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# INSIGHTS AND RECOMMENDATIONS FOR INDIAN REAL ESTATE IN LIGHT OF SPREAD OF COVID-19


**Megha Maan**
Senior Associate Director| Research | India
+91 96671 88334
megha.maan@colliers.com

**Vaishnavi Bala**
Asst. General Manager| Research | India
+91 78990 45476
Vaishnavi.bala@colliers.com


## *Insights and Recommendations*

This note updates our report of 11 March. COVID-19 has spread faster in Asia and globally than we had assumed, and a rebound in APAC property markets may have been pushed back three to six months. India is now locked down. In this situation, we advise:

> **Occupiers** a) to seek more favourable rents and lease terms from landlords; b) to consider splitting up offices, as in the hub-and-spoke-model; and c) to evaluate their density plan and seating arrangements in workplaces, keeping health as a key consideration

> **Developers** to investigate new control and hygiene systems for buildings

> **Investors** to study the logistics sector and data centres, given firm domestic demand and the growth potential of cloud infrastructure

## Downward revision of GDP growth

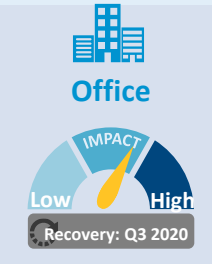

For 2019
**5.3%**

For 2020
**4.4%**

**6.2%**
For 2021

Source: Oxford Economics

## Impact and expected recovery period






- During 2020, office gross absorption is likely to drop to 45-50 million sq feet (4.1-4.6 million sq metres), i.e. 17-30% lower than 2019, owing to delays in decision-making.
- During H1 2020, we are anticipating slower deployment of funds in India by foreign investors as they stay in a wait-and-see mode.
- Reflecting continued dull consumption, a slowdown in credit growth and potential supply-side disruptions due to COVID-19, Oxford Economics has recently trimmed its estimate of India's 2020 real GDP growth to 4.4%,[1]. However, it continues to predict a sharp pick-up in 2021.

According to a World Health Organization (WHO) briefing[2], COVID-19 (coronavirus) cases appear to have surpassed 630,000 as of 29 March 2020. After remaining relatively unscathed, India is now witnessing an outbreak of the virus. As of 30 March 2020, there were about 1,070 confirmed cases in India, with the country undergoing a government-ordered lockdown for 21 days till 15 April 2020.

> While occupiers review their business continuity plans, we do not expect any near-term downward movement in commercial rents, due to COVID-19, led by the strong underlying commercial office market.

> We anticipate leasing delays of up to a quarter. If the current lockdown extends beyond 15 April 2020, we can expect delays of up to two quarters.

> During H1 2020, we also foresee delayed capital deployment in India due to slow decision making.

[1] Oxford Economics: "Country Economic Forecast: India" (20 March, 2020) and "Research Briefing: India" (23 March, 2020).
[2] WHO Situation Report- 69

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## COVID-19 INSIGHTS & RECOMMENDATIONS


### NEAR TERM (UPTO 6 MONTHS)

We believe that India's office sector, which has seen a robust run over the last three years, is likely to see lower gross absorption of about 45-50 million sq feet (4.1-4.6 million sq metres) in 2020, across the top seven cities[3], stemming from delays in decision-making, arising from the ongoing COVID-19 outbreak. In 2019, gross absorption was 58.6 million sq feet (5.4 million sq metres). While we anticipate leasing delays of up to a quarter, if the current lockdown extends beyond 15 April 2020, we can expect delays of up to two quarters, for the reasons below:

a) Revision of expansion plans and business strategy should adversely impact near-term space take-up.
b) Multi-national companies with head offices in the US or Europe will probably postpone decision making.
c) Led by the current lockdown, we anticipate construction completions will be delayed, pushing occupancy to later quarters.

### Insights & recommendations

- India's information technology and business process management (IT-BPM) sectors among others are reviewing business continuity plans. We believe that business operations of call centres and IT service companies are particularly impacted. We urge occupiers to build data capabilities to enable remote working.
- In a scenario that the current lockdown is extended, productivity of global in-house centres could be severely impacted. If the COVID-19 outbreak in India is not contained, and business operations suffer, we expect occupiers to initiate renegotiation of leases or ask for some relief from developers/landlords over elements such as lock-in amount, fixed deposit, to cope with likely increased financial pressure.
- We foresee occupancy levels in flexible workspaces to stay muted in March and April as the risk exposure is higher than in traditional offices.

### LONG TERM: (6 MONTHS-2 YEARS)

We believe that multi-national companies (MNCs) are likely to re-evaluate their workplace strategies with respect to global in-house centres/support centres and call centres in India to minimise continuity risk.

- We believe the current scenario is a precursor to a shift in the idea of workplaces. We recommend that occupiers evaluate their density plan[4] and seating arrangements in workplaces, keeping safety and health as key considerations. Currently, Indian workplaces are typically about 60-80 sq feet (5-7.4 sq metres) per seat.
- We recommend occupiers to consider splitting up offices as a hub-and-spoke-model, into two or more locations in a city, to minimise future risk as well as reduce dependency on one office. Under a hub-and-spoke model, occupiers can have one main office, and multiple smaller offices across the city.
- We anticipate cash flows of small and medium enterprises to be hampered, as they overcome a prolonged period of low productivity. Cost containment could emerge as a key factor in expansion plans of occupiers. We urge them to scout for cost-effective solutions, which could include flexible workspace which involves lesser upfront capital and low capital expenses. We believe that flexible workspace operators who invest in making the workplace safer should see greater enquiries from occupiers.
- We urge occupiers to place importance on wellness, and sustainability in buildings. We believe that properties with such features will see greater demand in the coming years. Hence, developers should investigate indoor air quality improvement methods and thermal imaging systems.

[3]Bengaluru, Chennai, Delhi-NCR, Hyderabad, Kolkata, Mumbai, Pune
[4] Density in workplaces refers to the number of seats in a specified area

## COVID-19 INSIGHTS & RECOMMENDATIONS


**NEAR TERM (UP TO 6 MONTHS)**

During H1 2020, we are anticipating slower deployment of funds in India by foreign investors as they are on a wait-and-see mode.

**LONG TERM: (6 MONTHS-2 YEARS)**

The recent global plunge in oil prices is likely to benefit the Indian economy in the form of lower import bills. This is also reflected in trend of 10-year government bond yields for India. For reference, the 10-year government bond yield fell from 6.6% on 17 January 2020 to 6.1% on 27 March 2020. We recommend investors to capitalise on the situation and focus on commercial real estate assets as their cap rates are likely to decline in line with the falling 10-year government bond yields. This should place commercial assets in a more lucrative position, possibly generating higher returns for investors. We also recommend investors to scout for assets in data centres and warehousing and logistics, given strong potential in terms of cloud infrastructure, and robust domestic demand.


**NEAR TERM (UP TO 6 MONTHS)**

The industrial and manufacturing capabilities in India remained largely unaffected by COVID-19 till February. From March, with the lockdown and the days preceding it, several sectors have been severely impacted. Currently, the domestic supply chain is being hampered, followed by the disruption in the global supply chain, production cuts and possible plant disruption impacting chemicals, textiles, automotive sector and electrical machinery. We expect fast-moving consumer goods companies to continue their operations, with grocery and food items having been listed in government's 'essential items.' However, we urge companies to automate processes for embracing contactless delivery, which ought to minimise human touch.

**LONG TERM: (6 MONTHS- 2 YEARS)**

After the initial disruption, we recommend developers to invest in modernizing their warehousing facilities, by maintaining warehouse management system, automating repetitive tasks, and using technology like sensors to capture information in real time. There is an appropriate time for developers to improve wellness and safety norms. We also see opportunities for investors in cold storage facilities that offer strong long-term growth potential.

## BUSINESS CONTINUITY FOR OCCUPIERS

**Whole Office Contingency.** In the event your office is closed, or take-up of new space is not possible due to construction delays, taking up space in less impacted locations through a flexible workspace operator should be considered. Several operators are proactively marketing this solution, and some are exploring ways to unlock large blocks of inventory to accommodate major continuity demand.

**Mission Critical Risk Mitigation.** Consider proactive use of flexible workspace to disperse mission critical teams across two or more locations in order to mitigate risk.

**Facilitating Meetings.** Occupiers should utilize advanced AV equipment at flexible workspace locations to facilitate necessary meetings, to disperse team numbers to aid distancing and risk mitigation. For example, large meetings could be broken up into smaller meetings and held at various locations with streaming/VC equipment readily available.

Source: Colliers Knowledge Leader