



COVID-19: React, adapt and recover – The new reality

**A perspective on the Indian
real estate sector**

May 2020

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Guidance note

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1. Foreword

The COVID-19 pandemic outbreak is reshaping the 'new normal'. The pandemic's short-term detrimental impact has eroded business value and growth prospects for most sectors and economies globally. While the lockdown by the Indian government has curtailed the adverse health impact to an extent, the resilient Indian economy, albeit a casualty, is expected to recover in time. The consequent loss to real estate sector of the Indian economy is projected at c. INR 1 trillion by the end of the financial year¹. Supporting the economic contribution through more than 250 industries, the Real Estate sector in India will be temporarily and ominously handicapped by the ongoing pandemic.

A primary driver for India's real estate growth – the residential segment – has experienced considerable setback; while already reeling under the subsisting challenges related to liquid stress, Indian Bankruptcy Code (IBC) and Non-performing assets (NPA) situation, delayed projects, inventory overhang and dampened sales velocities in past two to three years. Recent disruptions of shared living business models (co-living and student housing) provided much needed growth acting as green shoots for continued growth. In the short term, a gradual recovery is projected considering speculative lockdown timelines, uncertain lockdown easing measures, labor shortages driven by rural migration, project delays and tepid end user purchasing power due to imminent job and pay cuts. "Housing for All" remains the primary agenda for the present government, and sector constituents are now looking to incentivisation measures from Government for enabling access to cheaper capital finance and tax cuts to revive end user demand. With gradual easements, improved segment buoyancy may be expected as developers leverage technology platforms to drive sales, reshape product design/layouts for flexible space utilisation and capitalise on end

user mindset towards 'owning' residential assets as safety measures to counter future pandemic situations. As the industry sees consolidation and new business models being adopted; a 'revived' organised residential real estate segment is expected to emerge in the medium to long term.

Commercial real estate has been quintessential to India's corporate growth supporting domestic expansion and spread of multinationals footprint in India. Compared to developed counterpart markets globally, the penetration of organised sector commercial real estate is still low, allowing room for further growth. COVID-19 outbreak will reset the commercial space landscape, allowing developers/investors unprecedented opportunities to apply innovative business models. From the onset of the global financial crisis in 2008, the US REIT market recovered within 2 years and a similar trend may be observed in the post COVID-19 scenario for this segment. While the short term will bring headwinds linked to decelerated growth for main office occupiers, flexible office space models, lease renegotiations, and supply contraction; innovative business models, real estate efficiency focus and technology adoption will reshape the commercial real estate landscape. Purpose built real estate, space utilisation optimisation, cash conservation and cost curtailment will emerge as the revival mantra. Driven by strong foundation of large IT/ITeS tenant base, long term contracts, steady cash flow models and domestic focused economic growth, the commercial real estate sector may bounce back in a new avatar in the long run.

The retail sector in India had a fairly good run over the years, capitalising on the growing middle-income classes, rising discretionary spending and latent potential to cater to contemporary organised segment formats. In the immediate term, COVID-19 induced lockdowns and social distancing restrictions will put pressure

1. Business Standard website, Coronavirus lockdown may have cost Indian economy Rs 7-8 trillion, https://www.business-standard.com/article/economy-policy/coronavirus-lockdown-may-have-cost-indian-economy-rs-7-8-trillion-120041301047_1.html, accessed on 28 April 2020

1. Foreword...ctd

on retailers owing to lower spending, subdued demand and lean profitability. While tenants grapple with inventory flow disruptions, time constrained operational hours, tepid trading density, eroding profitability on one side, mall operators may face an uphill task of recovering payments, managing debt obligations, implementing social distancing and sanitation guidelines with lean support staff. Possibilities of adopting revenue sharing models, contact less/ drive through retailing, redesigned layouts, strengthening omnichannel presence seem plausible. After a prolonged period of lockdown and with partial easing, outdoor retail avenues could likely see renewed interest and retailers are hopeful of consumer spending and footfalls recovery to pre-COVID-19 levels over a 12 – 24 months timeline. Consumer spending behaviour would be the key determinant to the long term strategy calibration undertaken by both retailers and landlord/developers.

COVID-19 recessive impact on tourism and hospitality sectors is projected to be the worst. Despite 2019 providing opportunities for hotels to sustain healthy operating performance, COVID-19 outbreak presents a bleak outlook for the coming two quarters. Based on KPMG in India's discussions with industry experts, decline in occupancy rates between 60-80 per cent across India is expected. Psychological impact will play foul unless a cure is found or till the contagion spread significantly wanes. Recovery will hinge on sector dynamics where remote working options are feasible or not. It is likely that the recovery in the short to medium term will be led by domestic travelers. In addition, inorganic growth and opportunities to reduce inefficiencies in operating costs will emerge for professionally managed and experienced hotel owners and operators.

The COVID-19 impact on logistics and warehousing real estate appears dualised. India's warehousing demand is expected to reduce in the near term. However, with e-commerce companies capitalising on

pent up demand and limited operational impact, warehousing is expected to witness a relatively steeper recovery in comparison to other real estate asset classes. A marginal rent reduction may be witnessed in higher supply micro markets and flexible lease payment structures are expected to be negotiated to retain quality tenants. In the near term, investors are expected to chase existing assets or brownfield projects over new green field opportunities. Restructured supply chains and preference for local distribution centers is expected to drive demand for warehousing space in India in the medium to long term. Warehousing is expected to have a relatively stronger growth trajectory post COVID-19 riding on buoyant demand from e-commerce companies and growing preference of global manufacturers for India as their 'alternative sourcing hub'.

Industrial real estate will play a crucial role in India's bounce back to recovery. As global trade contracts and supply chain disruptions continue to holdback global commerce, a move to rapid localisation of supply chain networks and capacity creation may provide the needed push to industrial recovery. Despite planned investments in automation, expansion and diversification for catering to India's captive market, labor-intensive industries will see a slow road to recovery. As healthcare, pharma, food processing and essential product item industries witness renewed resurgence, the impact of overall subdued demand, spending contraction and poor investment risk appetite may weigh down recovery. Lockdown easing for well-organised self-sustaining industrial clusters, increased incentivisation and easing measures with respect to foreign investment, export trade and input costs will pave the way for industrial resurgence, indirectly impacting industrial real estate sector.

The COVID-19 situation has led to increasing data traffic and bandwidth usage leading to a relatively positive impact on data centers as compared to other real estate asset classes. Co-location

1. Foreword...*ctd*

data centers and cloud service providers to witness demand due to impetus on disaster recovery and business continuity initiatives. Under construction projects to witness a completion delay of 6-12 months due to halt in construction activity and electronic component shortages. Accelerated adoption of cloud computing, expansion of large hyper scalers, 5G services, artificial intelligence in addition to data privacy and localisation norms are expected to drive demand in the medium to long term. This shall position data centers as an attractive asset class for global infrastructure players and investors.

Indian government policy measures will play a critical role in shaping the recovery process. Positive measures such as infusing liquidity for housing finance companies, relaxation of ECB norms, Alternative Investment Fund (AIF) approval, etc. are expected to instill confidence in the sector. Going forward, the path to recovery would hinge on fiscal and regulatory stimulus announcements from Indian Government. Though relief measures aimed at curbing debt defaults, avoiding insolvencies, improving liquidity, etc. have been implemented, however their efficacy remains speculative. Legislative announcements for safeguarding stakeholders interests, policy reforms for catalysing demand, incentives for reviving market confidence and formalised guidelines for opening back businesses, will all play an enabling role in accelerating the real estate sector recovery.

In summary, the prevailing outlook for the short term period panning the next 6-12 months may seem filled with 'doom and gloom', however the outlook for coming 12-24 months point to a steady recovery. As each real estate segment undergoes its own reorganisation; enabled by implementation of new business models, innovative consumer engagement mechanisms optimisation of real estate

portfolios, re-calibration of financing and operational cost levers through technology adoption, design innovations, etc.; the medium and long term shall present 'unique' opportunities for stakeholders. As the coming months unravel and speculative uncertainties are absolved, revival focused strategies will be put to test.

With the game changing paradigm brought on by 'digital working', real estate sector will also undergo a transformative process. Technology-led demand is expected to give rise to new real estate segments such as data centers and efficiency based flexible design layouts. The use of technology, reshaped workplace strategies, workplace hygiene, design flexibility and social distancing norms will redefine end user focused real estate offerings. Change being the only constant, the COVID-19 pandemic will continue to bring forth new set of challenges alongside distinctive opportunities for real estate sector.

Cash being king and real estate emerging as time tested 'go to' asset class; avenues for real estate monetisation, portfolio optimisation and implementing innovative structures will become the value levers to counter the COVID-19 induced impact. As the age old learning – 'prevention is better than cure' – holds true for the short term horizon, a problem focused 'cure' will be the key enabler to the recovery process, its normalisation and future growth prospects for the Indian real estate sector.

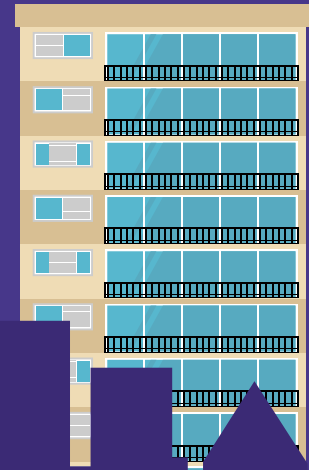


Chintan Patel

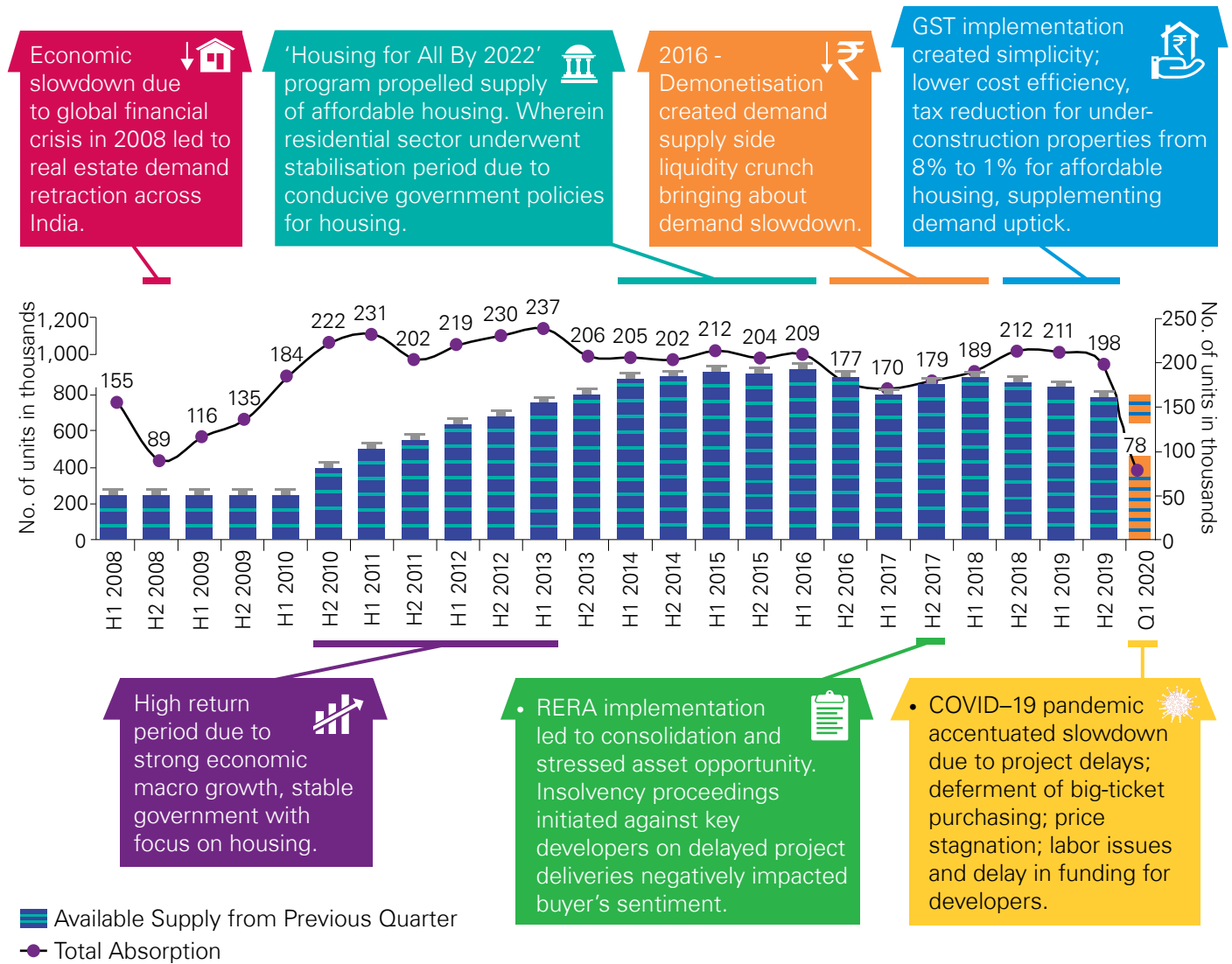
Partner and Leader

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KPMG in India

Residential sector (Housing, Co-living/Student housing)








Residential sector in India - Evolution over multiple cycles



Source: PropEquity database as of February 2020 for top 7 cities of India, KPMG in India analysis.

COVID-19 Potential impact on residential real estate sector

				
<p>Tapered sales</p>	<p>Labor shortage</p>	<p>Inventory contraction</p>	<p>Technology driven changes</p>	<p>Pressures on Co-living and Student housing operators</p>
<p>Pre-COVID-19 challenges related to subdued demand and liquidity pressures to continue creating slowdown in sales in the short – medium term. Poor recovery outlook projected in the short term as social distancing and lockdown measures inhibit site visits, project launches, approvals and closures.</p>	<p>Reverse migration of low-income workforce from key activity hubs during lockdown created labor shortage. Bleak scenario projected post lockdown in short term as construction works pick up gradually. Labor shortfall and slow pace of site work progress to heighten project delays for under construction projects and new launches.</p>	<p>Cash flows to be impacted by weakening sale velocity, deferred purchase decisions, spending contraction owing to looming possibilities of job cuts and pay cuts, bringing forth negative credit implications. Credit crunch impact to create residential sales contraction; bringing down sales from 4 lakh units in 2019-20 to 2.8 lakh-3 lakh units in 2020-21 across in top 7 cities¹.</p>	<p>Unclear timelines for easing of lockdown and social distancing restrictions have impaired conventional 'in-person' sales and marketing interactions. Technology driven modes expected to bridge the gap via online sales platforms, Augmented and Virtual Reality (AR/VR), drone-based surveys, 3D visualisation etc., compensating the experience touch point for buyers and developers from safe confines and without the need to visit the project site.</p>	<p>Health safety concerns and social distancing limitations have adversely affected shared accommodation model-based businesses such as student housing and co-living real estate. Short term impact evidenced by drastic reduction in occupancies observed due to reverse migrations and health concerns expressed by students and professionals availing such novel spaces.</p>

1. PropEquity database as of February 2020 for top 7 cities of India, KPMG in India analysis.



Peeking into the future of Indian Residential Sector

Short term (0-6 Months)



- **Sales dip** – Sales within ‘silver lining segments’ of Affordable and Mid-Income Housing within residential sector to come under pressure primarily due to unemployment fears and deferred purchasing.
- **Input cost escalations** – Supply chain disruptions to push up prices for raw materials. Limited room for passing on price hike and slow sales will lead to dampening of developer margins by c.10-20 per cent for pushing sales.
- **Slow paced slum rehabilitation transactions** – Closing agreements and re-location of slum dwellers to transit camps will be difficult during the outbreak, delaying slum rehabilitation related transactions.
- **Administrative bottlenecks** – Approval processes backlog to increase, slowing down overall development pace.

Medium term (6-18 Months)



- **Rise in funding costs²** – As the Indian Government tries to roll out fiscal and monetary incentives such as reduced taxes; increased risk associated with rising input costs, piling unsold inventory, collections uncertainty, delayed projects, higher hedging costs, etc. is expected to push cost of funding up by 150-200 basis points.
- **Wider transaction opportunities** – Residential projects valuations frameworks may be revisited by financial institutions/ investors creating investment avenues. With gradual stabilisation, residential transactions expected to pick up in the second half of 2020.

Long term (Post 18 months)



- **Changing trends in interior layout and designs** – Optimising indoor space utilisation through fluid designing principles in structural framework and interior fit outs to catch on; allowing easy transformation of space for varied needs/function such as work, recreation and physical activities.
- **Increased Technology Use** – Adoption of Augmented and Virtual Reality acting as differentiator and convenience enabler to rise, allowing non-physical/contactless experience for site visits, survey, etc.
- **Safe haven mindset** – Perceived consumer preference for own house as a ‘safe zone’ during lockdown to create possible sales uptick.

2. Moneycontrol.com, Coronavirus impact: Funding for real estate sector likely to go up by notches as risks increase, accessed on 01 May 2020



Excerpts from industry interactions

The impact of COVID-19 on the Indian real estate sector may continue to loom over for the next 6-9 months before the 'new normal' emerges.

Housing sector may get impacted by a limited factor, as there is a surplus demand in comparison to the existing supply, and hence the residential property pricings are less likely to get effected. However, asset classes such as co-living/student housing may get impacted due to the shift in user behavior and perception towards shared spaces and social distancing requirements that are vital in a pandemic situation. COVID-19 would be one of the best disruptors for real estate sector where technology, innovation and fluid designing principles would play a major role in adding direct/indirect values to projects, increasing market penetration and thereby determining the success of a developer. Indian Government has a strong political will to revive the real estate sector. The relief measures announced by Government for real estate sector are in right direction.

However, how sufficient would be the relief measures is unknown in the present crisis situation. Though the government has issued guidelines for resuming construction at projects that are outside containment zones, but various ground level challenges like scarcity of labor, maintaining social distancing guidelines and requisite safety measures for labor force, etc. may limit the restart of construction activities. The crisis presents an opportunity for the sector as investors from western countries may look forward to economies like India considering the scale of population and workforce, ability the nation has demonstrated in handling the pandemic situation, lower dependency of the sector on raw material imports, etc.



Gaurav Jain
Joint Vice President
North: NAREDCO

The market size of student housing in India is estimated to be at ~USD15 Billion with more than ~10.40 Million migrant students. While the student population has increased rapidly over the years, student housing supply or the campus facilities at educational institutions are unable to cater to this demand. Oxfordcaps has adopted an asset-light model and has expanded from 200 beds to over 15,000 beds by acquiring properties on long leases with property owners. At present, the sector has suffered due to the students migrating back to their hometowns, especially after the shut down. Once universities start operations, the influx of students would normalise and demand for student housing would stabilise. We are moving to a revenue sharing model with landlords, instead of the standard lease contracts, since assessing the demand post COVID-19 due to potential short-term demand adjustments. New deals/ fundraising and

capital inflow outlook in the sector remains strong, however, capital would be driven by sustainable growth and profitability and not by "growth at all costs". Due to COVID-19, the sector is primed for and would benefit most from rightsising and consolidation, where the smaller and less-funded companies may either become acquisition targets provided they add significant value via scale and/or diversification to a larger player. With countries currently in various stages of lockdown or have in place other restrictions, several students who had plans for studying abroad are now considering to apply for universities in India, which could lead to an uptick in demand for the domestic student housing sector in the near future.



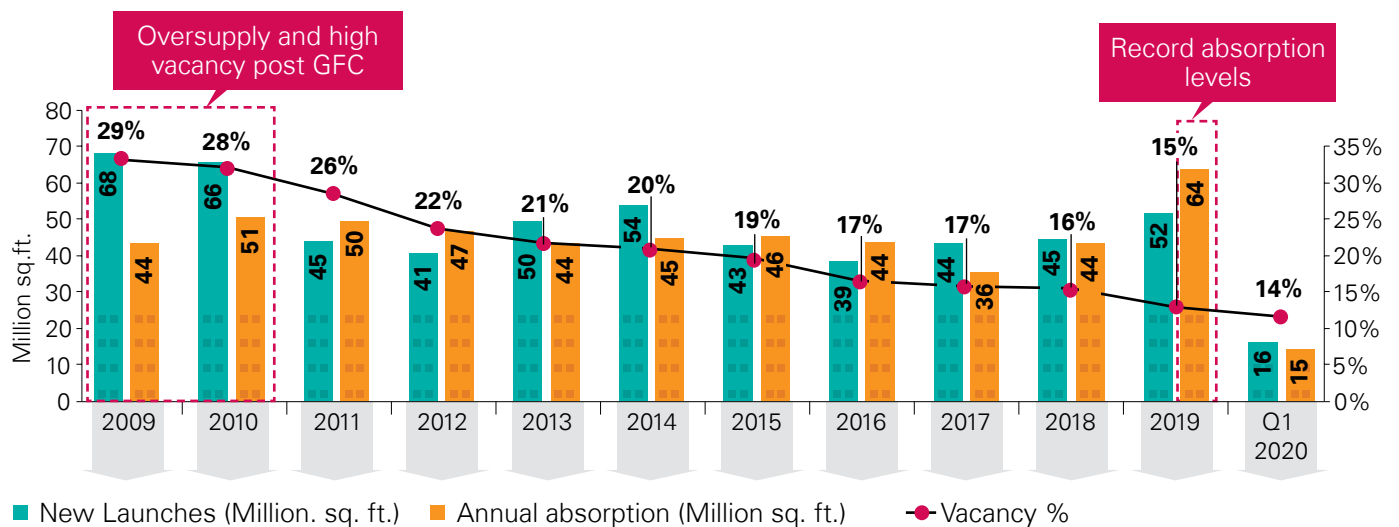
Annu Talreja
Founder and CEO
Oxfordcaps

Post COVID-19 residential landscape changes driven by Government's incentivisation measures; evolved user perceptions, design and layouts transformation-based product preferences, and technology adoption shall aid bounce back for residential real estate sector in the coming 12-18 months.

Commercial sector (Office, Co-working)

Strong focus on commercial real estate in the past decade

Supply, Absorption and Vacancy trends






Source: Prop equity database for Tier-I Cities including NCR, MMR, Bengaluru, Hyderabad, Chennai, Kolkata, Pune accessed on 28 April 2020.

- Post the Global Financial Crisis (GFC), commercial real estate in India was in an oversupply situation with high vacancy levels for 2-3-year period. Regulatory changes brought on by RERA, real estate investment trusts (REIT), and GST regime, coupled with long term contracts, steady cash flow models and fairly stable return levels positively impacted the sector, bringing in the much-needed compliances facilitating consolidation and growth.
- In 2018, commercial real estate segment attracted approximately 60 per cent of the total investments in the real estate sector, replacing residential segment as the major investment avenue¹. 2019 also saw India's first REIT listing by Blackstone and Embassy; raising INR 4,750 crores². A capital raise of USD 10 billion through REITs was also in the offing; expected by the end of FY21.
- Flexible workspace models witnessed healthy growth since 2017, with the sector accounting for c. 10 per cent share of total leasing in 2019³. Industry trends indicated consolidation trend to catch up in flexible workspace segment as larger operators looked to smaller operators with relatively poorer financial discipline.

1. Realty Asset Monetisation 2018 – An overview, Knight frank India, accessed on 30 April 2020.

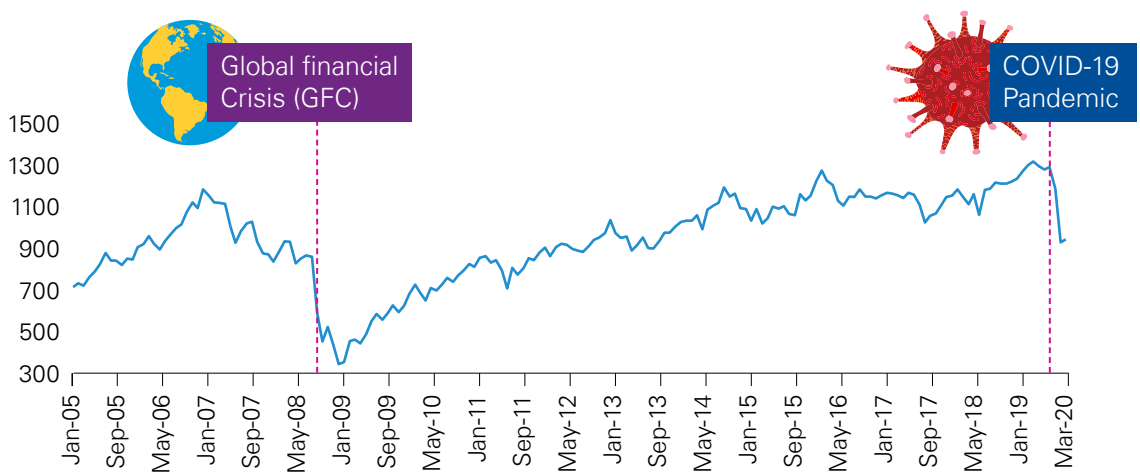
2. 'Embassy Office Parks REIT to raise Rs 4,750 cr via IPO', Economic Times, March 2019

3. 'What Is The Future Of Coworking Spaces In India?', inc42, November 2019

 <p>IT sector to witness decelerating growth</p>	 <p>IT and BPM to continue demand levels</p>	 <p>Flexible workspaces will re-evaluate models</p>
<ul style="list-style-type: none"> IT sector to perform moderately with lowest expected revenue growth in the last decade (0-2 per cent) IT tenants to now re-evaluate current operating models and focus on mitigating business risks through deferment and curtailment of non-core spends Resulting impact may significantly decelerate demand for commercial real estate from one of its core demand drivers. 	<ul style="list-style-type: none"> India witnessed record levels of absorption in 2019 totaling 64 million sq.ft., of which Information Technology and Business Process Management (IT-BPM) sector contributed ~32 per cent Operations within IT-BPM segment require workforce to be present in office or client locations. Despite the lockdown scenario and subsequent easing of restrictions, IT-BPM sector is anticipated to continue driving demand for office space. 	<ul style="list-style-type: none"> Despite steady leasing in flexible workspaces across major Indian cities (c.7 million sq.ft. in 2019), the segment will face major headwinds over the next 9-12 months period Existing short lease terms, tenancy mix comprised mainly of start-ups and high fit-out capex requirements will compound business model challenges Co-working real estate players may need to re-evaluate long term strategy for business continuity.

Source: 'IT sector revenue growth may hit decadal low due to Covid-19', Economic times, April 2020; Prop equity database for Tier-1 Cities including NCR, MMR, Bengaluru, Hyderabad, Chennai, Kolkata, Pune accessed on 28 April 2020; 'Commercial reality demand scales new record of 69 million sq. ft. in 2019, up 40 per cent', Economic times, January 2020

MSCI US REIT Index performance (USD)



The MSCI US REIT index is a free float-adjusted market capitalisation weighed index comprised of equity REIT's in the US. The US REIT market recovered over a 2 years period from the onset of the global financial crisis. A similar recovery trend may be observed globally in the post COVID-19 scenario for the commercial real estate segment.



Source: Morgan Stanley Capital International (MSCI) USA REIT Index, accessed on 28 April 2020.

Short-Medium term impact



- **Proactive renegotiations** – Re-negotiation of rentals rates and/or deferment of lease payments arrangements already being evaluated by occupiers and developers. Expected rise in vacancies to drive co-dependence with lessors willing to offer flexibility, to mitigate cashflow concerns
- **Efficiency-driven focus** – Lackluster projected demand levels to drive occupiers to seek efficiencies and innovative cost management mechanisms instead of only focusing on revenue growth. Expansions plans may be put on hold
- **Supply deferment** – Developers may put projects on hold creating supply contraction. Anticipated REITs listing in FY21 may see postponement by 6-12 months.
- **Technology-enabled workplaces** – Social distancing restrictions to lead to rotational staff presence and working from home norms, accelerating adoption of technology-based solutions.

Medium-Long term impact



- **Operating model innovations** – Social distancing led changes to workspace may lead to higher space per employee requirement, efficiency based workplace utilisation models and rationalisation of available spaces.
- **Localisation driven demand** – Organised segment commercial spaces remain under penetrated compared with international counterparts. Rise in localisation of business operations and contraction of global footprints may lead to revived commercial space demand in the long term.
- **Customised real estate** – Demand for purpose built customised spaces may observe marginal uptake. Increased preference for Built-to-Suit (BTS) commercial spaces to mitigate speculative construction based risks.
- **Longer transaction cycles** – Deal cycles expected to be marginally longer owing to deeper diligence/ evaluations by investors/ developers on transactions.



Excerpts from industry interactions

FY21 would be a tough year for businesses and the biggest question would be around when can there be a medical solution for the disease. Rental negotiations requests from tenants are a reality, however, these conversation will need to be had post the lockdown gets over. If the COVID-19 situation continues through 2021, technology solutions like Artificial intelligence may change the way companies (across the board) operate in the

future, which may lead to some compression of office absorption in the medium term. CapitaLand has taken all measures related to better hygiene and safety at office parks and is ready to have staff come back to the campuses



Sanjeev Dasgupta
Executive Director and Chief
Executive Officer
Ascendas India Trust

The COVID-19 lockdown is like a restart for the world. Post lockdown is going to offer an opportunity for better systems. Stability in leasing activity in markets such as Hyderabad expected, primarily attributed to commitments already made by companies. As firms cannot avoid leasing spaces, the current situation may only delay decision making. Customers seeking rent reductions/ deferrals will be quite normal and may vary case to case given the occupiers cash flows situation. Developers obviously need to

review these requests with a perspective of long term relationship. 1/3rd employees in major office campuses tend to be migrants and thus real estate shall move towards "Smart Campuses" where co-living shall be an integral part. Developers need to be smart and move to such innovative business models.



Gopikrishna Patibanda
Chairman and MD
Phoenix Group

The Indian real estate opportunity is still backed by strong fundamentals, however the current crisis would potentially lead to a slowdown in decision making and funding for the sector. Moving forward investment decisions would require additional precautions and comprehensive scrutiny. Our strategy; though unaffected; would require a longer implementation period than initially planned as we enter and cope with the "new normal" situation.

The current crisis may lead to people preferring work from home more often, limiting social interactions in events or public spaces and asserting on tougher well-being and safety measures for flexible workspaces. On the flip side, more enterprises may see the value of having flexible spaces during crisis and may opt to take up seats at coworking spaces. The revival for the sector post COVID-19 would require speedy preventive and corrective actions, alongside with empathy for people across industry segments in both the public and private sectors. This is important to us as we are here to invest with local business partners and communities for the long term."

Co-working spaces will be impacted since their intrinsic nature fosters communities and interactions, although it may be too early to assess the degree of impact. Our 'Whizdom Club' brand has always positioned itself as a space highly focused on 'well-being and sustainability' – imbining spacious designs, open greens, treated fresh air systems, ergonomic furniture, ecofriendly materials and frequent sanitisation.



Chulamas Jitpatima
Director
*MQDC India Real Estate
Private Limited*

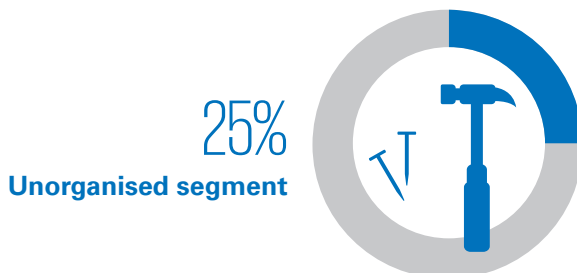
Riding on strong baseline factors such as large IT sector tenant base, long term contracts, steady cash flow models coupled with emerging trends in workplace design optimisation, utilisation based efficiency transformations and innovative cost management models, the commercial real estate sector is expected to bounce back in a renewed avatar over the coming 12-18 months.

Facilities Management (FM)



Scenario before COVID-19 and its current impact on FM

- Current FM services market is highly fragmented and at a nascent market maturity stage in India, offering significant potential for growth.
- FM to emerge as critical enabler to supporting business continuity during the current pandemic ensuring normalcy in office operations and technology support (remote working) for transitioning back to “business as usual”.
- As a manpower intensive services segment, shortage of blue-collar staff will pose a major operational challenge. Organisations adopting technology measures to mitigate impact are expected to stay ahead of the curve.
- Stringent workplace safety norms to potentially create avenues for expanding FM services portfolio and new positions (such as ‘Hygiene Officers’).
- Cashflow constraints may be leveraged to negotiate prices for services. Profitable survival for FM companies shall be contingent upon adapting ‘lean operations’ techniques.
- Accelerated transition expected to technologies such as IoT, AI based cleaning robots, computerised maintenance and management systems.



Source: Technavio, Facility Management Services Market in India, May 2018; Smergers website, accessed on 28 April 2020

Short-Medium term impact



- Immediate impact on operating costs** – Increased frequency of cleaning cycles, requirements for higher sanitation, testing, etc., are expected to raise operating costs. Further rise in input and manpower costs attributed to incentives for blue collar workforce such as on-site stay, meals, daily allowances, etc. may be expected.
- Renewed outlook for FM services** – FM to gain critical service status post-COVID-19 scenario as companies realise its criticality for bottleneck free day-to-day operations and meeting compliances with health safety norms. Residential and industrial segments expected to seek out FM services as well to maintain and monitor continuity of operations.

Medium-Long term impact



- Portfolio realignment** – FM companies may look to diversify their client beyond traditional go to sectors such as office and retail to hedge risks. Post pandemic flattening, sectors such as pharma, healthcare will witness stronger cashflows while industrial segments such as manufacturing and warehousing may also see positive growth.
- Industry consolidation** – The currently highly fragmented industry may undergo consolidation as smaller and unorganised segment operators struggle to meet working capital requirements and sustained profitable business continuity.



Averaging out of IFM CAM costs in commercial office spaces-In commercial office space segment, whilst there might be escalation on the maintenance costs due to higher levels of sanitation required, there could also be a reduction in manpower/utilities requirement based on limited staff in offices (in the short term) and through adoption of smart technology. Things will therefore average out to hit a state of equilibrium, in the medium term.

Retail maintenance costs to reduce with minimal footfalls-Maintenance costs for retail establishments is most likely to come down because footfalls are not expected to revert to original levels soon. Retail cannot however be compared to office/business parks.

Work from Home (WFH) to be a temporary situation with guidelines-WFH is not a permanent solution, and is only an option. While the first choice for businesses will always be to work from office, there could be some percentage who could be allowed to WFH with similar efficiencies. Companies are likely to do a comparison of

efficiency between WFH and office, and my guess is office will always be more efficient due to inherent advantages of face to face collaboration, leading to higher morale and better coordination. Data security and confidentiality will play a key role in the above.

FM in warehousing to be outsourced from IFM specialists-Facilities Management is relatively less involved in warehousing and the COVID-19 situation may force developers to outsource the services, instead of doing things in-house. This scenario may happen across the board and not just in warehousing.

IFM compliance oriented companies to be given preference as Service Providers-Companies in FM business who follow best practices, regulations, compliances, etc. will blossom and smaller guys who aren't compliant may face problems.



Pradeep Lala
 Managing Director and CEO
 Embassy Services Private Limited

Potential for facilities management services segment in India has been promising. The post COVID scenario, will further strengthen its importance considering its massive latent potential and growing awareness of FM being a critical business operations enabler.

Retail real estate - Recovery expected despite uphill challenges



Short term impact-lockdown continues

COVID-19 outbreak will put enormous pressure on retailers who shall need to steer through a prolonged period of subdued consumer demand and eroded profitability.

- India's consumption expenditure stood at USD 1.92 trillion in 2018 growing at a CAGR of 7 per cent over the last 9 year. Post lockdown, consumer discretionary spending is likely to remain subdued
- Driven by growing middle-income households and rising standards of living; organised retail market was poised to grow from 12 per cent in 2019 to 25 per cent in 2024. Post the outbreak, consumer confidence in India decreased to 83.7 points in the Q1-2020 down from 85.7 points in Q4-2019
- Prior to COVID-19 crisis, 14 major cities saw an average annual supply of c.10 million sq.ft. of retail space addition. In the post COVID-19 scenario, 40-60 per cent fall in the overall retail supply may be likely in next 4 quarters primarily on account of lower consumer spending, delayed leasing, rental corrections coupled with construction cost and time overruns¹
- Currently, institutional lenders such as banks have an exposure of c INR 1 lakh crore² to c.50 per cent of shopping malls and retail centers pan India wherein 75 per cent of the repayment is typically linked to rental income/LRDs. In the event of no immediate moratoriums and restructuring relief made available to developers, the cascading effect may potentially trigger NPAs for such lenders.

Key Challenges for Retail Sector Stakeholders

- Rent Collection
- Servicing Debt Obligations/LRDs
- Implementation of social distancing and sanitation guidelines.
- CAM Costs may be driven higher

- Inability to meet rental obligations
- Working Capital Constraints
- Delays in supply Chain may cause inventory disruptions.
- Fixed Employee costs

Mall Owners
Retailers
Consumers

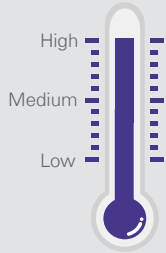
- Cautious Discretionary spending driven by negative sentiment and uncertainty
- Social distancing norms and queues may impact experiences and footfalls



1. PropEquity Database as of November 2019; cities include; Gurugram, Noida, Delhi, Greater Noida, Faridabad, Ghaziabad, Mumbai, Navi Mumbai, Thane, Bengaluru, Chennai, Hyderabad, Kolkata, Pune
2. Business Standard website, Fearing NPAs, banks shoot off notices to malls for loan repayment, https://www.business-standard.com/article/finance/fearing-npas-banks-shoot-off-notices-to-malls-for-loan-repayment-120042101715_1.html, accessed as on 28 April 2020

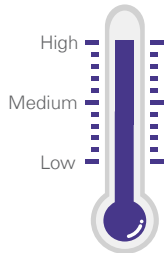
Medium term potential impact – Partial lockdown leasing

Footfalls



- 50-60 per cent contraction in mall footfalls expected from pre-COVID-19 levels coupled with a significant downtick in overall trading density.³
- Two key footfalls drivers-food courts and multiplexes-expected to remain un-operational even as lockdown restrictions are eased in a phased manner
- Social distancing induced limitations to severely impair ability of retail establishments to conduct marketing events and promotional campaigns within atriums and open spaces; further dampening sales and footfalls.

Rentals



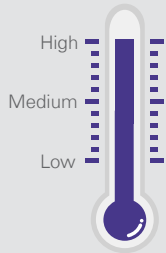
Impact on Tenants

- May seek near term relief through rental waivers/deferrals and adjustments in lock-in amount, fixed deposit etc. while pushing for payment of CAM on actuals.
- Revenue-sharing arrangements will become the dominant mechanism for mitigating financial and operational risks.
- Both global and domestic brands may re-assess business plans; evaluating footprint consolidation in higher trading density locations.

Impact on Mall Owners and Operators

- Significant pressure on collections expected and with a decline of upwards of 40 per cent³ in their revenues during the short to medium term.

Operations



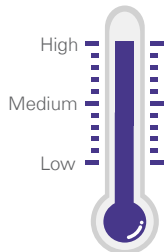
Impact on Tenants

- Supply chain disruptions may cause delays in manufacturing and inter-country logistics creating inventory imbalances.
- Social distancing restrictions may lead to reconfiguration of in-store layouts creating leasable area inefficiencies.
- Retail outlets may be mandated to operate for a limited number of hours and with only 50 per cent staff present.
- Operational challenges may push retailers to explore take away, drive through or zero contact options to continue driving sales levels. Retailers with a strong omni channel presence may be better poised and see faster recovery in sales.

Impact on Mall Owners and Operators

- Implementing social distancing efficiently whilst also enabling an 'experiential ecosystem' may become increasingly challenging.
- Sanitation guidelines may create pressure on facility management side, resulting in 5-15 per cent³ increase in CAM expenses. Passing on rise in expenses to tenants may not be possible considering challenges faced by tenants.

Financial



Impact on Tenants

- Anticipated 25-30 per cent³ impact on overall businesses with ripple effect impacting supplementary industries and resultant job losses.
- Working capital stresses will continue for brands with large inventories and managing supplier payments will become critical for stable supply chain operations.

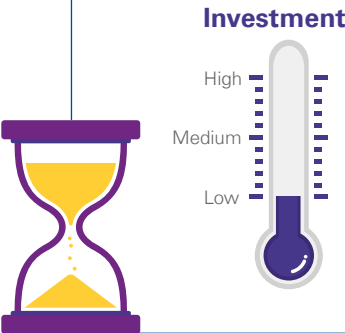
Impact on Mall Owners and Operators

- Pressures on collections may cause revenue dip in excess of 30 per cent³ in coming 4-6 quarters.
- Debt-servicing ability will be tested in the near term-liquidity buffers such as DSRA, fixed deposits and liquid investments to play a key role in managing the crisis.
- Equity infusion by owners may be warranted for meeting financial and operational obligations.

3. KPMG in India Analysis and industry discussions

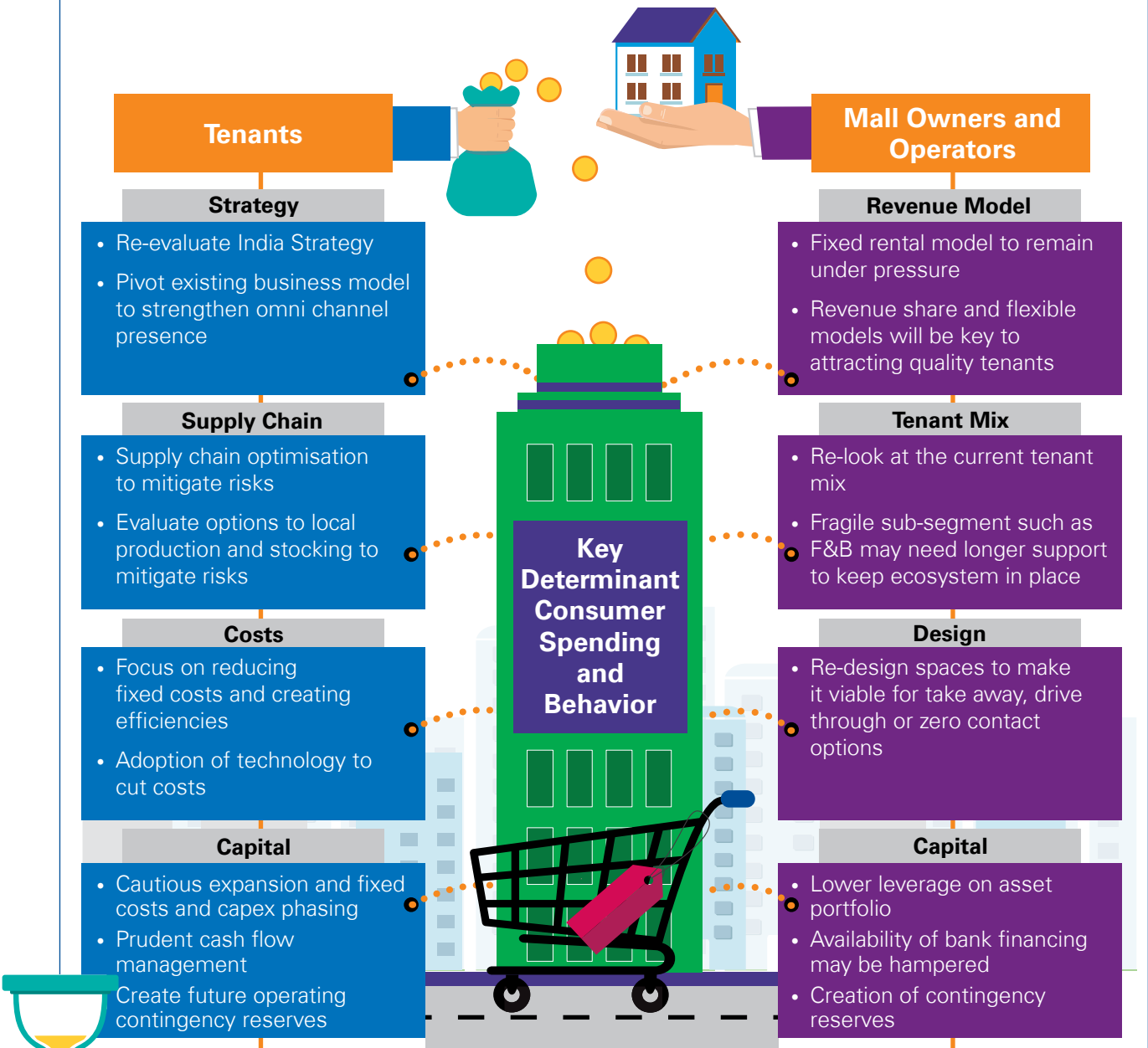


Medium term potential impact – Partial lockdown leasing...ctd



- Investment**
- Investors may wait for consumer spend and yields to stabilise prior to committing fresh capital to retail asset class.
 - Quality of the operator and NOI will be the key drivers for attractive valuations going forward.
 - Fresh disbursements towards construction and LRDs by banks would be severely stressed.
 - Operational and brownfield assets in tier-I cities are likely to attract capital while plans to enter tier-II cities may be shelved by developers.

Long term impact – No lockdown



Consumer spending behavior would be the key detriment of the degree of recalibration that is undertaken in their long term strategies by both retailers and landlords/developers.

Excerpts from industry interactions

We believe in building long term relationships with our tenants occupiers and retail partners and are working towards a win-win solution to deal with this unprecedented scenario.

We are hopeful that consumer spending picks up by the upcoming festive period and there is a "U Shaped" recovery post the lockdown easing.

We are internally working on our SOPs to take all necessary precautionary measures to meet the hygiene and social distancing guidelines.



Neeraj Ghei
Director
Select CITYWALK

Mall owners will extend rent waivers or deferrals to tenants on a case to case basis and arrive at a win-win situation. Footfalls may not revert to Pre-COVID-19 levels in the near term since F&B and multiplex operations may not be high on priority in the lockdown release phases. With retailers consolidating presence and seek higher revenue sharing arrangements, malls or standalone shopping centers with a lower trading density

and existing high debt servicing obligations may get severely stressed. The platform shall focus on providing solutions for such stressed assets in addition to acquisition of other brownfield projects across key retail markets in India.



Vrushank Mehta
CIO
R Retail Ventures

The current situation is a global economic phenomenon and it has impacted nearly every sector and industry. Companies are adopting newer work practices and leveraging technology to drive maximum productivity of human capital amidst this crisis. Business forecasting, strategic planning, cash and inventory management are the key tools that CXOs need to deploy to be able to combat these challenging times. We still don't know how the businesses will unfold. Benetton anticipates the business to start getting on track, June-July onwards. Given the pace of the COVID-19 spread, I feel it's a nine month recovery horizon, especially

for fashion retail in India. Nonetheless, Benetton India is ensuring even in this time of stores being shut, we don't have to become silent. Our brand initiatives across all digital mediums are ensuring positivity, optimism and conversations.

We have always been a responsible brand and this, more than ever, is the time to be with consumers and ensure a meaningful engagement with them.



Sundeep Kumar Chugh
CEO
Benetton India

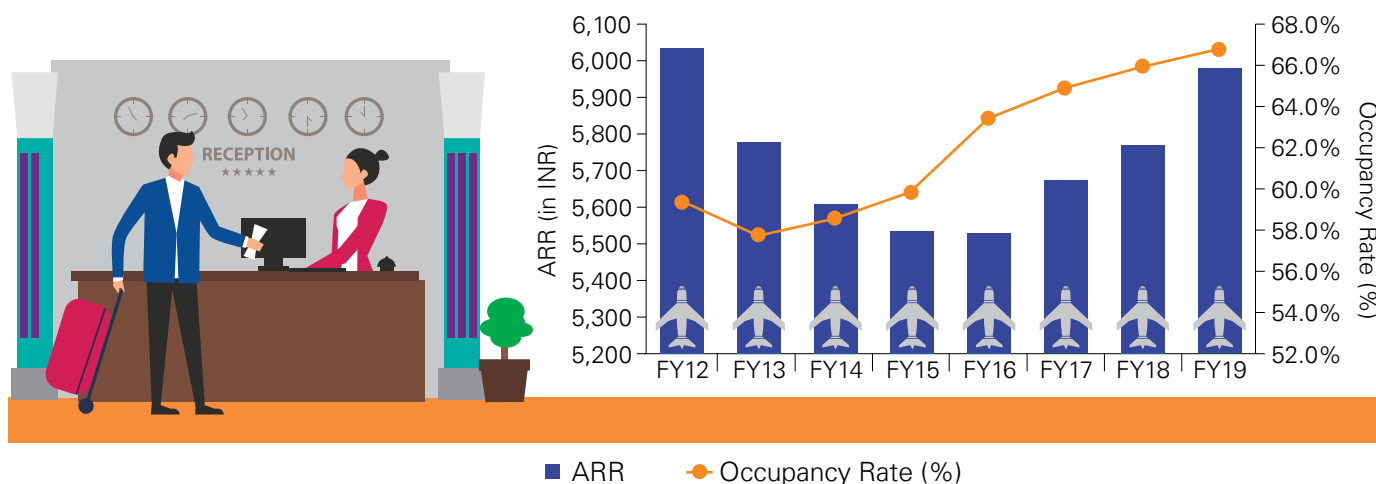
In our outlook, consumer confidence will stabilise as health and economic concerns diminish over the medium to long term. Footfalls will gradually return to pre-COVID-19 levels driven by need for interactive and immersive experiences delivered by offline shopping venues. With the transmission levels flattening and/or breakthrough cure is discovered, steeper recovery is expected for organised retail real estate segment.

Hospitality sector



Scenario before COVID-19 and its current impact

- For the past few years, demand in the hospitality industry has outstripped supply leading to growth in occupancy rates across India.
- Indian hotel market performance recorded its highest occupancy percentage and ARR in CY 2018. Revenue per Available Room (RevPAR) grew by 4.3 per cent over the previous year primarily on account of increases in ARR's growing by c.4.0 per cent.
- The trend continued in first half of CY 2019 with an all India RevPAR growth of 4.2 per cent over the same period in CY2018; backed by a growth of 4.0 per cent in ARR's. Total inventory of branded hotel rooms as of 31 March 2019 was 133,359 with additional 50,170 rooms expected to be added primarily across the 6 metro cities.
- Since the COVID-19 outbreak, travel advisories and restrictions have negatively influenced travel plans for individuals and corporations globally; and the resulting impact on the hospitality segment has been rapid and immediate.
- Resulting reduction in occupancy rates, ARR's and RevPAR's has been observed across all hospitality segments. Considering lockdown restrictions were imposed in India and other countries around March 2020, the full impact on operating metrics for hotels is likely to be seen beginning Q1 FY2021.



Source: 2019: Indian Hospitality Trends & Opportunities by Hotelivate and KPMG analysis

Short term (0-9 Months)



- Psychological impact of COVID-19 to continue until either a vaccine is discovered or till the contagion spread significantly wanes.
- While travel restrictions may be eased or lifted, business and leisure travel would remain subdued.
- Consequently, operating performance of hotels for Q2 and Q3 of 2020 is likely to be poor.
- Hospitality industry is actively incorporating best practices from healthcare sector to counter the spread; notably increased sanitisation, frequent temperature checks and implementation of hygiene barriers.

Medium term (9-18 Months)



- Domestic travelers to drive early recovery compared with foreign travelers.
- Recovery to vary and be contingent upon sector dynamics – Sectors where remote working is not feasible (such as Manufacturing, Defense etc.) to see quicker recovery, which would lead to improved domestic business travel.
- Social distancing to be embraced as the new norm. Branded hotel chains to benefit from already compliant design formats incorporating adequate distance between rooms.
- Rearranging of covers may be needed at restaurants and bars, although, this is not expected to have a significant impact on revenue.

Long term (Post 18 months)



- Operating performance of hotels expected to be back to pre-COVID-19 levels.
- Growth opportunities for professionally managed and experienced hotel owners and operators.



Impact on transactions

- Hotel owners to focus on optimising cash flows from existing properties rather than on growth opportunities.
- Distressed properties may be available in the market at attractive valuations and may present an opportunity for institutional investors. However, these investors need to be ensured that a strong management team is in place before evaluating the opportunity.
- This crisis may also provide an opportunity for experienced and professionally managed hotel operators to increase their room inventory in India.

Excerpts from industry interactions

Recovery to pre-COVID-19 levels dependent on segment and source markets. Some segments/ source markets may take as long as 12 months post slowdown of epidemic.

Business from domestic travelers is expected to drive the recovery followed by recovery in international business.

Hotel industry will adapt SOP's seen in the healthcare industry – notably with respect to sanitisation and implementation of hygiene barriers.

This crisis is an opportunity for hotel owners to reduce the inefficiencies in operating costs.

Given that current crisis will further reduce capital availability for new inventory, the industry may be well supported by very low level of supply increase for a prolonged period of time enabling recovery.



Ashish Jakanwala
Chairman, MD and CEO
SAMHI Hotels Limited

Significant reduction in new cases of COVID-19 and commencement of air transport/economic activity is essential for business to start recovering.

In the leisure travel segment, business from domestic travelers is expected to drive the recovery.

In the short to medium term, revenue from weddings of high net-worth families presents an

opportunity, as destination weddings that would have otherwise gone overseas would remain in India.



Dhruva Rathore
Vice President – Development
Hyatt India Consultancy Private Limited

Social distancing to be the new norm; restrictions on travel and social gatherings may severely impact the hospitality industry in the short term. Hotels would need to incorporate best practices from healthcare industry notably those relating to sanitisation and hygiene barriers. Post easing of lockdown restrictions, recovery to be driven by domestic travel while MICE revenue may provide an interim boost to the industry. The current crisis would also create growth opportunities for professionally managed and experienced hotel operators.



Industrial

Short term impact (6-12 months)



Price stability

- Co-dependence between industrial operators and lessors to mitigate impact of rise in industrial real estate prices.
- Freeing up of land parcels currently locked up as Non-performing asset (NPA) to likely improve land supply for industrial use, mitigating any upward inflation in land pricing.



Repurposed industries

- Retrofitting already underway across states wherein industrial units are being repurposed for production of essential healthcare products.
- Large scale restructuring expected as production and sourcing moves closer to consumers and supply chains are localised.
- Product diversification and portfolio expansion by inhouse manufacturing of upstream value chain inputs expected.
- Augmented industrial real estate demand focused towards expansion and diversification needs seems highly plausible.



Organised estates demand

- Well planned and organised industrial estates may observe slight advantage in lockdown easing as spaced out low density industrial units may be allowed to restart operations in compliance with prescribed social distancing regulations.
- Well organised and operated industrial estates offering contemporary support infrastructure and competitive industrial leasing rates expected to observe renewed demand from both – relocation and new industrial set ups.



Supply chain disruptions

- Freight charges and uncertainty in delivery timelines have impacted overall delivery costs. Zero import duty on essential commodities being proposed to offset delivery risks.
- Industry groups are currently pushing for export rebates and export realisation timelines. Relaxation of port charges and discount haulage charges by railways are being proposed to counter holding costs for importers and exporters.



Medium term impact (12-18 months)



Investments in automation

- Labor intensive industries to come under pressure. Labor shortages compounded by exodus, manufacturing units are expected to re-evaluate production technologies and processes through automation.
- Industries already operating with high level of automation to ramp up capacity with augmented investments.
- Resulting real estate footprint rationalisation and re-organisation may alter and possibly push up demand for industrial real estate. Resulting real estate footprint rationalisation and re-organisation may alter and possibly push up demand for industrial real estate.



Localisation

- Overall moving away from globalisation towards regionalisation expected to reduced reliance on imported inputs.
- Expected demand push for health care and pharma products to benefit industries in the segment.
- Disruption in international supply chains in auto-component segment may accelerate local demand to meet import shortfall.
- Accelerated growth of food processing industries expected for meeting domicile demand and import shortfalls.
- Real estate investments focused on Pharma parks, Food parks, Electronic Hardware Manufacturing parks and export-oriented units expected to rise driven by domestic and international investor interest.



India-alternate sourcing hub

- Government to push and hard-sell India as a manufacturing hub.
- Export oriented industries to witness gradual improvement in global demand as buyer's consider alternatives to sourcing from China.
- Textiles, Electronics and Engineering, Technology hardware product manufacturing industries to see uptick in demand due to buyers switching over from China. Textile and consumer goods demand expected gradually bounce back with India emerging as an alternate consumer and supplier of such products. Culminating effect of expansions to catalyse demand for industrial space.
- International standardisation and global certification/ accreditation focused investments to see a rise as manufacturing units upskill to meet international demand. Resulting impact expected to be growth in development of R&D, incubation, testing, etc. related real estate facilities.



Long term impact (18-36 months)



Safeguarding industries

- Supply chain infrastructure related to warehousing and logistics to witness focused efforts for improving quality and scale of current infrastructure.
- Extant FDI policy reviewed for measures focused on curbing opportunistic takeovers/ acquisitions of Indian companies.
- ‘Make in India’ and ‘Ease of Doing Business’ led initiatives may observe greater incentivisation for new industrial set ups pushing demand for industrial real estate from South Asia based investors.



Self Sustained industrial estates

- Taking cues from China and the Middle East, self-sustaining large industrial hubs may emerge on account of better ability to counter lock down situations.
- Large scale mega parks and Industrial townships – complete with labor and white-collar worker accommodation and support social and recreational real estate amenities – may see development interest.



The post-COVID-19 outlook for industrial real estate will be a mixed bag; wherein on one side industry struggles with supply side disruptions for maintaining operational capacity while on the other side, focus on localisation of supply chains and catering to domestic demand will provide fillip for capacity additions, diversification and expansions. As India emerges as an alternate manufacturing hub to the world, well planned and export focused industrial estates will stand to gain, opening opportunities for development of large scale self-sustaining industrial cities across India.



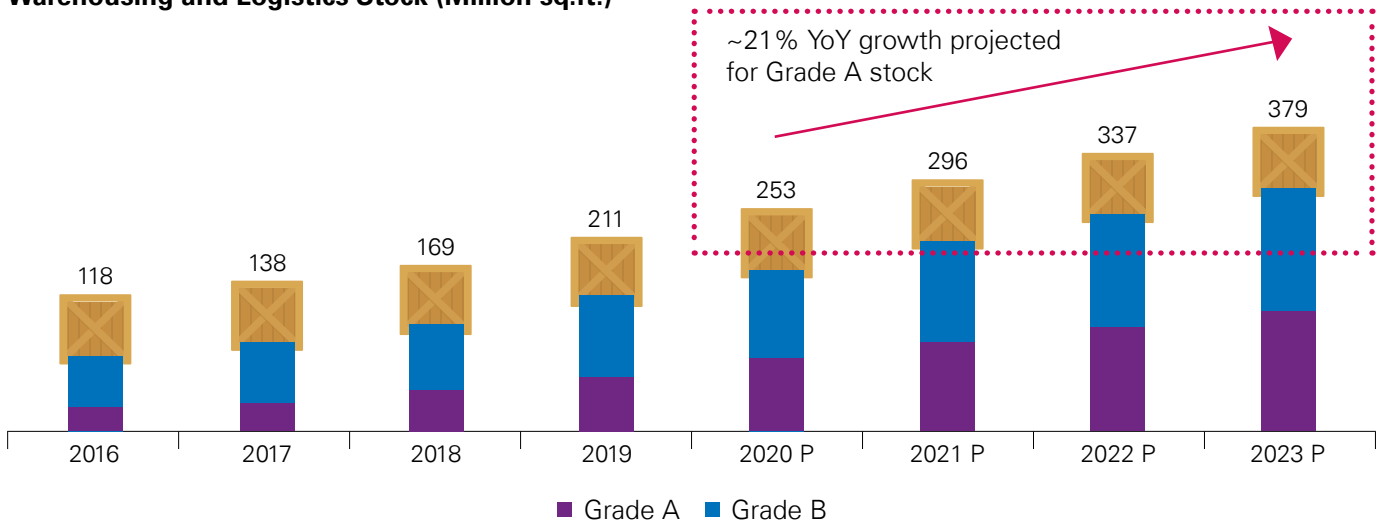
Warehousing-A quicker recovery supported by E-Commerce



- In recent years, growth in the warehousing sector has been primarily driven by 3 PL companies and e-commerce firms owing to consolidation and upgradation to modern facilities. Also, various government reforms “Make in India”, GST implementation etc. has increased uptake from manufacturing companies.
- The warehousing sector witnessed an investment exceeding USD 200 million¹ in the year 2019, mostly accounted by large deals in tier-1 cities. Further, foreign investors and top Indian developers have formed platforms for development of investment grade warehousing spaces.



Warehousing and Logistics Stock (Million sq.ft.)



Source: India Warehousing and Logistics Update ,2019 JLL, accessed on 23 April 2020

1. India industrial and logistics Market View, H2 2019, CBRE, accessed on 30 April 2020.

Select partnerships in warehousing

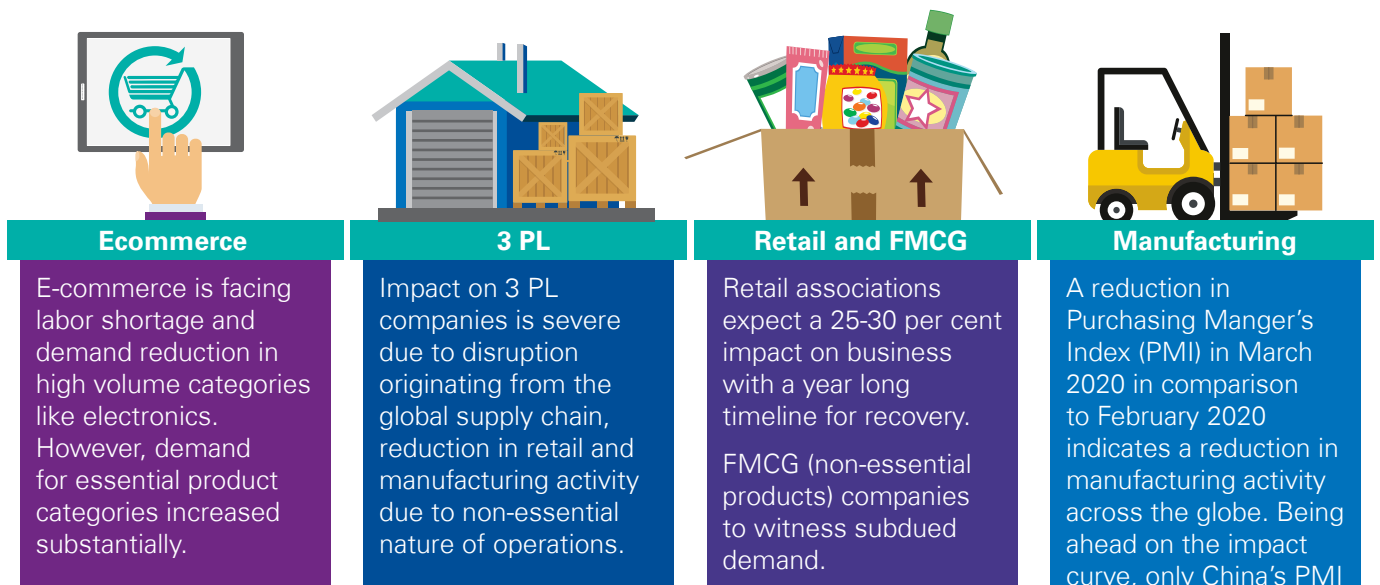
Investor, Developer	Value (USD million)	Platform initiation	Details
CPPIB, Indospace	~1,300	May 2017	Joint platform to acquire/ develop logistics facilities
ADIA, Shapoorji Pallonji	~1,200	March 2019	Joint platform for investment in logistics
Ivanhoé Cambridge, QuadReal, LOGOS India	~800	March 2017	Platform to invest in logistics assets
Blackstone, Hiranandani Group	~350	Dec 2019	Development of industrial and warehousing assets

Source: 'CPPIB, IndoSpace in \$1.3-billion deal', Business Standard, 16 May 2017; 'Shapoorji, ADIA tie up for \$1.2-billion fund to invest in logistics centres', Business Standard, 7 March 2019; 'LOGOS Acquires Two Logistics Parks in Chennai, India', Ivanhoe Cambridge, 25 February 2019; 'Blackstone sets up warehousing platform with Hiranandani Group', VC Circle, 9 January 2020.

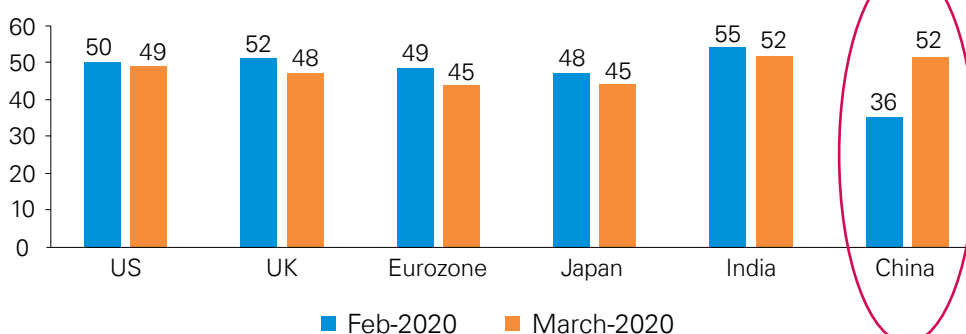
E-commerce and essential product companies limiting the current impact of COVID-19 on warehousing

E-commerce and essential product companies limiting the current impact of COVID-19 on warehousing

- Warehousing space demand is expected to decline with impact on 3 PL, FMCG, retail and manufacturing segments. In contrast, e-commerce is expected to grow with limited impact on their operations.
- Being a workforce-intensive operating model, migrant workforce crisis has disrupted tenant operations and further stalled under-construction projects.



PMI in various geographies



Source: Global Manufacturing Data Shows Pandemic Impact', Investopedia, 1 April 2020; 'China Says Manufacturing Activity Expanded In March, Defying Expectations Of A Contraction', CNBC, 30 March 2020; 'Manufacturing Activity At 4-Month Low, PMI At 51.8, Optimism Low', Economic Times, 3 April 2020

COVID-19 impact on warehousing

Short term (Coming 9-12 months)



- **Rent deferral/structured waivers over reduction** – Varying flexible rent deferral and waiver structures to be offered to tenants subject to assessment of competing relocation options. Large warehousing developers may prefer to lease space to major e-commerce companies at a lower assured rent rather than having higher share of 3 PL players in their portfolio.
- **Demand levels to reduce by 50 per cent** – Currently, India's warehousing sector market had robust absorption volumes of ~37 MSF² in 2019. However, new leasing activity in 2020 is expected to witness a sharp decline (~40 to 50 per cent) compared to 2019.
- **Delays in under construction projects** – Under construction warehouses to experience stretched completion timelines owing to workforce shortage and deferment of construction finance disbursements.
- **Stress expected in the 3 PL segments** – 3 PL tenants comprised almost half of new leases in 2019 (due to consolidation into bigger spaces). Higher vacancy risks and working capital constraints may lead to consolidation, thus impacting the overall demand scenario.
- **Wait and Watch for new investments** – Focus to remain on completion of pre-committed space. Certain stressed asset transactions may witness capitalisation rates moving upwards.

Medium term (12-24 months)



- **A U-shaped demand curve** – With e-commerce companies capitalising on pent up demand and focus on essential categories, warehousing is expected to witness a relatively steeper recovery in comparison to other real estate asset classes.
- **Outsourcing** – Large e-commerce companies may re-evaluate their operations strategy by outsourcing major activities to mitigate associated risks of managing a larger workforce.
- **Rental values may decline 5-10 per cent over time** – Impact will be less severe on markets with lower supply such as Mumbai whereas marginal reduction is expected in supply rich locations such as Chennai and Gurugram.
- **Underwriting the new normal** – Land values are expected to witness a correction in certain overvalued pockets. With construction cost efficiencies and visibility on demand, greenfield opportunities will be pursued subject to meeting investor return expectations.

Long term (24 to 48 months)



- **The Make in India impetus** – Restructured supply chains, preference for local distribution centers and potential shift of global manufacturers from China to other ASEAN countries and India. Ease of doing business and policy framework stability are key to make India a manufacturing hub.
- **Green shoots of Hyper local warehouses in city limits** – Omnichannel presence to drive the need to faster delivery and expansion in strategic infill locations within metro cities.
- **Technology and automation penetration** – Adoption of automated guided vehicles and robotics in operations by global occupiers is expected but limited to it exceeding the cost arbitrage benefits with physical workforce.
- **Robust capital flows** – With a larger portfolio of income yielding ready warehouse assets in India, long term capital investments are expected to increase in the warehousing space in addition to other leading global development firms.

2. India Warehousing and Logistics Update, 2019 JLL, accessed on 30 April 2020

Excerpts from industry interactions

The pandemic has led to a decline in warehousing space demand for major segments (3 PL, Manufacturing, FMCG, Retail etc.) with limited to no impact on e-commerce companies. Given the limited scope for rent reduction, various rent deferral structures are expected to be negotiated on a case to case basis to retain the roster of quality tenants. Also, the trend of outsourcing to 3 PL may increase as customers will demand efficiency, effective risk management and business continuity plans.

In spite of the short term uncertainty, the India investment and warehousing sector growth fundamentals remain intact for the long term and the platform would evaluate investment opportunities with a cautiously optimistic approach.



Alope Bhuniya
CEO
Ascendas-Firstspace

The impact of COVID-19 is set to bring about a behavioral change in consumption which will benefit e-commerce companies leading to a relatively steeper recovery curve for e-commerce warehousing. Rental values are expected to be negotiated over time and may witness a temporary stagnation in relatively higher supply sub-markets. However, we expect supply constrained sub-markets to see a quicker recovery to pre-COVID-19 levels. From an operational perspective, workforce

safety and hygiene measures shall be of high priority for tenants. We expect good opportunities to arise in the acquisition of existing assets and brownfield projects and will look to capitalise on the same.



Jai Mirpuri
co-CEO
ESR India

Warehousing is expected to have a relatively stronger growth trajectory post COVID-19 riding on buoyant demand from e-commerce companies and growing preference by global manufacturing companies for India as the 'next best alternative' to China.



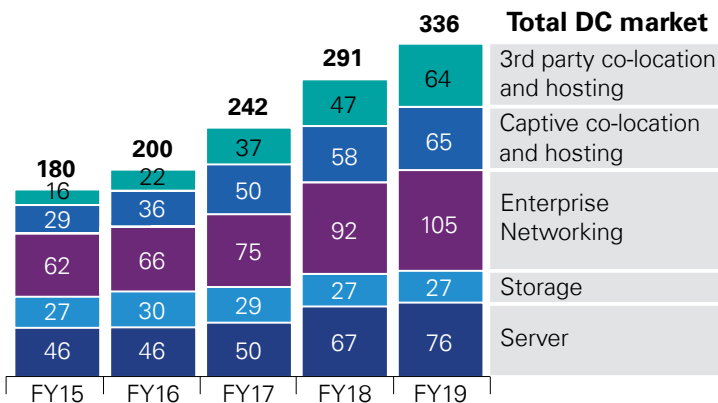
Data Centers-An essential service in the new digital paradigm



Driven by Hyper-scaling and Hyper-localisation, the third-party DC market is expected to quadruple in the next 4 years.

- The third-party co-location and hosting data centers (DC) have grown at a CAGR of ~42 per cent during FY 15-19.
- The Indian third-party DC market is estimated at ~1.2 GW of installed capacity spread across ~8 million sq. ft.
- BFSI, Telecom and Media together occupy more than half of the total DC space in India.
- DCs in India are concentrated in metro and tier-I cities with the top 5 cities constituting 80-85 per cent of the total supply in FY19.
- The industry is fairly consolidated with top 5 players accounting for nearly two thirds of the total capacity in FY19. Although homegrown players currently dominate the market, international players are eyeing the lucrative Indian DC opportunity.

Data Centre Market in India (INR billion)



Source: KPMG in India Analysis, CMR research

Global vs India Data Center Market

Key Statistics – FY 19	Global	China	India
Market Size (INR Billion)	~13,980	~1,175	~336
CAGR (FY15-FY19)	~4%	~20%	~17%
No. of Racks (Million)	NA	~1.5	~0.7

Source: KPMG in India Analysis, CMR research

Recent Capital Commitments for Data Centers in India

Company	Investment (USD Million)	Data Center Investments and Future Plans
Adani Group	~9,800	Plans to setup solar powered DC parks in Andhra Pradesh
Hiranandani Group	~2,100	Setup DCs in Mumbai, Panvel and Chennai over the next 5 to 7 years
Bain Capital (Bridge data centers)	~500	Plans to invest the amount in next 4-5 years
Netmagic	~460	To expand DC capacity with new sites in Mumbai and Chennai
Colt	~300	Planning to build 100 MW hyperscale DC in Mumbai
CtrlS	~280	Three new upcoming hyperscale DCs in Mumbai, Hyderabad and Chennai
RackBank	~130	To setup data park in order to serve the IT industry in Kerala
STT Global Data Centers	~80	To build Data centers in collaboration with Tata communications

Source: “Adani to put Rs 70,000 cr in Andhra Pradesh data centres”, Economic times, Jan 2019, “Hiranandani to invest Rs 15,000 cr to develop data center parks”, Business Line Jul 2019, “Ctrl Datacenters to invest Rs 2,000 cr in 3 new facilities”, Business Line 0 Dec 2018, “India on the verge of significant data expansion”. Business Line – Feb 2019, “ Bain Capital backed Bridge Data Centers to invest USD 500 million in India”, entrackr – Jul 2017, “NTT-owned Netmagic plant another 100 MW captive solar plant”, Business Line – Jan 2020, “STT GDC to invest over Rs 600 cr to build data center in India”, techobserver – Dec 2019, “Rackbank to setup Rs 1000 cr data park at infopark”, Economic Times – Feb 2019.



Data Center operators indicate adequate capacity to manage multifold surge in digital traffic and cloud based services during the current lockdown phase



Demand dynamics

- Overall **data traffic has increased more than 20 per cent** compared to the pre-COVID-19 period. Data traffic and Internet usage during peak hours has continually risen with 35 to 40 per cent increase in ISP traffic.
- Demand for **virtualisation, managed services and cloud infrastructure** gaining traction as enterprise data centers face access restrictions.
- **Capacity utilisation is set to increase** from the existing ~35-40 per cent to at least 50 per cent levels in other markets; Mumbai data centers operating at a ~80 per cent capacity utilisation currently.

Online video streaming has increased by 120 per cent, and gaming by more than 80 per cent; Use of collaboration tools has increased immensely.



Operational aspects

- **Limited impact** on data center operations and workforce due to inclusion in the list of **essential services**.
- Select critical works staff and client-side representatives at site; **Stress testing** for virtual private network (VPN) connections to ensure reliable and uninterrupted access.
- Under development data centers are **witnessing delays in construction and network equipment supply**.

Pre-COVID-19, Over 12 data center projects (1 Million. sq. ft of area, and over 250 MW of power capacity) were under development in India are expected to be operational by December 2022.

Source: KPMG in India analysis; Industry interactions; Media Articles, Artizon-Data Center Market in India-Industry Outlook and Forecast 2020-2025, accessed on 23 April 2020, COVID-19 crisis changes Internet user behavior, De-CIX website, accessed on 23 April 2020.

COVID-19 impact on Data Center landscape

Near term (The next 12 months)



- **Reduced spending on IT infrastructure** – The overall Asia/Pacific excluding Japan (APEJ) services market is likely to experience a hit in the next eight to nine months with reduced IT spends especially among sectors like travel, retail, hospitality, supply chains, and manufacturing.¹
- **Delays in construction and component supply** – Construction timelines may extend **by 6 to 12 months**. The electronics supply chain disruption in China and Korea may lead to **shortages and higher prices for memory and storage components**.
- **Disaster recovery and business continuity initiatives** – Colocation Data Centers and cloud service providers (CSPs) to witness demand for backup data services from IT services firms and other enterprise clients.

Long term (24 months and beyond)



- **Accelerated adoption of Cloud services** – Expansion of large hyperscaler's and rapid digitisation by large and mid-sized enterprises is expected to exponentially increase the cloud penetration in India. Regulatory and security protocols may limit adoption in financial and critical information sectors.
- **Edge computing to drive Tier-II play** – With improvements in power infrastructure and hyper-localisation trends, data center locations in Tier-II markets will gain traction over existing top 4 to 5 clusters in India, which currently house 80-85 per cent capacity.
- **Demand amplification with emerging technologies** – 5G services, Smart Cities, big data, IoT, artificial intelligence, and virtual reality to boost demand for data centers.
- **Rising interest from global investors** – This asset class offers lower to mid teen returns with 5 to 7 year stabilisation period and is a B2B business with longer term contracts and engagements. A globally established asset class evidencing strong growth fundamentals, data centers are expected to generate positive interest amongst infrastructure segment and capital investors for data centers in India.
- **Development of large Data Center Parks** – Incentives for data center parks, data localisation norms and availability of supporting utility infrastructure will lead to consolidation in large clusters.

1. International Data Corporation (IDC) website accessed on 30th April, 2020

Excerpts from industry interactions

Data centers being categorised under essential services have witnessed limited or no disruption due to COVID-19, on the contrary, a positive impact is expected with higher data traffic and digital penetration of MSME businesses going forward. Co-location data centers and cloud data services is expected to have a higher growth trajectory with increased emphasis on security infrastructure and managed services. A trend for edge data centers is expected to emerge with Tier-II markets gaining

traction in addition to existing hotspots such as Mumbai and Chennai. We will continue to evaluate brownfield as well as greenfield opportunities for data centers based on time to market requirements and location dynamics.



Amit Agrawal
 Head Sales and Business Development
 Yotta Infrastructure Solutions

Data centers have largely been insulated from the COVID-19 impact with continued demand is foreseeable considering rising data traffic and business continuity needs. The data center real estate segment is expected to grow multifold in the coming years as India's transition to a digital economy accelerates.



Government Measures to Counter COVID-19 Impact



Curbing Defaults on Debts

Reserve Bank of India (RBI)¹

- Rescheduling of Payments on all term loans outstanding on March 1, 2020, as well as on working capital facilities: 3 month moratorium to curb defaults in repayments and to mitigate the burden of debt servicing brought about by disruptions on account of COVID-19.
- Easing of Working Capital Financing: Lending institutions may recalculate the 'drawing power' by reducing the margins and/or by reassessing the working capital cycle.
- Above measures will not be treated as "restructuring" and hence will not result in asset classification downgrade.
- Extension of NBFC loans to delayed commercial real estate projects by 1 year without restructuring.
- Cutting down the reserve repo rate to 3.75 per cent to ensure cash flow and liquidity in the market.
- Targeted long-term repo operations (TLTRO 2.0) for infusion of INR 50,000 crores in NBFCs to improve liquidity.

Improving Liquidity

Avoiding Insolvencies

Insolvency and Bankruptcy Board of India (IBBI)²

- Threshold of default under section 4 of Insolvency and Bankruptcy Code (IBC) has been increased from INR 1 million to INR 10 million with the intention to prevent triggering of insolvency proceedings against SMEs.
- Period of lockdown shall not be counted for the purposes of calculation of timeline for any activity in relation to a Corporate Insolvency Resolution Process (CIRP).
- 6-month suspension proposed for filing fresh insolvency proceedings under IBC in an effort to stop companies from being forced into insolvency proceedings due to defaults in such a force majeure event.

1. Notifications available on the website of Reserve Bank of India (<https://www.rbi.org.in/Scripts/NotificationUser.aspx>), accessed on April 21, 2020

2. Press Releases available on the website of Insolvency and Bankruptcy Board of India (<https://www.ibbi.gov.in/media/press-releases>), accessed on April 21, 2020



COVID-19 Policy Responses and Way Forward

Real Estate Sector witnessed impetus measures by the Government in 2019, such as NHB infusing liquidity for housing finance companies, relaxation of ECB funding norms, approval of INR 25,000 Crores, Real Estate Alternative Investment Fund, etc.; in effect instilling confidence in the real estate sector. The COVID-19 pandemic and resulting lockdown has brought the industry to a standstill, dampening stakeholders' sentiments. Recovery will hinge on Government led fiscal and regulatory stimuli aimed at providing relief

through regulatory and liquidity measures. While at the onset these measures are a step in the right direction, their adequacy and recovery impact remains speculative. As clarity builds w.r.t lockdown easing, proposed measures may need to be re-assessed to further identify any supplementary reforms required for aiding the recovery of India's Real Estate Sector. Following actions may emerge as possible recovery catalysts:

Health policy responses to flatten the curve

Expected to ensure accelerated improvements to Public Health framework which shall in-turn catalyse the process of achieving a 'new normal'.

Bringing resilience to the way businesses operate

Issuance of guidelines, Standard Operating Procedures (SOPs) and protocols to be adopted by businesses for resuming operations post lockdown easement.

Revisiting regulatory and liquidity measures

Extent and timelines of measures that are already announced would have to be revisited once downtime period becomes clearer. For e.g. measures such as extending moratorium period on term loans and working capital facilities, extension in RERA timelines, extension on NBFC loans beyond 1 year, etc. may require revisiting.

Policy reforms across the value chain

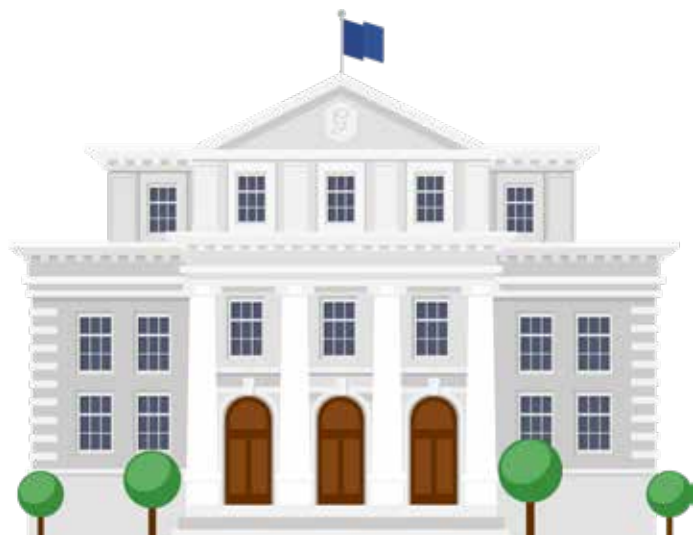
For fast tracking land allotment processes, approval processes, permissions and clearances, labor reforms, etc. for attracting foreign investments considering India will emerge as an alternative manufacturing base, generating induced demand for industrial and allied asset classes.

Creating legislations to reduce burden on commercial tenants while safeguarding owners' interests

Allowing reliefs measures to tenants such as rent deferment, rent discounts, GST rebate on lease payments, etc. while reducing or deferring landlords' liabilities towards debt-repayments, property tax, utility bills, etc. without imposition of interest or penalties.

Demand side incentives to buyers/occupants for reviving market confidence

For instance, providing increased tax benefits on housing loans, discounts on housing loan interest rates, rebate in property tax, rebate in utility bills, etc. may revive buyer interest.



Tax and Accounting impact mitigation measures



Tax incentives and impact suggestions are as on 08 May 2020

Sr.	Incentive/Impact	Description of incentives and impact
A. Tax incentives		
1	Reduction in Corporate Tax rates	In order to provide interim relief, the Government scaled down the corporate tax to 15 per cent for manufacturing companies which commences manufacturing during the specified period. Further, the option was also provided for companies to opt for a lower corporate tax rate of 22 per cent subject to fulfillment of specified conditions. These measures will go a long way in supporting various sectors including real estate sector and 300 plus industries supporting the sector in some or the other manner.
2	Relief in the form of deferment of payment of taxes and compliances	<p>On 31 March 2020, the Hon'ble President of India promulgated the Taxation and Other Laws (Relaxation of Certain Provisions) Ordinance, 2020, to give effect to deferment of timelines for all compliances by taxpayers/tax department falling within the date 20 March 2020 to 29 June 2020.</p> <p>The Government also provided an option to defer the payment of advanced tax, self-assessment tax, regular tax, TDS, TCS, equalisation levy, etc. till 30 June 2020 with a reduced interest rate @ 9 per cent (i.e. 0.75 per cent per month) instead of regular rate of 12 per cent and 18 per cent, as applicable. Further, the taxpayers opting these options shall not be subject to any penal consequences in the form of penalties or prosecution. This will provide some working capital relief to cash starved real estate sector.</p> <p>The due date for availing benefit under Vivaad se Vishwas scheme ('VSV') has been extended from 31 March 2020 to 30 June 2020.</p> <p>The Government also started issuing refunds to all taxpayers where refund amount is less than INR 5 lacs. Further, the Government also announced that it will issue of refunds of large companies to meet working capital requirements. This will provide further relief to various industries including the realty sector.</p>
3	Relaxation in Stamp Duty by Maharashtra State Government	Amid national lockdown, the State of Maharashtra has recently implemented a reduction in the existing stamp duty rates by one per cent in the state for a time period of two years starting from 1st April 2020 onwards. This reduction will ensure a slight boost in the real estate demand in the state.
4	Vivad Se Vishwas Scheme	<p>The Indian Government has recently introduced Vivaad se Vishwas Scheme in Budget 2020 to reduce pending income tax litigations, generate timely revenues for governments and help taxpayers end their tax disputes with the tax department by paying disputed tax and get waiver from Interest and penalty and also get immunity from prosecution.</p> <p>This scheme, coupled with parallel judicial reforms, will contribute significantly to further improve ease of doing business, bolster economic growth and liberate both government and taxpayers from unwarranted litigation.</p>

Sr.	Incentive/Impact	Description of incentives and impact
B. Tax and Accounting issues		
5	Equalisation levy	<p>Non-Resident Real Estate Companies who either sell or rent properties online, shall be subjected to Equalisation levy at 2 per cent on such sale or renting to customers in India provided the consideration exceeds 2 crores from India targets.</p> <p>Further, supply of goods and services by non-resident E-commerce Operator or through foreign.</p> <p>During this pandemic outbreak, this would lead to an additional cash outflow and also would add the burden of obtaining Permanent Account Number in India and undertake respective compliances for payment of Equalisation levy and filing of annual return.</p>
7 Accounting and related Tax issues on account of COVID-19		
7.1	Re-evaluate the business continuity plan	Failure of going concern assumption may lead to restatement of assets and liabilities at net realisable values. The tax impact arising on account of differences in book values and realisable values needs to be evaluated.
7.2	Revenue recognition	<p>COVID-19 has affected businesses significantly and accordingly, its corresponding impact on revenue needs to be analysed. Currently, there is no ICDS which has been notified for Real Estate sector so accounting and tax implications shall remain the same.</p> <p>Revenue recognition and consequential tax implications would have significant impact on some of the asset class like hotels and hospitality, commercial leased properties, tourism related assets as these assets could remain unoccupied or vacant for couple of months even after COVID-19 threat. Accordingly, these implications should be identified, evaluated and addressed appropriately.</p>
7.3	Variable considerations	Further, for real estate developers wherein variable considerations such as price concessions, incentives, performance bonuses, claims, variations, discounts, refunds, right of return, credits etc. are involved, they will need to revisit their contracts/ agreements and further, they will need to determine whether such consideration will still be receivable e.g.) For a real estate developer, if there are any performance bonus linked to early completion before 31 March 2020, then such variable considerations shall not be accounted as revenue due to non-completion due to COVID-19 circumstances. Companies shall need to re-assess/renegotiate their agreements for recognising revenue from variable considerations.
7.4	Onerous contracts	Contract in which unavoidable costs of meeting the obligations exceeds the economic benefits expected to be received under it are onerous. Real estate companies unable to fulfill obligations under contract would necessitate recognition of provision of fees for delay or interest etc. Non obligation towards the contract may also result in provision of fees. Accordingly, such provisions created need to be evaluated from allowability perspective for income tax purposes.
7.5	Insurance claims	<p>Many companies had taken insurance policies to cover loss arising due to certain unforeseen circumstances, and the question now is whether Coronavirus is covered by such policies.</p> <p>Many companies will need this clarity by June as they need to specify this in their annual results. If they are certain that their losses would be covered by insurance, they will have to account it as receivables.</p> <p>One need to examine the taxability of such claim receivable/received by the companies considering the capital and revenue nature thereof.</p>
7.6	Government grants	Grants may be received for loss of profits arising due to COVID-19 impact. Grants received as a part of package of financial or fiscal aids or financial support for compensation of expenses or losses shall be recognised in the profit or loss of the period in which it become receivable as per Ind AS 20 and the same may be taxable for income tax purposes.

Sr.	Incentive/Impact	Description of incentives and impact
8.	Tax issues on account of COVID-19	
8.1	Deductibility of discounts, sales returns, waivers, write offs, reversal, etc.	On account of COVID-19, the consumers and clients are coming with a request to provide discounts, benefits, waiver of rent, waiver of interest, etc. All the request would have impact on the taxation of companies. One need to examine the taxability/ deductibility of such concessions/benefits. In case of waiver of rent by the Property owner an issue arises whether this waiver could be reduced while computing income under the head "Income from House Properties".
8.2	Deductibility of liquidated damages and claims payable by the Indian companies	On account of COVID-19, projects are likely to be delayed and if the companies are required to pay any liquidated damages or claims to the Project Owners or Main Contractors, then one need to examine whether such payments are deductible expenditure as part of business or will it be regarded as capital expenditure. This deductibility depends on the nature of payments, contractual terms and other factors.
8.3	Implications on various business contracts and "ring-fencing" them from COVID-19 implications e.g. Force Majeure, Material Changes, Liquidated Damages, etc.	Given the current scenario, the companies should review their various contracts-both revenue contracts and expense contracts – to examine the implications of these clause on the company, Further, tax implications of these clause would also need to be examined.
8.4	Deductibility of accelerated year end provisions following conservatism approach for accounting purposes	This is an unusual year for majority of companies including many real estate companies have been severely impacted. In order to optimise the overall tax costs, companies should evaluate all its streams of income and expenses and assess whether they can defer the revenues and at the same time accelerate recording of expenses following conservatism.
8.5	Deductibility of expenses incurred on Infrastructure to facilitate work from home or remote locations	In order to maintain continuity of business and also to comply with various compliances, large number of companies have spent extra ordinary amounts on Infrastructure (Hardware, Software, Tools, etc.) to facilitate work from home. One need to examine the deductibility of these costs to optimise ta cost. All expenses may not qualify as deductible expenditure and hence, proper analysis should be done.



The Real Estate and Construction Industry, being the second largest sector has been suffering for the past few years and the COVID-19 blow has further worsened the situation. The Government should support the sector by providing (i) financial support in the form of providing additional funding, loosening lending norms, extending repayment schedules, etc. (ii) Regulatory support in the form of reducing the number of approvals, reducing the timelines for approvals, reducing fees and premiums, etc. and (iii) fiscal support in the form of tax incentives and reduction in GST rates, etc. All these measures will enable the sector to not only survive but to perform to its fullest potential.

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