REAL ESTATE POST

LOCK DOWN 2.0

A STORY OF GLOOM, HOPE, & REVIVAL

COMPLIMENTARY CONSUMER SENTIMENT SURVEY

A Handbook By

360 REALTORS

Commitment | Honesty | Reliability

Follow us:

FOREWORD

At the onset of the year, Indian Real Estate was standing at an interesting cusp. Buoyed by the lowered rate of interest, stamp duty cuts in certain pockets, and a slew of attractive payment plans, it was set for a quick comeback. Reduced numbers of cases and vaccines in the vicinity were further painting an overall optimistic picture.

However, as we entered April, cases suddenly steeply jumped thereby not just creating medical havoc but also renewing economic pessimism. The entire healthcare system came to a standstill and the nation suffered its worst-ever crisis in recent years. Real Estate also tumbled.

The silver lining was that the crisis did not last long. Thanks to collective resilience shown by our healthcare workers and frontline forces, cases were significantly curtailed, giving some relief after the storm.

As cases have plunged and normalcy is restored, Real Estate is also showing signs of optimism. However, actual recovery in sales volume will take some time, and believing that the worst is over might be a little short-sighted.

To further understand & scrutinize trends in Indian Real Estate post-lockdown 2.0, we have compiled this report. The report is aimed at trying to understand how monetary & regulatory policies, consumer sentiments, and the general state of the economy are going to shape Indian Real Estate post-lockdown 2.0 - both in isolation as well as together. We have also complemented the report with a consumer sentiment survey to generate some actionable insights on the market.

Meanwhile, the industry needs to learn, evolve, and try hard in these testing times. An aggressive yet even-handed approach will help us to square off the losses made in the last 3 months. Failure to act on the other hand will aggravate challenges.

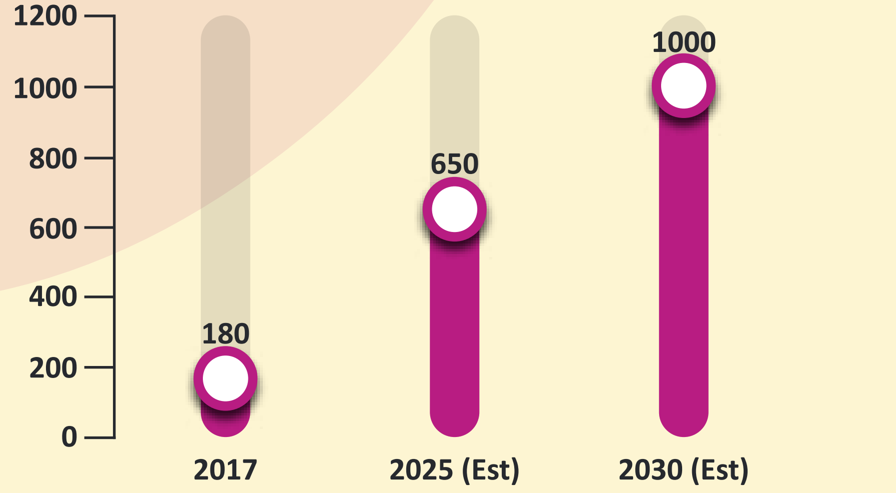
> *When you face difficult times, Know that challenges are not sent to destroy you. They're sent to promote, increase & strengthen you.*

ANKIT KANSAL
Founder & MD, 360 Realtors

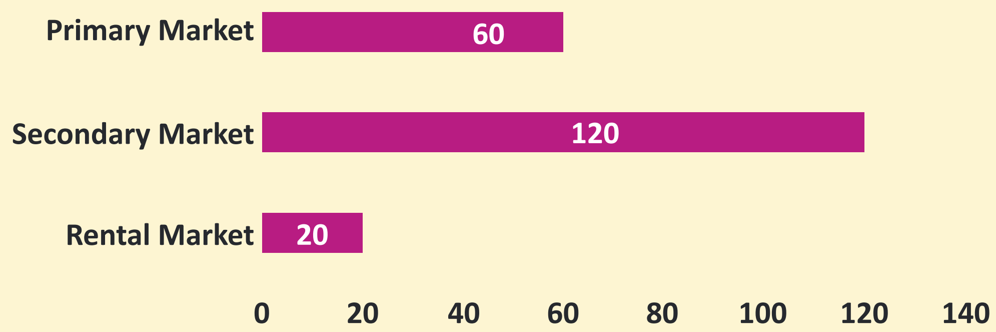
Indian Housing Market

A Glance on Key Policies and Statistics

Indian Housing Market Size (USD Billion)



Primary Market USD 60 Billion, Rental Market is USD 20 Billion



PUBLIC POLICY INITIATIVE

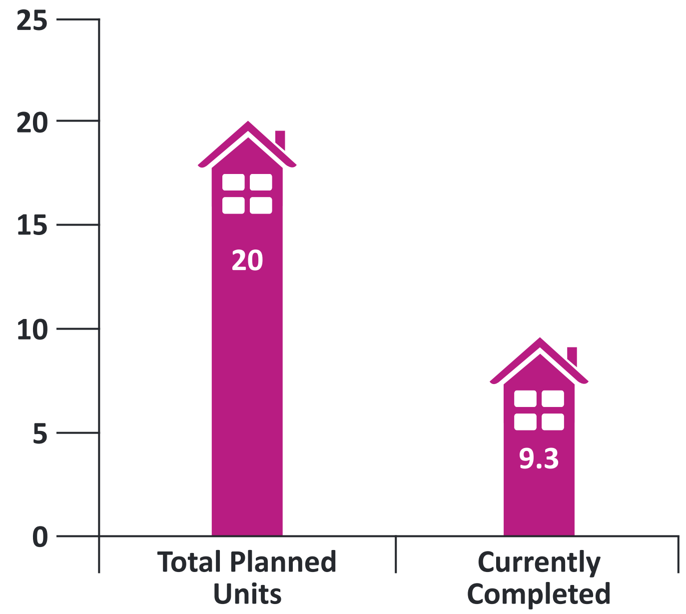
01 RERA

02 MODEL TENANCY ACT

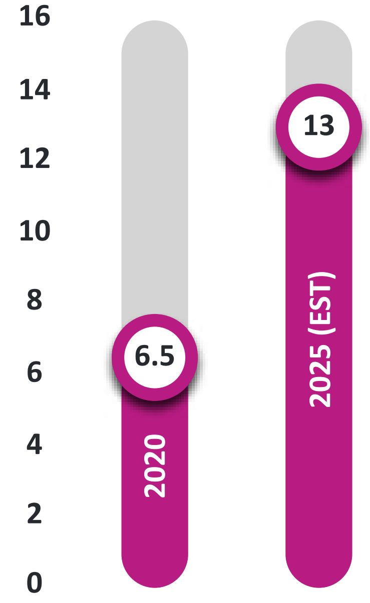
03 GST

Indian Real Estate constitutes ~ 8% of Indian GDP. The value of the residential market itself is over USD 180 billion and is expected to reach USD 1 trillion by 2030. Indian Real Estate is one of the iron pillars of national GDP. It is the second-largest employment generator after agriculture. It supports 250 ancillary industries that further signifies its important role in national GDP.

Affordable Homes (In Million)



Growth in Co-Living in India (USD Billion)



GOI also understands the significant role that the Real Estate sector plays in Indian GDP. It is committed to the overhauling of the sector, systematically deregularize the industry, and introduce an unprecedented amount of transparency.

In 2016, the cabinet passed RERA to safeguard the interests of home buyers. It has also approved the Model Tenancy Act to organize the rental market.

Infrastructure Push

100 Smart Cities

USD 1.4 Trillion Infrastructure Grid



With the Model Tenancy Act (MTA) expected to be operational soon, the USD 20 billion rental market in India is expected to get a positive thrust. As the rental markets will become organized and standardized, larger institutional players will be drawn towards the sub-category.

Lockdown 2.0 has been a destabilizing factor in an otherwise reviving industry sentiment. Despite the whiplash caused by the pandemic, in the long run, the housing market is on an upward trajectory driven by favourable social dynamics, increased urbanization, and a surge in middle-income households.

Focus on 3 Rs

Relief, Restructure, and Resilience

GOI & Industry needs to work in tandem

Indian Real Estate constitutes ~ 8% of the GDP and is the second-largest employment creator after agriculture. A workforce of around ~ 40 million is directly dependent on the sector and roughly ~250 ancillary industries rely on it. Its sheer size and dominance in GDP imply that the impact of strained Real Estate will have a cascading effect on the overall economy.

During the beginning of the previous year, Real Estate was already floundering and the nationwide lockdown further accentuated the crisis. With markets opening up, the industry started showing signs of normalcy. However, soon with lockdown 2.0, Real Estate retreated.

Though the market this year is a party to more favourable social and economic trends and revival will be fast, the government and the industry need to systematically work towards arresting the current slump in sales, build long-term demand, and boost growth drivers in the industry.

While repo rate and reverse rate alongside liquidity injection helped in the reduction of home loan rates, concentrated efforts like temporary stamp duty reduction in states of Maharashtra & Karnataka, helped in sales growth.

The governing agencies, regulatory bodies, and the industry bodies need to work together and adopt a 3 R approach- Relief, Restructure, and Resilience.

GOI

Resilience

Wield control over hike in raw material prices, provide subsidies in technology and innovation, recapitalize NBFCs & HFCs

Relief

Stimulus packages for industry, Direct incentives (reduced stamp duty, benefits in tax returns)

Restructure

Systematically restructure bad debts, More Policy support for affordable homes, special windows for stressed asset funding, partner with private AIFs

Industry

Resilience

Float attractive & innovative payment plans, Invest in technology and R&D, Innovate low capex & opex based models

Relief

Offer job safety to employees, support vaccination programs for employees & workers, focus on existing pipelines

Restructure

Relook books, Risk & Contingency planning, Scout for new alternatives (affordable homes, co-living, rental homes, etc.)

SURGE IN CEMENT AND STEEL PRICES

MAY FURTHER AGGRAVATE CHALLENGES OF DEVELOPERS

After a quick jump in sales at the beginning of the Calendar Year (CY), Indian Real Estate is once again suffering from demand compression in the face of the current crisis. Although the industry is better equipped this time and will make use of its past learnings, a slowdown in general business activities will weigh on the overall Real Estate demand.

Additionally, the industry will be further marred by a rise in construction material prices such as cement and steel. Cement prices have risen sharply in March '21. Likewise, prices of steel have increased significantly. Hot Rolled Coil (HRC) & Long Steel or (TMT) bars both are witnessing a surge in prices. As cement and steel are amongst the most widely used raw materials in construction, a rise in their prices will result in increased pressure for developers. Already most of the developers are working on wafer-thin margins and a further increase in input cost will aggravate the situation.

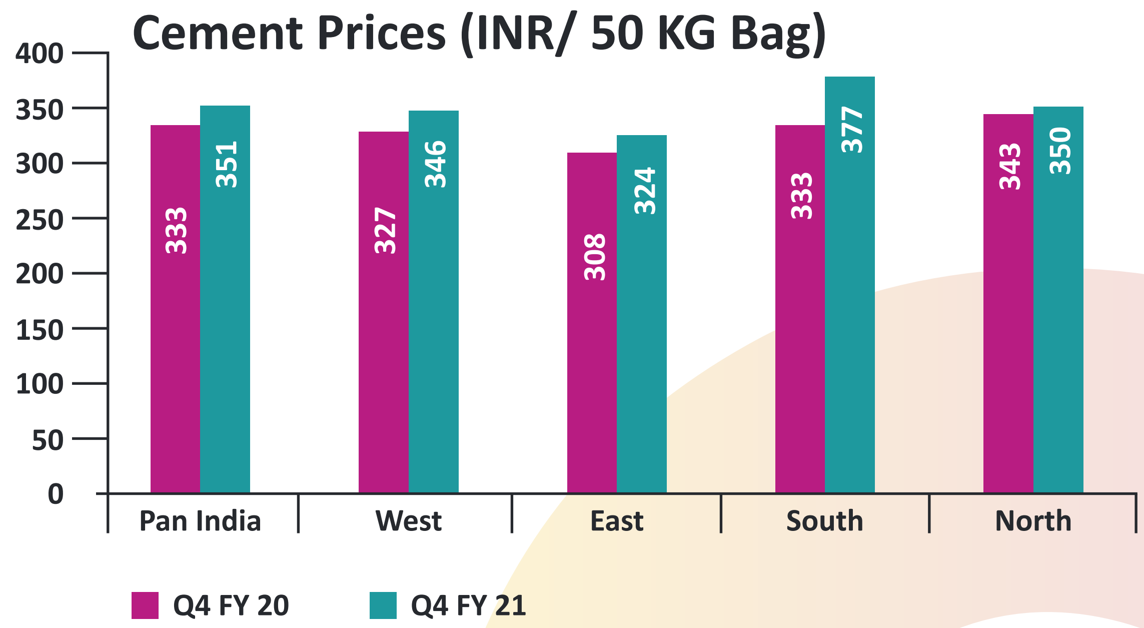
Numerous Factors Driving Cement Price Rise

It is noteworthy that the surge in demand for cement has been backed by healthy underlying drivers such as the push towards infrastructure by GOI, increased rural demand, and a resurgence in urban demand.

"Historically, cement companies pass on the increased prices to the customer. This means the rise in prices of raw materials will further dent the pockets of developers."

Cement sales increased to 105 million tonnes in Q4 2021, climbing by 22% on a Y/Y basis. A rise in demand has also naturally translated into upward movement of cement prices, despite most of the cement companies trying their best to curb prices in the 4th quarter of the last fiscal to meet year-end targets.

By March '21, all-India cement prices reached INR 351 (per 50 KG bag) rising by 5.4%. In the south, the rise has been sharpest reaching INR 371, growing by 13%. In northern regions, cement prices inched up by ~ 2%, reaching INR 350/ bag. In the western region, price/ bag climbed to INR 346 from INR 327.



As the demand outlook seems bright for FY 22, prices will continue to rise steadily. In May, most of the major markets in India reported a hike in the price to the tune of ~ INR 10/ bag. In June, initial estimates suggest that prices might further increase by around ~ INR 10- 15/ bag.

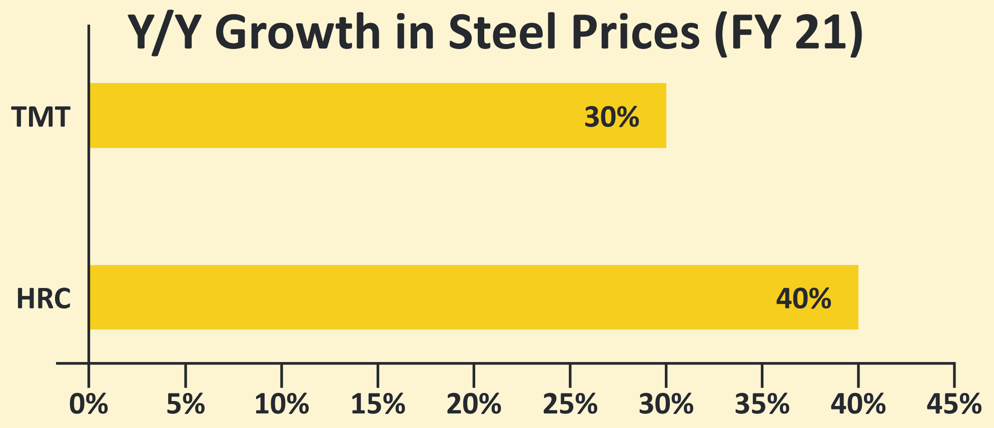
This might be good news for cement manufacturers but an increased price of cement is not a very healthy sign for the Real Estate industry, which is already suffering from stifled demand due to the 2nd lockdown. Spiralling cement prices will pressurize the industry.

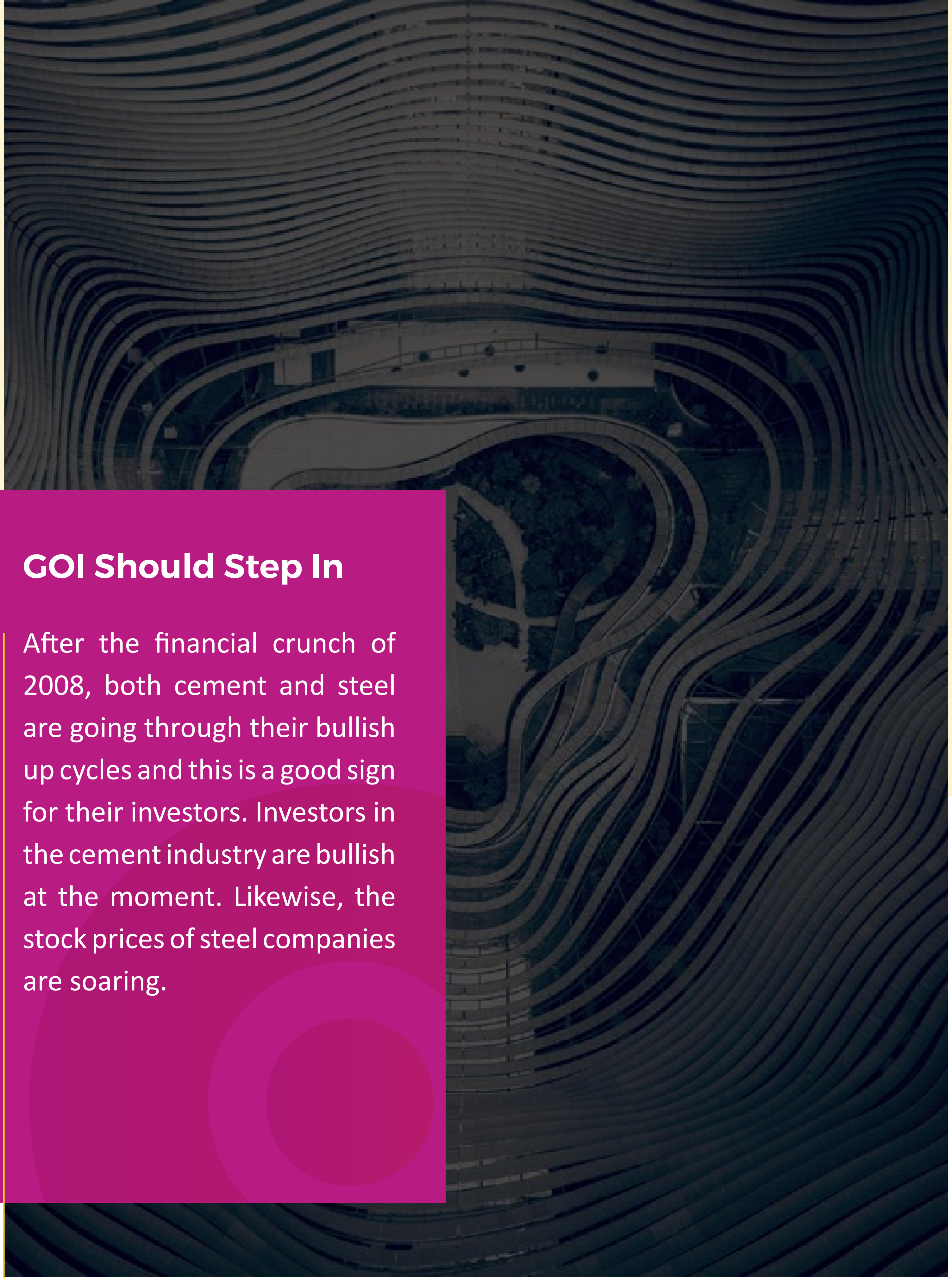
Moreover, as the prices of raw materials such as petroleum and coke are increasing, cement prices in India are expected to further rise. Historically, cement companies pass on the increased prices to the customer. This means the rise in prices of raw materials will further dent the pockets of developers.

Growth in Steel Prices

Similarly, the prices of steel have also risen sharply.

The upcycle in steel prices is in tandem with robust global demand. A resurgent China along with a buoyant USA & Europe are driving steel demand. In FY 21 Indian steel production inched up but total exports amounted to 10.8 million, climbing by 29.1%. A jump in exports has resulted in a shortage of steel in domestic markets, thereby pushing ahead steel prices in the country. In March ‘21, prices of HRC jumped by 40% on a Y/Y basis, whereas TMT prices increased by 30%. The rallying of prices will continue ahead. By mid-June, on average prices are further expected to increase by INR 2,000- 4,000/ tonnes.





GOI Should Step In

After the financial crunch of 2008, both cement and steel are going through their bullish up cycles and this is a good sign for their investors. Investors in the cement industry are bullish at the moment. Likewise, the stock prices of steel companies are soaring.

However, this will impact Real Estate in a negative way. As the cost of raw materials rises, the price of development will increase, thereby further dampening demand. The possibility of passing on the price increase to the customers is also not feasible, as already demand has plunged. In such circumstances, if prices are not contained, many projects will be stalled consequently further aggravating the challenge.

Although steel and cement prices are deregulated, the government still can do its bit. It is argued that there are cartels in play that have also pushed ahead prices. Governing agencies should look into this and rein them in if the price rise is due to artificial forces. Also, the government should try to optimize raw material supply as it can also help in checking price hikes.

Economic Outlook

Downside Risks Persist, Yet Industry Appears Risk-Averse

Indian Real Estate constitutes ~ 8% of the GDP and is the 2nd largest sector after agriculture. It is natural that any upcycle or downcycle in the realty industry is linked closely with the health of the overall economy.

Last year, when a nationwide lockdown was imposed and most of the business & commercial activities (barring essential services) were suspended, Real Estate and construction also plunged drastically.

In the 1st quarter of the last fiscal, when the GDP shrank by over 24%, construction fell by more than 75%. Most of the developers suspended working on new projects and started focusing more on moving the existing inventories through a host of initiatives including price cuts, discounts, freebies, and deal structuring.

As the economic growth recovered, residential sales also bounced back. In Q4 FY 21, the economy staged a comeback and marginally inched up 1.6%. This was also a time when realty sales touched near normalcy after a period of sustained fatigue. (Although overall economic contraction was pegged at – 7.3% for the entire fiscal year.) In most of the major markets, unsold inventories drastically fell.

GROWTH FORECAST FOR FY 22

IMF
Previous- 12.5% Current- awaited

ICRA
Previous- 11% Current- 10.5%

WORLD BANK
Previous- 10.1% Current- 8.3%

MOODY
Previous- 13.7% Current- 9.3%

RBI
Previous- 10.5% Current- 8.5%

S&P
Previous- 11% Current- 9.8%

At the onset of the current fiscal, most of the rating agencies have estimated a bright growth forecast for India. Growth in the service sector & manufacturing PMI indices, increased liquidity disbursal in the market, lowered interest rates, elevated FDI inflow further painted a positive outlook.

However, with the sudden jump in COVID cases and imposition of lockdown 2.0, economic growth has once again fallen off the pedestal. Lockdown and a lack of business activities will soften the stance on the economy.

> *At the onset of the current fiscal, most of the rating agencies have estimated a bright growth forecast for India.*

REAL ESTATE WILL REMAIN RISK-AVERSE

However, this time around, Real Estate in India will largely remain risk-averse. Firstly, the current slowdown in activities is transitory. Already, slowly and gradually the lockdown is being rolled back and normalcy is restoring. Cases have also been controlled in most of the cities.

As soon as the COVID-induced risk mitigates, economic growth will recover. Most of the rating agencies have not cut down on their prior aggressive growth numbers for India. With the restoration of business activities, Real Estate demand will also move up the curve.

Secondly, despite cyclic slowdowns, the underlying structural demand is seemingly very robust in Indian Real Estate. The robustness is stemming from young demographics, rise in disposable income, and a large urban population.

There are plenty of first-time homebuyers looking out for a home to buy. Similarly, large numbers of households are looking out to move up the ladder and obtain larger houses, even at an incremental cost.

> *Secondly, despite cyclic slowdowns, the underlying structural demand is seemingly very robust in Indian Real Estate.*

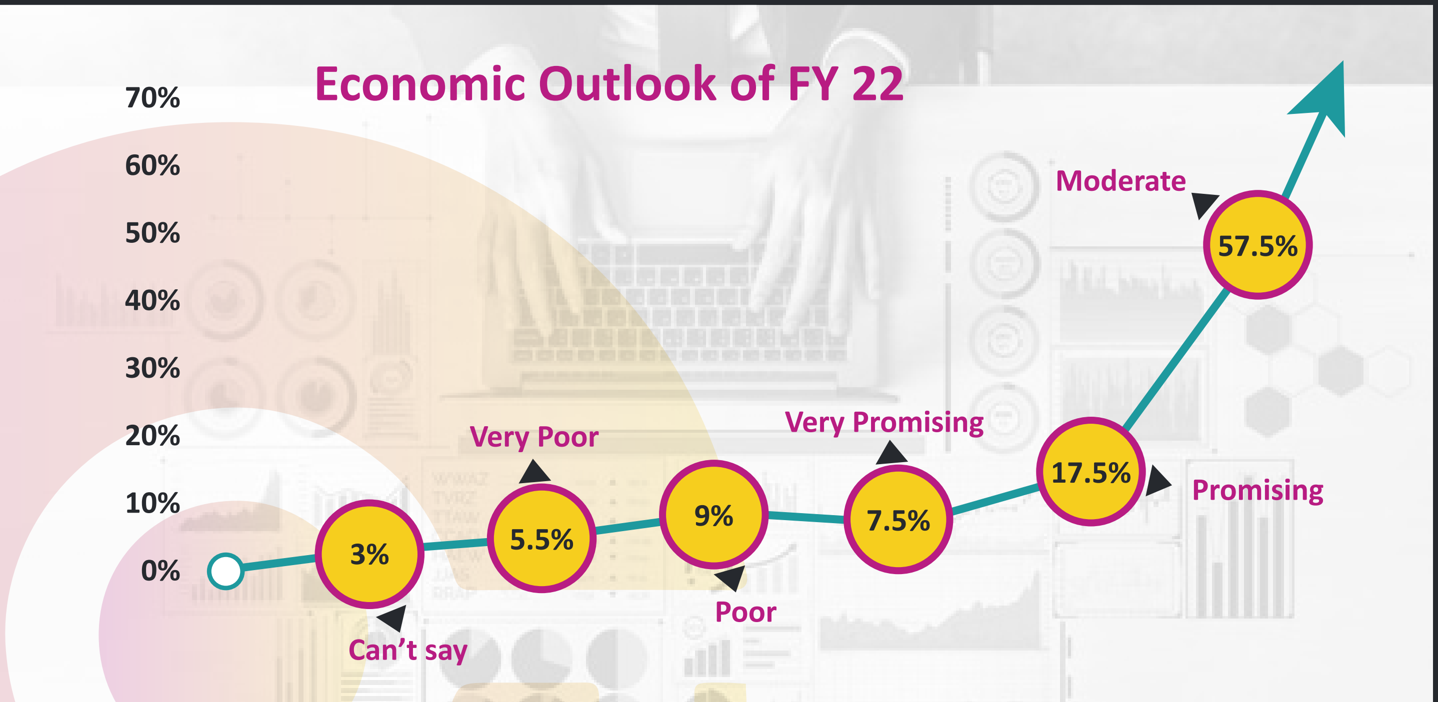
Thirdly, lower home loan rates will offer further impetus to the market.

Home loan rates are at their all-time low in the last 20 years and will offer to foster an environment for increased home sales.

360 Realtors'

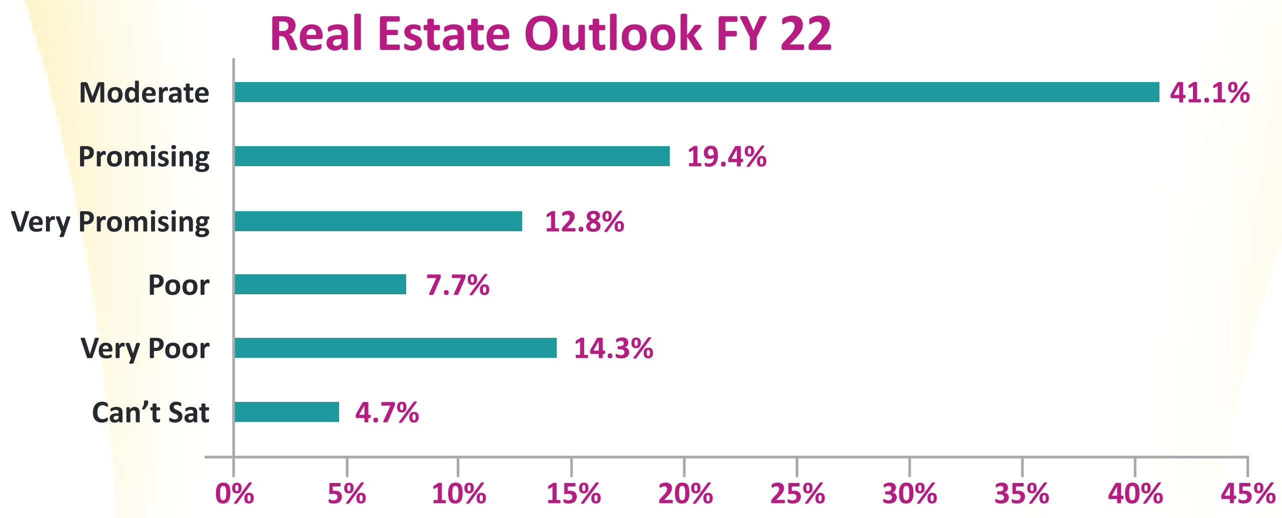
Consumer Sentiment survey

POST LOCKDOWN 2.0



Research Findings: 57.5% of the respondents have suggested a moderate outlook. 17.5% have indicated a promising outlook. 9% indicated a poor outlook.

360 Realtors' View: Our views are slightly at variance with the research outputs. We believe that the overall economic outlook will be positive, despite business activities retreating due to lockdown 2.0. Most of the rating agencies have corrected their earlier forecast, yet the numbers are in the range of 8-9.5%, painting an overall bright picture.

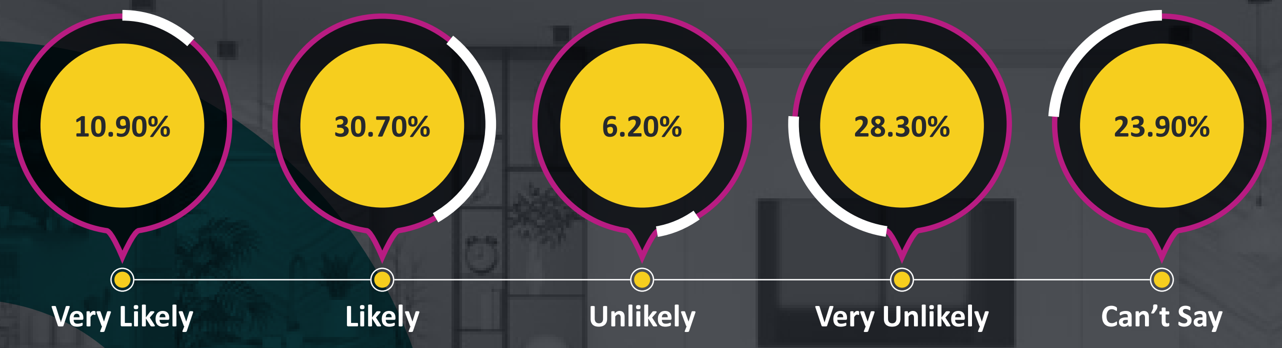


Research Findings: Slightly over 41% of respondents have demonstrated a moderate outlook. 19.4% of respondents have suggested a promising outlook. Little less than 13% have said that the outlook is very promising.

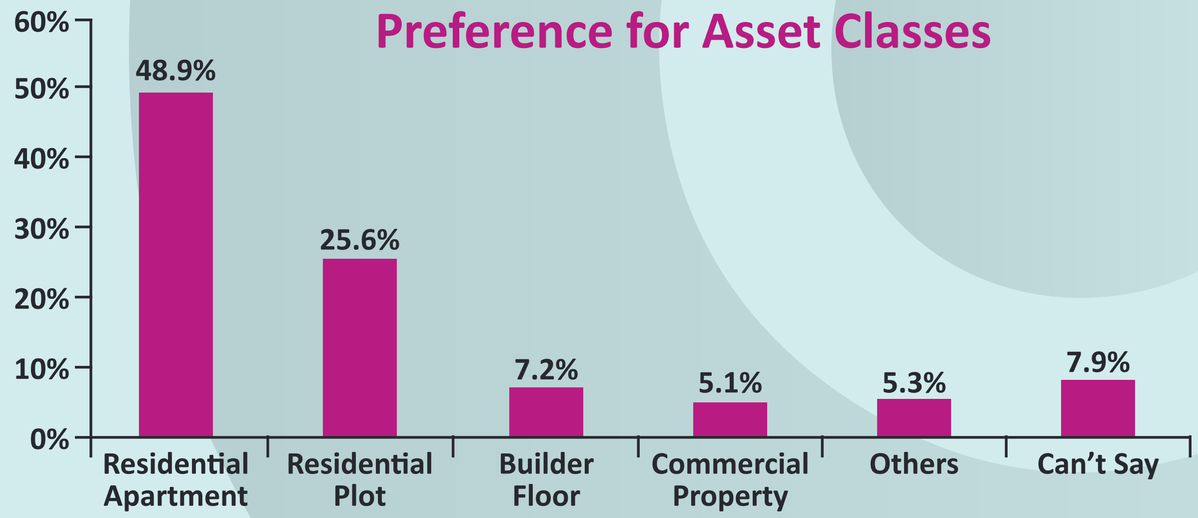
360 Realtors' View: We do agree with the survey findings and believe the market outlook will be moderate to positive. Real Estate started on a strong footing at the beginning of the calendar year, which has been softened in the face of the current crisis.

Yet, the industry this time is poised to make a quicker recovery based on the learnings from the previous year. Going forward, numerous sub categories in the housing market such as rental properties, co-living, student housing, affordable homes, plotted developments, second homes, etc. are set to rise.

Home Buying Sentiments in next 12 Months



Preference for Asset Classes



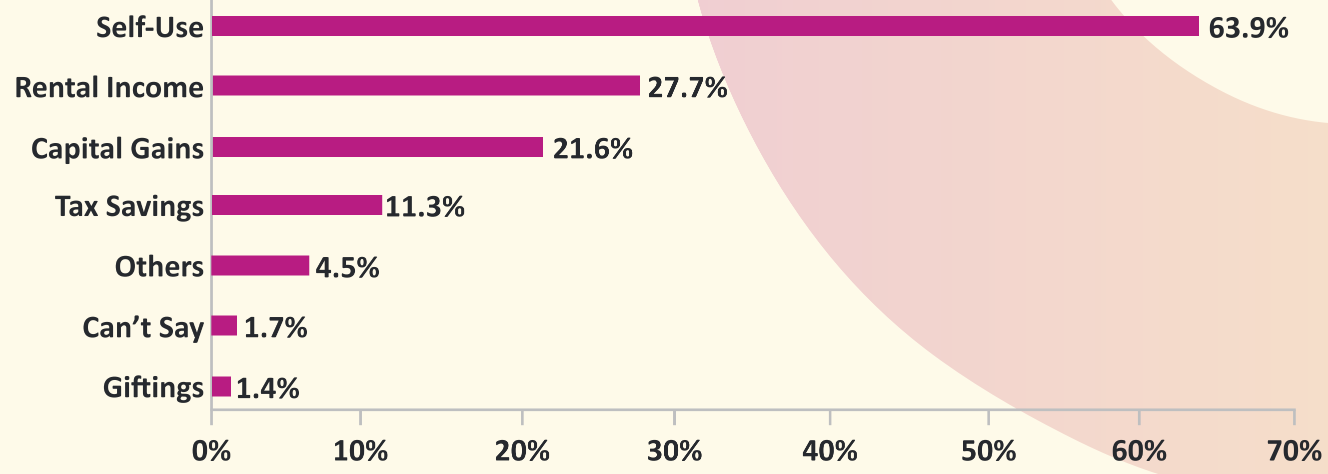
Research Findings: In the next 12 months, a solid 30.7% have shown their preference to buy homes. Likewise, a substantive number have suggested they are very unlikely to buy a home in the next year. A little less than a quarter of respondents are undecided & have stated that they "can't say", suggesting a significant amount of uncertainty in the market.

360 Realtors' View: A large market like India is always far from being homogenous. There is a visible segment in the markets that is looking to buy. This includes first-time home buyers as well as households looking to move up the value chain and upgrade to bigger homes. Similarly, amid the crisis, there is a substantive volume of households that will either not purchase soon or are clueless.

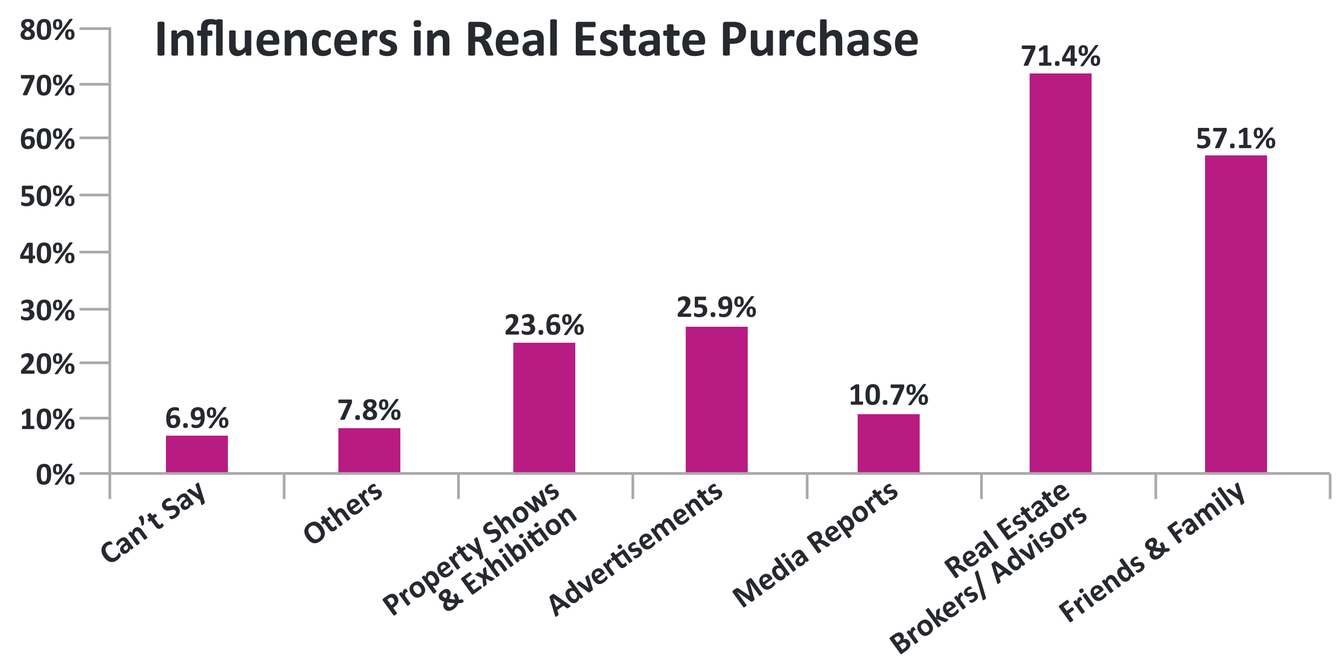
Research Findings: Little less than half of the respondents suggested they will buy apartments. Over a quarter suggested they will buy residential plots. 7.2% have demonstrated their willingness to buy builder floors.

360 Realtors' View: Residential apartments are the most preferred assets followed by plotted developments. Due to COVID, the demand for plotted developments has increased substantially, as many households now prefer independent living.

Reasons to Invest in Property



Note: Respondents were asked to mark more than one option(s) whenever applied.



Note: Respondents were asked to mark more than one option(s) whenever applied.

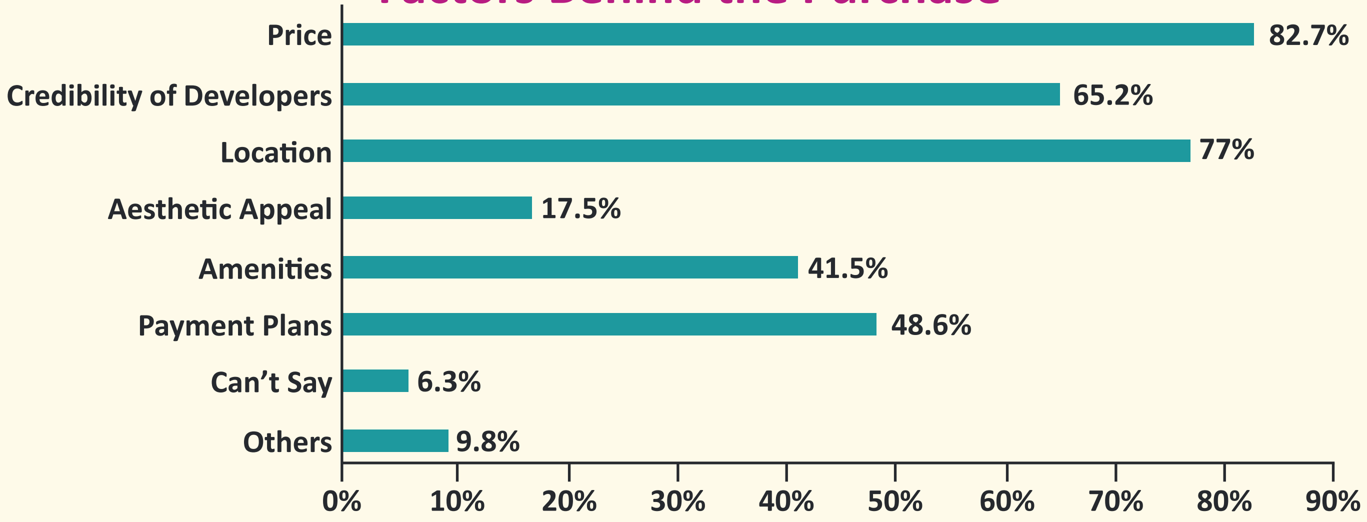
Research Findings: 63.9% of the respondents have demonstrated self-use as the main purpose of purchase. Around ~ 28% showed interest to earn rental income. 21.6% of respondents wish to earn income through capital gains.

360 Realtors' View: Our viewpoints are in sync with the survey findings. Self-use will be a major factor to drive purchase. COVID has further reinforced the need amongst Indian households to own a place of their own to live.

Research Findings: Price is the most essential factor, as showcased by over 82% of survey respondents. Location is the second most critical aspect, advocated by 77% of respondents.

Other important factors are the credibility of developers (65.2%), payment plans (48.6%), and amenities (41.5%). In terms of pivotal influencers, 71.4% have indicated brokers, underlying their all-important role in Real Estate transactions. Slightly over 57% have mentioned family & friends.

Factors Behind the Purchase



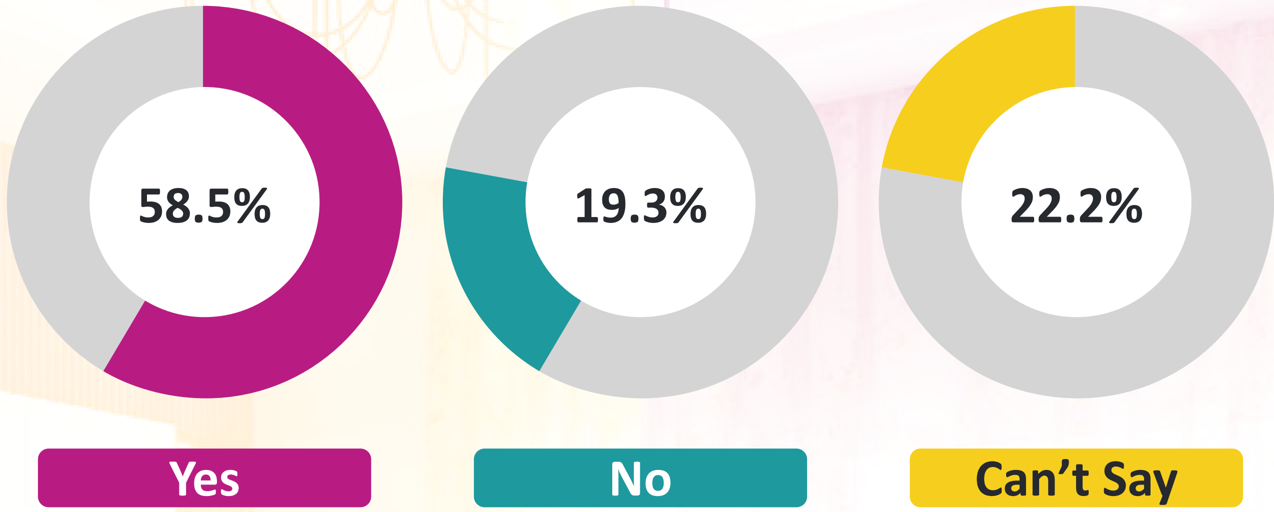
Note: Respondents were asked to mark more than one option(s) whenever applied.

360 Realtors' View: The factors (and influencers) graph chronicles evolving consumer preferences. In a post-COVID world, most buyers will tighten their purse strings and invest cautiously. Consequently, price will be a crucial factor.

Likewise, the developer's credibility will be equally essential. Many small developers were already suffering from poor cashflows and the crisis has further accentuated their challenges. Hence, it is advisable to purchase from credible names, with a proven track record and strong background.

In terms of influencers, the role of brokers is going to be crucial. At a time when information asymmetry will be at its all-time high, brokers and property advisors can handhold buyers and help them make informed decisions through actionable and transparent insights.

Real Estate as Investment Choice

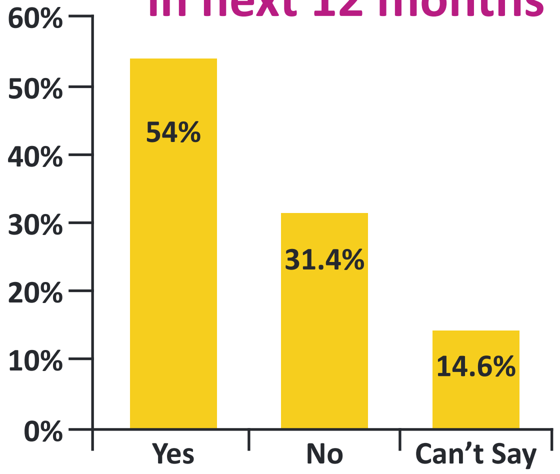


Research Findings: As an investment choice 58.5% believe Real Estate is a smart investment option. 19.3% believe otherwise. The remaining are inconclusive.

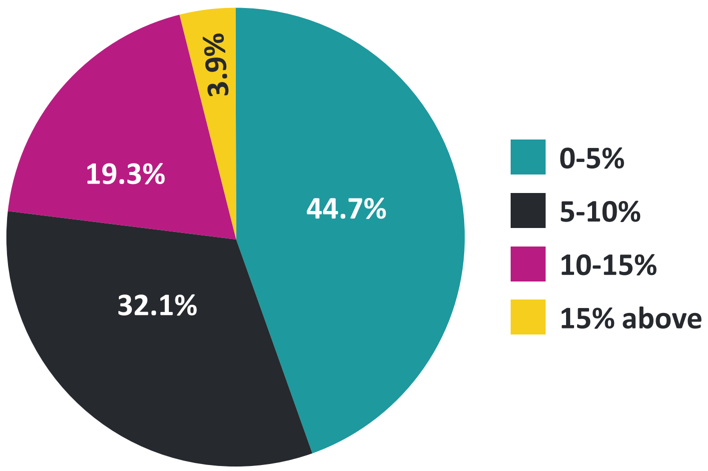
360 Realtors' View: As a long-term investment, Real Estate will be a safe and tangible asset. As the value of the rupee has devalued over the years and is further expected to plunge in the second half due to the rise in global petroleum prices, NRIs will also continue investing in Real Estate.

However, this time around despite the pandemic ripping through the economy, the financial markets also surprisingly showed resilience. Long-term investors will be bullish on the financial markets as well, as it arrested fatigue and looks upbeat.

Possibility of Price Cut in next 12 months



Expected Price Cuts



Research Findings: 54% of those who participated in the survey suggest a price cut, whereas over 31% advocate that prices will be stable over the next 12 months. Amongst those who are contemplating a correction, ~45% believe the dip will be less than 5%. More than 32% believe the correction will be tune to 5-10%.

360 Realtors' View: It is natural that whenever an event of the magnitude of COVID occurs, a lot of buyers pin hope on a price correction. Similar expectations were there in the previous year. However, it was contradicted by ground realities.

A labour crisis and rise in price corrections will deter developers, who are already working on wafer-thin margins, from introducing any price cuts. Some developers will come up with attractive payment plans, but any steep decline in prices is far-fetched.

360 REALTORS

360 REALTORS

Commitment I Honesty I Reliability

PRESENCE
IN 9 COUNTRIES GLOBALLY

23546+
SATISFIED CUSTOMERS

680+
REPUTED DEVELOPERS

40+
CITIES IN INDIA

WWW.360REALTORS.COM | 1800 1200 360