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COVID -19 CRISES AND REAL ESTATE SECTOR IN INDIA

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ABSTRACT

Indian real estate market was already going through a long time pain for many reasons such as economic stress in certain segments, high leverage, tight liquidity and rising non-performing assets (NPAs) in construction finance.

The Indian Government recently had announced incentives for affordable housing by various means as a corrective measure but in the mean time the country coincided with the world's deepest crisis of Covid-19 which has impact on many sectors.

The economic slowdown which is now coupled with coronavirus pandemic is likely to have serious negative impact on residential real estate demand in the country in the coming years.

This research paper attempts to ascertain the problems faced by Real Estate Sector in recent times and the impact of Covid-19 on Real Estate Sector in post lockdown period. Further it also assesses the financial distress amongst the builders community and focuses on the real time benefits that are expected to the Investors and common man in the near future.

Keywords: Real Estate, Covid -19, lockdown, slowdown, pandemic, investors.

INTRODUCTION

Indian real estate market was already going through a long time pain for many reasons such as economic stress in certain segments, high leverage, tight liquidity and rising non-performing assets (NPAs) in construction finance.

The Indian Government recently had announced incentives for affordable housing by various means as a corrective measure but in the mean time the country coincided with the world's deepest crisis of Covid-19.

The economic slowdown which is now coupled with coronavirus pandemic is likely to

have serious negative impact on residential real estate demand in the country in the coming years.

The other view is the prices of real estate have to come down, and will come down in the near future after the Lock down. It is expected to fall in the prices by around 10 to 30 per cent in the coming days.

For potential home buyers, who have good job security and strong cash flows, it will be an excellent buying opportunity for first and even the second home as a viable investment. Over past many years it has been observed that the Real estate is widely accepted asset class, and

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the appreciation in the value of global real estate is observed to be more than the appreciation in the value of all the stocks, gold and bonds combined.

OBJECTIVES OF THE STUDY

1. The primary goal of this study is to examine the possibility of down trend in the Real Estate Sector in the post COVID-19 period.
2. The secondary objectives are
 - a. To study the need of corrective measures from the Government to boost the Real Estate Sector.
 - b. To study the barriers faced by the Real estate Customers in making decision to buy the Real Estate.
 - c. To create awareness amongst various stakeholders about the Investment opportunities in the Real Estate Sector in post COVID period.

LIMITATIONS

This is a conceptual study. It is supported more by facts than by numerical data. The study is further limited to the discussion of the problems and opportunities in the Real Estate Sector. Due to Lock Down the researcher could not collect the Primary Data to substantiate the hypothesis.

HYPOTHESIS

In post Covid-19 period the real estate sector in India will slowdown which will have negative impact on Real estate companies but will open up lucrative investment opportunities for home buyers.

METHODOLOGY

This study is based on secondary data. The information has been collected from books, journals, magazines, newspaper and websites.

STATEMENT AND SIGNIFICANCE

Statement & Significance of the Problem Under Study :

The Central Government had imposed many restrictions during the lockdown period due to the widespread pandemic of Novel Coronavirus / Covid-19 all over the world. The respective state governments also had ordered shutting down of all non-essential services. The nationwide complete lockdown and imposition of Section 144 in various states has had the impact of down trend in many of the leading sectors including Real Estate Sector in India. The real estate sector will be facing the problems as under :-

- Financial instability leading to salaries/daily wages not being paid on time
- The migrant labourers who are employed in the Real Estate sector now wish to return to their home states.
- Goods not being transported across borders
- Shutting down the cement and raw material factories
- All the construction activities are now stopped.

All the above factors will have negative impact on the capability of real-estate developers in completing the ongoing projects in time.

CORONA VIRUS COVID-19

Now a days it is very difficult to think of a business that has not been impacted by the Covid- 19 pandemic. But the Indian real estate sector will have serious impact of the crisis which will lead to multiple problems in the economy.

The residential segment in the real estate sector, has already been struggling with many of the problems like :

- Introduction of RERA
- Project delays due to number of problems
- Other regulatory changes and policy reforms
- Lack of finance or cash flow gaps
- Low sales for the last few years.

The period of lock down will decide the quantum of impact on the Real estate sector and on the Indian economy as a whole. Further it is unpredictable as of now that how long the economy will take to get back on track or its original shape.

THE FUTURE REAL ESTATE SECTOR

Project delays

The lockdown in the country had badly hampered the incomplete projects and the work is at stand still position as of now. The home buyers who already had booked their residential units have to be committed for the installments of the consideration on account of purchase price to be paid to the builders and monthly installments of loan already disbursed by the financial institutions. The delay in the projects will affect financial position of both the buyer and the builders. The lock down will have impact of delay in completion of the projects by around 6 to 8 months from the committed dates. The reasons of delay may be due to :

- Non availability of Raw Materials
- Migration of Labour to their home towns.
- Lack of transport facilities

Demand-Supply Position

It is observed that the home sales are down by 42% in the first quarter of 2020 as compared to last year.

The lock down period included Indian festivals like Gudi Padwa, Akshaya Tritiya, Navratri and Ugadi. Generally, the builders schedule the launching of their new projects during these festivals. Due to Corona pandemic, most of the projects have postponed their launching.

Further due to the uncertainty in the Jobs and down trends in the business field, the demand for houses will still show downfall till the Diwali, 2020.

Price Factor

The home buyers may start renegotiating their existing deal or may discard the decision to buy home in case of ongoing projects. As there will be drop in the demand, the builders will have no other option than to reduce the prices of the homes to attract the buyers. At least for some time in post lock down period the market scenario will be customer driven.

It is further anticipated that the raw material cost, labour cost may go up which will have reverse impact on the overall profitability of the projects.

Other Investment Options

Due to the uncertainty in the market, the investor may divert their funds to other investments options like Gold, Shares, Bonds, Mutual Funds etc., which will fetch reasonable rate of return on the investments.

CONCLUSION

The Covid-19 and Lockdown is expected to deteriorate the residential real estate sector. The sector is already in to the trouble due to low

demand, liquidity crunch, regulatory enactments and ever-changing government policies. The demand for the housing will definitely reduce in post Covid period. Further it will also have impact of cancellation of existing booking either for renegotiations, or inability to honour the commitment of home buyers to pay the agreed amount to the builders due to unstable market conditions, or insecurity in the job market which is futured by job cuts or pay cuts.

The established construction houses may be able to manage their show with the help of accumulated funds, or bank facilities or the government subsidies, but the small builder with only one ongoing project in hand may face difficulties to manage its fund flow.

SUGGESTIONS

Based on the findings of the study the following suggestions can be put forth:-

1. No penal action from RERA considering this as a natural calamity.
2. RERA shall grant extension of one year for the scheduled date of completion of projects.
3. Financial institution shall extend 25% more finance to the Builders without any additional security.



4. The state government is expected to reduce the rate of stamp duty on the purchase of residential house.
5. The bank shall not classify the loans of builders as NPA for default in repayment of loans.
6. Interest and principal repayments falling due over the next three months in case of real estate projects be put off and recovered over the next nine months.
7. The GST rates are expected to be cut by 50% along with the provision of allowing input tax credit to the builders and developers.
8. The Income Tax amendment is expected to allow the sale of flats below the market value as per the ready reckoner rates.

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