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RESIDENTIAL MARKET UPDATE

APRIL - JUNE 2020

Market Sentiment

INSITE

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FROM CBO'S DESK

Maneesh Upadhyaya
Chief Business Officer
99acres.com

A drastic drop in the number of new residential launches and poor sales volume defined the 'real' story of residential realty across metro cities in Apr-Jun 2020. Shortage of construction workers, liquidity constraints faced by developers and the withdrawal of homebuyers impacted market sentiment adversely.

Delhi NCR, Mumbai and Hyderabad lost the largest share of new launches and reported a dip of 80-95 percent, each, QoQ. Cumulatively, the period witnessed an addition of a mere 1,400 units in the top eight metros. The ensuing credit crunch with both buyers and developers is expected to shrink housing sales from four lakh units in 2019-20 to 2.8 lakh units in 2020-21. While all metro cities reported status quo in average weighted capital prices, experts foresee average 'asks' in the resale segment dipping by an average of 10-15 percent in the months to come.

To sustain businesses, several developers underwent digital transformation with virtual project launches and e-site visits providing some relief from the COVID-19-induced crisis. After some setbacks, the traffic and responses on 99acres returned to pre-COVID levels by the end of June 2020. A survey by 99acres revealed that 75 percent of its registered buyers now prefer shortlisting or buying a property through real estate portals. Further, 60 percent of the participants averred that they would prefer undertaking a virtual tour before physically visiting the project site.

Nonetheless, to witness a complete revival, the industry would need more support from the Centre beyond measures such as home loan moratorium and declaring COVID-19 as a Force Majeure event to witness revival.

COVID–19 AND REAL ESTATE

IMPACT ON INDUSTRY

The COVID-19 crisis disrupted the supply chain of realty raw materials, and led to reverse migration of labourers and fund constraints at developers' end. The sector went through a major digital transformation as developers shifted online to market their projects and engage with customers, and Government bodies, such as NCLAT and RERA started addressing homebuyers online.

The Apr-Jun 2020 quarter saw the lowest number of new launches since 2013 and sales remained 75 percent lower than the previous quarter. Invoking of Force Majeure brought some relief as ongoing projects got up to a nine-month extension under Real Estate (Regulation and Development) Act, 2016. The suspension of Insolvency and Bankruptcy Code (IBC) for a year, too, is a relief for developers.

IMPACT ON HOMEBUYERS

With ongoing projects delayed by at least six months, homebuyers expecting possessions received a setback. Job losses and pay cuts affected the paying capacity of homebuyers, who shelved their buying decisions in the wake of market uncertainties and expectations of price cuts. While reduced home loan interest rates from most banks make it an opportune time to invest in real estate, a large share of prospective homebuyers await more clarity in the ensuing months.

The extension of the Credit-Linked Subsidy Scheme (CLSS) under Pradhan Mantri Awas Yojana (PMAY) might be a benefit for those looking for affordable homes. Existing homeowners welcome home loan moratorium of six months announced by the Government in April.

NATIONAL OUTLOOK

HOME BUYING SENTIMENT

Home buying sentiment remained muted during April due to the nationwide lockdown; with enquiries picking up slight pace in June. Genuine homebuyers flocked the market looking for attractive schemes and discounts. NRI demand, too, resurged, with some conversions in the mid-income housing bracket across cities.

PROPERTY PRICES

While the negotiation window widened up to 10-15 percent across budget segments, any actual correction in prices was not noticed. Barring Delhi NCR, all metros maintained status quo in average weighted capital 'asks', QoQ. With wafer-thin margins at the hand of developers, any price correction in future is unlikely.

RENTAL LANDSCAPE

Amid restrictions to move around, the rental market remained intact in Apr-Jun 2020. There was no movement in average 'asks' across cities, except for some discounts and leeway offered by property owners to support the tenants struggling financially. PG accommodations and guesthouses took the brunt as people moved to their hometowns due to an extended lockdown.

SUPPLY

New project launches remained nil during the quarter and progress on ongoing projects suffered on account of reverse migration of labourers and disruptions in the supply chain. Property owners unwilling to sell at a reduced price exited from the secondary market. Unsold inventory stood at 6 lakh units at the end of Apr-Jun 2020.

MARKET MOVERS

Government invokes Force Majeure

In a bid to safeguard the interests of both homebuyers and developers, the Finance Ministry declared the outbreak of COVID-19 as a Force Majeure event and extended the delivery timelines of ongoing projects by six months. The step came as a breather for the industry since large-scale reverse migration of labour and disruption in supply chain brought construction activities to a halt.

IBC cases suspended for a year

Handholding the developers severely hit by the crisis, the Centre suspended all cases under the Insolvency and Bankruptcy Code (IBC) for a year and excluded the Coronavirus-related debt from the definition of default. National Company Law Appellate Tribunal (NCLAT) too excluded the lockdown period from the official duration of the time-bound insolvency process, until it started hearing urgent cases through video conferencing.

RBI allows home loan Moratorium until August 31, 2020

On account of the nationwide lockdown, the Reserve Bank of India (RBI) announced a home loan EMI holiday for three months, which was later extended by another three months until August 31, 2020. The move came as a relief for homebuyers facing a cash crunch since several nationalised banks slashed home loan interest rates post the announcement.

RBI and Finance Ministry roll out fiscal benefits

To battle the dwindling economic scenario, RBI slashed repo rate to 4 percent and the reverse repo rate to 3.35 percent. It further allocated Rs 10,000 crore to National Housing Bank (NHB) and Non-Banking Finance Companies (NBFCs) for the revival of the housing sector.

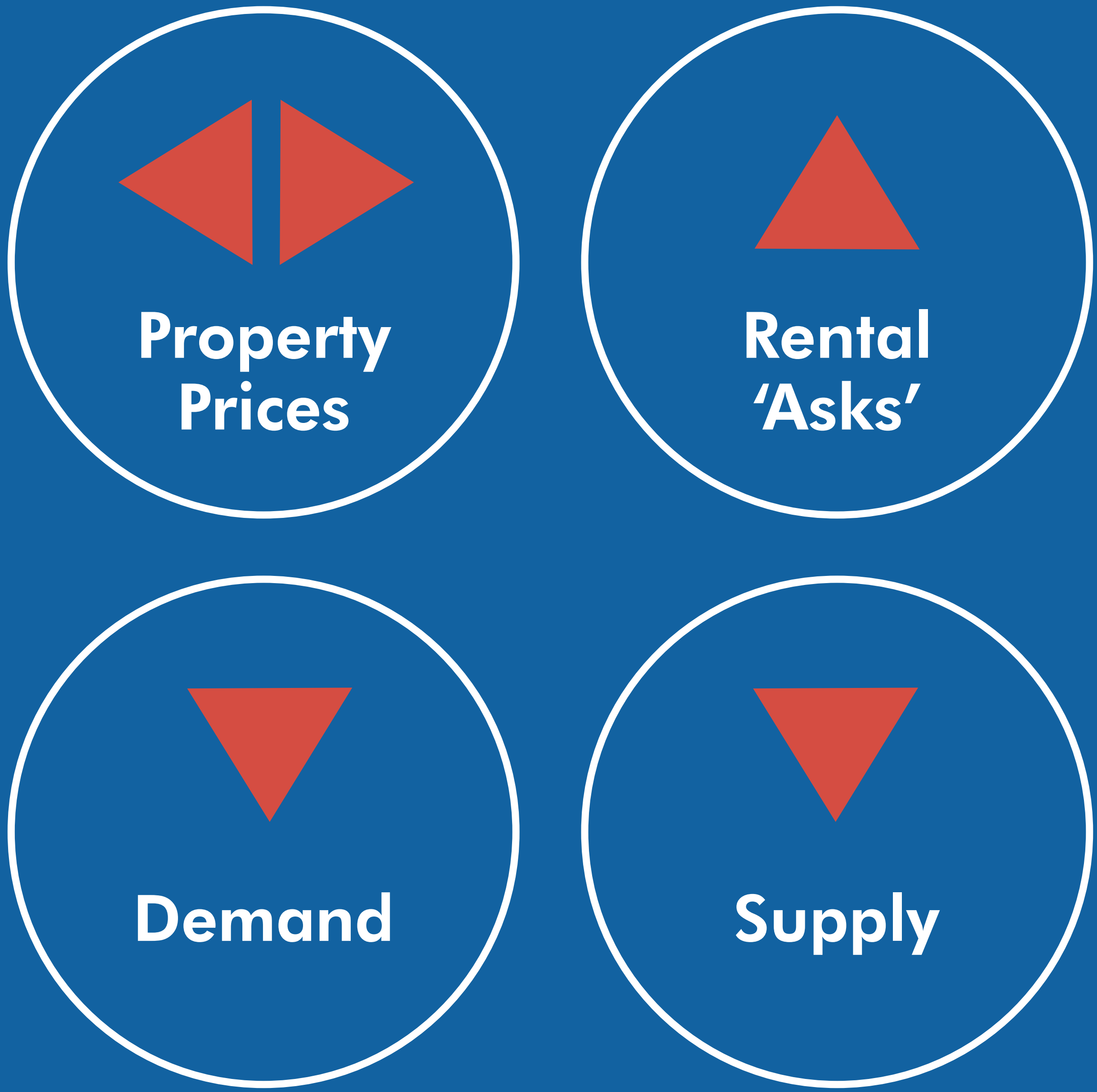
Centre extends the validity of CLSS

The extension of the Credit-Linked Subsidy Scheme (CLSS) under Pradhan Mantri Awas Yojana (PMAY) until March 2021 is expected to infuse an investment of Rs 70,000 crore in the affordable housing sector.

COMMERCIAL REAL ESTATE OUTLOOK

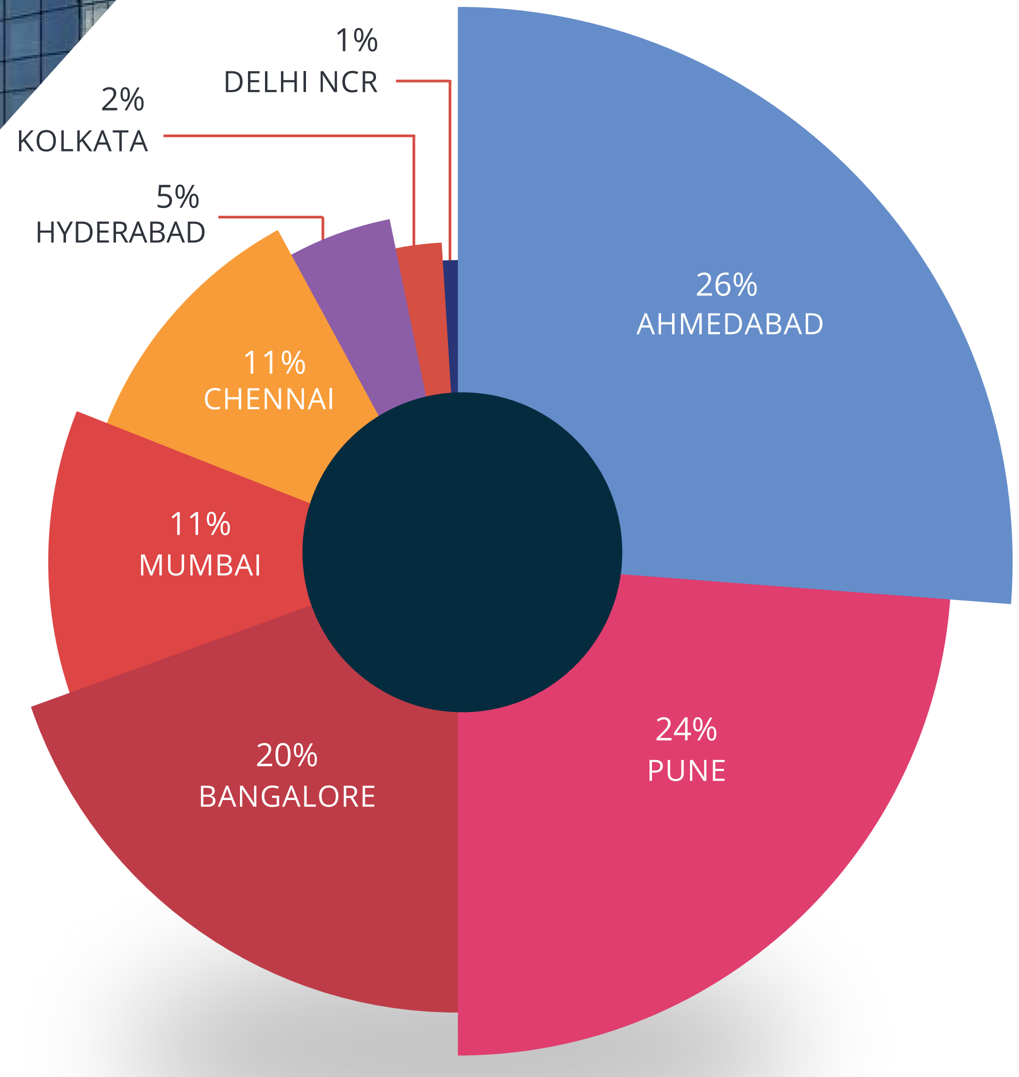
- Office space absorption is likely to dip by up to 30 percent in 2020.
- About 3.2 mn sq ft of co-working flexible space is expected to be vacated in the year 2020.
- The work-from-home policy is expected to have an adverse impact on demand for office spaces. Already, the requirement for office space by corporates in terms of area is down by 20 percent.
- The space per employee may increase to 100-120 sq ft from the current average of 80 sq ft.
- The logistics and warehousing sector were least impacted by the lockdown due to an upsurge in e-commerce.

INDIAN REALTY AT A GLANCE



* Property prices represent quarterly change * Rental 'asks' represent yearly change
* Supply is basis properties listed on 99acres.com * Demand is basis queries received on 99acres.com

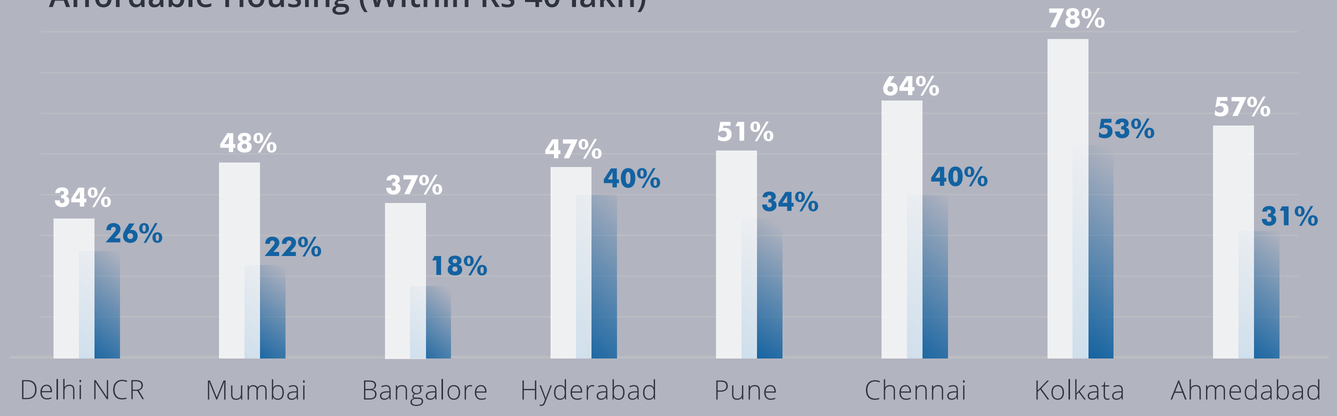
NEW LAUNCHES



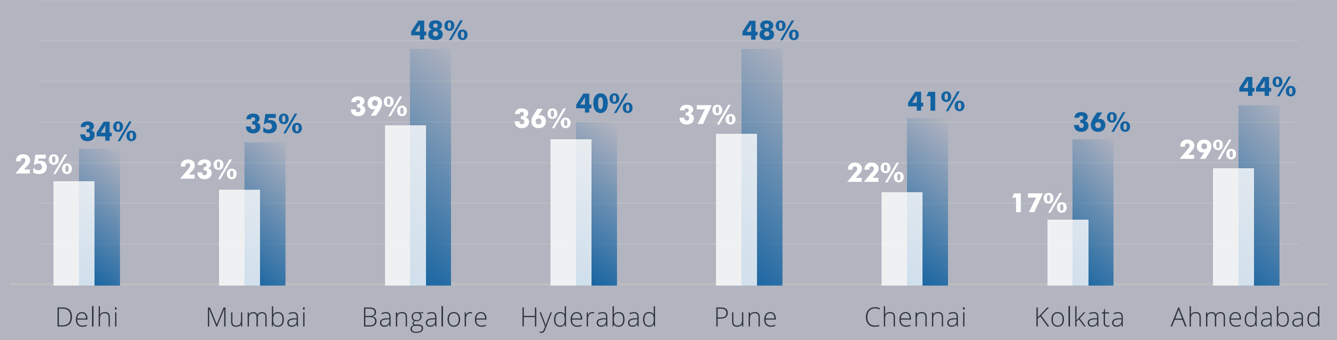
The data depicts share of new launches across metro cities in the studied quarter

DEMAND & SUPPLY DYNAMICS

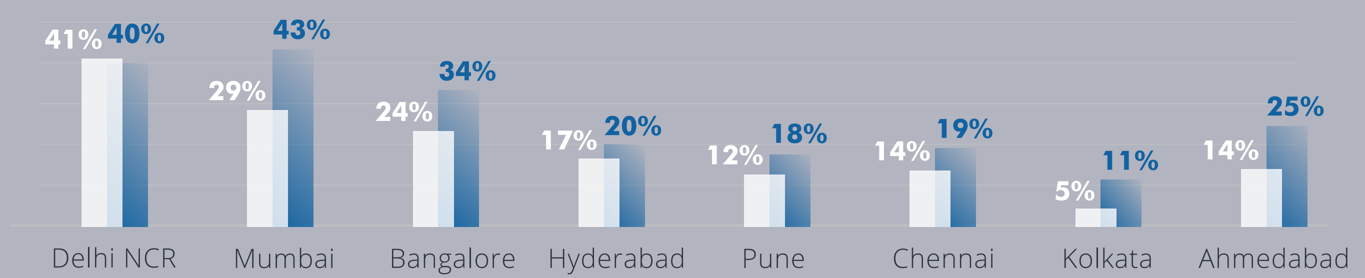
Affordable Housing (Within Rs 40 lakh)



Mid-income Housing (Within Rs 40 lakh - Rs 1 crore)



Luxury Housing (Above Rs 1 crore)



Graphs depict city-wise demand and supply of residential properties in various budget brackets in the studied quarter

Demand

Supply

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99ACRES' OUTLOOK

The Apr-Jun 2020 quarter presented India's residential market with a unique challenge as the outbreak of COVID-19 brought construction activities and property sales to a halt. The short-term relief measures introduced by the government, such as identifying the event as Force Majeure, extension of project completion timelines, a six-month loan moratorium to homebuyers, and promotion of affordable and rental housing, among others, helped the market absorb the lockdown shockers to some extent.

While property sales plummeted by 80 percent in April and May, YoY, new launches suffered a setback of nearly 75 percent, as compared to the Jan-Mar 2020 quarter. Delhi NCR, Mumbai and Hyderabad saw new launches dipping by 80-95 percent, each, QoQ. Cumulatively, the period saw the addition of a mere 1,400 units across cities. The ensuing credit crunch faced by both buyers and developers is expected to shrink housing sales from 4 lakh units in 2019-20 to 2.8 lakh units in 2020-21, across the metro cities. An immediate impact on property prices was not apparent since all metro cities reported status quo in average weighted capital prices, barring Delhi where property rates dipped by a marginal one percent, QoQ.

The pandemic forced the realty sector to undergo a sudden digital transformation as developers shifted to virtual tours and offered discounted schemes to close deals online. The tenant community faced a shift in sentiment in favour of owning a home and the much-rooted-for commercial segment – co-working – felt the need for massive design alterations to meet with social distancing norms. However, with the crisis ripping the industry of a speculated Rs 1 lakh crore by the end of this financial year, these transformations are much required to ensure sustenance.

KEY HIGHLIGHTS

The quarter started with a standstill in sales, new launches and ongoing construction work. Property sales in the top metro cities amounted to 12,700 units in Apr-Jun 2020, which is a fall of almost 75 percent as compared to Jan-Mar 2020. Property launches, too, took a hit and stood at its lowest since 2013. The over 90 percent dip in new launches augured well for the piling unsold stock, which stands at over six lakh units now and needs about 3.3 years to be disposed of. The affordable housing segment, which holds about 35-40 percent share in new launches, saw no new supply in the studied quarter.

Construction activities worth approximately Rs 60 lakh crore were reportedly impacted during the lockdown. Of this, real estate developers held about Rs 3.7 lakh crore capital locked in over 4.55 lakh unsold under-construction units by the end of Q1 2020. Resultantly, under-construction residential projects were the worst hit, as a general lack of confidence in the category, coupled with the worsened liquidity situation of the developers, left homebuyers wary of putting money in these units. Additionally, an uncertain job market led several homebuyers to defer home purchase plans until the economy stabilises. A possible price correction in future, too, kept homebuyers from closing deals.

In the rental market, the average 'asks' dipped by slight margins as several tenants sought rebates and discounts on account of financial instability. The proposal to create affordable rental housing came as a breather for the economically weaker sections.

The Force Majeure event massively dampened Private Equity investments in real estate, which declined by a whopping 93 percent in the first five months of the year with only one deal worth $40 million concluding in the residential segment during the period. The launch of Real Estate Investment Trusts (REITs) too, has been delayed by over one year. While affordable housing is touted to emerge strongly in the post-COVID-19 world, it would also require a lot of governmental handholding in the months to come.

CONCLUDING REMARKS

The Apr-Jun 2020 quarter forced the realty stakeholders to transform digitally and brainstorm ways to optimise space in both residential and commercial segments. The massive downfall in economic activities slowed down sales and new launches, and ripped the sector of large investments. However, housing sales are expected to bounce back as soon as the market reopens completely and homebuyers find their financial footing. Affordable housing is touted to see an upsurge in demand due to a shift in sentiment in favour of home ownership. The commercial real estate segment might take a few quarters to revive; however, it would resurge with a few design changes to meet with social distancing norms. Governmental intervention in the form of fiscal packages for stuck realty projects will come a long way in helping the sector revive from the aftermath of COVID-19.

METHODOLOGY

The Insite Report by 99acres.com captures the quarterly capital trends, the annual rental analysis of residential apartments and rental yield in top 10 popular micro-markets across key real estate markets – Delhi NCR, Mumbai Metropolitan Region (MMR), Bangalore, Pune, Chennai, Hyderabad, Kolkata and Ahmedabad. In order to assess the prevailing sentiment, the report delves deep into demand and supply of properties across varied budget segments and occupancy stages. While demand is a function of queries received, supply is based on property listings posted on 99acres.com in Apr-Jun 2020.

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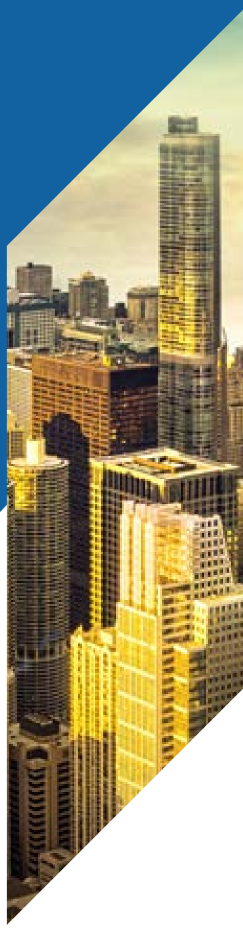
BUY, SELL, RENT PROPERTY



CONTACT US

0120 4879400
Monday- Friday
9:30 AM to 6:30 PM IST
Email: content@99acres.com