

# COVID IMPACT ON REAL ESTATE

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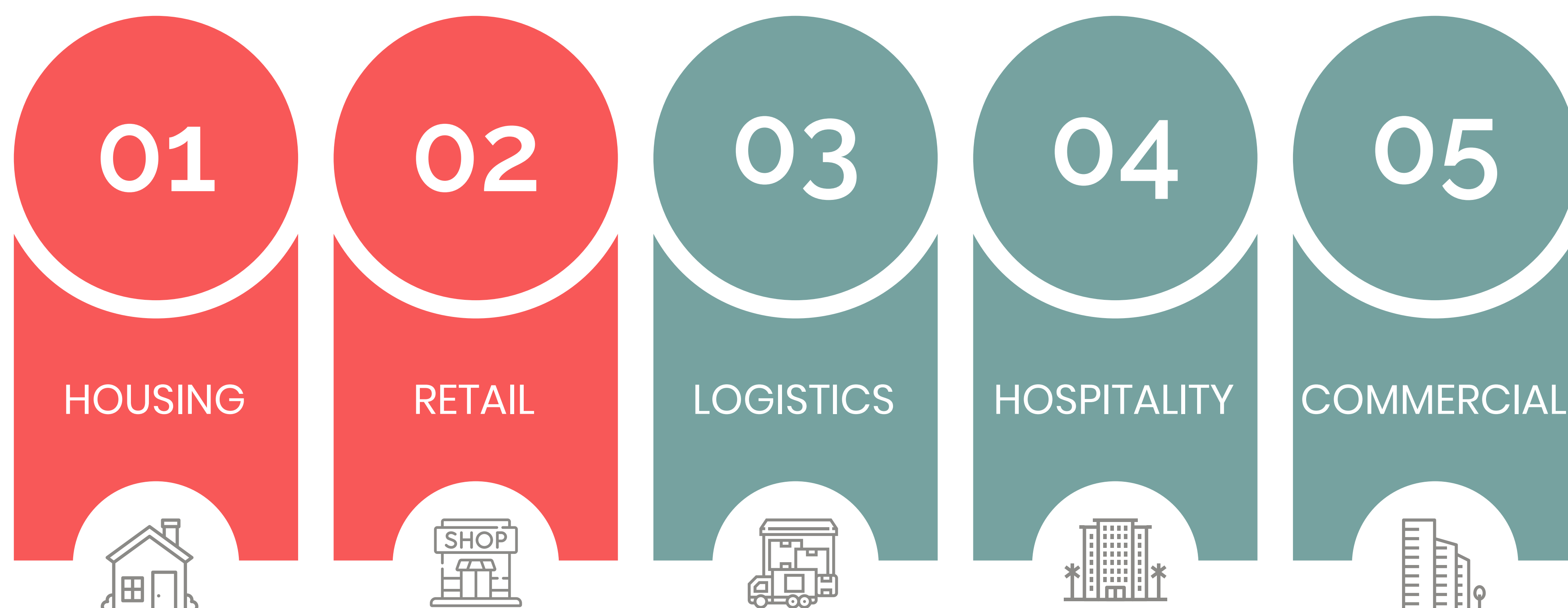
# THE INITIAL ONSLAUGHT OF THE REAL ESTATE SECTOR

In early 2020, the global pandemic Covid-19 had brought the world to a halt, bringing uncertainties and unprecedented challenges in the world economy. The lockdowns brought the manufacturing facilities to a standstill and disrupted the entire global supply chain. The pandemic placed millions of livelihoods at risk by obliterating jobs and forcing employers to opt for salary cuts. In a brief five-week period spanning between March-April 2020, the United States economy witnessed a loss of more than 22.4 million jobs. As a result, it exposed an estimated 30 to 40 million people in America to the risk of eviction in the next several months.

## The progress in recovery of the real estate sector

In the context of the U.S. economy, nonfarm payroll employment witnessed 559,000 new jobs in May 2021 while the unemployment rate fell from 13 percent in May 2020 to 5.5 percent in May 2021. Economic distress caused by Covid and reduction in savings have drastically changed the way people want to spend their money and the value they expect from a product. The real estate sector was one of the major sectors that were severely hit by the pandemic as global lockdowns significantly eroded the potential buyer-base in the market.

The pandemic resulted in the declining purchasing power of potential buyers and changed their purchasing preferences. The real estate sector has strong linkages with the core sectors of the economy primarily manufacturing industries like steel and cement. The growth of this sector is a good reflection of the opportunities available in the economic environment. The real estate sector mainly comprises five sub-sectors: housing, retail, logistics, hospitality and commercial. None of these sub-sectors remained unaffected by the devastating Covid-19 pandemic.



## Housing

The housing sector has largely seen a downward trend during 2020 as homeowners were hesitant to sell amid pandemic and potential buyers deferred their investment decision due to the uncertainties prevailing in the real estate market. In the U.S., the coronavirus turmoil did not lead to large price declines. The combination of low supply and low mortgage rates allowed prices to remain steady. The construction of many housing projects was halted and delayed due to the shortage of migrant labor, disruptions in the supply chain of building materials, and stay-in orders. Areas that were severely hit by the pandemic saw steep drops in home sales.

## New York Housing Market Trends



### Inventory Levels

▼ 30%

Mar 21: 36,739

Mar 20: 52,536



### Pending Sales

▲ 59%

Mar 21: 14,757

Mar 20: 9,276



### Closed Deals

▲ 37%

Mar 21: 11,008

Mar 20: 8,051

Source: Nysar

## Retail

Retail mall operations around the world were severely affected due to preventive measures taken by governments such as lockdowns and operating restrictions imposed on businesses to contain the spread of the Covid-19 pandemic. For the U.S. market, CBRE forecasts that the retail store closures in 2020 and 2021 each will exceed the 2019 record of 9,800. There will be a reduction of up to 20% in the total U.S. retail real estate inventory by 2025 from the current level of 56 square feet per capita according to the forecasts made by CBRE. Many customers diverted to online shopping due to health concerns and government-imposed stay-in orders which resulted in a surge in e-commerce. In the Asia Pacific, online retail sales will grow to \$2.5 trillion by 2024, according to the forecasts made by Forrester. Greater accessibility of prime second-generation space, declining rental rates and motivated landlords offering concessions and pandemic-related protections are driving lease transactions in 2021. The tenants have been negotiating with the mall operators to waive or restructure their rental payment schedule.

**Cash flows of retail real estate operators are expected to remain low in 2021, due to discounts being offered to tenants and a low share in revenue income of the tenants. Brands have accelerated their adoption of integration online and offline sales as consumers prefer to avoid crowded shopping areas.**

## Logistics

The logistics sector showed some resilience amid the glooming pandemic as online shopping and e-commerce giants resorted to stock hoarding of essential goods. The disruptions in global supply chains have brought some challenges for the logistics sector. The Cold chain facilities have shown an upward trend and continue to have strong growth prospects due to rising e-commerce sales. The Cold Chain infrastructure and logistics required for the Covid Vaccination program in many countries will further enhance the demand in the logistics sector. With countries relaxing travel restrictions, freight traffic and warehousing & logistics parks have resumed operations.

**The global logistics market size is estimated to grow at 17.6% from \$2,734 billion in 2020 to \$3,215 billion by 2021. Increased focus on the continuous supply of essential commodities, creation of supply chain stabilization task force to fight COVID-19, and growing demand and distribution of personal protective equipment are the major drivers of this market.**

## Hospitality

The hospitality sector is one of the most severely hit sectors due to the global pandemic. Travel restrictions, health concerns, quarantines, customers' ongoing fear of getting infected have all led to a catastrophic 2020 for those working in the hospitality sector. Due to the fear of traveling abroad among travelers and travel restrictions, the hospitality sector has now shifted focus to domestic tourism. For the U.S hotel industry in May 2021, monthly performance levels reached the highest levels since the beginning of the pandemic according to STR. Monthly performance levels recorded in May 2021 are:

- Occupancy: 59.3%
- Average daily rate (ADR): US\$117.69
- Revenue per available room (RevPAR): US\$69.81

As per estimates made by FHRAI the revenues for the Indian hotel industry are down by ₹130 trillion in FY 2020-21. A research study by JLL revealed that the Indian hospitality industry has witnessed a decline of 38.7% in RevPAR during Jan to Mar (Q1) 2021 over the same period last year. In short term, hoteliers and resort operators should consider the need for a line of credit to help finance potential inadequate cashflows & re-evaluate their existing contracts. In addition to the operating loss, the hotel owners will also incur losses due to interest payments, fixed operating expenses, debt repayments. The once-booming industry now seems to be oversupplied.

## Commercial

With the government-imposed lockdowns, followed by Covid-19 regulations, many businesses decided to scale down their operational staff and allow their workforce to “work from home”. This resulted in tenants vacating their commercial office space or reducing the rented space to save operational costs. The work-from-home alternative given to employees has largely resulted in increased productivity among higher-income employees and a reduction in office footprints amid the Covid-19 pandemic. An upward trend in “work from home”, social distancing norms, the need to reduce operational costs have significantly reduced the future demand for prime office spaces.

**A study conducted by JLL India revealed that in 2020, the net absorption of office spaces in India was 25.5 million sq ft, registering a 45 percent drop while new completions reached 36.4 million sq ft, recording a 27 percent decline. The report added that new completions will be around 38 million sq ft in 2021 while the net absorption is estimated to be around 30 million sq ft.**



## Government's Response

The impact of the recession caused by Covid-19 has been devastating for the real estate sector. Governments of various countries have responded to provide some relief to all the stakeholders (including lenders, builders, home loan borrowers and tenants) through fiscal policy measures.

- In March 2021, the American Rescue Plan Act, 2021 was enacted which provides a \$1.9 trillion Covid relief package. It includes \$21.55 billion emergency rental assistance, \$5 billion housing vouchers and a \$25 billion restaurant grant program which will be administered by the Small Business Administration (SBA).
- Restaurant Revitalization Fund has been appropriated \$28.6 billion which will be administered by the SBA, eligible restaurants will receive aid in the form of grants up to \$10 million for restaurant groups.
- U.S. Congress passed The Coronavirus Aid, Relief, and Economic Security Act which is a \$2.2 trillion economic stimulus in response to the economic fallout of the Covid pandemic. It included a \$367 billion loan and grant program for small businesses.
- In the U.S., evictions have been temporarily prohibited by at least 34 states. In addition, the federal government has issued a 120-day moratorium on evictions, late fees and other penalties which applied to federally subsidized housing or a property with a federally backed mortgage loan.
- In India, banks, NBFCs and other lending institutions (including housing finance companies and microfinance institutions) were permitted by RBI to extend a three-month loan moratorium on EMIs from March to May 2020. The moratorium was extended by RBI for an additional three months i.e., up to August 31, 2020. The moratorium provided relief to many homebuyers and real estate developers who were struggling to service their loans due to loss or reduction in income.

## Some additional initiatives taken by the Government of India are :

- The additional tax deduction of up to ₹150 thousand on interest on housing loans and tax holiday for affordable housing projects have been extended until the end of the previous year 2021-22.
- The third package announced under the “Aatma Nirbhar Bharat” initiative included income tax relief measures for real estate developers and homebuyers for the primary purchase/sale of residential units of value up to ₹200 million (US\$ 271,450 from Nov 12 to Jun 30, 2021). It also included ₹30 trillion Special Liquidity Scheme for NBFCs/HFCs/MFIs.
- To bridge the liquidity gap in the infrastructure sector, the Government of India has proposed to set up a Development Finance Institution (DFI) with ₹270 trillion.
- Central Government has approved the setting up of ₹250 trillion (US\$ 3.58 billion) alternative investment fund to revive around 1,600 stalled housing projects across top cities in the country. SEBI has approved the Real Estate Investment Trust (REIT) platform which will open the Indian real estate market for all kinds of investors. Listing of new REITs will allow institutional investors to build asset portfolios or co-invest with existing platforms before the IPO.



# THE WAY FORWARD

Because of the pandemic, many households are reconsidering their housing needs, as their homes have become substitutes for offices, schools, and recreation facilities. The real estate sector will have to identify and address the changed customer behaviour and expectations as we move forward towards a Post Covid world. Many real estate developers are now finding new ways to market and showcase their projects to potential buyers such as temperature screening and checking travel history.

**The need for taking your business to an online platform has never been greater before.**

Commercial Real estate operators should offer their occupiers flexible lease contracts which will allow their clients to operate in a hybrid work-from-home model. The logistics sector continues to show growth as E-commerce, third-party logistics (3PL) will make up the bulk of the demand.

Developers are now finding online solutions to present their projects to prospective buyers like using virtual interactive tours of their projects to give prospective buyers an experiential feel of the site. Developers need to keep their website updated with the latest developments in projects, delivery, and payment schedules, and answer public queries online to ensure transparency. Redfin, a major real estate broker in the U.S., aims to reduce traditional agent commissions by using online platforms.

The hotel industry needs to demonstrate commitment towards safety by adhering to protocols, ensuring social distancing arrangements. In the U.S., many hotels have now started to market their bookings under the category of “Work from hotel” which is gaining a lot of traction. It is equally important to communicate regularly to potential customers that you are taking every precaution through social media and advertisements. Management should track inspections, conduct self-audits at regular intervals and take other safety and quality measures using digital tools for a holistic view.



# ABOUT PIERIAN

PIERIAN Services was founded in 2002 as a new age Consulting and Managed Services Company established by a team of Professionals and Industry experts. In the last 18 years, it has the privilege of serving some of the Fortune 500 Companies and new startups in the wide areas of its expertise, spanning across industry verticals. We help our clients to work smarter and achieve accelerated growth through process transformation, digital technology enablement, analytics driven industry and business insights. Information about how Pierian collects and uses personal data can be provided by our executives. For additional information about our organization, please visit our website [www.pierianservices.com](http://www.pierianservices.com)

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