

Investing in Land just isn't Real Estate, It's a State of Mind

written by Siddhartha Karnani | July 16, 2020



Land and Real Estate in 2020

The COVID-19 pandemic outbreak has redefined the 'new normal'. The pandemic has triggered a recession which has pushed the world economy towards a downfall, steeper than the Great Depression of the 1930s. The pandemic has made both short term and long term effects on the world economy. In short-term, globally, the pandemic has slashed the growth prospects of many sectors, while in the long run, the world economy will be left with scars of the scarcity of human resources and a dearth of capital investment. To contain the spread of coronavirus, countries have imposed lockdown which has brought the world economy to a standstill.

All the sectors of the economy have to bear the brunt of the pandemic and even the real estate sector of the Indian economy has not been spared. It is estimated that by the end of the Financial Year 2020-21, real estate sector will be at a loss of Rs.1 Trillion. Real estate sector, which provides support to more than 250 industries, though temporarily, has been crippled with the ongoing pandemic.

The real estate sector is reeling under huge distress, firstly due to demonetization which was followed by the RERA and now the blow of the pandemic, which is going to intensify the situation. The resident section which is the primary component of the Indian real estate growth has experienced considerable setback owing to cash crunch, misuse of Insolvency and Bankruptcy Code, high rates of delayed projects and Non-Performing Assets.

It will be an uphill task for the developers and builders to bring back the migrant labourers from their native place to resume the construction work at stalled project sites. Further, the investor would be hesitant to invest money in real estate due to the fear of losing jobs or pay cuts. Thus, even after the revocation of the lockdown, the real estate sector will see only a gradual recovery.

The current government aims to provide a home to one and all but to achieve that objective, the real estate sector expects incentives from the government which will enable access to cheaper capital finance and higher tax rebates. As the industry experiences consolidation and new business models being adopted; 'a revived' organize residential real estate segment is expected to emerge in the medium to long-term.

Commercial real estate has catered to the need of domestic and foreign corporates. In comparison to developed markets, India has lesser penetration of organized commercial real estate sector which permits further growth. After the coronavirus controversy, many multi-national companies are withdrawing their capital from China and looking for a suitable place to invest. This brings an opportunity for the Indian real estate sector. By exploiting this opportunity, the commercial space landscape in India can be reshaped by allowing developers or investors to apply innovative business models.

After the global financial crisis in 2008, the real estate sector recovered within two years, and a similar trend is expected even after the COVID pandemic. Social distancing being the new norm may lead to an increase in space requirement per employee. Demand for the customized workplace will increase. The flexible workspace will see major headwinds in the coming years. The adoption of technology in space utilization optimization will reshape the commercial scenario in India. In the long run, the commercial real estate sector will see a hike due to a strong foundation of IT companies, stable cash flow and long-term contracts, with domestic market-oriented economic growth.

The measures taken by the Central Government and the Reserve Bank of India (RBI) shall provide a boost to the real estate sector, however, some challenges do remain. Under the Atma Nirbhar Bharat mission, the Finance Minister Mrs. Sitharaman declared the COVID-19 pandemic as a force majeure event under Real Estate (Regulation and Development) Act provisions, and registrations and project completion timelines have also been extended by six months. The government also announced Rs 30,000 crore special liquidity scheme for Non-Banking Finance Companies (NBFCs), Housing Finance Corporation (HFC) micro finance institutions which now carry a guarantee by the Government of India.

As the situation approaches normalization with easing of restrictions and unlock phases across the country the recovery process will see rapid traction, thereby bringing new opportunities. In the fullness of time with staggered revival, the long-term approach for real estate sector in the coming 18–24 months is likely to come out positive.

During the lockdown period, the calamitous impact of the COVID-19 pandemic has led to a significant revolt in disputes between the landlord and tenants, which are primarily arisen due to the inability of the tenants paying legitimate rental dues to the landlords due to the economic slowdown. With this pandemic, fear amongst the people about their rights being unsecured has only aggravated and eventually, the courts will end up hearing to a lot of cases of rent agreement violations as the lockdown has disrupted the real estate rental business. Post pandemic period, both tenants and property owners will secure their rights by redrafting the contracts with the insertion of a force majeure clause.

The aftermath of COVID-19 has affected Land and Real Estate in 2020 by affecting the rental business in a very big way in both Residential and Commercial sectors which is evident with a significant decline in enquiries. It is now time for the landlord and tenants to partner themselves and shift to a variable rental & revenue sharing model which aligns both parties' interests. As the trend gathers pace, real estate developers are extremely anxious that it may severely cramp their ability to exit the Real Estate

Investment Trust (REIT), a company that manages a pool of rent yielding assets and allow to monetise them, more so real estate developers are struggling surprisingly hard to meet overhead expenses with zero revenue. The IT & Financial services sectors which occupy the bulk of top-grade commercial real estate space are now at the forefront of permanently shifting to remote work or work from home for almost 90% of their workforce which will result in vacating in commercial office space thereby affecting the real estate sector indefinitely.

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