



Infomerics Ratings

# Infomerics Valuation And Rating Pvt. Ltd.

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## INDUSTRY OUTLOOK

### REAL ESTATE INDUSTRY: OUTLOOK AND CHALLENGES

17 November 2021

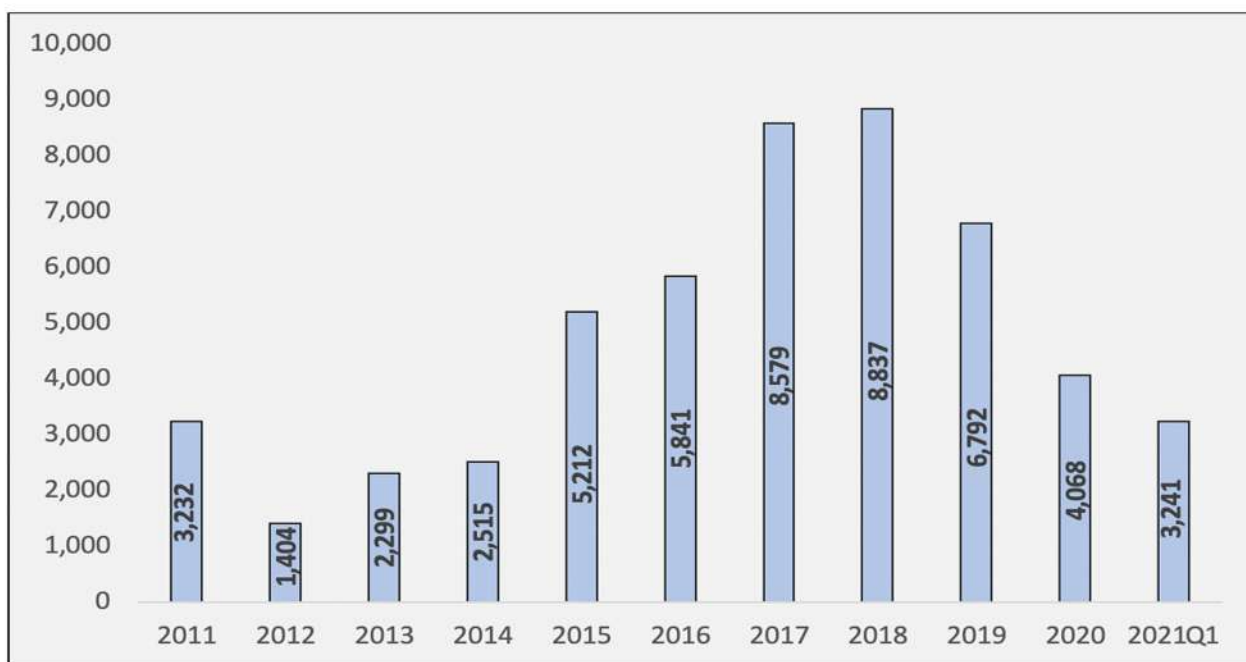
## Introduction

The Indian Real Estate industry is currently valued at \$200 billion, and it is expected to surge to \$650 billion by 2025 and further to \$1 trillion by 2030. It provided employment to 5.5 crore people in 2019. The employment in the sector, however, took a severe drubbing because of the debilitating hit caused by the COVID pandemic due to the severe contraction of the output and income. With ebbing pandemic the industry is witnessing a resurge in demand with the resumption of halted government projects providing a boost. [1]

The private equity (PE) investment which declined due to Covid-19 pandemic, is gradually rebounding, as the following figure (see Figure 1 below) for first quarter of 2021 reveals that \$3,241 million has already been invested this year which is roughly three-fourth of the total amount for 2020 and roughly half of the total amount invested in 2019. The total investments for 2021 are likely to surpass the 2019 levels and in fact reach the pre-COVID 19 levels of 2017 and 2018.



**Figure 1: Private Equity Investments in Real Estate (\$ million)**



Source: Investments in Real Estate, Knight Frank.

Available at <https://www.knightfrank.co.in/research/investments-in-real-estate-investment-in-real-estate-2021-7964.aspx?search-id=71ed86c4-5844-4d8b-a226-81fe29584c8f&report-id=2208&rank=11>

An analysis of the Indian real estate industry shows that the nature and composition of investment has changed discernibly over the years. The commercial segment has experienced reasonably higher share in investment from 25 per cent to 62 per cent during 2015-2020 whereas the residential segment has seen a decline in its investment share from 61 per cent to 2 per cent during the same period (see Table 1 below). The commercial segment which is relatively a more formal segment (with big players involved) has seen an influx of investment. Among dominant markets, Bengaluru, Chennai, and the National Capital Region (NCR) recorded largest recovery in the September 2021 quarter. The Information Technology (IT) remains the largest consumer of space during the quarter, occupying 34 per cent of the space transacted. [2] But with the work from home (WFH) model gaining steam, there have been some concerns that there may be a paradigm shift in the business model of the IT sector with some proportion of employees gradually shifting to a WFH mode because of the considerable saving in terms of the expenses on the real estate and infrastructure costs, such as, electricity and security, saving on commuting time and a much better work-life balance.

**Table 1: Share of Investments in Real Estate Sector as per Segment (%)**

Year	Segment			
	Residential	Commercial	Mixed	Others
2015	61%	25%	11%	3%
2016	56%	38%	3%	3%
2017	30%	61%	5%	3%
2018	23%	60%	9%	8%
2019	11%	72%	6%	11%
2020	2%	62%	26%	10%

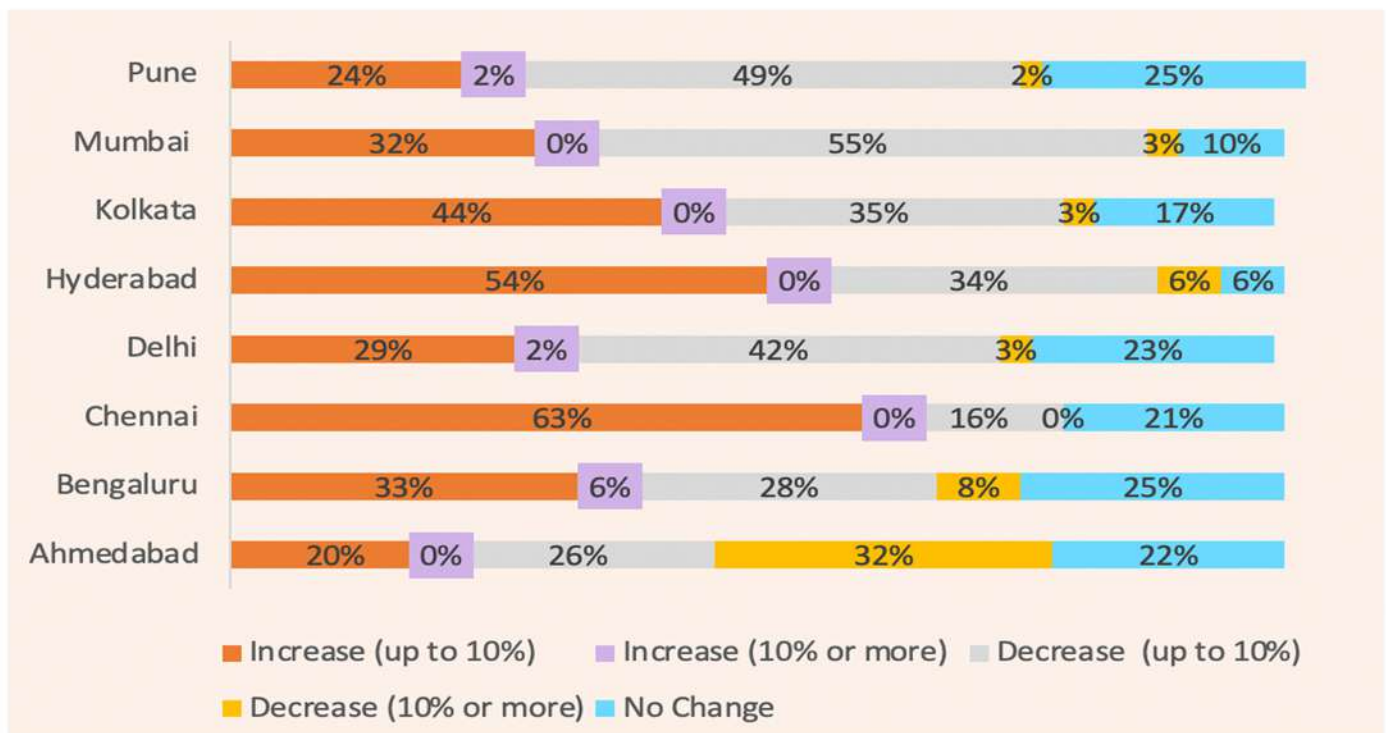
Source: The Indian Real Estate Market Through the Lens of Housing Price Index (2021), Housing.com, Indian School of Business (ISB), and National Real Estate Development Council (NAREDCO). Available at [http://www.naredco.in/notification/pdfs/housing\\_price\\_index\\_hpi\\_indian\\_real\\_estate\\_market\\_through\\_the\\_lens\\_of\\_hpi\\_MB0zUBZ.pdf](http://www.naredco.in/notification/pdfs/housing_price_index_hpi_indian_real_estate_market_through_the_lens_of_hpi_MB0zUBZ.pdf)

## Residential Segment Outlook

The pandemic virtually stalled the real estate industry along with tourism and hospitality industry where, across the segment, demand slumped, and people adopted to new working models like 'work from home'. In view thereof, it becomes crucial to examine the impact of COVID 19 on consumers' choice and their spending capacity.

The Covid-19 pandemic has transformed the spending propensity behaviour. The spending propensity for mainstream India [3] varied across the Indian cities. For example, 54 per cent people in Hyderabad registered an increase (of up to 10 per cent) in their spending propensity against Ahmedabad where only 20 per cent people saw such an increase. Similarly, 28 per cent people in Bengaluru registered a decrease (of up to 10 per cent) in their spending propensity against Mumbai where 55 per cent people saw such a decrease. More such figures are presented in the Figure (Figure 2) below.

**Figure 2: Spending Propensity across Cities**



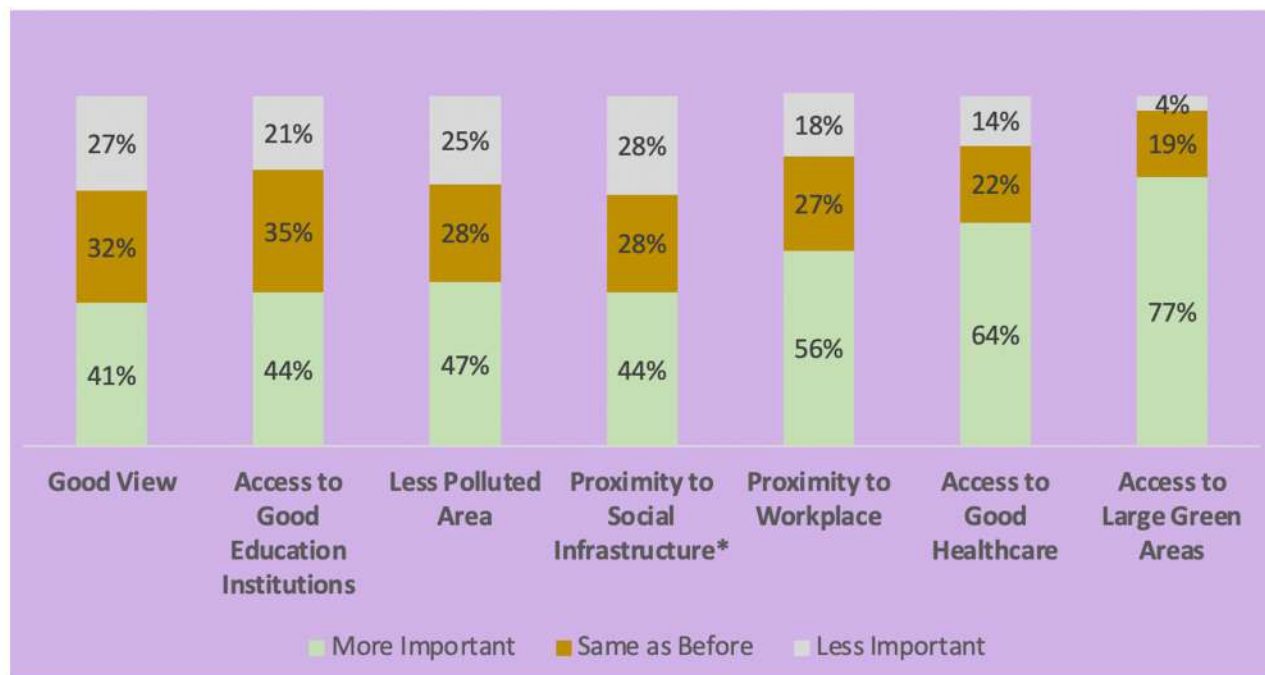
Source: India Buyer Survey 2021, Knight Frank. Available at <https://www.knightfrank.co.in/research/india-buyers-survey-2021-8384.aspx?search-id=131c89fd-408f-4772-acb2-db2a438d6f44&report-id=2302&rank=4>

A disaggregated analysis and an understanding of the purchasing preferences of buyers reveals that over 80 per cent of the prospective homebuyers are looking to purchase a house within the next three months. [4] The determinant parameters show that 'access to large green areas' is important to more than three-fourth of the people and 'access to good healthcare' is important to roughly two-third of the people.

However, 'less polluted area' was a less important feature for a quarter of the people (see Figure 3 below). Hence, it is crucial that the preferences of the buyers are effectively addressed.



**Figure 3: Desired Features for Buyers of Mainstream Indian**



Note – Social Infrastructure includes restaurants, bars, retail, and cultural amenities.

Source: India Buyer Survey 2021, Knight Frank. Available at <https://www.knightfrank.co.in/research/india-buyers-survey-2021-8384.aspx?search-id=131c89fd-408f-4772-acb2-db2a438d6f44&report-id=2302&rank=4>

## Office/Commercial Segment Outlook

The table below (Table 2) gives the details of the leasing activity in top tier cities of India. All cities, except Hyderabad witnessed an increase in leasing activity in Q2 2021 as against Q1 2021 due to the COVID pandemic. However, when compared with Q2 2020, the results were positive. This is because of the low base effect of 2020. Office segment performed relatively better during the second wave impacted in Q2 2021 as compared to the first wave seen in Q2 2020. Transactions across the major markets increased by 39% year-on-year (yoy) in the latest quarter. Overall, in H1 2021, transactions were down by 29% yoy when compared to pre pandemic levels. [5]

**Table 2: Gross Office Leasing (in msf)\* in Major Cities**

City	Q2 2020	Q1 2021	Q2 2021
Mumbai	1.06	2.96	1.45
Delhi NCR	0.89	2.05	1.77
Bengaluru	1.86	2.45	1.06
Chennai	0.65	1.57	1.05
Pune	0.09	1.15	0.76
Hyderabad	1.62	1.56	3.33
Kolkata	0.16	0.19	0.07

\*Note – million sq. ft. Source: India Office Market Q2 2021, Cushman and Wakefield

Despite the market uncertainty due to the ravages of the COVID 19 pandemic, the Indian office outlook remains bright due to strong fundamentals and investment attractiveness, which has gained momentum during the COVID times due to reduced prices and the availability of greater options. Moreover, with increased vaccination, people are likely to return to office given the backlog nitty-gritty of working from home model.

## Institutional Initiatives

People across segments unequivocally maintain that real estate is one of the hardest hit industries requiring institutional support to shore up growth in an industry, which has huge multiplier effects on the broader macro-economy. Accordingly both the government and other industrial bodies have been keenly supporting the industry. Some of the recent initiatives taken are given below:

### Real Estate Investment Trust (REIT)

On 30th July 2021, the Securities and Exchange Board of India (SEBI) lowered the minimum application value for Real Estate Investment Trusts from ₹50,000 (US\$ 685.28) to ₹10,000 -15,000 (US\$ 137.06 – US\$ 205.59) to make the market more accessible to small and retail investors. [6]



### National Infrastructure Pipeline

Capital expenditure (Capex) of ₹5,43,559 crore is designated to be provided by the Centre and States combined under the “National Infrastructure Pipeline (NIP) over the period 2020-25” under affordable housing. This makes the share (out of ₹19,19,267 crore allocated to the broad head ‘Urban Sector’) of affordable housing about 28 per cent,[7] aimed at providing a boost to the real estate sector.

Additionally, under Union Budget 2021-22, tax deduction up to ₹1.5 lakh (US\$ 2069.89) on interest on housing loan, and tax holiday for affordable housing projects have been extended until the end of fiscal 2021-22. [8]

## Home Loan

The interest rates on home loans (October 2021) are likely to act as an incentive for prospective buyers. The table below (Table 3) lists the interest rates by various banks and housing finance companies.

**Table 3: Interest Rates on Home Loans (%) [22 October 2021]**

Banks/HFCs	Under ₹30 lakh	₹30 to ₹75 lakh	₹75 lakh above
Axis Bank	6.75-7.20	6.75-7.20	6.75-7.20
Bank of Baroda	6.5-7.85	6.5-7.85	6.5-7.85
Bank of India	6.85-8.35	6.85-8.35	6.85-8.35
Bank of Maharashtra	6.90-8.40	6.90-8.40	6.90-8.40
Canara Bank	6.9-8.9	6.9-8.9	6.9-8.9
Central Bank	6.85-7.30	6.85-7.30	6.85-7.30
DBS Bank	≤7.7	≤7.7	≤7.7
Federal Bank	7.65- 7.70	7.65- 7.75	7.70- 7.80
HDFC Bank	6.75-7.50	6.75-7.75	7.00-7.85
ICICI Bank	6.70-7.30	6.70-7.45	6.70-7.55
Indian Bank	6.80-7.30	6.80-7.30	6.80-7.40
IOB	7.05	7.05-7.15	7.15-7.3
IDBI Bank	6.75-9.90	6.75-9.90	6.75-9.90
J&K Bank	7.2-7.3	7.2-7.3	7.3-7.6
Karnataka Bank	7.5-8.75	7.5-8.75	7.5-8.85
Karur Vysya Bank	7.15-9.35	7.15-9.35	7.15-9.35
Punjab National Bank	6.55-7.35	6.55-7.50	6.55-7.60
Punjab & Sind Bank	6.65-7.35	6.65-7.35	6.65-7.35
State Bank of India	6.70 – 7.15	6.70 – 6.90	6.70 – 6.90
South Indian Bank	7.25-10	7.25-10	7.25-10
Tamilnad Mercantile Bank	8.25	8.25	8.25
UCO Bank	6.90-7.25	6.90-7.25	6.90-7.25
Union Bank of India	6.8-7.35	6.8-7.4	6.9-7.4

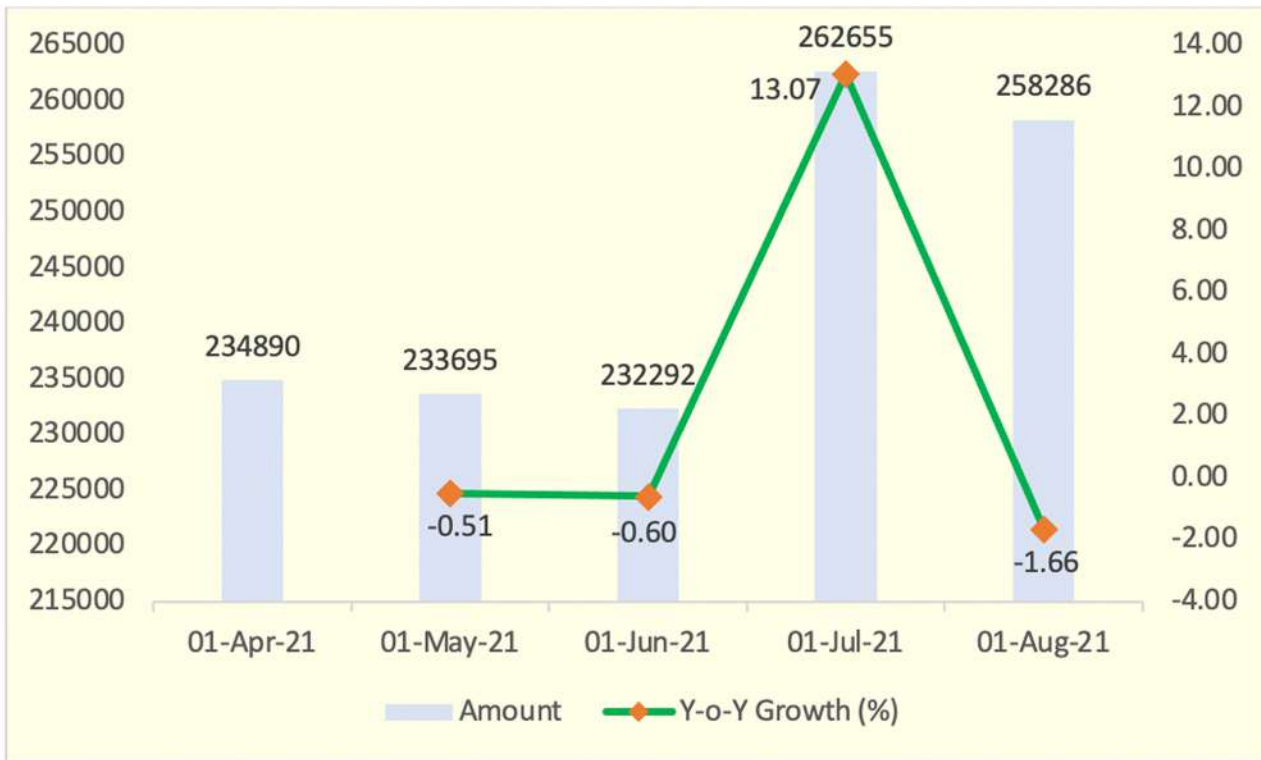


<b>Housing Finance Companies (HFCs)</b>			
Dewan Housing	≥8.75	≥8.75	≥8.75
Tata Capital	≥6.7	≥6.7	≥6.7
PNB Housing	7.20- 8.75	7.20- 8.90	7.40- 8.90
Central Bank Housing	9.95-11.15	9.95-11.15	9.95-11.15
HDFC Ltd	6.70-7.65	6.70-7.90	6.70-8.0
India Bulls Housing Fin	≥8.65	≥8.65	≥8.65
Aditya Birla Housing Fin	9-12.5	9-12.5	9-12.5
Bajaj Finserv	6.70-14.00	6.70-14.00	6.70-14.00
GIC Housing Finance Ltd.	≥7.90	≥7.90	≥7.90
Reliance Home Finance	9.75-13	9.75-13	9.75-11
Sundaram Home Finance Ltd.	≥7.85	≥7.85	≥7.85
Piramal Capital & Housing Finance	≥10.50	≥10.50	≥10.50
LIC Housing Finance Ltd.	6.66-7.60	6.66-7.80	6.9-7.90

Source: The HinduBusinessLine (22nd October 2021). Available at <https://www.thehindubusinessline.com/money-and-banking/article26652493.ece>

It is interesting to note from the following Figure 4, that during April'21-June'21, the bank credit to commercial real estate remained quite subdued largely due the second wave shock arising out of the Covid-19 pandemic. There was, however, a sharp jump of the bank credit from June'21 to July'21, followed by a decline again in August'21.

**Figure 4: Bank Credit to Commercial Real Estate (₹ crore)**



Source: Database on Indian Economy, RBI. Available at <https://dbie.rbi.org.in/BOE/OpenDocument/1608101729/OpenDocument/opendoc/openDocument.faces?logonSuccessful=true&shareId=2>

## Industry Risk/Challenges



For constructors, the projects delayed due to COVID19 turned caused a problem in buying and selling. Further, they have been facing labour shortages due to reverse migration. However, with the ebbing of the pandemic, the industry is likely to gain traction. The housing price index showed [9] that the 'price index' has been increasing despite the proliferation of the COVID pandemic and it was above 110 during the first wave. However, the 'quantity index' plummeted to less than 30 during the same period. [10] If this undesirable trend continues, then even reducing the home loan interest rates would not be quite effective. Amidst Covid-19 pandemic uncertainty, investors stayed away due to the uncertainties in the property market. In 2019, around ₹1.59 trillion worth of luxury housing stock was unsold (which was around 34% of the total unsold homes across top residential markets. [11]



## The Way Forward

Post-pandemic, the real estate industry has been witnessing drastic change over the past two years. While the COVID induced 'work from home' model reduced the demand for commercial spaces, it increased the demand for residential spaces. However, commercial investments augur well, given the scope of business activity in India. Moreover, about 88 crore people are expected to live in urban areas in India by 2051 as against the current 46 crore people.[12] Therefore, this is likely to increase the demand for residential segment along with urban housing schemes by the government which would be salubrious for the industry.

Factors driving the growth of the real estate industry in India include low interest rates, favourable government policies, revised circle rates in Delhi, more ready-to-live projects etc. Rising demand for all segments augur well as property is considered to be one of the conventional and safe ways for investments. According to a survey,[13] more than 58 per cent people consider property as a mode of investment. Therefore, as the pandemic recedes and the economic growth gains momentum, the prospects for real estate are likely to get an upswing.

## ENDNOTES

1. "Indian Real Estate Sector to add \$800 Billion by 2030", Financial Express (22nd July 2021). Available at <https://www.financialexpress.com/industry/indian-real-estate-sector-to-add-800-billion-by-2030/2295160/> and Real Estate (Aug'2021), India Brand Equity Foundation. Available at <https://www.ibef.org/industry/real-estate-india.aspx>
2. "Brick by brick, Indian real estate market is climbing out of the Covid hole"(5 October 2021) Economic Times, <https://economictimes.indiatimes.com/industry/services/property/-/construction/brick-by-brick-indian-real-estate-market-is-climbing-out-of-the-covid-hole/articleshow/86769925.cms?from=mdr>
3. Mainstream India, as defined by Knight Frank, can be broadly termed as the middle-class Indian consumers/buyers. Likewise, the report also classified Global Indian Segment as the upper or elite class segment. Since mainstream segment gives a more realistic picture of the market, we focus on it more.
4. JLL Homebuyer Preference Survey September 2021. Available at <https://www.jll.co.in/en/trends-and-insights/research/homebuyer-preference-survey-2021>
5. "India Real Estate Office market – 2021"[Jan-June'21]Knight Frank; <https://www.knightfrank.co.in/research/india-real-estate-office-market-2021-8309.aspx?search-id=8db98495-2fb5-476f-b401-16e482c3219f&report-id=2283&rank=6>
6. Securities And Exchange Board of India (Real Estate Investment Trusts) (Amendment) Regulations, 2021 (30th July 2021); Point no-3; [https://www.sebi.gov.in/legal/regulations/jul-2021/securities-and-exchange-board-of-india-real-estate-investment-trusts-amendment-regulations-2021\\_51549.html](https://www.sebi.gov.in/legal/regulations/jul-2021/securities-and-exchange-board-of-india-real-estate-investment-trusts-amendment-regulations-2021_51549.html)
7. National Infrastructure Pipeline NIP Vol.2&3-B.
8. Real Estate (August 2021), India Brand Equity Foundation. Available at <https://www.ibef.org/industry/real-estate-india.aspx>
9. The Indian Real Estate Market Through the Lens of Housing Price Index (2021), Housing.com, Indian School of Business (ISB), and National Real Estate Development Council (NAREDCO). Available at [http://www.naredco.in/notification/pdfs/housing\\_price\\_index\\_hpi\\_indian\\_real\\_estate\\_market\\_through\\_the\\_lens\\_of\\_hpi\\_MB0zUBZ.pdf](http://www.naredco.in/notification/pdfs/housing_price_index_hpi_indian_real_estate_market_through_the_lens_of_hpi_MB0zUBZ.pdf)
10. Considering base value 100 for 2017, the price index remained above 112 in 2021 while quantity index remained below 90.
11. "Why Luxe Realty Scripted a Comeback"(27.10.2021) Livemint.
12. "Indian Real Estate Sector to add \$800 Billion by 2030", Financial Express (22nd July 2021). Available at <https://www.financialexpress.com/industry/indian-real-estate-sector-to-add-800-billion-by-2030/2295160/>
13. "8.5% respondents prefer real estate as a mode of investment in the future: Survey" Available at <https://economictimes.indiatimes.com/industry/services/property/-/construction/58-5-respondents-prefer-real-estate-as-a-mode-of-investment-in-the-future-survey/articleshow/85064795.cms?from=mdr>

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