

Research Article

Impact Of Covid-19 On Indian Economy: A Study On Problems And Challenges Of Real Estate Business In India

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ABSTRACT

The Covid-19 pandemic has been instinctively caused damage to the entire global economy. The real estate sector which has suffered the most in this pandemic. Up to March 2020, the inventory would take nearly 3.9 years to clear, but the lockdown resulted in drop in demand and to clear the inventory it may require nearly 4.9 years and also the prices brought down very rapidly.

Things are looking depressing for sellers, but it is a golden opportunity for the buyers. Even home loan rates have fallen below 7% which is lowest when compare with the last two decades. in the midst of the world's largest remote working experiment due to the COVID-19 pandemic. This paper deals with the impact of COVID'19 on the real estate business in India. The study reveals that there is an impact on the Indian economy because of this situation. Digitization has taken over and experts believe that will continue to now be the foundation for the real estate sector. In the short term the impact has been roughly about 40 per cent. The Real estate business owners come up with the new ways that the industry needs and also the government has implemented some initiatives to boost the sector.

Key Words: COVID-19, Economy, Real Estate, Digitization.

INTRODUCTION

The real estate sector in India is the second highest employment generator in the country after agriculture which accounts to 6 to 7 per cent of the Nation's economy. By 2025 the sector is expected to account for 13 per cent.

The impact of COVID-19 on the global economy is likened to that of the great depression of 1930s. COVID made things worse for the Real estate sector. Lockdown impacted both residential and commercial sectors which resulted in a sharp drop in demand for property which in turn brought down prices across segments and markets.

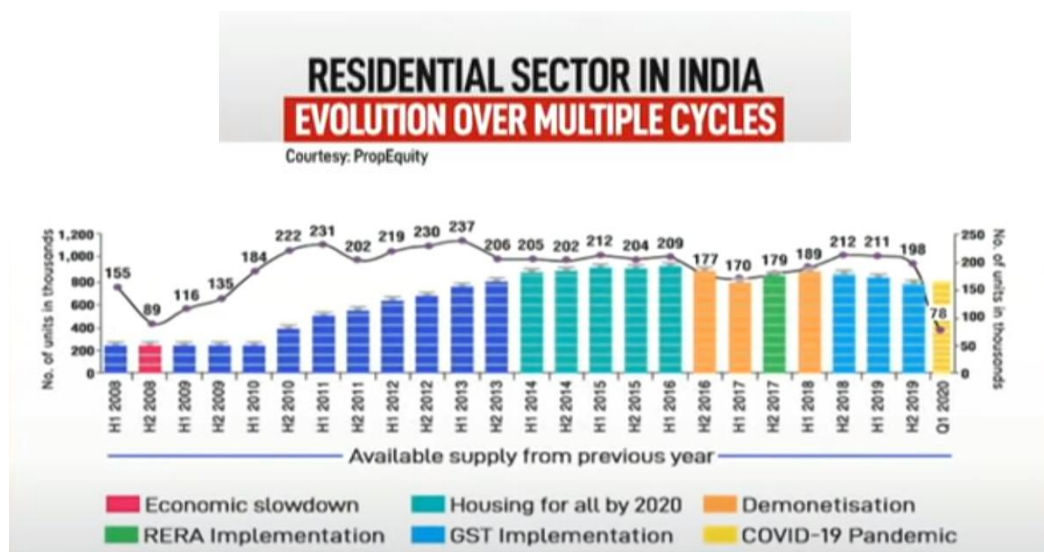
It is estimated that real estate sector would contribute 13% of GDP by the year 2025. But due to broken supply chain and lack of labour, many projects stand unfinished and many completed projects are not seeing many buyers.

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Source: PropEquity, Residential sector in India, a report on financial crisis back in 2008.

This graph shows that the journey of property in residential sector in India. It is much lower than the financial crisis back in 2008. After 2008 the financial crisis we saw higher affordability easier investment help real estate market actually do better. That's why after the crash in 2008 until 2015 we see a search of investors in the real estate market. 2015 most developers unable to deliver on expectations and we see a downfall going there in 2016. Demonitization dense real estate like never before. It hurts the sentiment and we again see a dip over there.

In March 2016, Real Estate (Regulation and Development) Act happens a new law in the real estate sector is floated that streamlines the dealing in the sector and brings in transparency. Then in 2017-18 GST implemented results in a new launches and again we see a little bit of dip over there. In 2020, we all now know covid-19 records the lowest sale in residential property since 2008.

In the last few months there's been a sudden rush of launches by India's top developers offering residential plots also known as plotted developments. Godrej, Mahindra, puravankhra are some of the big names which have announced their upcoming plotted developments in India's top seven cities.

REVIEW OF LITERATURE

- Rakesh Kumar Beniwal, (2020), published an article on Impact of Covid-19 on Real Estate (Mumbai): A Review. This paper explored the impact on the real estate in Mumbai during covid-19 and their consequences on underlying factors of real estate. He reviewed that the market value of real estate has become higher, because the job market was hindered, developers were unable to meet the demand. In Mumbai, however, rents have fallen but have not improved. Prices for expensive properties have plummeted anywhere about 30-40 percent. Mumbai tenants vacate their apartments more frequently than other metropolitanism.
- Jyothi Bhoj (2020), stated her thoughts on Impact of COVID-19 on Real Estate Industry with Reference to India. In her study she identified the industry needs to prepare itself for a much more dreadful effect than recently suspected. With the danger of disease influencing human lives, the Real Estates part is now observing a decrease in property visits and purchaser intrigue. Taking cognizance of the way that buyer needs and opinions are of most extreme significance for an industry to flourish, the organizations should obviously approach with some shrewd answers to gather shopper intrigue.
- Anuj Puri (2021), stated in his article "Economic Impacts on Real Estate - 2020 And 2021", that in 2020 was full of surprises – but, at least for the real estate sector, not all of them were unpleasant. We are now looking at the possibility of a holistic recovery cycle taking hold in 2021 and beyond.

However, we do know that the various pessimistic predictions which were rolled out for the housing sector at the onset of the pandemic were largely unfounded. We have every reason to look to 2021 with real hope and optimism – and with renewed confidence in the strong fundamentals that drive the Indian housing story.

- Shwetha Pai and Venkatesh Panchapagesan (2020) An article was written Indian Real Estate: Challenges and opportunities presented by COVID-19 a survey conducted by IIM Bangalore's Real Estate Research Initiative (RERI) in April/May 2020, this article focus on the challenges of liquidity that has been faced by the real estate sector for last couple of years and government interventions to address this key issue. From their study they found that the government has given a lot of support towards the relief package in order to boost the post lockdown and relief measures for the real estate.
- Tanrıvermis et al. (2020), share their thoughts on the potential effects of the COVID-19 epidemic on the real estate industry, as well as any improvements that could be made. Via quantifying the implications and risks associated with the implementation of the COVID-19 outbreak, development and administrative problems were discussed in this study. the costs and losses caused by pandemics have been identified as an unexpected phenomenon that decreases project development in the property market, property prices, property values, and investment projections for the entire sector.

OBJECTIVES OF THE STUDY

- to evaluate the current and immediate impact of COVID-19 on Indian economy.
- to study about the new ways the industry needs to come up with
- to study the steps taken by the government to boost the sector.

DATA SOURCES

This research article is based on data from secondary sources. Various reports prepared by national and international agencies on COVID-19 pandemic. Information is collected from various authentic websites. Some journals and e-contents relating to impact of COVID-19 on real estate sector are referred.

DISCUSSION

Impact of Covid-19 on Indian Economy

In 2020 we all now know that COVID-19 records the lowest sale in property, residential property since 2008. Now the rental story in India has been more or less subdued because people are not keen on shifting houses for the fear of catching the virus. Also lots of people who were renting in metros earlier for work have now moved back to their family homes to smaller cities. This is a work from home impact. Now that said several people has also regained negotiated their landlords and have ended up stayig if they got in a good deal.

A different story however is playing out in Mumbai. For example where rents of some of the high-end property, luxury properties have fallen up to 25 per cent. And as that happens is their scope for further reduction in price and rentals. Well that's something we'll be exploring on the program as well. Now also another trend that has come up in the real estate story during the COVID crisis has been a lot of conversation in the sector revolving the future.

Is the future digital! Is that manageable! Is that even practical!

Digitization has taken over and experts believe that will continue to now be the foundation for the real estate sector. While digital bookings for the real estate sector are already on the rise, virtual site visits, interactions with developers online will also see a huge uptick. Webinars and digital registration methods as well as payment methods are now likely to continue to thrive in the future as well.

For example, existing applications like DocuSign (Electronic Signature app) and dot loop (real estate transaction management app) are already allowing real estate professional to sign and send contracts and their documents on their phone. So, these applications are expected to continuously grow in popularity

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as investors search for ways to conduct deals on the go. Virtual reality will influence the real estate world in the coming years.

While investors may be familiar with the idea of 3D walkthroughs and 360-degree pictures. These resources are expected to increase in popularity. Experts also feel the need for space and the requirement of comfort is now going to be redefined for life. It seems to be the sentiment at this point.

Expectations in the times ahead long term and short term:

In the short term the real estate market has come down in terms of absorption by about 40 odd per cent and it came down to absolute zero in april and may when the lockdown happened. But after that it steadily started to pick up again and as what was rightly said was that the digital applications are going through quite well. Although there is a lot of token advances that are being taken right now and howmany will rectify into real sales is a question mark.

This is probably one of the best times to buy because one was not expecting that the real estate had bottomed out. But that didn't happen COVID took it to a new low and now once the market starts to come back the opportunity of buying at really low prices or really good discounts will not be there anymore.

Is the worst is behind us:

The green shoots are already there on the ground so we have had extremely good sale and this benefit has compounded because the migrant labours have returned and interest rates have remained subdued at 6.9 per cent and of course there's a 3 per cent subvention in the case of affordable housing. Banks are ready to lend, which was little hesitant in the months of april and may because they weren't very sure as to what the situation was.

The real estate business owners also see that the state governments has reduced the stamp duty rate from transactions while centre has lowered GST rate. So there was a huge spurts of sales taking place. Definitely all this is taking a compund to do it.

But the markets turning completely and there are a green shoot signs that it will improve further as the season comes about. So we will see housing starts in 2021. This will also add a thing into it where people will start buying it.

Is this the best time then to invest or should they wait out

For an investor it's not the best time to invest in real estate business. For an end user it is the best time , residential becomes a social security subject and frankly we all have been surprised with the positive movement that has happened. If you are an enduser and you are really looking to move into a ready to move in or any project which is between 6 to 9 months of completion you will have to be quick because the inventory is going out very fast.

But what we are finding very interesting is that prior to the pandemic the age profile of the home buyer was in the age bracket of late 30s early 40s on an average. It is dramatically come down to early 30s. So clearly there are a lot of these youngsters who were renting are now moving towards buying whether their parents are forcing or whether their houses are forcing or whether they have just realised that it's better to have their own property. Untold even in many cities like Pune and Bangalore the society has differentiated between those who were renting versus those who were owners.

What is the industry trend at the moment

There may be a shift from let's say 20-25 per cent of the people working who are today working in the offices to permanently work from home which is not bad for real estate. Because ultimately the residential will grow proportionately.

But we have a contrarian view from Wipro. Wipro has given an analysis that the efficiency of the work done by people staying at home is less than 50 per cent of what they were doing in the offices. If that is the correct interpretation of that then the work from home is going to be very very limited to those people where efficiencies can be monitored.

Also we see some demand from NRIs who want to create some sort of safe heaven for themselves back home. We see a demand for a slightly larger house people probably are working from home. So they want an extra room or a half room which we can convert to their study and work from home. In september, 2020 sales have been fantastic there was a lot of inquiry for the last 3-4 months. But the conversions weren't happening.

Will the commercial property rates going up

Well we have seen top companies across the world even in India. For example extending work from home till late 2021 an in fact several companies including google etc have talked about a permanent shift it also saves them a lot of money. It will improve the sales of residential apartments having larger flats sold extra rooms to be given to people of people upgrading their homes. so from that perspective it's wonderful for real estate.

For the coming months commercial is going to remain subdued and new commercial starts will not take place and this is exactly what happened in 2008 and 2009. Commercial real estate was not started because of the limited crisis the world financial crisis and in the next two years the supply of commercial got limited. This is exactly what is happening now and people are hesitant to start new commercial premises.

THE NEW WAYS THE REAL ESTATE INDUSTRY NEEDS TO COME UP WITH

To boost the sector the real estate business owners has to adopt different strategies. During this pandemic through out India the owners of the business used the following strategies.

Virtual site tours

During Pandemic many people have become quite conscious about going outdoors – especially to visit new places – the real estate companies have begun leveraging technology to conduct virtual site visits instead of physical ones. From using pre-recorded videos of the site to using drone technology to give a live view of the property, they're employing different technologies available to them to facilitate site visits without people actually having to visit the site. The drone technology has already been quite popular in western countries and it appears that post-Covid, it will become a thing in India as well.

Mechanizing construction

Lack of labor has been a major factor that has resulted in severe losses for several Indian real estate companies. Since the lockdown was declared, the migrant laborers returned to their native places, due to which, the projects had to be put on hold. To combat the issue, many companies are trying to replace the need for manual labor by introducing machinery. Technologies like robotics and cognitive automation would reduce the need for manual labor and significantly improve productivity and operational efficiency. The projects, thus, can be completed quickly and more efficiently.

Leveraging new opportunities

One big change that the pandemic has brought about is the acceptance of the work-from-home model as a viable work model. It has, in fact, worked so well that many companies have already declared that they would be following the model even after the pandemic subsides. This means that a large number of people would now be permanently working from home. When such people go out looking for properties, they wouldn't want traditional houses, but houses that have a dedicated office space. The real estate companies are beginning to identify this opportunity and many construction projects have already begun where the houses are being constructed with dedicated office spaces to help people conduct their business from the comfort and safety of their homes.

Machine learning (ML) and Artificial Intelligence (AI) to make buying and selling more efficient

Machine Learning and Artificial Intelligence are two technologies that are disrupting each and every industry and they're going to play a major role in determining the position of the realty sector in the near future. With the help of these technologies, the real estate companies are seeking to make the buying and selling process more efficient.

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These technologies can help determine the customer's value; they can help in planning earlier closing cycles; they can also help predict an oncoming market bubble. Also, these technologies can accurately define the value of the property in terms of capital. This would reduce hassle over the property prices by a great deal.

Attracting NRIs

While the slowdown in the economy has been overall detrimental, it has also created a window of opportunity for the real estate sector. Since the Rupee has become weaker as compared to the dollar, the NRIs have now begun to show interest in properties in India. After all, India is their homeland, and every Indian – whether or not they're living in India – want a property to their name. The rupee getting weaker has encouraged the NRIs to invest in Indian real estate and it's a win-win situation for both the NRIs and the Indian real estate. The NRIs can get a property in their home country at relatively lower prices, and the real estate sector would benefit from the influx of liquidity – especially in light of the fact that how dire the liquidity crisis has been for the past few months.

STEPS TAKEN BY THE GOVERNMENT TO BOOST THE SECTOR:

Steps taken by Central Government:

The government of India has given a massive relief package in order to boost the economy post the lockdown.

- Increase liquidity in the system by lowering interest rates to improve long term funding requirements of NBFCs (Non-Banking Financial Companies) and HCFs, moratorium on all term loans for a period of 6 months and on-time loan restructuring.
- Planning to construct national highways further to ease business across cities and improve the Nation's GDP as much as possible.
- Investing heavily in projects such as the expansion of airports in smaller cities, the extension of metro rail services and the development of smart cities across India.
- Proposed a positive annual budget for 2021-22 to improve economic efficacy and aid infrastructure growth.
- Initiatives such as Atmanirbhar Bharat are expected to aid the recovery of commercial real estate.
- Compliance under RERA (Real Estate Regulation and Development Act, 2016) and IBC (Insolvency and Bankruptcy code, 2016).
- Reduction in TDS on sale of property by 25% and extension for filing GST & IT.

These steps may lead to the accomplishment of government mission of providing housing to all by 2022.

Steps taken by State Governments:

Various state governments have taken different measures to boost the real estate sector in India in order to boost the economy post the lockdown.

- Reduction in taxes to boost housing demand from 5% to 3% by Karnataka where properties value is less than 35 Lakh and 2% on properties value less than 20 Lakh.
- Reduce registration stamp duty from 7.5% to 2% by Andhra Pradesh Government to help the real estate sector which is reeling under the impact of covid.
- Tamil Nadu Real Estate Regulatory Authority issued a circular whereby it extended the validity of real estate project registrations on account of the Covid 19 pandemic.
- Delhi Government decided to reduce the circle rates by 20% for residential, commercial and industrial properties across all categories of localities.
- Gujarat government is contemplating to make key changes in its town planning and urban development regime to boost the real estate sector. Both RERA and the Hasmukh Adhia led committee had proposed were removal of agriculture zoning from municipal corporation limits in development plans so that more space could be made available for residential purposes, shifting of polluting industries out of congested areas and developing an exchange mechanism for

transferable development rights (TDR) equal to prevailing 'jantri' rates for facilitating rehabilitation schemes in cities with dense slums.

- Maharashtra Government has decided to reduce stamp duty, ready reckoner rates along with decade-low home loan rates of 6.9% and reduction in premiums by 50% in Mumbai to revive the state's economy and developers who have been battered by the pandemic.
- West Bengal Government proposed to reduce the rate of stamp duty by two per cent from the present rate of six per cent in urban and five per cent in rural (property value of more than Rs 1 crore attracts an additional one per cent). The relief was being granted for registration of deeds affecting sale/lease of land/house/flat.

CONCLUSION

The COVID-19 pandemic will undoubtedly change the way we live and work for the foreseeable future, and new trends will emerge that will become part of our 'new normal.'

In the short term, buyers have less reason to buy if it is unclear when they will get to visit the property. In the long term, the virus could temporarily lose sales if the problems continue. However, Indian developers are confident that viruses may not have a major impact on the domestic real estate market but high-end luxury real estate. Real estate projects which were about to complete and near possession date are definitely going to be delayed as the supply of the fixtures and fittings used in luxury housing projects in India. Apart from that, there were no alternative sourcing options for the furniture, fixtures, and fittings. Yet, we predict slower decision-making in 2020, which could force capital distribution in India.

With the support from the Government and RBI the real estate sector crawled back to recovery. Now instead of apartment culture the companies are concentrating on plotted development. It is not something new there were developers (unbranded) who would launch plotted development and would really sell well. These plots were traditionally on the outskirts of cities. Now branded developers get in and add value to these developments in terms of amenities, in the finishes the infrastructure. This excites prospective buyers because the underlying asset here.

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