

Moving cautiously

The upbeat real estate sector may face some blips in the coming quarters



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Having witnessed one of the best phases in the last few quarters, the domestic real estate market is desperately looking to sustain this momentum going forward into the new year. However, experts are cautiously optimistic about the degree of robustness and its longevity and believe that despite the presence of favourable micro-economic factors some macro-economic factors may come into play in the wake of the deteriorating geopolitical scenario, fear of recession in the US and a Covid resurgence.

A recent increase in the repo rate and subsequent rise in home loans could also take its toll and impact the momentum in the short to medium term. But they are also quick to add that the Indian economy is currently better placed to absorb these shocks and hence any adverse impact on the real estate market will be not that grave. While the residential sector appears to be more resilient and looks to keep its vibrancy intact in the wake of a favourable demand supply equation, the commercial office market needs to be watched closely, since the fear of another Covid wave is looming large on the horizon. But all said and done, there is unanimous belief that the Indian economy in general and the realty market in particular, is much better equipped this time round to face any of these challenges.

“We have seen the residential market

bouncing back in the last 4-5 quarters or so. The bounce-back happened after almost 7-8 years of a dull period when the residential market faced multiple challenges. Meanwhile, the commercial office market, which had been doing well, faced major headwinds during the last two-and-a-half years due to Covid restrictions and has lately recovered some ground. Sustaining the present surge in demand in the next few quarters will depend on an array of macro-economic factors, even as the micro-economic factors of the industry have remained strong. It remains to be seen how all these factors pan out, going ahead,” says Ambar Maheshwari, CEO, Indiabulls Asset Management Co Ltd.

Anshuman Magazine, Chairman & CEO - India, South-East Asia, Middle East & Africa, CBRE, is of the view that despite the evolving global landscape, India’s economic fundamentals have remained strong. In the new year, we can expect strong domestic demand to drive economic activities, supported by investments undertaken by the private sector – along with government incentives and reforms that seek to improve the overall business climate.

In the residential segment, Magazine believes that positive homebuyer sentiments will drive housing sales and new launches. However, the impact of the ongoing monetary tightening on sales could be a key risk. In the likelihood of

a moderating sales momentum, capital value rise could slow and remain selective. A decline in unsold inventory levels will continue in the short term. Increased traction is expected in the premium and luxury segments; however, mid-end and budget segments will still garner a dominant share of sales.

Global headwinds

As far as the commercial office sector is concerned, the CBRE chief is of the opinion that global headwinds and the possibility of an economic slowdown in developed economies are expected to weigh slightly on occupier sentiments and leasing activity in 2023. High-quality and well-located office buildings with amenities that enhance employee well-being and engagement are poised to attract occupier interest.

With rising awareness about sustainability in the workplace, green buildings that align with the occupiers’ environmental and social targets will have an advantage over the competition. Several occupiers are also likely to give credence to initiatives such as enhancing indoor air quality, integrating touchless technologies, fitness facilities, etc to improve employee health and well-being. As businesses adapt to an increasingly distributed workforce, flexible spaces are likely to remain an attractive option. The adoption of Activity Based Working (ABW), hotdesking and targeted

mobility is likely to gain momentum as occupiers place a greater emphasis on flexible seating arrangements.

“In the retail segment, although inflation might weigh on the Indian economy going forward, the rebound in brick-and-mortar retail sales this past year is expected to continue in 2023. Brands will continue to resize and recalibrate their physical store strategies to diversify their portfolio and expand their footprint, with ‘experience’ becoming an important frontier to bridge the retailer-consumer gap,” adds Magazine.

According to Anuj Puri, Chairman, ANAROCK Group, in the residential market, housing sales remained upbeat throughout 2022, and the current sales momentum will be sustained at least into the first quarter of 2023. Thereafter, much will depend on forces other than the desire for homeownership, such as additional repo rate hikes and property price increases. 2022 saw the repo rate go up by almost 225 bps, and home loan interest rates lost no time in going up concurrently. So far, the rate hikes have had only a marginal impact on residential absorption. While more affordable housing buyers stepped back from purchase decisions, mid-income and luxury homes sales were not markedly affected. However, there is a tolerance limit even to the most upbeat sentiment. Readings from ANAROCK’s most recent Consumer Sentiment Survey clearly indicated that if home loan interest rates rise above the 9.5-per cent mark, we can expect to see considerable housing demand contraction.

As per Puri, 2023 will continue to witness controlled new launches in most of the top cities. The launch trend in 2022 was calculated caution, with developers refraining from putting more inventory on the market than it could reasonably absorb – especially in already abundantly supplied markets.

Commenting on commercial real estate, the ANAROCK chief says that the fate of the Indian commercial real estate sector hangs on a fine balance in 2023. The forecast here: ‘cloudy with chances of sunshine’. A global recession would have several direct and considerable repercussions on the Indian commercial office market. This sector heavily depends on expansion by domestic and international corporates.



To understand how a recession in 2023 would affect this sector, it is necessary to understand what makes it tick. Currently, 70 per cent of offices in the country are occupied by foreign companies who focus on cost advantages like sub-dollar rentals for good quality Grade A offices, and an almost 80 per cent lower operating cost per full-time employee in India compared to tier II cities in the US.

Year of resurgence

2020 was obviously a dull year for the Indian commercial office markets, but supply and demand picked up in 2021 with 21 per cent and 34 per cent growth respectively over the previous year. 2022 was also upbeat during the first half. However, from H22022 onwards, the pall of a threatening recession in the US caused many RFPs (Request for Proposals) to be deferred as the large global corporates wanted a better perspective on the future before leasing new offices. By the end of the third quarter of this year, the number of Grade A office leases across the top 7 cities is down 6–10 per cent over 2021. The pace of decreased leases has increased with each passing quarter. The last quarter of 2022 has been marked by increasing caution and reticence by MNC occupiers.

“2022 has been a year of resurgence and steady growth for the real estate sector. Office and residential segments in particular, have seen immense growth this year. Going ahead, some segments will continue to see steady growth, while others may see a short-term blip due to slower external demand. Data

centres, and industrial activity will see sustained activity next year too. The office sector may see some slowdown in demand during the first half of the year, as occupiers are postponing office leasing decisions,” says Sankey Prasad, Chairman and Managing Director, Colliers India.

“In over 45 years of being associated with this sector, I have never seen demand for housing as robust and affordable as it is today. Further, the pace at which the Indian economy has bounced back post the pandemic has instilled a sense of confidence among house buyers. Demand for housing will continue to be healthy for a number of reasons such as favourable demographics, increasing urbanisation, rising aspirations of people of owning a home and improved affordability. The pandemic has also made people recognise the importance of owning a home and as they move up the property ladder, they are shifting to larger homes due to the hybrid work environment. India is rapidly urbanising, and it is estimated that 40 per cent of the population will be living in cities by 2030, from the current 32 per cent. This in itself will lead to huge demand for housing. So, we remain extremely optimistic about the future of the real estate sector in the years to come,” states Renu Sud Karnad, Managing Director, HDFC Ltd.

“Overall, we expect 2023 to be a good year for the real estate sector and one that will set the platform for further growth in the future,” says M Murali, CMD of Shriram Properties.

“The Indian economy reflects strong

positive signs in 2023 with a forecast of 8-9 per cent overall growth. The government has been implementing big infrastructure projects which will further drive growth, both quantitatively and qualitatively. Further, the government's recent rollout of numerous tax-related and other incentives aimed towards potential house buyers and NRIs will further boost the growth of the realty sector. Demand is likely to be more than supply in the mid-market housing segment and this will also lead to a rise in prices. In addition, with property rentals being at an all-time high, the desire for home ownership, especially in the younger and first-time home buyers, is increasing. Commercial real estate is also likely to witness growth with major IT companies switching back to offline work. We will also witness further market consolidation towards larger developers, which will be beneficial to established players," adds Murali.

Rohan Pawar, CEO of Pune-based developer the Pinnacle Group says: "The real estate industry grew in terms of absorption and new launches. Improving infrastructure and rental growth and institutional capital have been the additional key drivers. The sector is projected to grow consistently. We expect demand to stay robust, particularly in the housing segment, especially in the ready-to-move-in or soon-to-be-ready projects. The capital value of apartments will rise owing to the increase in the input costs of key materials."

"We feel that 2023 will pivot towards many opportunities. The sector will continue to have strong and positive momentum. As per the ratings of agencies, India's growth is expected to be between 8-9 per cent, and such a favourable economic outlook will contribute to the real estate market's boost," says Venkatesh Gopalkrishnan, CEO, Shapoorji Pallonji Real Estate.

"We still see the desire to own a home remaining strong in the coming year. The demand for luxury homes will continue to be the driver for the real estate sector in 2023. Plotted developments, premium and uber luxury homes are likely to strengthen their market hold. Even the shift in focus to other smaller cities where infrastructure development is taking place will see a lot of traction from the industry and from investors at large. The preference of young



home buyers is driving a shift towards aspirational homes, and they will continue to dominate the property market. Overall, we feel 2023 will be a good time for home buyers or investors," adds Gopalkrishnan.

A sustained demand

"The outlook for the Indian real estate sector is expected to stay positive in the coming calendar year with many rating agencies projecting growth of 8-9 per cent. We anticipate a sustained demand for housing, driven by a growing requirement for homes with more space and practical amenities, to accommodate the post-pandemic lifestyle. With several corporates reverting to the work-from-office business model, and with people increasingly visiting malls and shopping complexes, the outlook for leasing and retail businesses is also promising. The hospitality sector is also expected to see an increase in occupancy," says Pavitra Shankar, Managing Director, Brigade Enterprises.

Ramani Sastri, CMD of Bengaluru-based Sterling Developers is of the view that the healthy residential demand witnessed in 2022 will continue in the near future amid healthy economic growth.

"The surge in commercial activities too will naturally translate into increased housing demand as we move forward and this will be a boon for real estate in high-growth markets. Real Estate will emerge as a silver lining due to its stability, security and safety and is definitely an asset class that one must remain invested in today and in the long term. The market outlook is

certainly positive," adds Sastri.

"The future of work is changing rapidly and will almost be permanently oriented towards greater flexibility, hence the co-working sector which already accounts for 20 per cent office market share, is growing exponentially. It will continue to be vibrant in 2023 as the pandemic has reinforced the need for agility like never before. Flexible space is becoming mainstream now and hence co-working companies have seen a massive spike in the number of enquiries in 2022 from across the clientele spectrum," says Manas Mehrotra, Founder, 315Work Avenue, a leading new age coworking space provider.

"The overall performance of the luxury real estate market in 2022 has witnessed a sustained rise. Given the confidence built in 2022, one can expect an uptick in sales in the coming year and the growth of luxury homes will be positive in terms of quantity and quality. NRIs, HNIs and investors are once again recognising the advantages of real estate investment, particularly at a time when cautious investment is still the general consensus," avers Lincoln Bennet Rodrigues, CMD of The Bennet and Bernard Company, known for luxury themed homes in Goa.

Pradeep Aggarwal, Founder & Chairman, Signature Global, is of the view that real estate, especially the residential segment, has bounced back in the last few quarters. However, the unpleasant part during 2022 is the significant increase in mortgage rates. ♦

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