

Impact of Covid-19 Pandemic Crisis on the Real Estate Housing Sector

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ABSTRACT

The purpose of this research paper is to gauge the impact of the on-going pandemic crisis on the Residential Housing Sector in India. The major factors to be considered are labor availability, revenue generation, supply-demand analysis, consumer behavior, impact on the economy, change in construction cost and completion time of project.

The Covid19 pandemic outbreak is expected to affect India's economy adversely. According to a Knight Frank India survey conducted on 16th April 2020, both the residential and commercial real estate sectors are expected to be hit hard in terms of sales and revenues as per 50% of the respondents who filled the survey.

Residential sales in the top seven cities was 45,200 units as compared to 78,510 units in 2019 during first six months of 2020 when compared to the previous year. The new launches also dropped by 42% annually according to Anarock's research during the first half of 2020 when compared to the previous year. Even though few government initiatives have been helpful, there is still a long way to go in terms of providing relief to all the segments of the real estate housing sector.

The residential housing sector which was already facing problems of low demand will find it difficult to launch new projects and complete the ongoing housing projects due to construction work being affected due to migrant workers returning to their hometowns.

Keywords

Residential Housing Sector, Pandemic, COVID-19 outbreak, Construction Cost, Labor shortage, Consumer Behavior

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Introduction

The outbreak of Coronavirus has tremendously impacted and disrupted both the Indian economy and the housing sector. As we all know our economy is still walking on the thin ice, it has been worse hit by these few months of crisis and lockdown. This lockdown which started in the 3rd week of March is one of the most affected and important shutdowns ever in the world.

Major institutions or entities, such as factories, production plants, logistics, have been shut down under lockdown for a reasonable period. Due to these disruptions India has suffered a major reduction in the Gross Domestic Product (GDP). The subsequent extension of the lockdown caused further damage.

Owing to factors such as ongoing economic slowdown, liquidity issues, the Non-Banking Financial Companies (NBFC) crisis, previous policy measures, and reforms such as demonetization and good and service tax (GST), the housing sector and the real estate sector was already struggling over the past few years. Talking about other important issues, such as demand slowdown which has led to reduction in sales of housing units throughout the country.

The coronavirus epidemic has absolutely altered the real estate environment and shaken it up. There have also been several concerns on the supply side of raw materials.

Each of these supply chain disturbances of the critical building raw materials such as cement, steel and many other raw materials, the price will hit the sky and will also open space for these goods to the black market. Such conditions could further raise the price for home buyers in an already

low demand period for the housing units, which in turn would decrease the residential sales count.

The vicious cycle can be seen as a serious danger on the housing sector 's road of revamping and development. Below is the table illustrating few examples of increase in price or challenges in the resource availability in Kasturinar area of Bengaluru.

Resources	Category	Before Lockdown	After Lockdown	Challenges in Availability
Cement	PPC-OPC	365/ bag 375/ bag	395/ bag 410/ bag	Low to Moderate Availability
Steel	Kamdhe nu TMT Steel Bars	46,000/ MT	48,500/ MT	Moderate Availability
Labor	Plumber	Rs. 850/ day	Rs. 1000- 1100 /day	Low availability
	Tiles laying rate (per sq. ft)	Rs. 12- 14/ sq. ft	Rs. 30- 40/ sq. ft	Very Low availability
	Electrician (2bhk flat)	Rs. 22,000/ flat	Rs. 22,000/ flat	Good availability.
	Mason	Rs. 850/day	Rs.1300- 1500/ day	Low Availability

This slowdown in demand for the residential sector has significantly affected housing sales units, delay in project launches and price rise in the residential housing sector in India. It was influenced by the uncertainty generated by the regulatory changes brought about by the Real Estate Regulatory Authority (RERA), Goods and Services Tax (GST), demonetization, Benami Property Act, etc. According to the rating agency Investment Information Credit Rating Agency (ICRA), if the coronavirus epidemic is not controlled at the earliest, it would not only influence the economy but also adversely affect the financial situation for developers in the housing sector and project completion schedules, project execution capabilities, resulting in greater credit negative consequences.

The recent liquidity inflow of 3.74 lakh Crore Indian rupees (by India's Reserve Bank) with the financial institutions' moratorium on most term loans will reduce short-term liquidity concerns and help housing developers, as well as home buyers, to some extent. We may expect delay in completing the projects in the immediate future and thus some assistance can be provided to the group of the builders. The Government of India has also assured developers that, under the Force Majeure provision, they can extend project deadlines by nearly six months if necessary, by the RERA (Real Estate Regulation Act). With the advent of the COVID-19 outbreak, the building work and all the sales activity related to the same had come to a complete halt for a few months and then the operations were slowly functional for the entire real estate industry. Migrant construction workers had been going back to their hometowns and trapped there due to lockout for a substantial period of time in some locations. Also, after the partial lockout has been partially released, relatively few employees have returned to work, and few operations have started slowly, which would in turn lead to a delay of at least 4 to 6 months in project completion.

Another problem with property buyers these days is that they are reluctant or unable to come for site visits, which in turn can result in purchasing decisions being delayed or cancelled. The Indian Real Estate Market is facing a challenging situation. The downturn since the end of February has evidently made site visits for prospective property buyers almost non-existent, and the decision-making process is also greatly impacted. The Reserve Bank of India (RBI) also announced multiple rate cuts that would lower the repo rate to about 4 percent, believing that this will help a prospective property buyer's market activity in the short to medium term. This change is expected to be one of the big support structures for current customers, whose primary challenge may be to pay EMI's in the short or medium term due to the lockout and a lot of job losses in the advent.

Another school of thought is that the pandemic has also made property buyers understand the importance of home ownership and thus give residential real estate sector a good boost to feel. A survey conducted by Housing.com in conjunction with NARECCO (National Real Estate Development Council) reports of which were published on June 17th 2020, 53 percent of respondents said they have kept their plans to buy a residential property on hold for just

six months and expect to continue the search after the crisis subsides. Nearly 33 percent of survey respondents said they wanted to upgrade and renovate their homes due to extended home choice work. Referring to the survey of renters conducted to understand consumer behavior, nearly 47 percent of respondents stated that they would like to invest in a given price, which is within their budget and rightly priced.

According to a new survey conducted by the ANAROCK Consumer Perception Study in May 2020, due to the pandemic outbreak, an attempt has been made to consider the emotional impact on homebuyers. That will shift the viewpoint on how we look at the market dynamics and thus contribute to important developments in the Indian real estate sector coming up. All sectors in India, including the real estate industry, are currently struggling, and working tirelessly to put in innovation, respond to the crisis as well as take strategic business decisions. Through this consumer behavior analysis and understanding the current purchasing trends, the residential housing sector is all set to revamp its growth trajectory and cater parallel to the demand for affordable homes that seems to have shrunk quite a bit for several months now.

The way we look at the current COVID-19 outbreak, it looks as if for different reasons it is most likely to derail and disrupt the expected growth momentum of affordable and non-affordable housing in 2020. It would probably be one of the hardest hit parts of the real estate industry.

With regards to the data concerning affordable housing, during the period approximately 6.1 lakh affordable housing units were under construction in the top 7 cities when the lockdown was announced. That certainly gave the economics of the affordable housing market a major hit.

Research Methodology

My research approach to studying the impact of the immovable property and housing sector during the pandemic outbreak was both primary and secondary research. In order to carry out this research, I chose to get my data from both primary and secondary resources, to understand the current limitations and constraints.

Primary Research

- I was in Bangalore, Karnataka, doing my primary study. I visited around five small-scale residential complexes and interviewed almost 10 executives there to gauge the difficulties they face in terms of cost inflation, related to the rising cost of raw materials for construction. I also asked about the question of labor supply, labor shortages and rising labor costs due to labor shortages, consumer behavior and many others. I interviewed 10 people working at the site. Some of them were plumbers, mason, electricians.

Secondary Research

- My secondary research included many resources, such as various research papers, newspaper articles and websites of the government. I did a thorough review of the data collected and assimilated all the government's recent

legislation and initiatives to revamp the much-suffering real estate and housing market, and the problems compounded by the pandemic outbreak. I have tried to grasp the amount of delays these companies face in project handover because of the external factors that have impacted them.

Through this phase a whole lot of data has been analyzed to understand the various impacts that keep different stakeholders including customers, investors, developers, contractors, government, etc.

All primary and secondary research were performed with an aim to gauge the micro-parameters closely on a real-time basis that changed the dynamics of the current housing market.

While doing my primary and secondary research, the plan was to get a clear understanding of the current mode of operation and the long-term challenges and problems associated with the residential housing sector's emerging trends and present limitations. The various government reforms undertaken are also discussed in detail below to boost and regenerate this sector in the 'Discussions section'

Literature Review

Housing Markets in a Pandemic: Evidence from Historical Outbreaks

In this paper I have tried to explain the impact of various pandemics in the past on the economy and the housing market. The latest COVID-19 epidemic has undeniably brought the globalized world to a standstill affecting the lives of people's lakhs and holding them in their homes in 'lockdown.' Various outbreaks for studying the impact of major epidemics on urban housing markets are discussed here. Most of these outbreaks resulted in high mortality and great disruption to the economy.

Significantly, Amsterdam and Paris already had highly established housing markets, enabling us to monitor mortality and the housing market changes after an epidemic. The emphasis is on a few pandemics such as cholera and plague, since the only two big pandemics we have data about, the smallpox outbreak in the 1870s and the Spanish Flu in 1918, were directly related to wars that have impacted the housing market.

This was noticed, after careful analysis, that after these outbreaks, aggregate house prices dropped by around six percent each year until one year after an epidemic ended. In rent prices, too, a similar pattern was observed, but these declined to about three percent per annum. In addition, transaction level data for Amsterdam has been analyzed to some degree, in order to assess the immediate effect of an outbreak on house prices. Based on annual price trends, it was found that properties sold within six months after an epidemic broke out saw prices dropped by about 13 per cent. It was also examined if areas that were more heavily affected suffered greater price declines than other areas, with reference to cholera outbreaks in Paris in 1832 and 1849. Because disease and its effects were different, the extrapolation of point estimates from past outbreaks to the present was hard. Using the 2003 Hong Kong comparison to a less serious SARS outbreak, Wong (2008) reported a marginally lower fall in house prices of about 1.5 per cent.

With respect to Wong, we are researching several epidemics, which had more serious economic and demographic consequences, while taking into account the rent prices.

Because a large fraction of the population was destroyed by the pandemic outbreaks such as cholera and plague, overall housing demand significantly decreased during these periods.

The decline in the demand for housing may have been attributed to the fact that the epidemics have contributed to substantial declines in wages. We found rent prices dropping in line with that path. However, this response is small both at the aggregate level and at the neighborhood level, with aggregate rent prices declining only about three per cent per year until one to two years after the epidemic. While cholera affected people in all ages and classes, the first cholera epidemic mainly affected the city's central areas, where up to six per cent of the total population died. The working class in those areas lived in a series of narrow streets and overcrowded, unhealthy houses. Only the mostly affected alleys and streets were most affected as opposed to wealthier neighborhoods. This was also observed in the housing values, data showed that in heavily affected areas average house prices and rents were significantly lower.

Surprisingly, in the years of the outbreak plots continued to be sold, and the city also began selling such plots with mortgages, so buyers did not have to pay the full price upfront. Such mortgages were used particularly around outbreak areas. We also noted that the government took some drastic steps due to the pandemic, showing a firm commitment even during epidemics to cater for supply demand match. Beyond housing, the plague outbreaks also made the city focus on improving the urban water infrastructure, which was thought to be one of the main reasons for the plague spread. The fact that these epidemics altered housing demand and supply does not justify the trajectories of rent prices by themselves.

However, a demand-and-supply-based theory cannot explain why property prices over this short period of time fell more than rents, especially particularly in the heavily affected areas. One possibility could have been for investors to become more uncertain about potential housing demand and subsequent rents and that might have lowered property valuation. When all investors had good foresight on rentals or had extrapolated the experience or effect of previous outbreaks, during an epidemic property prices would have fallen by less magnitude than rent prices, as asset prices almost always recovered in due course.

Perhaps these shifts in perceptions can only explain the decline in house prices if investors have been overly cautious and expected demand for housing to continue to fall following the epidemic. While we cannot determine the likelihood of this channel, such pessimistic expectations were unjustified ex-post and if investors were considering previous outbreaks. A second possibility may be for an outbreak to briefly raise discount rates, either by rising interest rates and the premium of housing risk. Fluctuations in interest rates can only explain a small part of the impact when accounting for aggregate interest rates. That also does not explain why prices in heavily affected areas are falling more. This could have been more likely that the occurrence

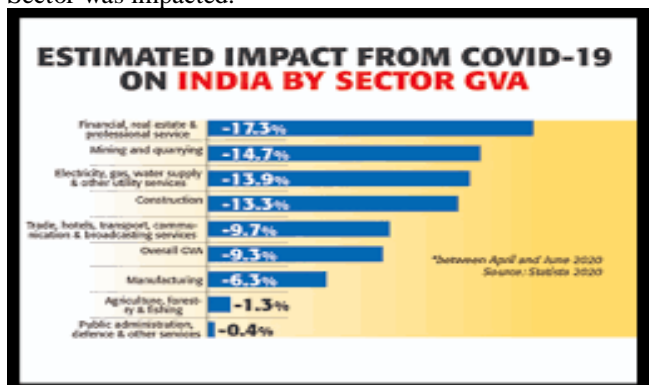
of an epidemic could briefly increase risk aversion and the resulting risk premium, wealth shifts or projected revenue caused by epidemics could have increased risk aversion among people towards the housing market.

The paper primarily records that major epidemics caused significant, though short-lived, decreases in house prices, and lower rent rates. The fall in property prices is the most severe and common shortly after the outbreak of an epidemic, and often in heavily affected regions. While this finding could be explained by different mechanisms, the most plausible explanation for the large-scale and temporary decline in property prices is that epidemics are temporarily increasing housing risk premia due to increased uncertainty and economic disruption.

We may attribute the absence of any long-term impact of major shocks on house prices and rents to the resilience of cities. The outbreaks in both Paris and Amsterdam did not stop a large influx of refugees from arriving in town. It, in effect, had a greater influence on urbanization. The epidemic even proved to be a catalyst for significant urban change in Paris and rent and house prices recovered in a very short time, even in the worst-affected areas.

Discussions & Findings

India's government has taken several steps to revamp the already struggling sector and I have tried to list a few of them below. Such activities could influence all segments of the real estate housing market that were adversely affected during the pandemic outbreak. Such programs will bring positive market improvements which will improve revenue. Below is the figure showing how adversely the Real Estate Sector was impacted.



To boost the real estate and construction market, the Government of India has come up with several initiatives to provide relief to the different segments.

- Government has raised the threshold for the initiation of default proceedings under Insolvency and Bankruptcy Code (IBC) 2016, from one lakh rupee to one crore for real estate developers. It will ensure that any unscrupulous and often inevitable insolvency proceedings against the builders are reviewed while they are already going through a difficult period.

- The central government has also declared that, if the current situation of distress persists beyond six months, it will certainly consider suspending Sections 7,9,10 of the Insolvency and Bankruptcy Code (IBC) where most of these sections refer to the insolvency proceedings.

- On the advent of migrant workers who suffered most as a result of the Covid-19 outbreak, loss of livelihood was one of the major labor concerns, the government announced a grant fund of 31,000 crore for the welfare of these migrant workers, most of whom are locked up in their homes. This fund certainly is not sufficient to bring the crisis back to normal. As per an article published by the Economic Times on April 23rd 2020, the lockdown had impacted around 40 million migrants.

- Following the prolonged lockdown, a further 1,71 crore rupee relief fund was released to mitigate the problems of migrant labor at the construction site prior to lockdown. As per the statistics mentioned in the above point, it certainly seems to be on the lower side.

- The Reserve Bank of India (RBI) has lowered the repo rate (by 75 basis points), the Cash Reserve Ratio (CRR) and the Reverse Repo rate with a view to reducing the borrowing costs for developers or builders in the real estate market.

- Relaxation in terms of repayment of home loans as Equated Monthly Installments (EMIs) would help current buyers manage their expenses and delay payment until the situation changes to normal.

- The Central Government has issued relaxation with regard to other big fillings, such as income tax returns (ITR), Aadhar-Pan connections and many more, which could reduce the enforcement burden.

- Relief is also given by the respective state governments, in conjunction with the central governments. For example, during the loss of their livelihood, the state governments of Maharashtra, Gujarat, Delhi, Uttar Pradesh, etc.) provided compensation to the migrant labors. They have arranged for the migrant workers for important items including food and temporary shelters. The Government of Delhi agreed to pay them the rents at their place of residence.

- The Virtual Application 'AarogyaSetu' also ensured whether migrant workers on site may have been in touch with any successful Coronavirus patient through localization and Bluetooth settings monitoring. It ensured Staff health at the site.

- As we have already addressed, due to the Reserve Bank of India's successful monetary initiatives, the reverse repo rate has been reduced by 25 basis points from 4% to 3.75%. The program would help banks outsource more credit funds.

- In addition to alleviating the financial problems of migrant workers, the Reserve Bank of India has established a one lakh crore rupee funding facility. Half of this fund will be distributed to the National Housing Bank (NHB), the Small Industries Development Bank (SIDBI) and NABARD (National Bank for Rural and Agricultural Development), which is fifty thousand crores (50,000). A further 50,000 crore bunch will be added to Operation Long Term Repo (LTRO).

- The RBI permitted relaxation for institutions such as NBFC's (Non-Banking Financial Companies) on the Date of Commercial Operations (DCCO). This facility was previously only open to the banks. This move was taken mainly with an intention to ease the producers or developers who have taken out loans from these non-bank financial institutions.

- Another successful initiative by the Reserve Bank of India provided for a long 3-month moratorium on all forms of loans, the benefit of which is that it would not be listed as NPA (Non-performing Asset).
- A move that came as a sigh of relief for developers of real estate housing is that the Central Government announced the announcement of a 20-lakh crore fund to revamp the troubled real estate market. As stated by our Finance Minister Mrs. Nirmala Sitaraman, a special window will be created to provide the last le funding for the housing projects which do not fall under NPA (Non Performing Asset) and NCLT (National Company Law Tribunal) category. This scheme is likely to provide a relief to around 3.5 lakh homebuyers as per an article published by the Times of India.
- In order to relieve developers or builders of the strict contractual guidelines that were very difficult to comply with during these difficult times, the Central Government has demanded that all the respective State Governments invoke the 'Force Majeure' clause in the Real Estate Regulation Act (RERA) to extend the scheduled registration and completion of the property houses.
- After a relaxation of the contractual rules, the Central Government agreed to support the financially crunched Non-Banking Financial Companies (NBFC) and Housing Finance Companies (HFC) by releasing an enormous capital inflow of 30,000 crore. This infusion will help to boost the cash flows in the real estate housing market which is one of the NBFCs' biggest borrowers.
- Building contractors may receive a six-month extension incentive to complete existing projects that recognize the current resource and capital constraints.
- Another effective action taken by the Government was to extend the component of the Credit Linked Subsidy Scheme (CLSS) falling under the Pradhan ManthriAwasYojna (PMAY) until March 2021. This in turn will benefit homebuyers in the middle-income segment as well as developers in the real estate sector.

Conclusions and Recommendations

In tough times like these, the economy has been taken on a toll as the world is battling the Pandemic Coronavirus epidemic, the government has taken very important measures to provide relief to the much adverse Real Estate Housing industry. Given the numerous steps taken by the central government and the governments of the respective states, there is still a greater need to introduce effective reforms like reduction in the Stamp Duty, reduction in the GST(Goods and Service Tax) in order to normalize the disrupted housing market. The fact that most day-to-day real estate transactions occurred through cash before the lockdown, the current scenario is going to be a challenge now given the virus severity of the virus outspread. Therefore, our approach to the current problems should be more digital, more progressive and take equal care of the social distancing norms which are the hour's need. According to me greater focus should be put on raising our resource dependence.

Some of the guidelines suggested could be-

1. We should seek to turn to approaches such as localization for resource needs such as labor and raw materials. On a very large scale, skill development has to be carried out if we want to reduce dependency of raw materials on other countries.
2. The real estate offices can switch to having on-the-job digital equipment.
3. Payments or any other type of transactions that be moved entirely to digital platforms.
4. Ensure flexibility and continuous availability in the supply chain and logistics section and improve spontaneity and agility.

In my opinion, these additional steps will significantly help real estate players because there has been a lot of uncertainty on the market due to supply crisis and the logistics and transportation suspension has been severely affected. Also, after the lockout ended, the industry did not return to normal because many migrant labors have not yet returned to work. Thus, if an industry moves towards localizing its resources, such as labor, raw materials, and other commodities, the dependency would be greatly reduced and the impact on the business would also fall.

As already stated, switching from traditional methods to digital mode of operations since the current situation could increase the risk of virus spreading. Although we can basically stop cash transaction entirely, we can at least make digital payments the primary means.

Because a large part of the industry still faces many debt problems, digital transactions can also prevent too much debt dependency. It will save plenty of debt-ridden companies that are now in a financial pinch, while businesses with solid balance sheets will emerge from the recession and stand alone.

The primary advantage of the variable cost model in these difficult times is that it allows the developers more flexibility. These supply chains will help developers get at least the minimum stock for basic functionality while leaving them with no supplies whatsoever.

These would also prevent any party from hoarding of supplies because buying bulk here isn't much of an option. More such measures can be put in place by the central government, the respective state governments and the regulatory bodies that can alleviate all the stakeholders currently suffering. Public and private players should join hands together to maintain the existing state of play.

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