

Learning and unlearning: Peeping into the real estate sector for 2022

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The year 2020 presented challenges which no one could have anticipated. The national lockdown brought all economic activities to a standstill. We saw some recovery in the latter part of 2020 and early 2021. But then came the devastating second wave in March 2021. With all our learnings from 2020, we were able to prevent a further slowdown in 2021. However, It took all the time till July 2021 to see an improvement in the real estate sector.

Recovery in the market has already begun and the year 2022 will set the stage for growth Confidence in the market is being led by fast rate of vaccination, growth in economic activity, and fall in covid cases. India has given 1 billion vaccine doses. Next, economic activity is in full gear, with GDP growth is pegged at 9.5% for 2021-22. Things are looking bright for the economy, and this will percolate down to the Indian real estate sector too.

OFFICE SECTOR

India's office sector to see growth in 2022

Employers have been proactive to get their employees fully vaccinated. Employees are returning to office in a phased manner, as occupier confidence has improved in the last few months. India's office sector will see growth in 2022, with space uptake expected to rise 15-20% from 2021 levels. Absorption in 2022 will only be marginally lower than absorption in 2017-2018. This shows the resilience of the sector and the underlying importance of offices. While vacancy levels have risen in offices across cities, Pune and Bengaluru continue to see the lowest vacancy rates. Next year, IT and technology companies will be the demand drivers. At the same time, we can see higher quantum of space take-up from start-ups, healthcare and engineering and manufacturing companies.

Office demand and supply forecast

Year	Gross absorption (msf)	Supply (msf)
2020	30	35
2021E	25-30	33-38
2022F	30-35	30-35

Source: Colliers

In 2022, demand for large office spaces will likely return to pre -covid levels. Occupiers have realised the importance of office and its complimentary effect on the continuing hybrid working trends. As India's office market starts to see a revival, the terms of the business may just change forever.

Higher flexibility in leases in terms of lease tenor, rent-free period and CAM charges etc will continue to be prevalent. Further, average rents will remain stable over the next few quarters, assuming there is no complete lockdown.

Different workplaces: One office

Hybrid models are here to stay post covid, as companies continue to embrace the flexibility and provide wellbeing tools to their employees. However, incorporating a hybrid model will heavily depend on the type of industry as well. Firms looking to attract and retain good talent will embrace a hybrid way of working. The office will be a space for collaboration, innovation, socializing.

The future workplace will be an amalgamation of various workstyles as seen below. The workplace will be on that focuses on enhancing productivity and fostering collaboration and well-being.

The future workplace



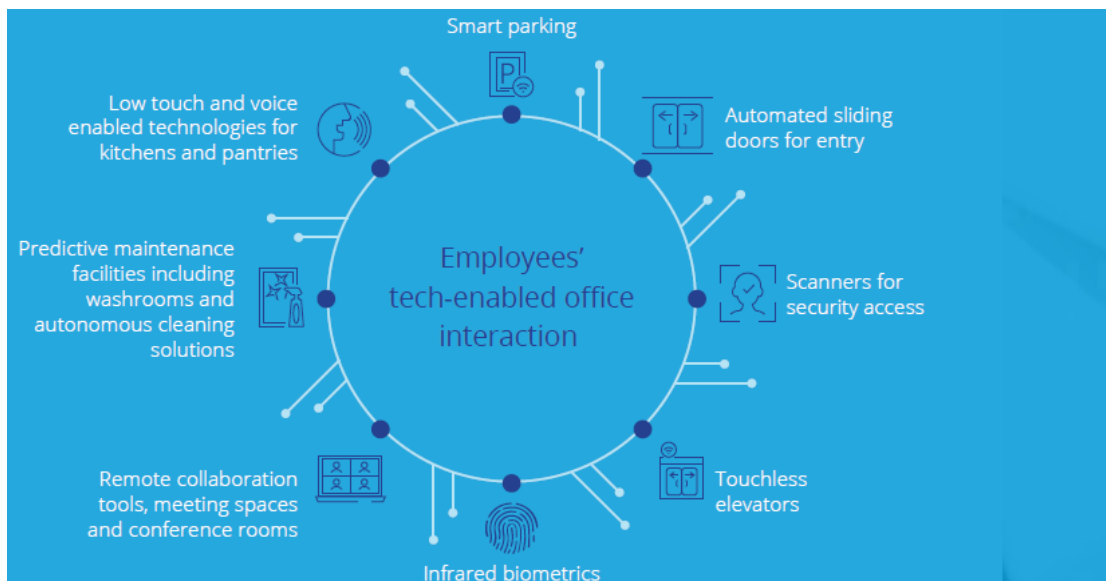
Source: Colliers

As occupiers formulate their hybrid work plans, they are looking to add flexibility and agility, reduce capital expenses, and elevate employee experience. Enterprises will look for high quality flex spaces to set up regional offices in suburban locations in metro, and in non-metro locations. In 2022, flex operators will lease spaces led by demand for such space by large enterprises. During the first nine months of 2021, flex operators leased about 3.9 msf. In 2022, flex operators will focus on how to offer maximum customization for occupiers, by elevating user experience. They will focus on center efficiency, and profitability, and not rampant expansion. The winners will be those who can adapt and reinvent spaces as per occupiers' needs.

Flight to quality and designing for wellness

As occupiers navigate the uncertainty posed by the pandemic, there will be more demand for future-ready offices. These new-age offices will promote health, safety, protection and wellness through various facets. Technology will be an important enabler as offices evolve into a space for collaboration, innovation, socializing.

Impact of technology in the workplace

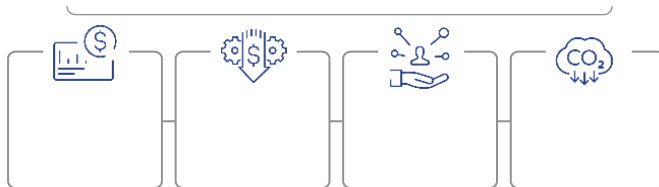


Source: Colliers

Office upgradation at the core of revival

As occupiers look at new-generation office space, there will be immense scope for landlords to upgrade existing facilities. Building retrofitting is crucial, and can fetch as much 20% increase in rents for developers/landlords. Upgradation should make these offices more attractive to occupiers, leading to a) increased rents and lower vacancy levels, b) high tech buildings and c) sustainability benefits like reduction in carbon emissions.

Additional benefits of upgrading offices for landlords



Source: Colliers

We believe that developers can adopt a dual approach by facilitating wellness in buildings and by designing a wellness culture for the well-being of tenants.

Landlords and developers will also focus on

- a) high-performance buildings (A high performance building facilities technology, environment, energy and efficiency parameters to enable greater productivity, health and wellness.)
- b) More space for common amenities
- c) Sustained wellness measures to bring back employees to offices

RESIDENTIAL SECTOR

Technology to aid in the growth of residential sector

After a gap of about six years, India's residential sector is seeing renewed activity. Residential sales is reviving, with further signs of growth in 2022. Economic activity returning, growth in salaries in the technology sector and the inclination to own homes are some of the factors that will steer sales. The environment is conducive for buyers, led by the following-

- a) **Low home loan rates-** Commercial banks have been reducing their home loan rates to historical-lows. Many of the banks have reduced interest rates irrespective of the loan amount. It will also bolster homebuyers' confidence. It will nudge especially those homebuyers who were unsure about making a purchasing decision till now. Homebuyers can benefit if they plan their home loan payment plans with their banks well.
- b) **Developers' offers & incentives** - Developers are launching several schemes to woo homebuyers. Some schemes that we see in the market during the festive season include no EMIs till possession, 10-90% schemes etc. In some cases, there are also assured returns by developers on investments, and other cash discounts to attract homebuyers. These offers can definitely be the icing on the cake for homebuyers.
- c) **New launches-** After a lull of a few quarters, new residential launches are picking up. Next year, developers will launch projects that are driven by deeper market studies and homebuyers wants. Projects from tier I developers, larger sized units and integrated townships will be in demand.

Developers will also explore plotted developments and villa projects in the high-end segment, in close proximity to top cities. The focus on mid segment and affordable housing will continue in 2022.

- d) **Stable prices-** Overall, residential prices have been largely stable over the last two years. This has created a conducive environment to steer demand. Next year, there could be some room for price improvement for developers, in select micro markets in the top cities.

Residential developers will become more digitally savvy. Digital marketing will slowly become the most prominent way to generate leads in the market, and to market properties. Aspects like monitoring of online construction, using virtual reality for closure of deals will become the norm. This uptrend is expected to continue in the times to come.

INVESTMENTS

PE Investments to gain traction in the residential and industrial sector

Investments in the real estate sector have not been deterred by the pandemic. In 2020, investments touched USD4.8 bn, with Jan-Sept 2021 reaching the level of about USD3.5bn. The investment volumes during 2020 and 2021 will be about 15-20% lower than the average investment volumes in 2018 and 2019.

In 2022, the residential and warehousing sectors will see increased investments from investors. The industrial sector garnered about USD900 mn already this year, with more deals in the pipeline. Liquidity is high in the market, and investors are looking to secure debt funding for grade A developments with a good track record of execution. The residential sector is already making a comeback in terms of investments. During YTD 2021, the segment accounted for 11% share in total investments, compared to 6% in Jan-Sept 2020. There will also be a higher number of platform deals as investors gain confidence, especially in the industrial segment.

At the same time, investments in the office sector is here to stay. During H1 2021, about 86% of the total investments in the office sector were in land or projects under-construction. Several players too considering launching REITs in near future. India's REITs have given an annualised distribution yield upwards of 6%. Recently, the government has come out with some policies like allowing foreign portfolio investors (FPIs) to invest in REITs to make them more attractive for investors. We may also see some PE funds taking a contrarian view and look more aggressively on retail and hotels for distressed assets. They will also take an opportunistic view on developmental assets in office, data centers etc.

Overall, the real estate sector has learnt and unlearned several aspects over the last one and half years. We have become adaptive to cope with uncertainty, pivot to new areas. Some of the sectors to look out for, in terms of growth, will be data centers, senior living and integrated cold storage facilities. However, technology will be the overarching theme across the sector. Hence, there is an immediate need for developers and occupiers to adopt the right technology fit.