



India | February 2021

Research

2021 India Real Estate Outlook

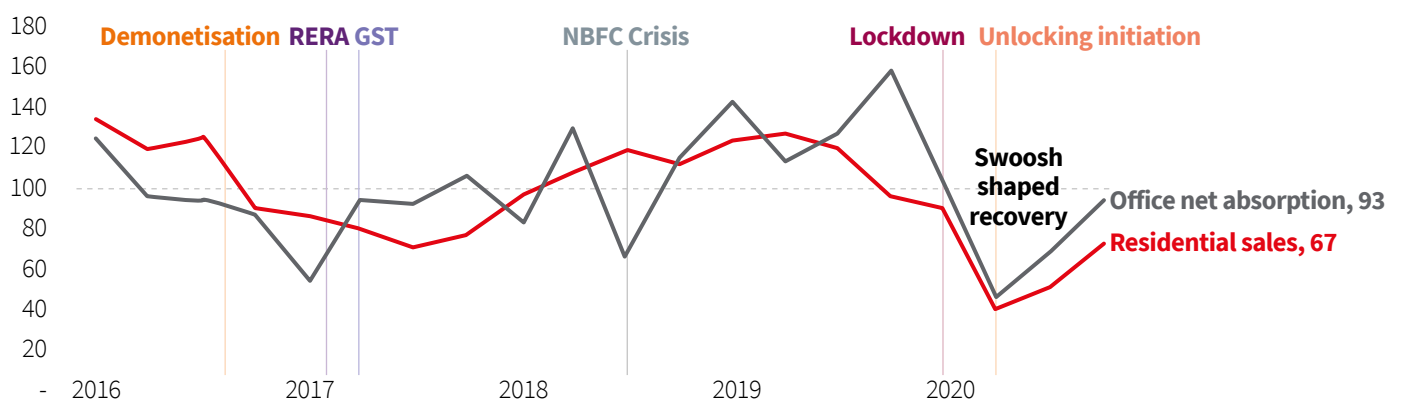
A new growth cycle



A new cycle of real estate growth

The year 2020 was perfectly positioned for the Indian real estate sector to take flight. After three years of disruptions in the form of demonetisation, GST, RERA, and the NBFC crisis, transparency and efficiency were slowly trickling into the system. Instead, the year will be remembered for the pandemic that affected virtually every living person in the country. The nationwide lockdown that followed threw markets into turmoil, bringing more pain and distress to the realty industry. In the face of this unprecedented crisis, the real estate sector displayed remarkable resilience. Once the unlocking process was initiated in the third quarter of 2020, both the residential and office markets started showing promising signs of revival. Further, uncertainties surrounding the economy and jobs reduced in the last quarter of the year, which led to an increase in the pace of revival with the markets tracing a swoosh-shaped recovery path (Figure 1).

Figure 1: Recovery in tandem with relaxation of restrictions



Note: Average quarterly office net absorption during 2016-19 = average quarterly residential sales during 2016-19 = 100
 Source: Real Estate Intelligence Service (REIS), JLL Research



Importantly, real estate was broadly, but not universally affected by the pandemic in a negative way. Industrial and warehousing, along with alternative sectors like data centres thrived in the COVID-19 era, while office, retail and hospitality suffered. With business activities gaining pace and the Indian economy expected to rebound considerably in 2021, several important questions come to the fore – Will this year be the start of a new growth cycle for the Indian realty industry? What permanent changes are we likely to witness? Will any of the asset classes return to pre-COVID conditions?

There is still a great deal of uncertainty around these matters and the long term structural changes are often only apparent with the luxury of hindsight. However, one can be certain about a few things.

While the pandemic may not have caused a paradigm shift, it has definitely accelerated certain already present trends while others have been reversed

Market fundamentals continue to remain strong with investors continuously on the hunt for income yielding assets

There are clear signs of demand coming back in the last quarter of 2020 and the faster than expected recovery of the Indian economy gives an additional edge to the real estate sector

If 2020 was the year that changed everything, 2021 may be the year where change becomes the 'new normal' and adapting to this 'new normal' will require imagination, innovation and digital transformation. The arrival of 2021 will not shake off all the challenges of a pandemic-riddled economy but the groundwork for a sector-wide recovery has been laid. The year is poised to establish itself as the year where India enters a new phase of real estate growth, innovation and investment.

Take care and stay safe,

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At a glance



10.5%
India likely to become
the fastest growing
economy in the world
in 2021



REITs
to drive investments



**Income stability
and diversification**

to be the investment
mantra



30 mn sq ft
Expected net
absorption in 2021

INR 55 billion
Investment opportunity
in upgradation of office
spaces



**Flex space
solutions**
is the future of office

35-37 mn sq ft
Expected net absorption
in 2021 in Warehousing &
Light Manufacturing
(top 8 cities)



**Plug & Play Built
Manufacturing**
Fast & Pre-approved



More than 1 GW
India DC capacity by
2025



**More than
9 mn sq ft**
DC real estate
opportunity until 2025



Digital first
Redefined residential
marketplace



Great time to buy
Affordable ecosystem
and improved consumer
sentiments





Rebound in economy to buoy RE growth

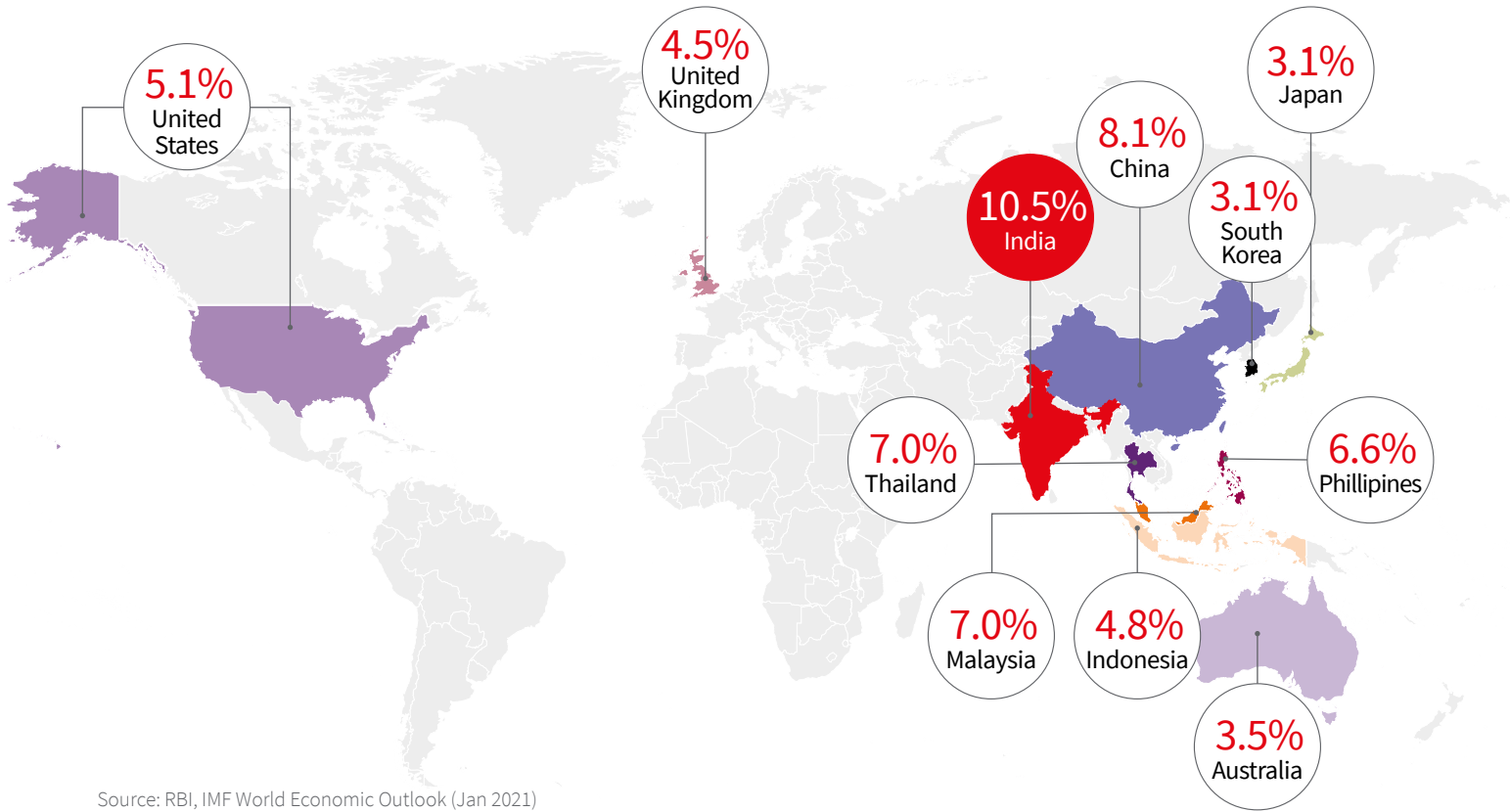
In 2020, the global economy suffered one of the deepest global recessions ever, contracting by an estimated¹ 3.5 percent. The recent commencement of the vaccination drive and the strong pipeline of potential COVID-19 vaccines have renewed optimism of a turnaround in the pandemic. Resultantly, the global economy has been projected to grow 5.5 percent in 2021. Major economies are expected to rebound considerably during the year but the strength of the rebound will vary significantly. When compared to other geographies, the Indian economy is likely to outperform.

The spread of the virus and subsequent containment measures disrupted economic activity across the country in the April-June quarter of 2020. GDP contracted by a record 23.9%. But the situation has improved since then with the economy recuperating at a faster than anticipated pace in the second half of the year. More importantly, India could well be on its way to becoming the fastest growing economy in the world in FY 2021-22.

¹IMF World Economic Outlook, Jan 2021

Figure 2: India could become the fastest growing economy in the world

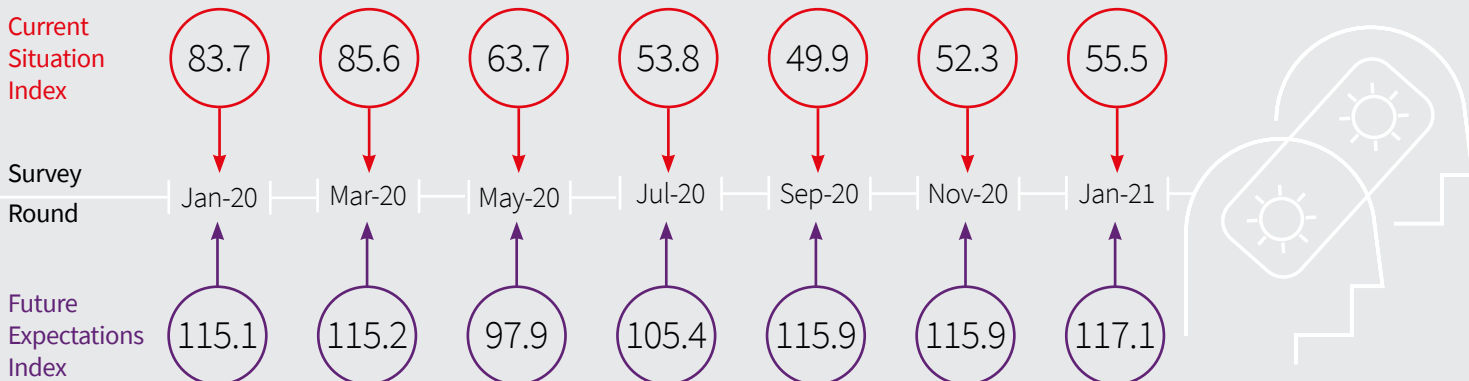
GDP Growth (Projections for 2021)



Source: RBI, IMF World Economic Outlook (Jan 2021)

With economic recovery only just underway, the Reserve Bank of India intends to support economic growth by maintaining its accommodative stance, at least for the first half of 2021. Retail inflation has also been on a declining trend since the 77-month high of 7.6% recorded in October 2020. It fell from 4.6% in December 2020 to 4.1% in January 2021. Hence, the central bank will continue to keep the repo rate at the existing historically low levels, aiding growth. Additionally, consumer confidence continued to improve from its all-time low registered in September 2020. Going forward, consumers expect further improvement in general economic situation and employment conditions in the next one year, as indicated by the Future Expectations Index (FEI). This bodes well for the sustained recovery of the real estate sector in 2021.

Figure 3: Improving consumer sentiments



Note: Current Situation Index (CSI) and Future Expectations Index (FEI) are compiled on the basis of net responses on the economic situation, income, spending, employment and the price level for the current period and a year ahead, respectively
 Source: RBI's Consumer Confidence Survey

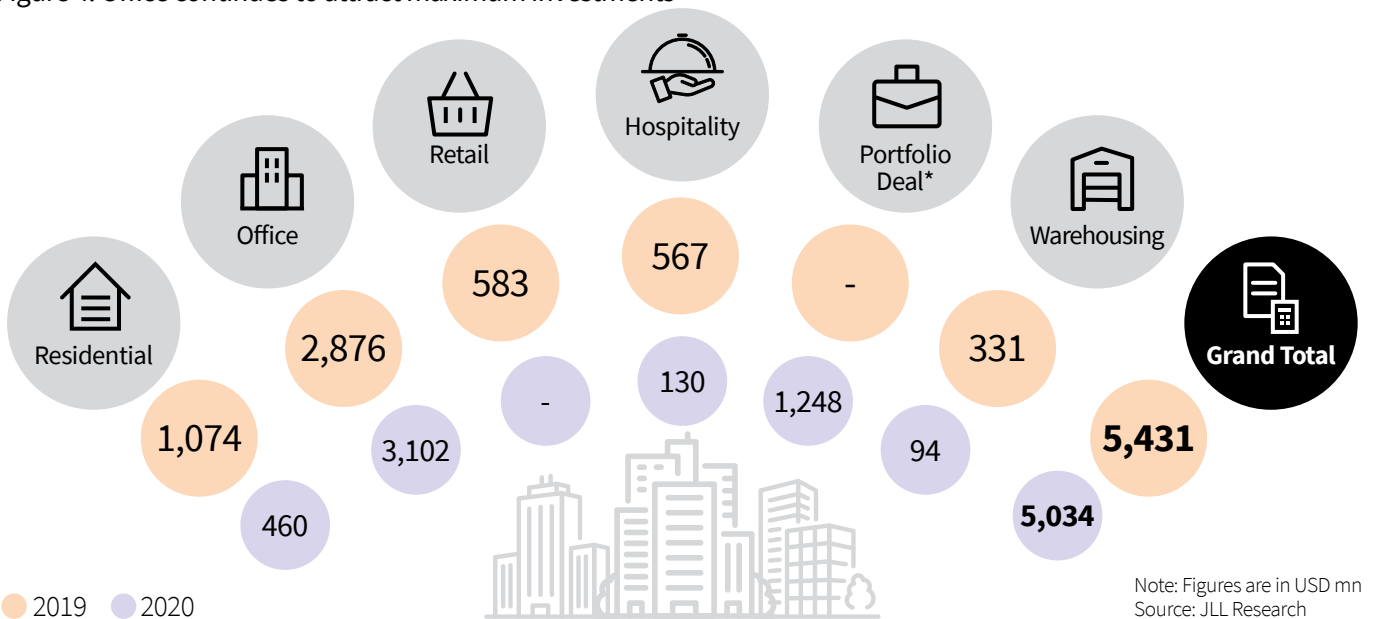


Investment: REIT driven growth

REITs success sets stage for 2021 investment story

Institutional investments² in Indian real estate saw definite short term pullback during the first three quarters of 2020. Most investors remained cautious as asset pricing and revenue stability became challenging, leading to a sharp reduction in the number of deals. However, large portfolio deals during the last quarter led to total investments of USD 5bn during 2020, marginally lower than the previous year. This being said, it is important to note that the primary markets witnessed a strong response to listed REITs, providing a new avenue for retail and institutional investors.

Figure 4: Office continues to attract maximum investments



Note: Figures are in USD mn
Source: JLL Research

²Institutional flow of funds includes investments by family offices, foreign corporate groups, foreign banks, proprietary books, pension funds, private equity, real estate fund-cum-developers, foreign funded NBFCs and sovereign wealth funds. It also includes anchor investors in REITs. The data is compiled as per available information in public domain.



What to expect in 2021?

India has succeeded in keeping the pandemic under control and posting better than expected recovery. The lifting of lockdown and travel restrictions is expected to revive real estate assets, improve income visibility and attract cross-border investments in 2021. Investors are expected to remain moderately cautious and will reposition strategies with improved asset pricing discovery during the year. The large dry powder, low interest rates, and continued monetary stimulus are expected to bring broad-based investment growth. The success of REITs is expected to drive investment momentum with a preference for office assets.

REITs market to drive investment momentum

Listing of new REITs is expected to provide opportunities for institutional investors to build asset portfolios or co-invest with existing platforms before the IPO. The evolution of REITs in India has been very successful with all three listed REITs getting oversubscribed. The recent Brookfield group sponsored REIT, which was opened for subscription on 3rd February 2021, saw a good response with eight times oversubscription. Good sponsor quality, track record, transparency and delivering predictable returns have caught the attention of foreign investors looking for stable yield and regular returns. Landlords owning income yielding core office assets have been forming strategies to list their assets through REITs. The provision of the Union Budget 2021-22, allowing to raise debt from

foreign portfolio investors at low cost will lead to more asset acquisitions by REITs. Office assets are expected to be the preferred option due to stable rental yields and income visibility.

Income stability and diversification to gain pace

The pandemic led uncertainty continues to influence investment outlook. Investors are likely to focus on assets with higher yields and lower rental growth to ensure stability of income. Though office assets will continue to attract maximum investments, defensive assets like logistics and data centres would provide opportunities and are expected to gain traction. Investments in retail and hospitality would also gain traction in line with economic recovery.

Higher visibility on asset pricing

Asset pricing is expected to improve with resumption of full economic activity during the year. Core office assets with steady incomes are likely to benefit from better price discovery. On the other hand, opportunistic assets are expected to witness more price adjustments as they lack income certainty and entail more risk.

Emerging Indian REITs market is expected to attract cross border flows and further improve transparency and asset pricing leading to more mature markets. This loop of increasing maturity and capital flows will lead to investments in Indian real estate scaling new peaks.

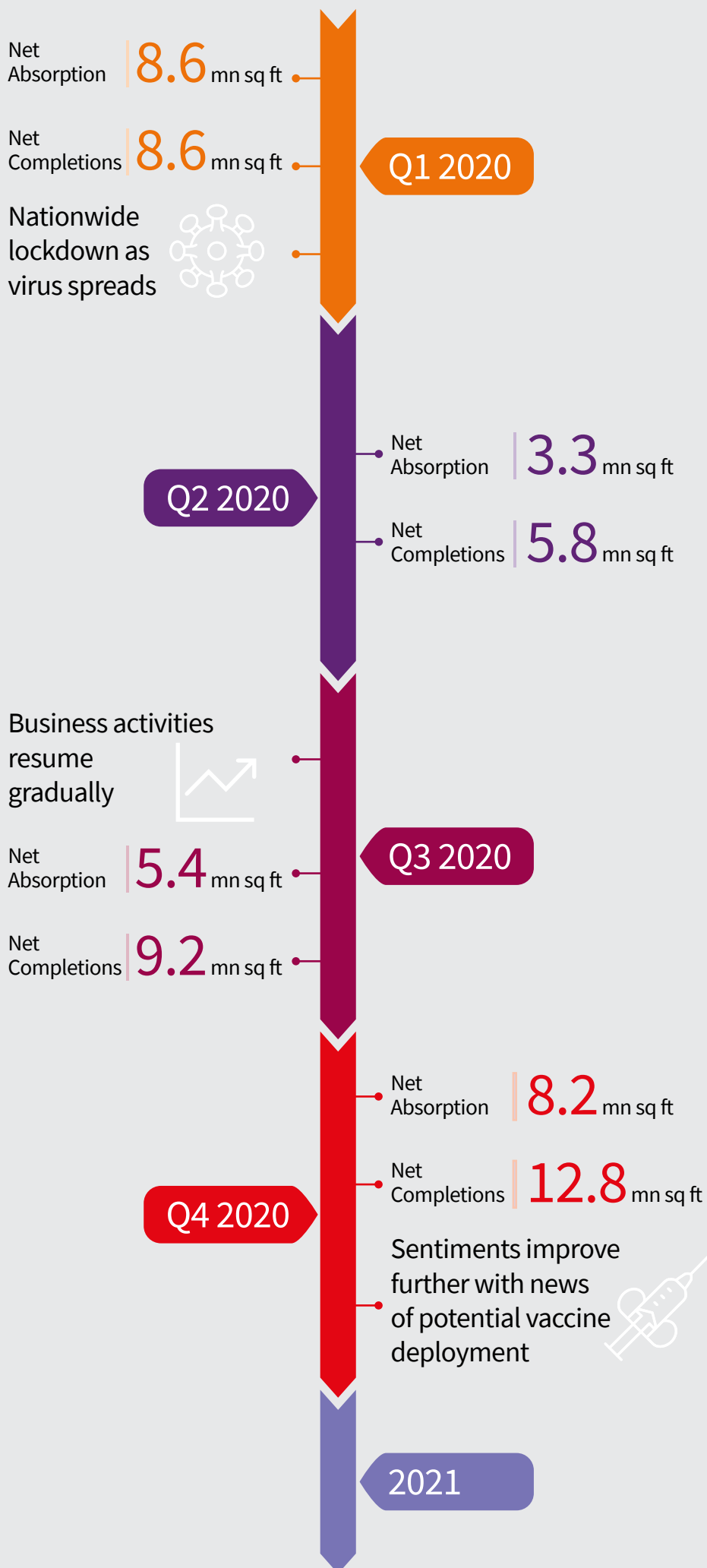


Office: flexibility is the future

Sustained recovery momentum in the second half of 2020

The office market in India reached its peak in 2019, with net absorption of Grade A spaces crossing 46 mn sq ft and new completions breaching the 50 mn sq ft mark. The market was expected to continue its flight in 2020. However, the COVID-19 pandemic and subsequent containment measures brought about unprecedented challenges for the office sector in the second quarter of 2020. Corporate occupiers were forced to adopt work from home practices and reimagine their workplace strategies. Major real estate decisions were delayed, hampering demand. Business activities resumed with the gradual opening up of the economy in the third quarter of 2020 and the office market witnessed green shoots of recovery. Sentiments improved further in the last quarter of 2020 with the news of potential vaccine development, and the office market continued its recovery momentum. Net absorption increased by 52%, while new completions grew by 39% when compared to the preceding quarter.

Figure 5: Greenshoots of recovery in the latter half of 2020



What to expect in 2021?

In 2020, a nationwide lockdown forced corporates to adopt work from home practices. This mass remote working experiment was relatively successful, which challenged traditional notions and prompted corporate occupiers to rethink workplace design and utilisation. Corporate occupiers started prioritising business continuity and building mechanisms to insulate against sudden economic fluctuations. Additionally, a cautious approach to capital expenditure was adopted. These changes are likely to shape the future of the office market in India. This being said, it is important to note that companies have started welcoming employees back to offices. The proportion of the workforce that has returned has increased in the past few months and this trend is expected to continue. However, many companies might retain a hybrid work style combining remote working with office use. The post-COVID ‘new normal’ for offices will be characterised by hybrid work models with an enhanced focus on sustainability, wellness and user experience.

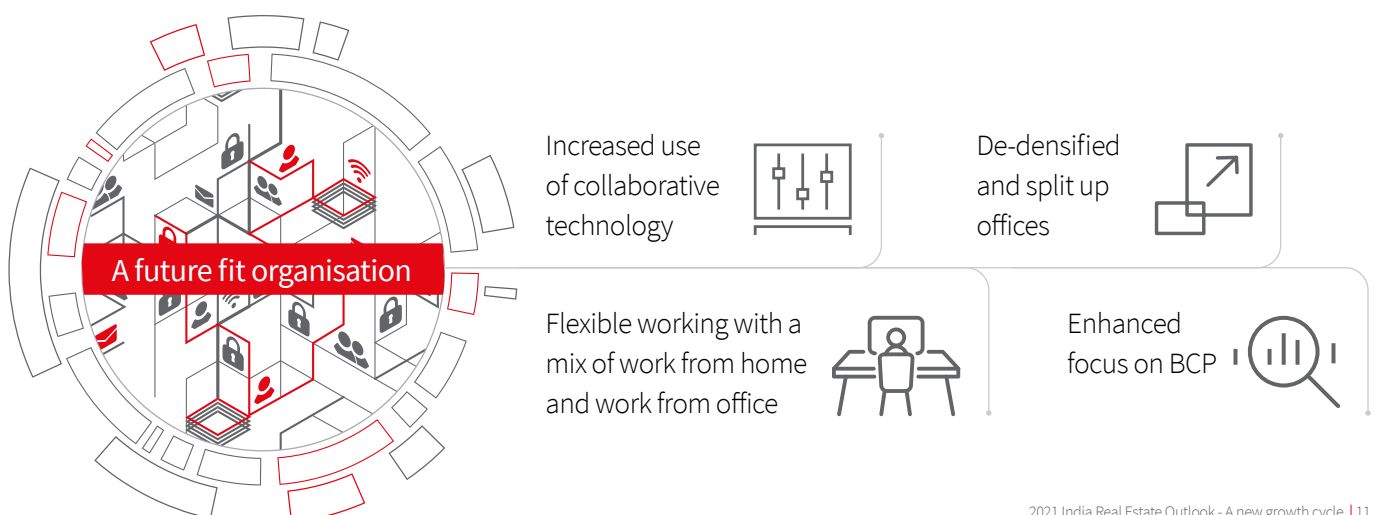


Future fit organisations to adopt flexible working practices

In the future, the ability of corporate occupiers to continuously adapt to changing conditions will be essential for success. A future-fit organisation will be characterised by a hybrid work model including home offices, flexible workspace, satellite offices, and headquarters. The right balance will be different for every company with optimal human performance being the end goal. However, the main office will continue to serve as a meeting focal point for employees who require face to face interactions. Resultantly, the configuration of a typical office might change to include more collaborative and innovation spaces. It is important to note that the impact of these strategies on future office demand is expected to be minimal and it will be counter-balanced by increasing demand from emerging sectors.

Organisations are also investing in building their digital capability to ensure a smooth remote working experience. Moreover, companies are rethinking their office locations and evaluating the feasibility of establishing a network of offices spread across different locations. With rapid infrastructure improvements, many cities have established new decentralised business hubs and these will attract occupiers seeking quality spaces at lower costs.

Figure 6: Metrics of a future fit organisation



Flex space providers to benefit

The Indian flex space market grew at a CAGR of ~50% between 2017 and 2019, accounting for as much as 14% of the leasing activity in 2019. This growth was halted by the pandemic in 2020. Prominent flex space operators shifted focus to ‘profitability’ and ‘managed growth’. The current market penetration of flex spaces in total office space stands at ~3.0%. In 2021, India is expected to witness deeper penetration of flex spaces as corporate occupiers continue to shift away from long-term capital intensive commitments. Flexible space solutions will be leveraged to satisfy temporary space needs, support a more mobile workforce and enter new geographies. In fact, driven by increased demand from large enterprises, we expect the size of the flex space market to reach nearly 39 million sq ft in 2021.

Figure 7: Increase in flex space stock³



Source: Real Estate Intelligence Service (REIS), JLL Research

Focus on sustainability and wellness

Occupiers are increasingly demanding high quality, tech-enabled and wellness-enhancing buildings. The enhanced focus on health and safety will lead to use of advanced technology to provide cleaner buildings, sensors, touchless entry and contact tracing apps. Landlords will have to meet these higher standards in order to attract tenants. This will lead to a trajectory of graded office developments. Furthermore, the reimagination and upgradation of outdated office spaces, especially in the larger markets of Bengaluru, Delhi NCR and Mumbai may become a defining theme from 2021 onwards.



³(re)Imagine Flex Spaces: A 360° View

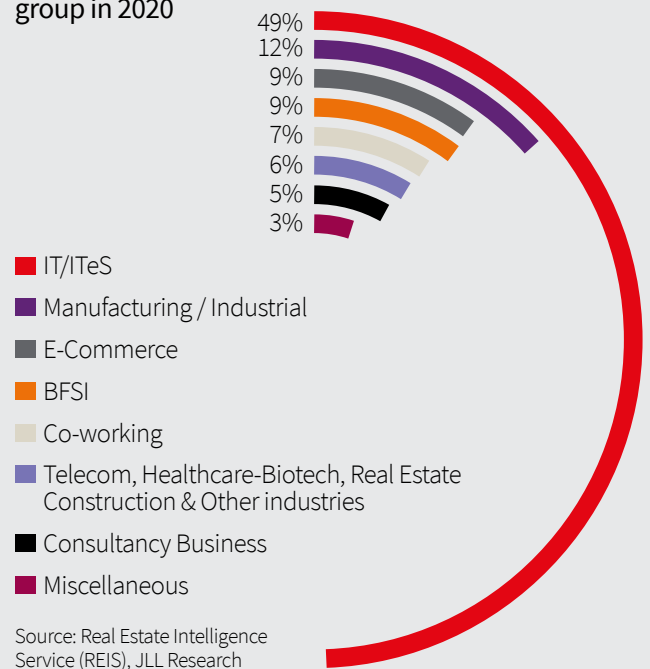
⁴Futureproofing 2.0: Upgrading commercial assets to create lasting value

Strong fundamentals to drive the market

Sustained demand from IT/ITeS occupiers; increased demand from e-commerce, healthcare and FMCG

The resilience displayed by the office market in India since the pandemic owes much to the fact that the IT/ITeS sector has been largely unaffected by the economic downturn. IT/ITeS occupiers continued to account for a majority of the office leasing activity in 2020. At the same time, the year witnessed increased traction from sectors such as e-commerce, manufacturing and healthcare. In 2021, we expect the IT/ITeS sector to remain the key occupier group while demand from emerging sectors such as e-commerce, manufacturing and healthcare is likely to increase further.

Figure 8: IT/ITeS continues to remain the key occupier group in 2020

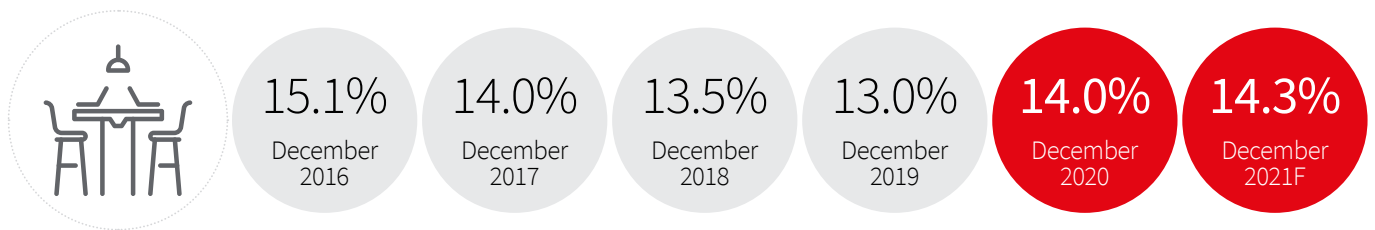


Range-bound vacancies and stable rents

Vacancy in Grade A office spaces in India have stayed below the 15% mark since 2017. Even during a pandemic riddled year, vacancy increased marginally and is expected to remain range-bound in 2021 as well. Given the range-bound vacancy levels, office rents in 2020 remained stable across the seven major office markets in India. However, landlords did take into account the situation and were more accommodating to the demands of occupiers. Landlords across markets were more flexible in providing increased rent free periods, reduced rental escalation and fully furnished deals to prominent occupiers which reduced their net outgo. But the reduction of headline rents was not a popular phenomenon. With stable rental values and low vacancy levels, the office market in India will continue to be characterised by strong fundamentals in 2021.



Figure 9: Range bound vacancy levels

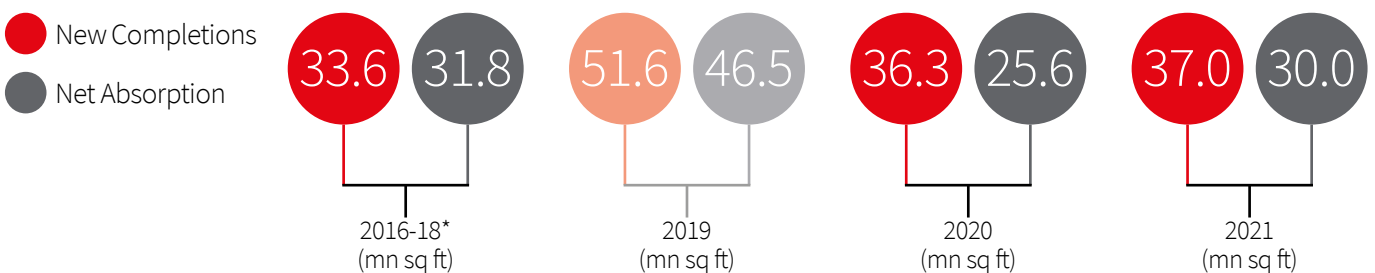


Source: Real Estate Intelligence Service (REIS), JLL Research

New cycle of office market growth

Strong market fundamentals in the form of sustained IT sector growth, increasing demand from sectors such as e-commerce, healthcare, FMCG and the growing presence of institutional investors will continue to drive the office market in 2021. The year is expected to witness close to 38 mn sq ft of new completions, while net absorption is likely to hover around 30 mn sq ft. This will be at par with the annual net absorption levels seen during 2016-2018. With the rollout of vaccines and the further easing of COVID-19 fear, there is a lot to look forward to and 2021 will be the year when India enters a new cycle of office market growth.

Figure 10: Sustained revival in new completions and net absorption



Note: *Average annual net absorption between 2016 and 2018; 2019 is not considered since the year was an outlier with exceptionally high levels of market activity
Source: Real Estate Intelligence Service (REIS), JLL Research



Industrial: transformation in the sector to meet future demands

Industrial segment on recovery path post COVID-19 lockdown

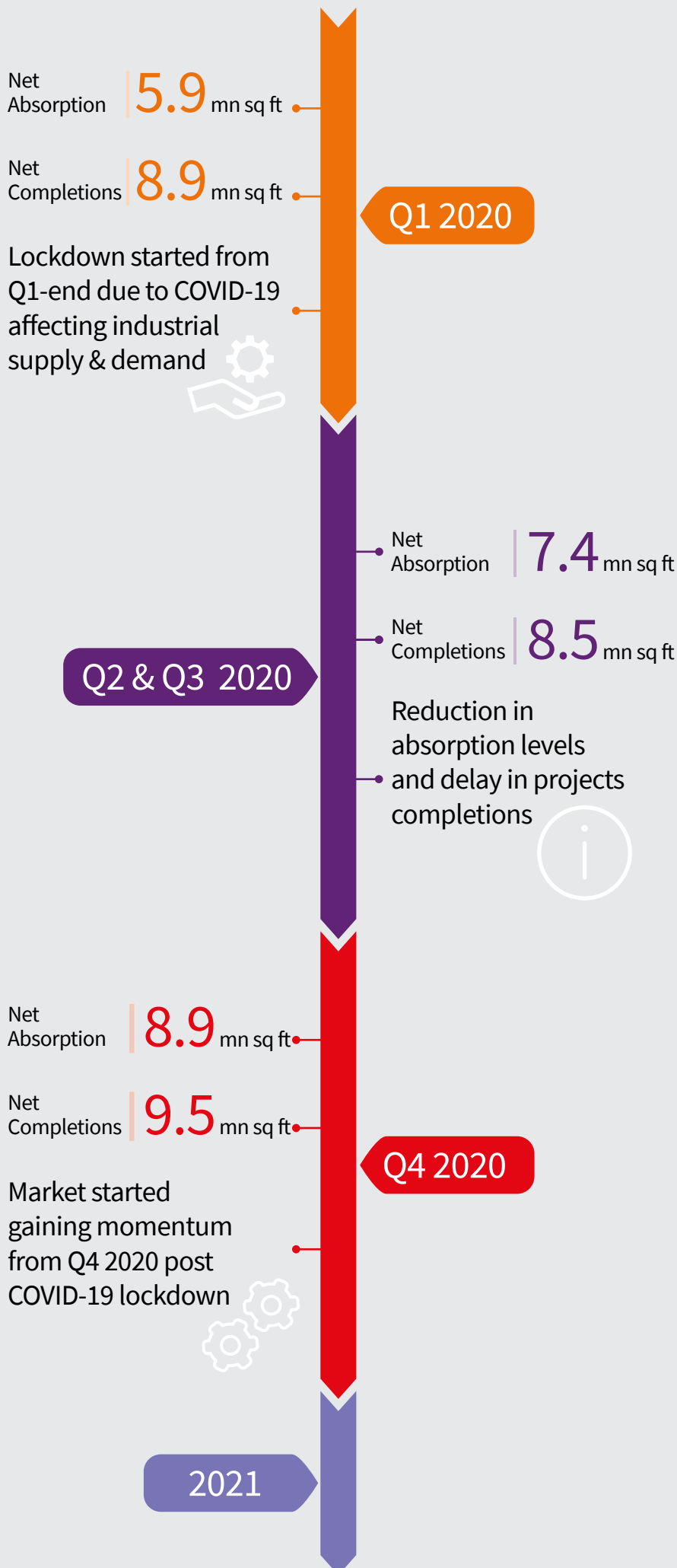
2020 has been a volatile year for business across the world, warehousing is no different. Prolonged Lockdowns have impacted project construction timelines and end-users have also at times taken 'wait and watch' strategy. Important point to note, end -users / tenants have looked for new and innovative ways to taking up spaces on short term / temporary leased of tenure 9 -12 months for leasing of 'white spaces / unused spaces' in existing leased warehouse on sub-lease. Unfortunately, these does not get captured in Net Absorptions (considering these are already leased).

In Q4, the market started gaining momentum with highest supply and absorption in 2020 post COVID-19 lockdown. Industrial spaces witnessed a 13% y-o-y growth in total stock in Grade A & B warehousing space in top eight cities. The overall warehousing space stands at 238 mn sq. ft. at the end-2020 compared to 211 mn sq. ft. in the previous year. So, a net supply of 27 mn. Sft.

2020 witnessed a net absorptions of 22 mn sq.ft. However, if we consider gross absorption (Gross Absorption = Net absorptions + Renewal + Churning), that's close to 31 Mn. Sft. Interestingly, Grade A properties have been in demand due to adherence to additional hygiene and safety norms and more than half of the absorptions were in Grade A spaces.

3PL has emerged as the largest occupier of warehouse space in 2020 followed by E-Commerce. 3PL and E-Commerce contributed to almost 60% of the total absorptions in 2020.

Figure 11: Industrial Market gaining momentum in the last quarter



What to expect in 2021?

Increase in Net Absorption

Economy across the world is indeed recovering in 2021 and as we probably foresee a ‘V-Shaped’ one for India, the demand is expected to stay strong in 2021. Tenants will intend to go aggressive to cover unavoidable delays in 2020. While it’s difficult to forecast the numbers, but if the external conditions stay stable (eg. No relapse of COVID / Lockdown, effective vaccine administration etc.), the absorptions in 2021 is expected to be around the 2019 numbers. JLL expects the projected absorption numbers in 2021 to be close to 35 - 37 Mn. sft.

Vacancy levels hovering around 10%

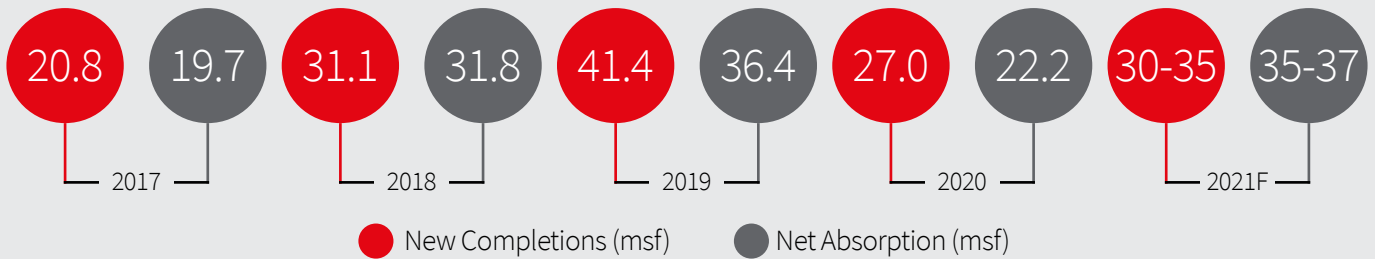
Vacancy rate in warehousing segment hovered around 10% for the last 5 years and had shown the same tendency even during 2020. The delayed projects of 2020 are expected to be completed in 2021 resulting in increase in supply. Therefore, the vacancy is expected to marginally increase, however, it would still likely to hover around 10% in 2021.

Supply - Demand dynamics

The last quarter of 2020 witnessed highest supply as compared to the other quarters of the year as the delayed projects have started getting completed from the last quarter. In 2020, the warehousing supply addition of Grade B has decreased, whereas Grade A has witnessed an increase in supply due to changing developer preferences

because of COVID-19. Similar trend was observed in the net absorption in 2020. Q4 2020 witnessed highest net absorption in the year as the industrial market started gaining impetus post COVID-19 lockdown.. These trends in supply and absorption are expected to continue in the coming years with more focus on Grade A spaces.

Figure 12: Annual New Supply and Absorption Trend

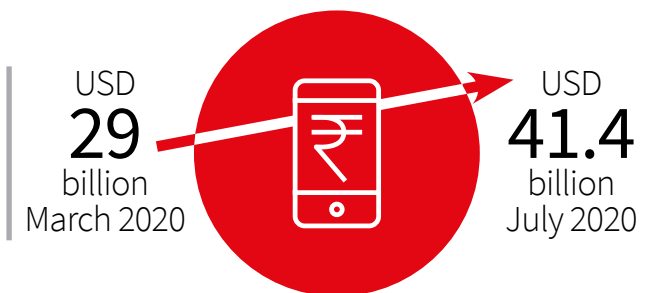


Emerging Trends in 2021

Growth in E-Commerce segment

Space Demand from Ecommerce to gain traction as e-commerce penetration is set to increase. Many e-commerce categories are expected to boom, as people make a behavioural shift from buying offline to online. COVID-19 has accelerated e-commerce adoption rates, leading to an increase in the demand for online delivery of essential and non-essential items.

Figure 13: UPI Transactions during lockdown period



New consumers started migrating online for grocery shopping, a trend which is most likely to be sustained post-COVID-19. Online grocery platforms have witnessed an increase in new users by 14-15%, and the number of orders from the existing users has doubled during the lockdown period. These trends will increase the space demand from e-commerce players in the upcoming year 2021. India's e-commerce penetration as % of retail stands at 7% as compared a global average of 15%, which shows the potential of growth in the sector.

3PL driving major warehousing demand

3PL has become one of the fastest growing segment in warehousing space. Considering 3PL brings in the necessary economies of scale for multi-tenant sites, the potential growth is significant, It contributed to nearly 35% of the total net absorption in 2020, highest among all the other sectors. Demand from 3PL has increased as different sectors such as e-commerce, engineering, electronics & white goods are routing through 3PL. Space Demand from 3PL/Logistics may increase in 2021 as many large & medium manufacturing may offload part of their inventory management to optimise the cost.

In-City / Urban Logistics

Urban logistics should gain importance with growth for in-city warehouse space for faster deliveries to end users with growth in e-commerce segment. E-commerce is penetrating deep inside the cities in the busiest of commercial, retail and residential areas. Constrained supply is also driving re-positioning / usage change of existing assets like malls, high-street retail, marriage halls, auditoriums, showrooms and workshops.



Trends in Built Manufacturing

India stands out as a potential manufacturing powerhouse and its manufacturing sector has the potential to become an engine for economic growth and employment. The country ranks 1st in terms of vaccine production & generic medicines provider, 2 & 3-wheelers manufacturing, production of cotton & jute, ranks 2nd in mobile handset manufacturing, production of food grains, fruits & vegetables and 3rd in pharma industry by volume in the world. New trends have been observed in the built manufacturing sector such as flex manufacturing. Built manufacturing comes with lot of advantages like – pre-approved for many manufacturing sectors / processes, fast entry by a manufacturer as these can be ready plug and play facilities or Built – to suit. 2020 witnessed gross lease of 6.6 mn. Sft. in top 8 cities. There has been transactions in 2020 for such spaces in Electronic, Mobile Component Manufacturing & Assembly, Home Appliances Manufacturing and Assembly, Medical Devices Manufacturing, Auto, Electric Vehicle, Engineering Assembly & Workshops, packaging etc.

Cold Chain Industry in India

The cold chain industry in India is also transforming post COVID considering the growth in Food and Pharma. For food, ‘Frozen is the new fresh’ mantra is driving growth with customers looking for hygienic frozen meat, chicken over buying from open market. Additionally, the Vaccine storage drive is also opening opportunities in smaller pockets. There are 8,186 cold storage facilities with a capacity of 37.4 Million MT (source: PIB by Ministry of Agriculture & Farmers Welfare on Cold Storage Facilities in the Country) available in the country which are largely used for storing perishable horticulture produce (83%) such as fruits and vegetables. The Indian cold chain market was estimated to be worth USD 19.6 Billion in 2020 and is further projected to reach USD 36 Billion by 2024, growing at a CAGR of 16%. The production of perishable goods has increased consistently since 2014-2019 and it is expected to increase in the coming years. This will increase the demand for cold chain facilities in India. Organized retail and food service industries have also emerged as the new cold chain segments, majorly due to changing consumption patterns. Moreover, India needs to significantly ramp up its cold chain facilities for the safe delivery of vaccines for mass immunization against COVID-19.



Rise of Omni-Channel Retailing

Omni-channel retailing is expected to help in optimizing inventory holding costs, operating costs and real estate costs, while increasing brand prominence and consumer base across the country. The advent of e-commerce has significantly impacted the warehouse scenario. Customers using multiple channels to shop is changing the demand profile with smaller, more frequent orders. This paradigm shift requires a different strategy offering a more flexible, e-commerce-centric fulfilment methods. This requires continuous evaluation of the order pool and automatic releases based on variables such as order priorities and facility processing capacities. With omni-channel focus, customers expect new alternatives such as buying online and pickup in-store or ship from store. Effectually, this transforms a traditional retail store into a fulfilment center.



Data centres: regulations to act as a catalyst

Pandemic reinforces data centre growth story

The data centre (DC) industry in India witnessed secular growth trends over the years driven by large mobile user population, increasing digital usage and cloud adoption. But its role got further enhanced as people relied on data for work, play and learning during the lockdown. Data consumption increased by 16% from 13.6 GB per smartphone user per month in 2019 to 15.7 GB in 2020. Pandemic spurred additional demand during the year due to growing usage of e-commerce, OTT, gaming platforms and work-from-home environment.

What to expect in 2021?

The year 2021 will be a defining year for the Indian DC industry as the passage of key legislations will give definite push to local data storage. This coupled with the likely roll out of 5G technology, edge computing and internet of things (IoT) will drive new demand. We expect Indian DC industry to add ~703 MW (IT power load) supply during 2020-25, translating into an opportunity of 9.3 million sq ft of real estate development. Mumbai is expected to witness the highest capacity addition followed by Chennai, due to infrastructural advantage of submarine cable landing stations, assured power supply and user demand.

Draft Data centre policy aims to make India a 'global data hub'

The role of the industry in the digital transformation of the nation has been recognised by the government, which came out with a Draft Data Center Policy to provide stimulus and support for making India a global data hub. The personal data protection bill is in the final stages of the legislation. Various state governments have provided financial and infrastructure incentives to the operators and developers to set up DCs. The enactment of these laws will set a clear path for the DC industry operators and other stakeholders leading to strong growth in demand and capacity addition.

5G roll out and other technological innovation to drive growth

The expected roll out of 5G services in India is expected to enhance the development of smart cities, Industrial Internet of things and data led innovation. The low latency and growth of edge computing will lead to higher digital growth. The increasing smartphone user population will further create demand for data storage.

Ambitious expansions to gain pace

Global and domestic DC operators are increasing their foothold through expansions or acquisitions. Hyperscale operators/developers are expected to adopt land banking and scalable modular design to reduce time-to-market. Operators will move towards yield on cost-based Build-to-Suit (BTS) leasing financial model.

The India DC landscape is expected to see dramatic changes with supportive legislations, rollout of 5G and large user market attracting investors towards this asset class.

Demand Drivers

Work from home



Online education



Social media



OTT and on-demand video



E-commerce



Online gaming





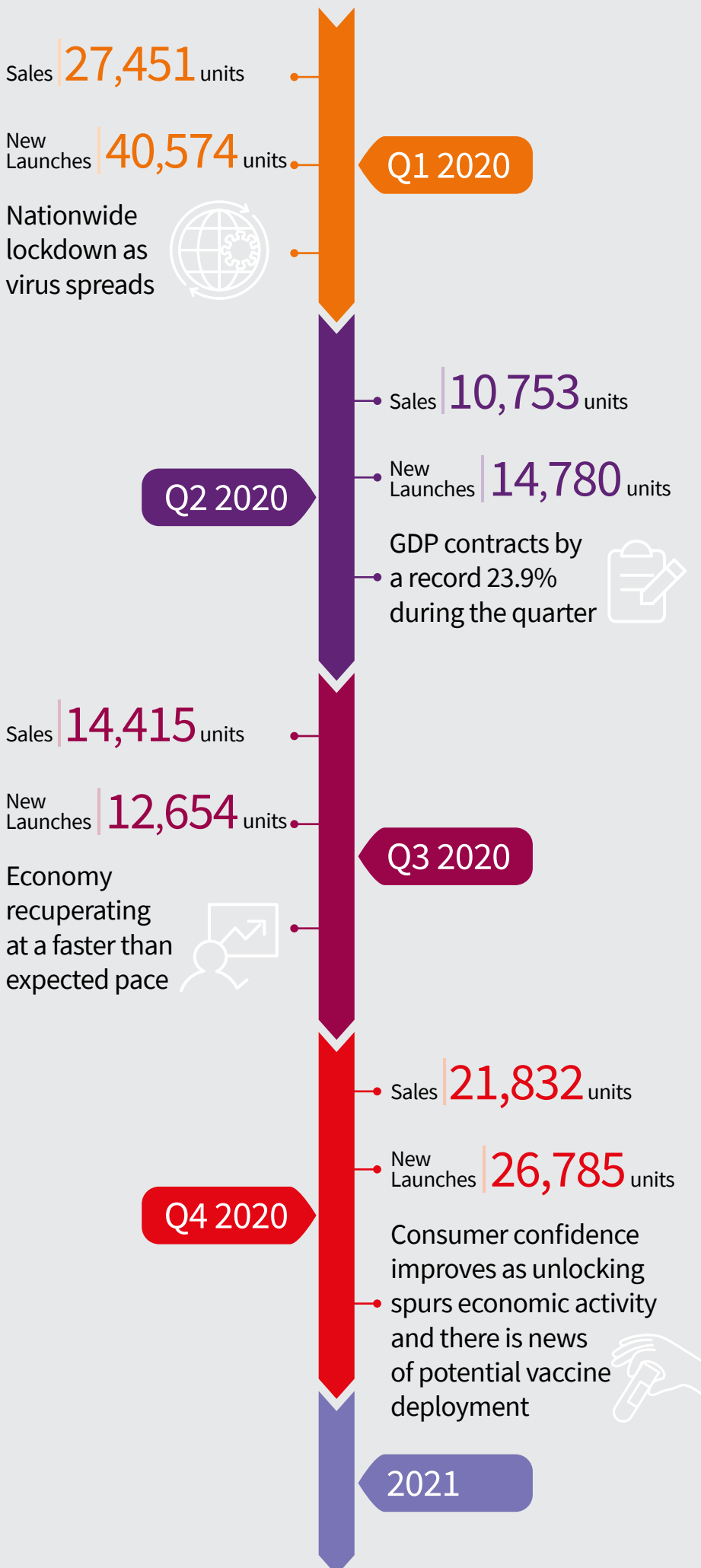
Residential: affordable ecosystem and improved consumer sentiments

Recovery in tandem with decrease in uncertainty around the economy and jobs

India's residential real estate market had been passing through turbulent waters in recent years. The pandemic dealt another blow to the residential market. Sales of residential units plummeted in Q2 2020, with prospective buyers postponing their purchase decisions. However, while overall volumes did contract to a significant extent initially, a majority of the markets showed signs of quick recovery on the back of the pent-up demand built during the lockdown months.

GDP in the July-September quarter of FY 2020-21 showed higher than expected recovery. During the same quarter, the housing market showed some initial signs of recovery, with sales increasing by 34% on a sequential basis. In the backdrop of structural issues like job security and fall in income levels, this uptick in sales was a significant achievement. In Q4 2020, uncertainties around the economy and jobs started reducing, which led to an increase in the pace of recovery in residential real estate. New launches and sales across the seven key markets under review witnessed a significant jump.

Figure 14: Increase in activity as sentiments improve



What to expect in 2021?

While there is still a long way to go, the worst is behind for the residential sector. The challenges faced by residential real estate in 2020 have, in fact, become the catalyst in providing stimuli to the industry for sustained growth. With people spending an inordinate amount of time at home, the lockdown re-established the importance of owning a house. At the same time, the Central Bank is leading the way to recovery by holding policy rates at historically low levels to initiate a cycle of consumption led growth. This has resulted in extremely low mortgage rates. And, prices have also been stagnant for the past few years. This affordable synergy makes it a great time to purchase a home. Furthermore, the market is also witnessing renewed interest from Non-Resident Indians (NRIs) impacted by economic uncertainties in Europe and the Middle East.




Only credible developers, who are customer-centric and possess proven execution capability as well as quality products will survive and emerge stronger in the 'next normal'. The preference of buyers for such developers with a proven track record will drive further consolidation, increase transparency and drive the sector to the next phase of growth.

Increased desire to own a house and renewed interest from NRIs

The significance of owning a home to avoid the uncertainties of living in a rented accommodation was reinforced during the pandemic. The desire to own a home is perhaps now stronger than ever. Moreover, while end users continue to drive demand, there is renewed interest from investors and from Non-Resident Indians (NRIs) impacted by economic uncertainties in Europe and the Middle East.

Changing homebuyer preferences and product metrics

A healthy lifestyle will be a key criterion for homebuyers in the post-COVID era. Resultantly, preferences will tilt towards larger homes in self-contained complexes with facilities like gym, green open spaces and access to daily necessities. Moreover, with work from home becoming a reality, product metrics are likely to change.

	Customization to suit buyer needs
	Apartment with balconies and open spaces to be preferred
	Increased importance of study rooms, good network and broadband speed as well as acoustics

Also, remote working practices will increase the attractiveness of suburban markets. Suburban markets offer lower density environments and more spacious apartments at affordable rates. Since, travel to office may no longer be an everyday activity, the importance of connectivity to office hubs will no longer dictate home purchases.

It is also pertinent to note that project delays, especially in the NCR market, could be cited as one of the biggest reasons behind a demand slowdown that has gripped India's residential market in the last few years. As delivery timelines remain a key concern even now, demand for ready-to move-in homes is likely to be remain strong. However, the effective and uniform implementation of RERA across all states/UTs in India is expected to improve the confidence of homebuyers and ultimately, lead to greater sales traction in under-construction residential projects.



Prominent residential developers will continue to adopt a digital first approach

The rapid adoption of technology in Indian real estate is expected to continue with the COVID crisis expediting the entire cycle. As physical interactions were restricted, there has been a significant change in the way activities are carried out.

	Digital marketing to become prime channel to market properties and generate leads
	Online construction progress monitoring
	Property videos will become a necessity instead of a luxury
	Use of VR in processes such as site visits and closure of deals
	Change in the way site visits happen; videos and virtual walk through to shortlist properties followed by site visits in the final stages of decision making

This uptrend is expected to continue in the times to come. While many may still be reluctant to make such a large purchase without physical site visit, the digital tools that were used in 2020 are sure to stick around throughout 2021.

Focus on affordable and mid-segments to continue

In 2021, a further improvement in sales across all housing segments is expected. However, development focus on mid and affordable segments is expected to continue. In 2020, more than 80% of the new launches were in the

sub INR 10 million category. Moving ahead, new launches will remain concentrated in these price segments with developers trying to reap the benefits of strong pent up demand in these segments. The Government is also committed towards boosting affordable housing. The recent Union Budget has extended the benefit of additional interest deduction on home loans for first time home buyers in the affordable segment. Further, there is a time extension to claim the tax holiday on profits from affordable housing projects until March 2022.

Recovery in alternative residential asset classes

The organised shared housing market in India has seen the influx of several organised players in a bid to tap the opportunities arising out of the strong demand from a growing millennial workforce and student population. While the market took rapid strides in the past few years, 2020 brought the co-living and student housing sectors to a grinding halt. As migrant millennial workers move back to the major cities and higher education institutes resume physical classes, occupancy levels in organised setups is expected to go up and gradually return to 2019 levels by the end of 2021. There will be an increased focus on health and wellness aspects in the post-COVID era, which is expected to drive demand for organised co-living and student housing setups.

Moreover, senior citizens living alone were the most impacted during the pandemic. The role of organised senior living facilities, which are designed with senior friendly amenities such as medical support on call, services for food, housekeeping and assistance around the clock became more prominent during these trying times. This has increased the attractiveness of such facilities and demand for organised senior housing setups is expected to pick up in the near future.



Strong fundamentals to support the recovery

Affordable synergy in the market makes it a great time to buy

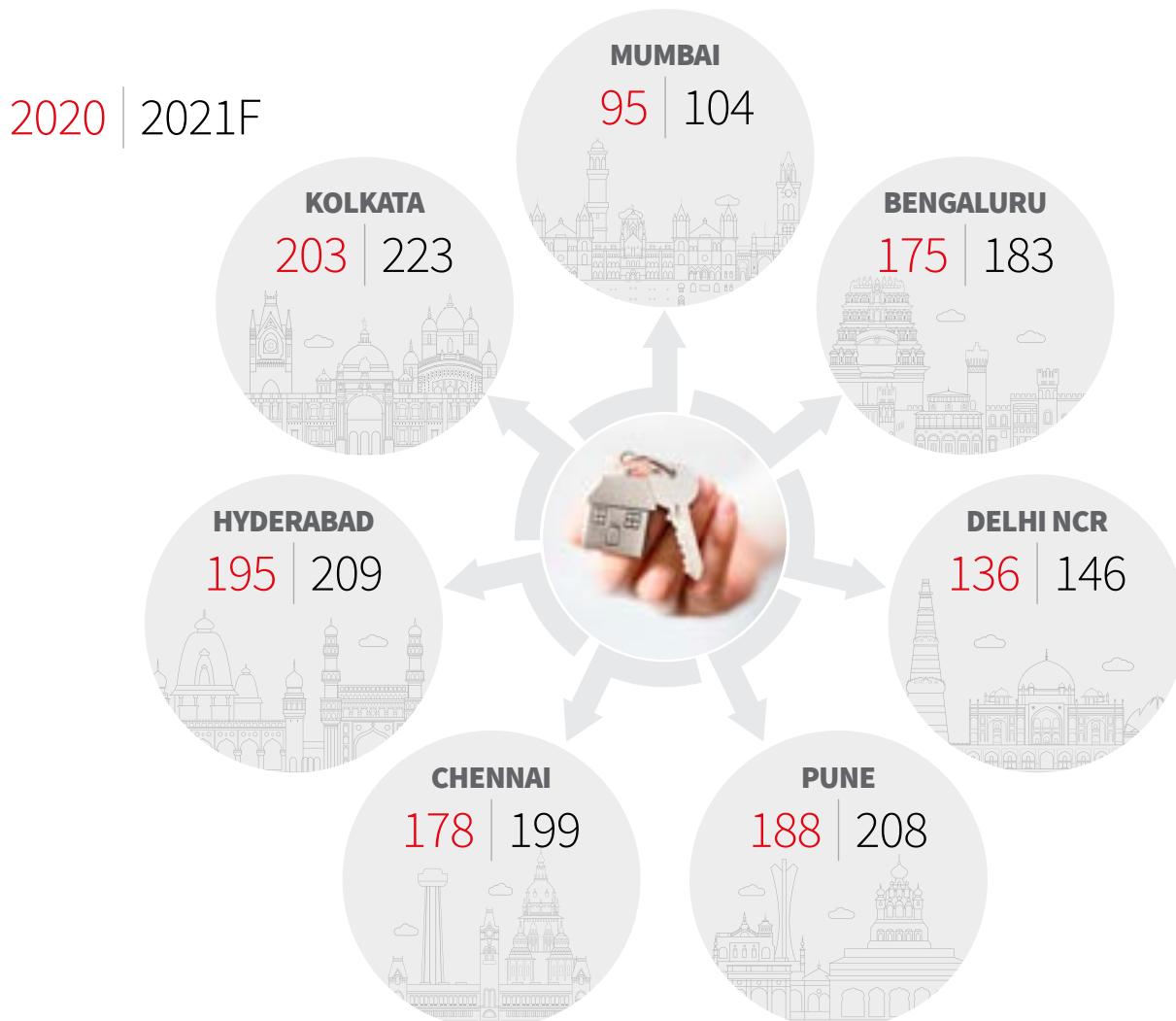
The increase in home purchase affordability has been one of the most important factors driving sales and paving the way for buyers to return to the market. Residential prices have remained stagnant over the last five years while household incomes have witnessed steady growth. In 2021, even if we assume residential prices in certain markets to move upwards, the mortgage rates are expected to remain at historical lows and annual household incomes will increase as the economy recovers. This will result in improved home purchase affordability, as evidenced by JLL's Home Purchase Affordability Index. A combination of increased home purchase affordability and improved consumer sentiments will further lead to the translation of pent up demand into sales.

Consolidation to garner pace

The reputation and execution capability of the developer will become even more important in the decision making process of homebuyers. Prominent organised developers who adopt a customer centric approach will emerge stronger in the post-COVID era. Resultantly, consolidation of the industry in favour of organized developers will garner pace. Only the fittest will survive and capture a major share of the market. Importantly, this will lead to greater transparency and improved consumer sentiments.

Developers in the past few years have been focusing on aligning supply with demand. Strong fundamentals in the form of increased demand-supply alignment, increased affordability and transparency, greater demand from end users, good financial health of banks, and the effective implementation of Government reforms such as RERA will support the broader recovery of the residential market in 2021

Figure 15: Home Purchase Affordability⁵ expected to increase



Note: Figures represent scores on the JLL's HPAI (Home Purchase Affordability Index); higher values indicate greater affordability
Source: JLL Research

⁵[Home Purchase Affordability Index 2020](#)



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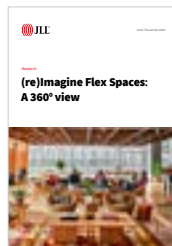


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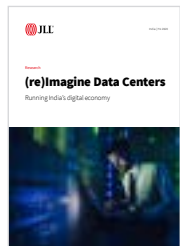
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