thereby allowing matters to be settled expeditiously and hassle free[6]. A common problem arises in many cases (even if including certain fraudulent activities e.g DHFL scam, Amrapali group fraud among others) is developers put the reason for delay in completion of project is due to lack of fund, however in certain cases, funds are willfully diverted for personal usage/other projects, without informing buyers. Therefore, there are complete lack of transparency and fraudulent activities happened from certain developers for which the entire industry has suffered. In many cases, quality of construction also remains a big issue.

Industry Risk

With the peak-up of the second wave of the Covid-19 pandemic coupled with the subsequent stock market downturn on 12th April 2021 as well as with a possible lockdown in Maharashtra and some other states (e.g. Delhi announced complete curfew on 19 April 2021 for a week), challenges are looming for the real estate sector, whereas the leasing momentum in the forthcoming quarters will depend on the time taken to contain Covid cases. The Nifty reality index declined 7.5 per cent on 12th April 2021, it has slipped over 5 per cent from 12th March 2021 to 9th April 2021. Between November 2020 and early March 2021 the index was up 60 per cent[7]. Commercial leasing did gain in December '20 quarter, but it will take time to return to pre-Covid levels, due to the uncertainty posed by the second wave of it. Many IT/ITeS companies have again extended the work from home (WFH) option to their employees and will decide on the future, depending on how the pandemic situation plays out. While many large companies renewed their office lease despite rising Covid-19 cases, many other companies e.g. start-ups have cancelled their orders. Also, amid weak demand, rentals might fall with inventory build-up in commercial space.

Net leasing of office space declined forty eight per cent during the January-March 2021 period, owing to the pandemic. For instance, net leasing of office space in Mumbai plunged to 201,642 sq ft during January-March 2021, from 882,693 sq ft in the corresponding period last year[8]. However, demand for the flexible space from corporates has increased. The flexible space leased by corporate clients increased to 15,523 seats during the first quarter of this calendar year from 10,690 seats in the year-ago period. Occupiers are relying on managed space as a smart alternative in the current situation. Residential sector is still trying to overcome the latest blow given by the Covid-19 pandemic, and a second wave is posing much difficulty across all sectors/industries. The industry response remains quite positive towards the differential between agreement value and circle rate, though the benefit is available until 30th June 2021 (applicable for the primary sale of residential units of value up to ₹ 2 crore). Major challenges remain as slowdown in sales, inventory pile-up, cost overruns, project completion delays.

The IL&FS episode was a big jolt for the entire financial sector, and impact of such 'big shocks' needs much time to stabilize. After this, Covid-19 pandemic has shaken the entire world. The subsequent liquidity crunch, uncertainty among lenders, moral hazard problems, has complicated matter like anything. In case of speeding up of SWAMIH fund, to expedite stalled projects, sometimes conducting due diligence in a timely manner faces difficulty due to lack of manpower. Stalled housing is still facing an enormous problem[9]. Other than banks, Housing Finance Companies (HFCs) or home finance companies, also give out home loans. Typically, banks give out two-thirds of the home loans and HFCs provide the remaining. Nevertheless, the last couple of years have not been good for some HFCs. The confidence on the economy in future is uncertain, with many individuals can hold their decision to buy home due to the fear of losing jobs and not able to find immediately a new one. Going forward, the pandemic led uncertainty will continue to influence investment outlook.

On the positive side, space demand from Ecommerce to gain traction as people make a behavioral shift from buying offline to online. The advent of e-commerce has significantly impacted the warehouse scenario. Customers using multiple channels to shop is changing the demand profile with smaller, more frequent orders[10]. Again, space demand from 3PL/Logistics may increase in 2021 as many large & medium manufacturing may offload part of their inventory management to optimise the cost. Growth potential in cold chain industry is also visible. Organized retail and food service industries have also emerged as the new cold chain segments, majorly due to changing consumption patterns.

ENDNOTES

1. Union Budget Speech 2021-22 https://www.indiabudget.gov.in/doc/budget_speech.pdf
2. Sarkhej - Gandhinagar Highway.
3. Ongoing renegotiations for pre-renewals combined with pre-leasing which accounted for 33% of the overall demand also signal a gradual recovery in occupier sentiments. Cushman & Wakefield (Q1:2021) Office Outlook Report.
4. <https://www.ashianahousing.com/real-estate-blog/is-it-wise-to-invest-in-the-indian-real-estate-market-in-2019-2020-and-2021>
5. <https://factly.in/here-are-some-of-the-important-orders-by-reras-in-different-states/>
6. In certain cases, the courts have even ordered the refund of the initial deposit to the buyer and in some cases the courts have reprimanded the builders thereby ensuring the grievances of the buyers are met.
7. "Analysts turn cautious on Realty" (13 April 2021) Business Standard.
8. In Delhi-NCR, net office absorption fell to 428,469 sq ft from 1,597,003 sq ft. Net leasing dropped to 17,24,456 sq ft in Bengaluru from 26,54,939 sq ft. In Chennai, the demand for office space declined to 1,44,309 sq ft from 2,55,010 sq ft. The net leasing in Pune, however, increased to 2,76,531 sq ft from 1,73,026 sq ft. In Hyderabad, the net absorption went down to 6,24,321 sq ft from 8,91,613 sq ft, while Kolkata saw a fall to 1,78,857 sq ft from 4,77,638 sq ft. See, "Office Leasing Falls by 48% in March quarter"(15 April 2021) Business Standard.
9. "Modi govt's SWAMIH fund is beginning to deliver on stalled housing projects (19 February 2021) The Print <https://theprint.in/india/modi-govts-swamih-fund-is-beginning-to-deliver-on-stalled-housing-projects/607761/>
10. "2021 India Real Estate Outlook"(February 2021) JLL Research <http://www.naredco.in/notification/pdfs/jll-2021-india-real-estate-outlook-a-new-growth-cycle.pdf>



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