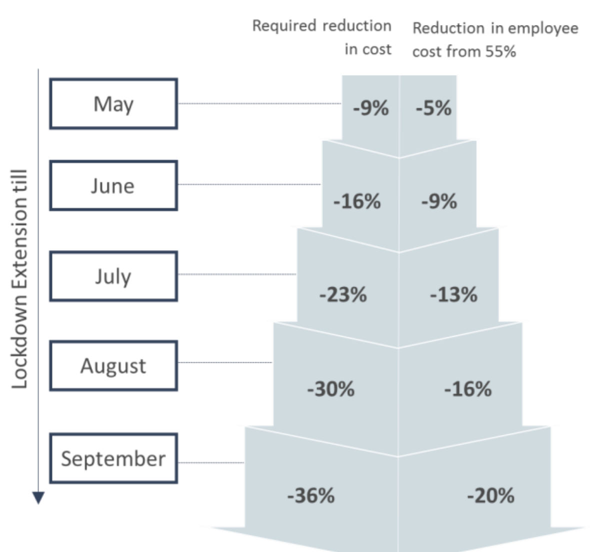
# Quantifying the impact of Covid-19 on Commercial and Residential real estate market

The study is an attempt to quantify the impact of lockdown on residential and commercial real estate market in India. Using Liases Foras granular data, the study measures the size of commercial and housing production and its direct contribution to employment and taxes. The study quantifies the immediate and long term impact of lockdown on Indian real estate market. Finally, suggestions are carved out for government to help in boost the demand in the sector.

As of 2019, the production of Indian real estate industry stands at 12.58 trillion-rupees; it contributes around 6.1% to the GDP. It generates 22 million jobs contributing to 5.5% of India's employment, and contributes Rs.1.1 trillion rupees in taxes.

Almost 55% of global outsourcing work handled by Indian IT companies is generated mostly from U.S. and Europe. U.S. and Europe have been reeling under COVID-19 impact. Fresh orders and renewals will suffer. Every passing week of the lock-down is painful. Companies are likely to reduce their expenditure by 25-30%, which is likely to induce pay cuts, job cuts. This will have repercussions on new absorptions of commercial office space as well as increase in vacancy levels of commercial office space. To reduced costs, companies will reduce employee costs.

As per research, current operation margins in an IT company consists 25% of the revenue and 55% of the component goes to employee salaries. Further assessment assumes that every month lost in lockdown impacts the annual revenue loss of about 8.33%. With this scenario, the IT giants are likely to undertake cost cutting measures within two months, considering a company would like to maintain at least 10-15% of margin.

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Commercial market would be in position to absorb repercussions if the lockdown remains into effect only till May end. If it prolongs beyond May, the incremental increase of vacancy in commercial office space may rise from 17% in May to 32% by September 2020.*

## Assessment of impact on commercial real estate market

| | | | | | | |
|---|---|---|---|---|---|---|
| Lockdown Extension till | Apr | May | Jun | Jul | Aug | Sept |
| % Increase in Vacant stock | - | +5% | +9% | +13% | +16% | +20% |
| Cumulative Increase in vacant stock | - | +35 mn sqft | +63 mn sqft | +91 mn sqft | +112 mn sqft | +140 mn sqft |
| Split of Occupied and vacant stock (assuming total stock remains constant at 699 mn sqft) — Occupied Stock (mn sqft) | 613 | 578 | 550 | 522 | 501 | 474 |
| Vacant Stock (mn sqft) | 86 | 121 | 149 | 177 | 197 | 225 |
| Vacancy% | 12% | 17% | 21% | 25% | 28% | 32% |

*Assessment conducted based on current commercial stock of 699 mn sqft in top 8 cities and assuming no new supply being introduced. Current occupied stock at 619 mn sqft and vacant stock at 86 mn sqft (12%).

Reduction in employee cost will directly impact the demand of office real estate as well as lease rates. If companies have no other option but to retrench, they would no longer require office space and may cancel lease deeds. Currently the maximum share of vacant stock lies in NCR and MMR. Likewise, calculation reveals that, NCR and MMR will take the maximum hit of the condition by September 2020.

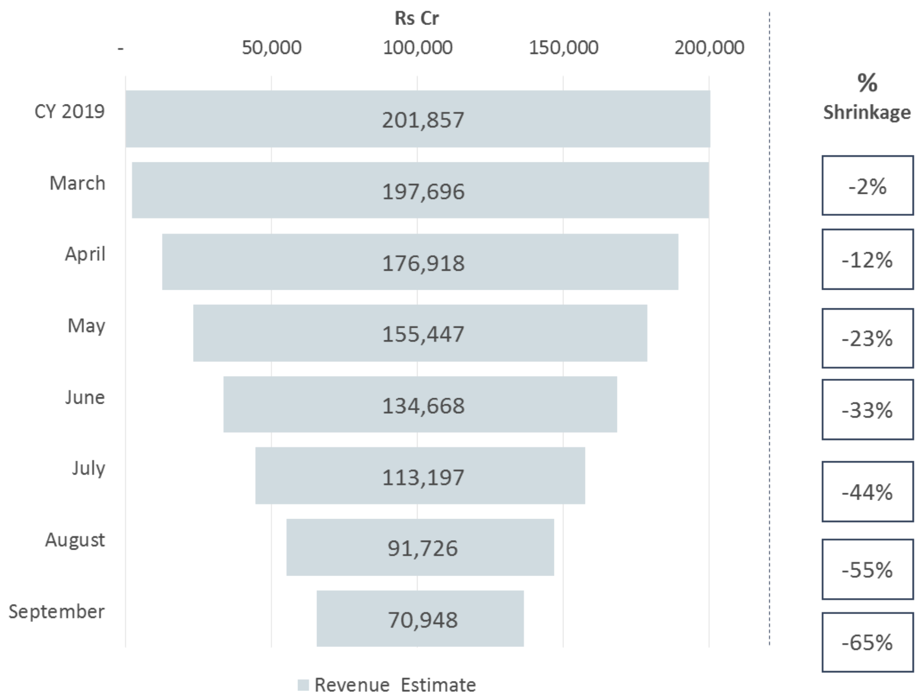
## Assessment of impact on residential real estate market

| | |
|---|---|
| Opening unsold (Units) | 13.20 lacs |
| New addition (Units) | ~4.0 lacs |
| Sales (Units) | 3.76 lacs |
| Closing unsold (Units) | 13.44 lacs |
| Months inventory | 43 |
| Wt. avg. price (Rs psf) | 5,883 psf |
| Unit Cost (in INR Lacs) | 64.05 lacs |
| Annual Revenue (INR Cr) | 2.40 lac cr. |
| U/c Supply (Units) | 33.12 lacs |

Top 8 cities contribute 76% of total sales across 52 cities. Highest contribution among top 8 cities is by MMR with a share of 28% while Chennai lies on the opposite end with the least share of 4%.

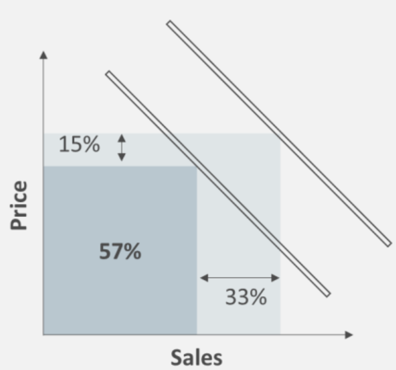
Inventory overhang has increased by 3X in past 3 years. Investors' contribution is nearly eroded from the market and the market is end-user driven. Now, due to this pandemic situation market is further expected to suffer.

Insecurities arising out of job losses and salary cut has created uncertainties, the consumers' sentiments are at all-time low. Shrinkage in the real estate demand is perceivable. Sales are nearly zero, with on-site construction at halt. This is likely to extend not only till the lockdown ends, but also till migrant labor gets confidence to return to the city. Dense cities will have to bear the maximum brunt of it, thus, impacting the real estate sector.




With a revenue loss of about 8.33% in a month and continued lockdown, 33% of revenue shrinkage is anticipated by June and by September it will drop to 65% in top 8 cities.

Demand in norther cities will see a lesser contraction as the investor has a different mindset as compared to west, south and east where the investor is more rationale.




**Price correction is imminent**
Developers will have to provide discounts to ignite the demand
**A price correction of 15% will further shrink revenue to 57%**
Even if the sales increase by 20% each quarter post lock down, it will take **at least 4 quarters** after June* to reach the stage of Dec 2019.

*Assuming the activity resumes by June 2020

## Measures to boost the demand

| Cost Range | Annual Sales (Units) | Unsold as on Dec 2019 (units) | Value of Stock Sold in 2019 ( Rs Cr) | Value of Unsold as of Dec 2019 (Rs Cr) | % composition Unsold | Months Inventory (months) |
|---|---|---|---|---|---|---|
| **< 50 Lacs** | 2,19,173 | 7,86,381 | 65,106 | 2,29,752 | 25% | 41 |
| **50 lacs-1 Cr** | 1,04,967 | 3,50,445 | 72,026 | 2,40,726 | 26% | 40 |
| **1 Cr-1.5 Cr** | 27,228 | 91,594 | 32,829 | 1,10,268 | 12% | 39 |
| **1.5 Cr -2 Cr** | 10,550 | 40,932 | 18,162 | 70,525 | 8% | 45 |
| **> 2 Cr** | 15,381 | 63,128 | 60,772 | 2,75,564 | 30% | 55 |
| **Grand Total** | **3,77,299** | **13,32,480** | **248,895** | **9,26,836** | **100%** | **43** |

Also, consumers' sentiments are really stumpy at the moment. Government should intervene at this stage and try to lift the situation. If government waives off the GST for under-construction property, there would be some breather for the consumers.

Apart from this, interest exemption limit can be increased to Rs 12 lakh from current Rs 2 lakh (under section 24 of Income Tax). Also, stamp duty can be waived off. Meanwhile, builders should also reduce prices by 20%. With these measures, the rental yield can go upto 3.6%, which will generate the demand.

This will attract not only the end-user but also the investor. At cost of Rs 26,000 cr. government can really hold the real estate market in India, which contributes Rs 12.5 lac cr. to the Indian economy.