Effects of Corona Virus outbreak in the Indian Real Estate Industry & Recommendations

The Industry:

The Indian real estate industry, with its current worth of around US$ 12 billion, plays a significant role in contributing to the economy of the country. The industry in India ranks second in the world in terms of generating employment and contribute to about 5% of GDP.

Present Crisis:

The recent outbreak of Corona Virus, has posed a serious threat to humanity along with a high degree of uncertainty. The virus, spreading like a wildfire has so far affected 166 countries and led to disastrous consequences resulting in worldwide restricted communication. As a measure to control spread of this pandemic in our country the Government of India in association with the State Governments has imposed total lockdown in the country (barring essential commodities) for 21 days. This much need step of lock down is expected to be a savior from the potential disaster but will have catastrophic effect on the Economy and the Real Estate sector being a significant contributor to the same will also suffer adversely.
The Corona Effect:

The announcement of COVID-19 as a global pandemic and are yet to see the full scale effects caused by this global pandemic. Considering the early signs, the pandemic is predicted to have the following effects on the RE industry:

- Labors form the backbone of the RE industry. The current crisis of labors due to lockdown has stopped the progress of construction of the housing projects. The labors have migrated to their villages for quarantine and their return to work remains unknown as factors like the performance of the rural economy and health will have a major role to play in this regard. The discontinuation of the technical service providers such as Architects, Structural Engineers, and Electrical Engineers etc. because of social distancing and lockdown is collaboratively leading to much delay in completion of Projects.

- The present crisis could lead to a shortage of Raw materials prices critical to construction industry such as tiles, electrical fittings, switches, pipes, construction chemicals etc might face escalation in days to come. This is mainly due to the scarcity of supply in consideration to the demand amid lockdown.

- The Commercial Spaces hired to the Retail & Hospitality Sector are closed due to the lockdown and has minimum expectation to receive the rent. The mentioned sectors are the worst hit under present scenario left with no business. With practically no earnings from the rented commercial spaces
and the recurring expenses relating to various taxes has put the industry under huge stress. In Case of Shopping Malls additional expenses are being incurred such as food and sanitization requirements which are being provided to the manpower associated with the grocery sections which is open at present.

- To add to the woes, the payments from customers which was already irregular since mid-last year, has become miserable at present scenario with almost 65% customers are defaulting in paying the instalments linked to construction. All this have already started to impact the RE Sector financially resulting in loss.

- At Present Social Quarantining has created a drastic drop in sales which has further impacted finance flows to the projects. This may in days to come lead to capital crunch for the RE Companies which is expected to take around 6 months time to recover under present scenario.

- China, the epicenter of Corona virus is also the biggest supplier to the Indian real estate industry. After India has closed its border with neighboring countries, the Real Estate sector could see an acute shortage of supplies due to absence of supplies from China.

- According to a Report in The Economic Times, Strained situations with the RE Sector may also lead to 35% Job Cut in this labor intensive sector if the present situation continues for around 3 months.
**Recommendations for recovery:**

The revival of significant contributors will ensure stability of the economy. Primarily resolving present problem will not lead in to bigger Problems in future. Real Estate being one among the significant sectors could focus on strong immediate measures which could be instrumental in giving a boost to the industry in the larger interest of the developers, employees and stakeholders of the industry:

- Commercial spaces employed with the retail and hospitality sector are severely hit by the current lockdown and are generating no business. Additionally, such establishments have to incur additional costs in terms of power, municipal taxes etc. This has put the owners of commercial spaces under huge financial stress. The waiver of Municipal taxes for one quarter can act as a relief and also provide much of a support. Additionally, there could be relaxation for delayed payments. It is pertinent to mention here that the burden of losses because of the present unprecedented crisis, could be borne across the entire supply chain of the industry. It should also be noted that organizations which are not able to clear up taxes or bills should not be penalized and given around 3 to 6 months time frame to clear the same.

- It is estimated that projects will take a period of at least 6 months to get back to regular schedule. Thus the above mentioned period of 6 months be considered an exempted/ extended period of the delivery of projects.
To recover from the present scenario where almost 65% customers are defaulting in paying the instalments linked to construction, legal support is essentially required. The Delayed Payment Act prevalent in the MSME Sector if extended to the RE Industry can prove to be beneficial in regard discouraging payment default by making provision for the RE Sector to charge penal interest from the customer on payment getting delayed beyond agreed period of time.

Construction supply from China such as steel and many more, which are predominant in India RE Market, is currently withdrawn due to the closure of Border between India with neighboring countries. This can be a good opportunity for Indian manufacturers to enter and expand in the domestic market. To encourage this further the government should restructure the tax component of such supplies. This would encourage the manufacturing sector in the domestic market to grow along with it would curtail the dependence of the Indian RE Sector on China.

**To conclude:**

The world has faced outbreaks such as SARS virus, bird flu etc. in the past and has successfully recovered both medically and economically. The stakeholders of the Indian real estate industry believes that every calamity is an opportunity to scale new heights and finds themselves prepared to fight and defeat the current situation of crisis with the support of The Government leading to a better tomorrow.
Information Source

1. RE & Infrastructure Expert Committee Members, ICC
2. ICC Members relating to RE Industry
3. Economic Times
4. CNBC
5. 99 Acres.com
6. The Quint
7. The Times of India