

Government should facilitate supply of construction input materials, says Mr. Puri

Real estate and construction are the second largest source of employment after agriculture in India and 80% of the employees in these sectors are migrant workers. The ongoing COVID crisis will have multidimensional impact on these two sectors, in terms of demand for homes, changes in prices & rentals and availability of construction materials, to name a few. In an interview to MVIRDC World Trade Center Mumbai, Mr. Anuj Puri, Chairman, ANAROCK Property Consultants Private Limited explains the impact of Covid-19 on these sectors.

Mr. Puri points out that even though the government allowed construction work in most parts of the country, availability of labour and input materials such as steel will determine the pace of recovery in activity in the coming days.

Excerpts of the interview:

Q1. What are the hardships faced by commercial and residential real estate sectors in India amidst the nation-wide lockdown since March 25?

A major hurdle common to both segments of Indian real estate is that there was no construction activity on sites, which will eventually lead to project delays in the future. Supply in commercial segment is set to be impacted in 2020 due to this. As for today, construction activity on sites may have been permitted to resume (under specific guidelines) in most areas but the government will need to ensure smooth supplies of raw materials such as cement, steel, bricks etc. for the developers.

Also, it may still take a while before construction work resumes on full swing because lakhs of construction workforce from urban cities have migrated back to their hometown. And, in the present scenario it doesn't look likely that they will return anytime soon. Hence, labour shortage could be an issue that will impact Indian real estate.

According to our estimates, there were over 44 million labourers working in the construction sector, of which, we can easily say that over 80% or approx. 35.2 million are migrant labourers. Since we don't have any numbers suggesting how much of the total migrant population has moved back to their hometown, it will be difficult to estimate the impact as of now.

Q2. How do you see the outbreak Covid-19 affecting demand for residential and commercial real estate in 2020-21?

Because of Covid-19, residential demand is set to soar in the future. In ANAROCK's recently conducted survey during lockdown period, majority participants confirmed this trend. The security associated with owning a physical asset during a coronavirus-like crisis coupled with rising aversion to high-risk investments has resulted in increased demand for residential real estate. Millennials are key demand drivers - their preferences are now dictated by the prevailing uncertainties, stock market volatility and recent-past financial sector incidents. Many of them now prefer buying over renting homes.

Homeownership is now a compelling priority for millennials facing uncertain times. Out of the total voters favouring real estate, 55% are aged between 25-35 years - and 68% are end-users. In the H2 2019 edition of this survey, only 42% were in this age bracket. The general home buying sentiment is also guided by cheaper home loan interest rates, which currently average between 7.15% to 7.8%.

As for the commercial segment, we will have to wait and see as to when the Covid-19 issue is resolved and how things unfold in the near future. Most cities are still under a lockdown with just few relaxations as of now.

Q3. When do you expect recovery in demand for residential and commercial real estate sectors in India?

As mentioned earlier, it is still too early to give a definite time period for real estate business to resume as usual because we are still in the midst of the crisis.

Q4. Reserve Bank of India has announced moratorium on loans taken by businesses and home buyers and Government of India is working on a relief package to cushion the fallout of the lockdown on the economy? What are your suggestions to the government and the RBI to provide relief to the real estate sectors?

Developers would need a smooth supply of raw materials such as steel, cement, sand, bricks, etc. for construction activity to resume at a good pace. Also, while many developers have already been taking extra care of their construction workforce by providing them either full salaries, food, medical help or sanitisation products etc., there is also a need for the respective state governments to provide an extra comfortable environment for them to continue work and not return to their native town. That said, the government had already released funds for daily wage earners including construction workers.

Also, the RBI must further extend the moratorium on term loan payments for at least three more months. The move will provide major relief to all concerned stakeholders including developers. It will give time to developers to get their financial act together for at least a certain period.

Q5. What will be the impact of Covid-19 crisis on commercial lease rentals; will retailers and multiplexes renegotiate existing lease terms with property owners? Do you expect residential property prices to rise in the coming months given the expected growth in demand?

Residential prices are unlikely to rise in the near future as sellers will need to factor in the uncertainty of the current period. Office rentals in some areas may come under pressure as occupiers try and renegotiate terms and cost. To reduce operations cost, telecommuting and rostered timings may become the new norm, depending on the nature of business - thus leading to higher demand for flexible workspaces. Indian retail sector leasing will also see pressure on rentals.

Notifications

Press Information Bureau, Government of India

Prime Minister speaks to his counterpart in Portugal

<https://pib.gov.in/PressReleasePage.aspx?PRID=1621248>

Government mulls import substitution policy

<https://pib.gov.in/PressReleasePage.aspx?PRID=1621215>

Daily Bulletin on Covid-19

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DGFT

Clarification on 'stock lot' used in import of different kinds of papers

<https://dgft.gov.in/sites/default/files/TN8-Stock-Lot.pdf>

CBIC

Amendment in notification

<https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2020/cs-tarr2020/cs21-2020.pdf;jsessionid=7D91DDCFD948701529850EC5719E61C5>