

India - June 2020

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SPOTLIGHT
Savills Research

COVID-19: Profiling Locked-Down Homes

(Volume 6)

savills





THE PREMISE

Each of the previous volumes in our COVID-19 series has been developed on the premise of managing a rising sense of urgency and the progressive build-up of business anxiety. This volume aims to help navigate the same for the Residential sector in the country.

Our previous volumes covered risk-factors, reversal theories and growth potential post-pandemic. We do that in this nugget too.

However, we understand that emotion is a unique aspect of residential real estate purchase, perhaps ahead of every consideration. It plays a key role in home-buying decisions. Hence, we looked into people's mindsets here.

THREE-PHASE HYPOTHESIS

This report presents a preliminary hypothesis of residential markets' journey:

- 1. Pre-COVID-19:** Decoding the path of Indian residential markets and figuring out its coordinates just before the pandemic
- 2. Lockdown Phase:** We illustrate a four-factor force countering the distress:
 1. Buyers' (end-users and investors) views
 2. Economic landscape
 3. Supply-side dynamics
 4. Policy ecosystem
- 3. Post Lockdown:** Recovery estimate and probable time-frame

Once again, we advocate careful observations at this stage without adopting final positions.



Part-1: Interpreting The Pre-COVID-19 Shape

ABSORPTION (DEMAND) FACTS:

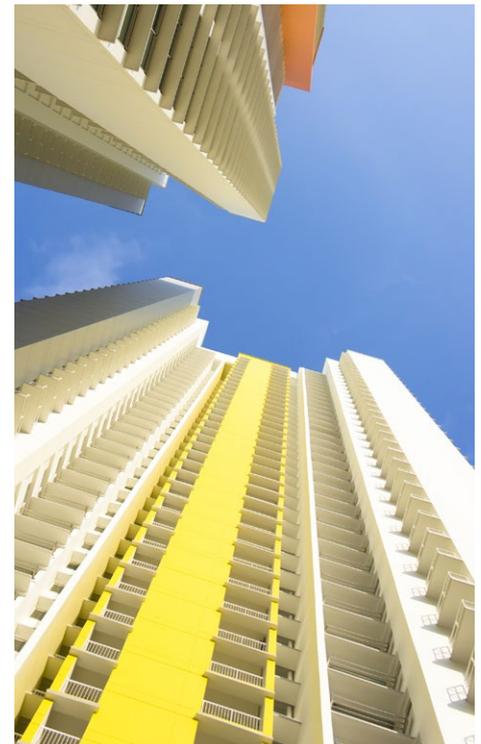
<p>2011: The last peak of approximately 370,000 annual unit sales</p>	<p>2011-2017: A period of consistent Y-O-Y slide, albeit at varying rates</p>	<p>2017-2019: Perceptible and persistent upswing in Y-O-Y sales</p>
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THE KEY QUESTION: U- OR L-SHAPE HISTORY?

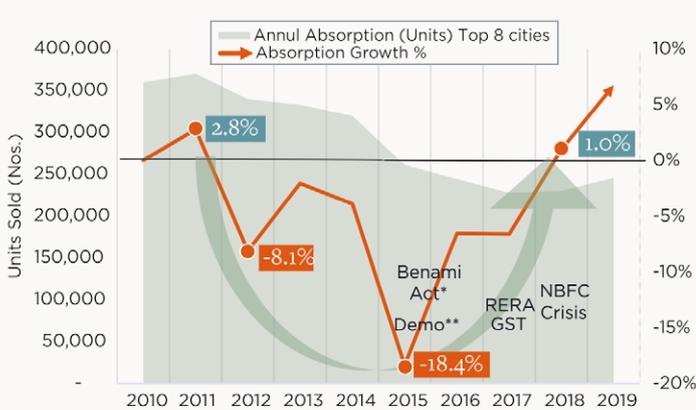
- Our nuggets have consistently referred to recovery questions, by trying to identify V-, U- or L-shapes: Mostly with regard to the future post pandemic.
- However, for Residential, we urge you to look at the past, to decode the shape, before looking at COVID-19 and beyond. Residential markets in India, during the last decade, have often given unclear signals. Here is our take on U- or L-shapes.
- Annual absorptions shown in the first chart here might ‘mistakenly’ convey a lost-peak (2011) – and hence an L-shape (a peak that is never regained); BUT, the red recovery-line demonstrates a persistent force at play after 2015.
- Though the negative growth hit two troughs (2012 & 2015), the line of growth surged into the positive-zone, in 2018 and improved further in 2019. **A strong likelihood, therefore, remains that this was a long drawn U-shape (the green arrow). Instead of an L-shape.**

FORCES AT PLAY:

- The three forces driving the recovery are several structural changes, size-shrinkages and average price-resets during the 2014-18 period.
- The affordable segment has registered 15-25% recalibration in unit sizes. The mid- and luxury segments underwent resets too. This was coupled with an overall decline in average units price by over 2%, helping the recovery.
- The number of developers in the top cities has also shrunk during this period, indicating a possible consolidation in the making.



Pre-COVID Shape Question



Size Shrinkage: 2011 - 2018



*Benami Transactions (Prohibition) Amendment. Act, 2016
**Demonetisation

Just as the residential market had grown for a second consecutive year in 2019, lockdown- riding the COVID-19 wave - hit the momentum.

The fightback is based on **four factors**



In this volume, we apply ourselves to recognise them, and enumerate their features.

*Savills India conducted the survey among consumers and investors during the Lockdown 3.0 and compiled results in mid-May 2020



DEMAND REVIVAL KEYS: TIME & VALUE-PROPOSITION

TIME HORIZON

Our primary surveys offer glimpses into the minds of end-users & investors, as of mid-May. The key takeaways suggest a possible pick-up after 12 months.

- Despite gloom, over 1/5th of end-users (21%) could return to the market in 6-12 months. Though a small segment, this is still a vital indication.
- On account of current financial stress and uncertainties over the future, 70% end-users do not plan to purchase a home within 12 months.
- Most investors plan to wait-and-watch, with almost 94% planning a decision after 12 months.

NOTE OF CAUTION:

- In due course, more people may join the 6-12 months bracket, OR
- Some may cross over to beyond 12-month bracket if health and financial concerns rise further
- As said in our previous nuggets, we advise a careful and continued analysis of events, including scientific solutioning to the COVID-19 problem. It has a central role to play in demand revival across industries.

VALUE-PROPOSITION:

For 80% end-users & 90% investors the concept is wellness + smart + carved-out workareas

- Investors and end-users alike show high affinity for **Integrated Townships & Smart homes**: Over 50% in each category prefer such propositions.
- In terms of paying premium, about 30% of end-users as well as investors showed **willingness to pay premium for homes that incorporate wellness concepts**. Post-COVID-19 construction and design could take vital hints from this.
- **Homes with carved out office-like workspaces** would possibly be attractive to nearly 24% of end-users.
- End-users also showed an inclination to purchase second homes, about 30 % of such buyers said they would be interested in locations like Goa and about the same number showed interest for properties situated in the Hills

In summary, the timeframe appears to be almost 12 months (or, a minimum of 6 months) from the point of gaining control over lockdown induced pause in activity.

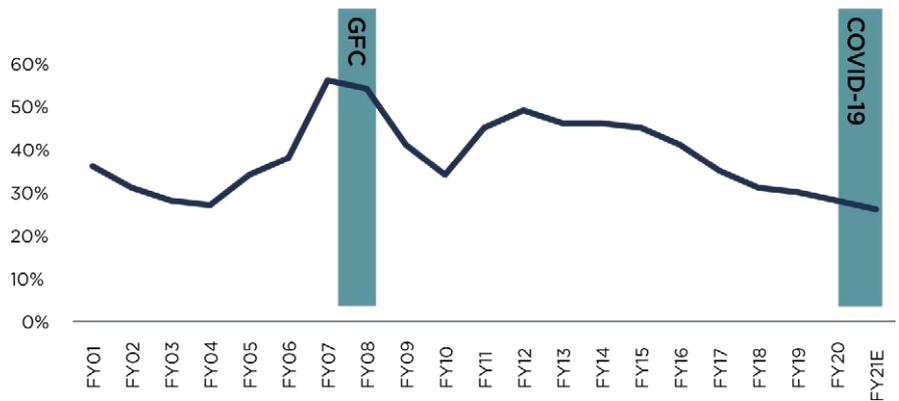




ECONOMIC-LANDSCAPE & RESI-REVIVAL

- With price and size resets, affordability is improving; creating opportunities to invest in residential properties
- Consumers increasingly prefer developers with proven track record of timely project completion
- Ready to move-in units, especially in EMI-dependent affordable and mid segments are clear preferences
- Government support expected to continue through tax benefits & enabling policies
- RBI remains aggressive about maintaining a low-rate cycle

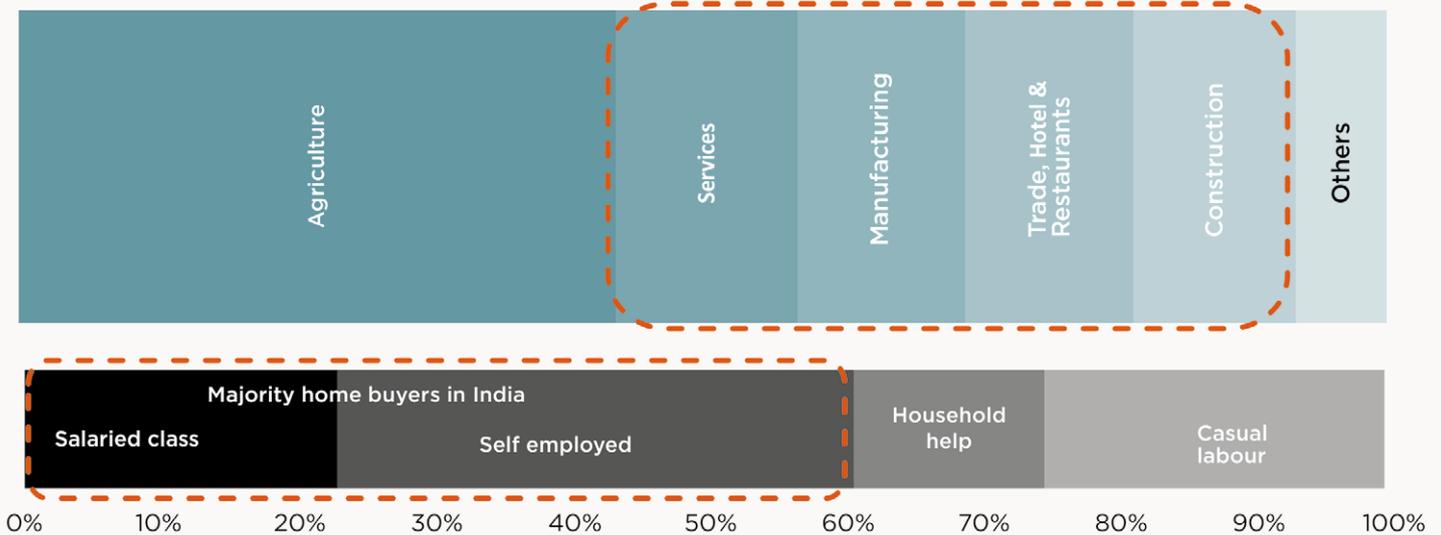
India - Affordability Ratio (Home loan payment/ Income ratio)



Source: Jefferies, Savills

RBI has outlined multiple facets of lockdown-induced slowdown. A key assessment (on May-22) for GDP growth was an impact period lasting till Q4 of 2020-21.

India - Employment Breakup



- Slow growth anticipated
- Employment & income uncertainties

- Almost 75% inventory is estimated to be below INR 1 crore (10 mn)
- Demand is heavily dependent on sectoral employment impact of the pandemic

Source: BCG, Savills



SUPPLY SIDE REALITIES & DYNAMICS...



Labour crunch as migrant workforce unavailable

- Supply Chain disrupted
- Material shortages
- Construction delays



Lack of sales

- Poor recovery of collections from sold units



Debt burden piling

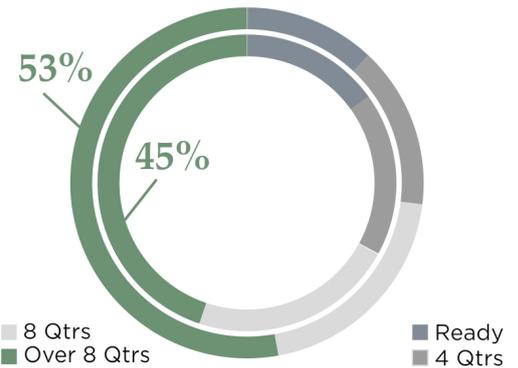
- Accumulated interest payout post RBI moratorium



Liquidity crunch

- Incremental funding gap & bridging issues
- Mismatch in cashflows

Stuck Inventory: Time to Completion



Real Strain

- Credit squeeze will impact all stuck inventories, but the inventory pipeline of 8 plus quarters may experience increased strain
- 45-53% projects are at various stages in over 8 quarters category

Development capabilities severely crippled : Cost overruns looming

Expected Paths and Trends: Post-Pandemic Era



- Construction sector, by various estimates, employs informal workforce of about 50 million, including large migrant workforce. With migrant labour vacating urban centres during lockdown, the pick-up of supply side activity is heavily contingent upon the speed of labour availability and its distribution.
- This is likely to be the biggest driver as well as delay-factor for post-pandemic production.



Consolidation & Partnerships:

- Strong & disciplined developers with financial wherewithal are most well poised. They can sustain ongoing cash inflow uncertainties leading to fast-tracking of sectoral consolidation.
- Increasing joint ventures to tide the crisis.



Policy Support:

- To aid demand pickup
- Cover for survival: IBC (bankruptcy protection), moratorium for repayments, Force Majeure.



Private Equity Play:

- Increasing PE interest in distressed yet financially viable projects is highly likely. Non-performing & restructuring loans could gain much prominence.



Price & Discounts:

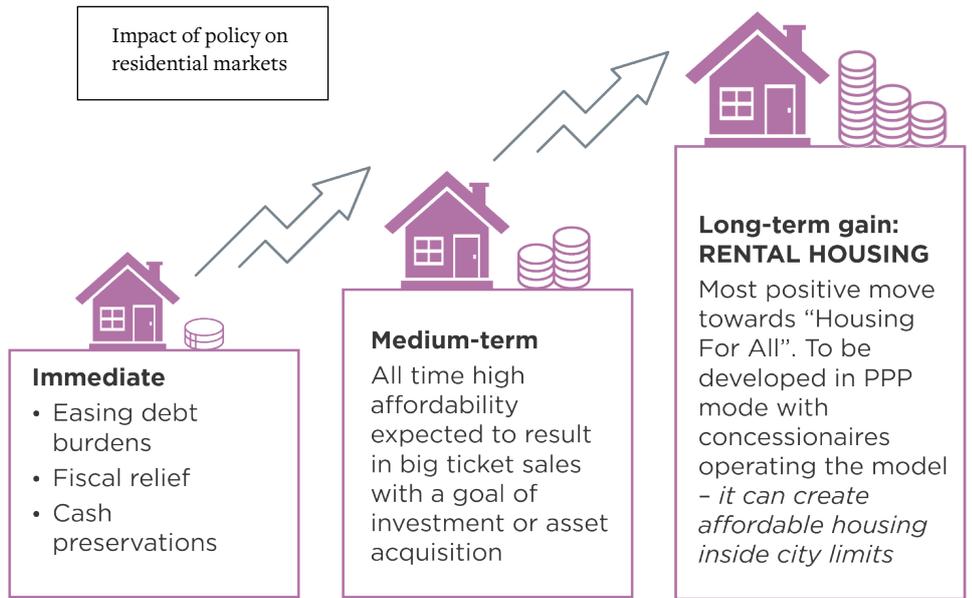
- Developers are expected to push sales of unsold inventory. Discount pricing of ready inventory and offer innovative price schemes for under-construction unsold inventory.



POLICY REFORMS AND PACKAGES

The fourth pillar has a crucial role in empowering the previously mentioned three factors.

- RERA relaxations: 6-month suo-moto extension in timelines for project completion and registration.
- Liquidity packages including policy rate cuts to boost consumer sentiment.
- Improved transmission of benefits by financial institutions.
- INR 10,000 crores (approx. USD 1.3 bn) for refinancing housing finance companies.
- COVID-19 gets included in “Force Majeure” conditions.
- Affordable rental housing scheme for urban poor to be launched.
- Extension of the deadline for affordable housing Credit Linked Subsidy Scheme (CLSS).
- FDI relaxations: 100% FDI in completed RERA registered projects with OCs- under proposal stage.



RESIDENTIAL REVIVAL TIME-SCALE

A SPEED-BUMP

In 2020, a dent in positive y-o-y movement is inevitable – as shown (the dashed line). The dent may last through 2020 and early part of 2021.

The key takeaways include:

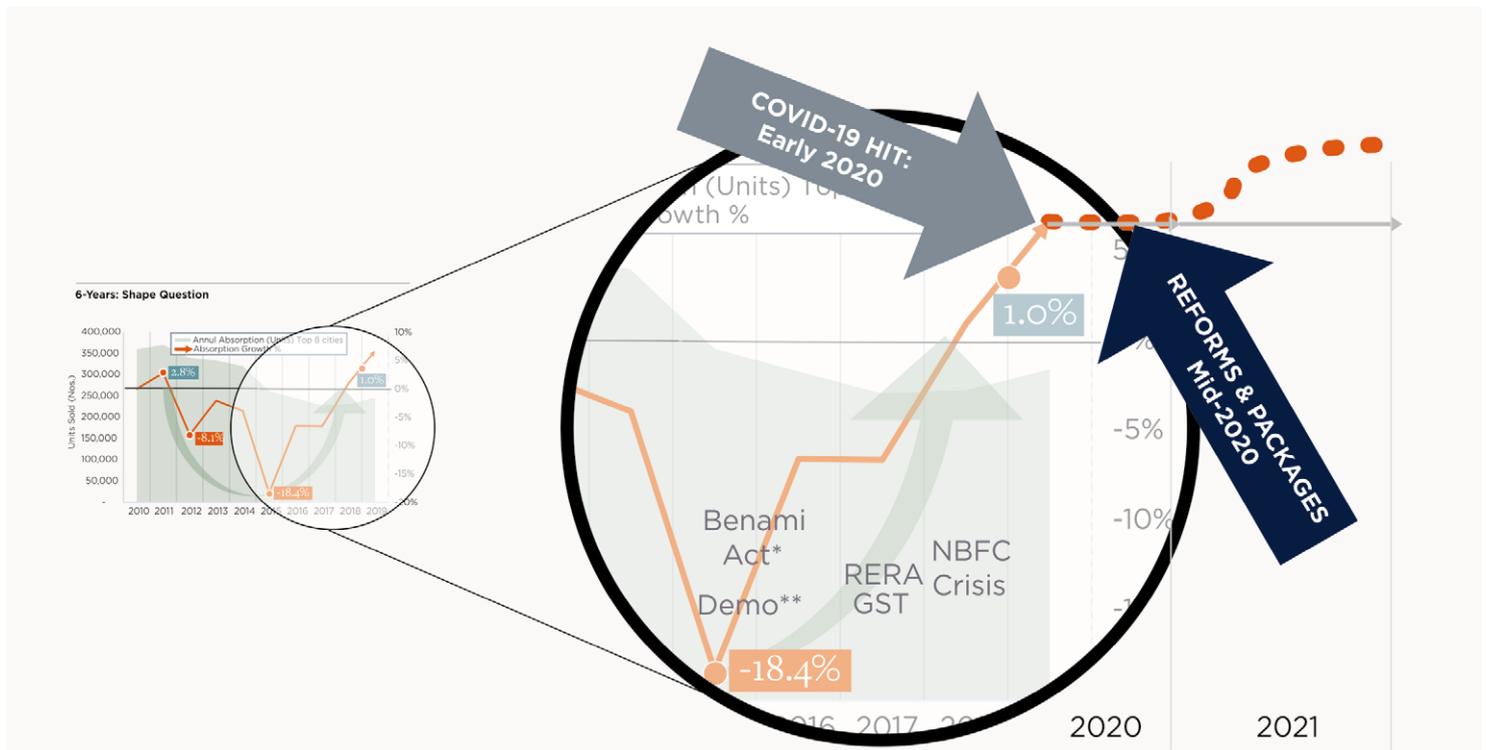
Policy support (section 3.d. of the report) is the most crucial part, especially for projects nearing completion. Longer term projects are likely to remain under stress though.

Transaction market recovery could take time till mid-2021 as per today's estimates. End-user demand has the ability precede investor demand in initial days of recovery (21% end-users vs. 6% investors may return within 12 months).

Demand likely to focus on suburban and extended suburban projects (52% end-users prefer suburbs & another 11% extended suburbs based on our survey). Interestingly, Savills UK predicts similar results from its studies which is seen [here](#).

End-users in top 6 cities are likely to return quicker after pandemic than tier-2 and 3 cities.

Prices will remain under immense pressure, but projects with wellness and smart home themes will be preferred, as indicated by over 50% of end-users as well as investors.



More relief packages may come to rescue in 2020-21.

Reserve Bank of India, on May-22, expected lockdown to impact growth till Q4 2020-21. Accordingly, we think the residential markets may need a similar time-frame.



Afterword

There are two parts to the story...

Indian residential demand remained in wilderness for more than half a decade, beginning its slow return in 2018. It has, unfortunately, been hitting road-bumps consistently ever since, but kept surging. The COVID-19 bump, however, brought it to a standstill in 2020. Unmistakably though, as our initial survey shows, it has the necessary steam to power-up again, although it may ask for 12 months or so. This is the reality as of May 2020.

The second part is about India's migrations. Rural to Urban migration has remained a powerful phenomenon, leading to 34% urbanised population in quick time. It is one of the largest one-way streets in the world in current times.

The viral spread and the resultant lockdown, reversing the migration (if only fleetingly) has provided a clear view of the delicate dependence that construction industry has on this part of population.

As India deals with an unprecedented and

monumental lockdown into "unlock 1.0" through various means including a massive INR 20 lakh crore financial relief package, it is time to step back and analyse the elements of resurgence. This paper, a part of our ongoing series, looks into those elements.

Do check our series on COVID-19 Impact for more.



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