



Reality of realty in the
post-COVID-19 world
An India survey report

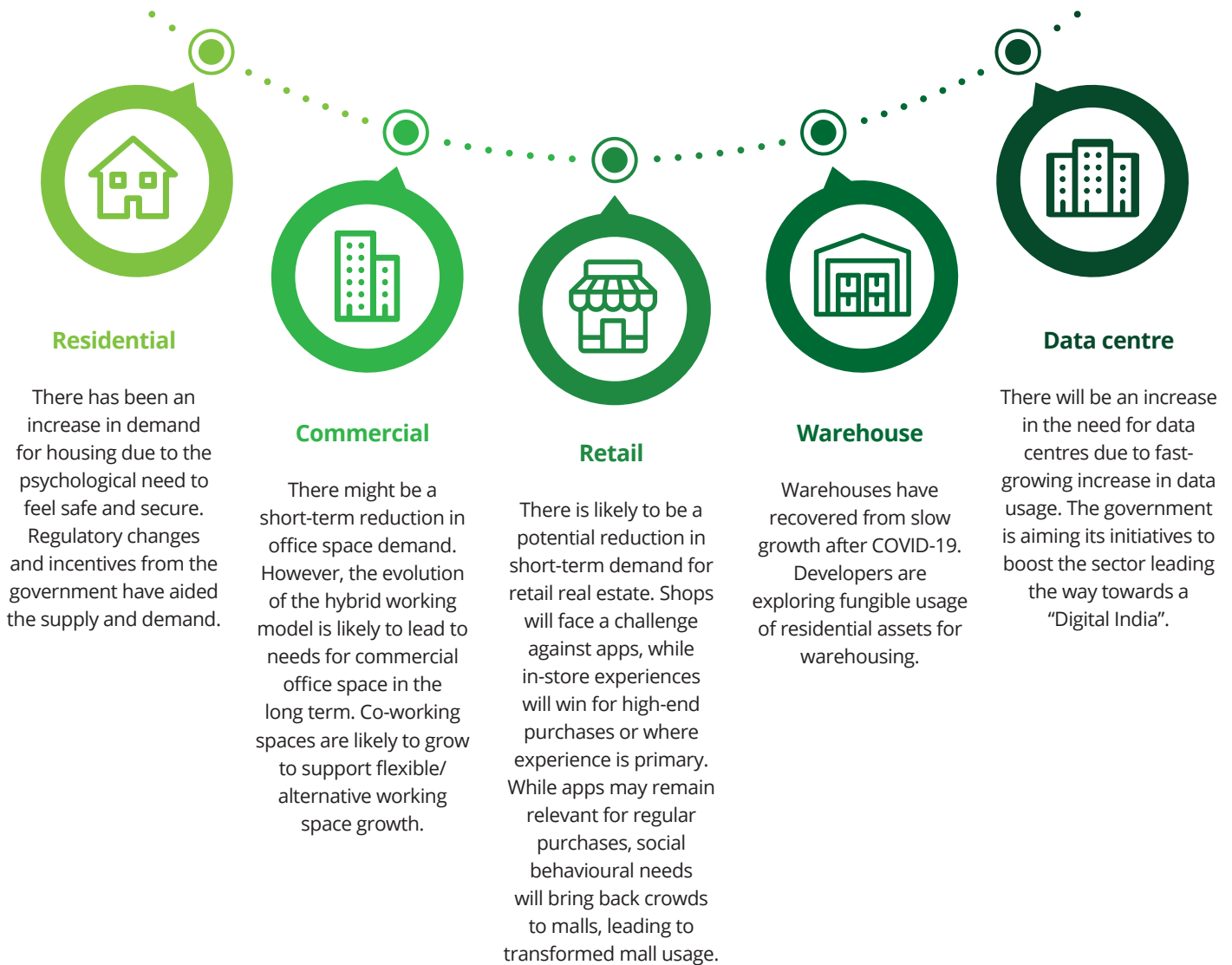
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Executive summary

Post COVID-19, the needs of real estate consumers have gone through significant changes across all major sub-sectors (viz. residential, commercial, retail, warehouse, and data centres). The market has moved favourably by adopting new ways and exhibited good growth across key parameters. The government's push for the sector is also bolstering confidence amongst investors. Our recent survey, which was conducted to understand changing customer perspectives, through the responses of leading Indian CxOs in the sector, captured the following points of view:





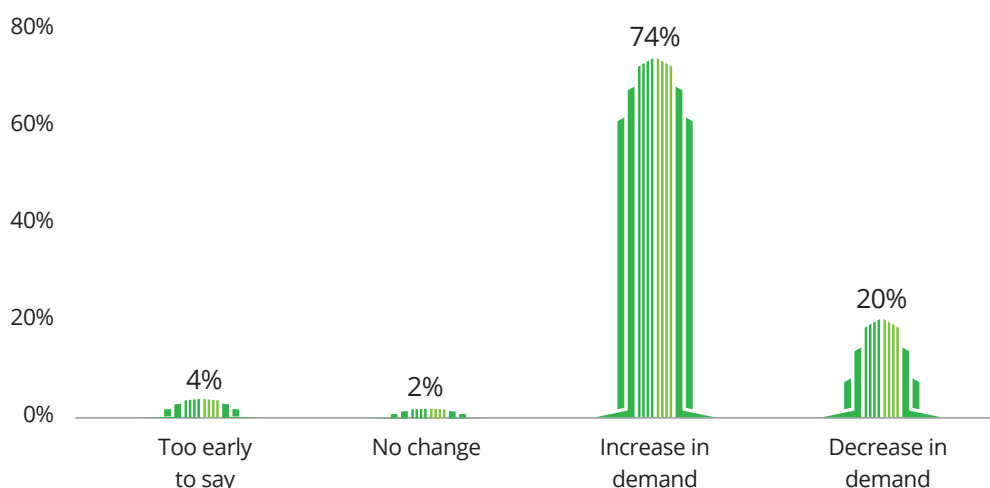
Residential: A safe haven

Home is where the well-being is

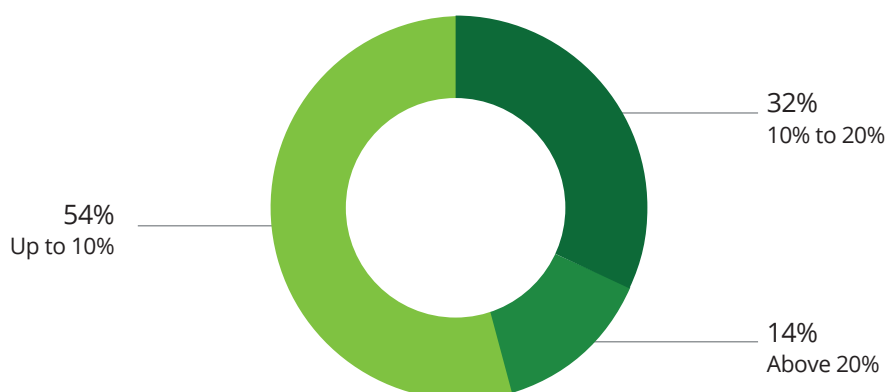
Never has the need to stay indoors been seen to be more important than during the current pandemic. While the prominence of the residential real-estate sub-sector has increased in recent times, the sub-sector has already been facing an imbalance in demand and supply, across the nation.

According to our survey, 74 percent respondents expected an increase in demand for the residential sub-sector, of which, 86 percent indicated up to 10-20 percent increased demand. We believe this is due to emerging needs of owning a house in the current scenario to feel safe and secure.

What is the impact on the residential sub-sector due to various factors such as safety requirements, psychological needs and others post COVID-19?



Increase in demand, by what percentage?



The residential sub-sector has been a prominent investment choice and is set to gain popularity in the coming future due to rising needs for security and safety. The realisation that almost every activity, i.e., work, learning, schooling, fitness, health can be performed from the comfort of one's home, will help the residential real-estate sub-sector re-emerge as a popular investment choice amongst the masses.

A helping hand from the government

Governments have always understood the importance of residential real estate, both as an integral part of the economy and also as a social requirement that fulfils people's basic needs. In the context of the current pandemic, the government has provided many regulatory incentives to help grow this sub-sector and improve its overall health. This support is expected to continue and will help the sub-sector tide over some challenges it faces, such as: high transaction costs and interest rates, tax burdens, and delays caused by the pandemic.

Our survey respondents ranked the following government measures on their role in softening the impact of COVID-19 in residential real estate, with Rank 1 being the highest.



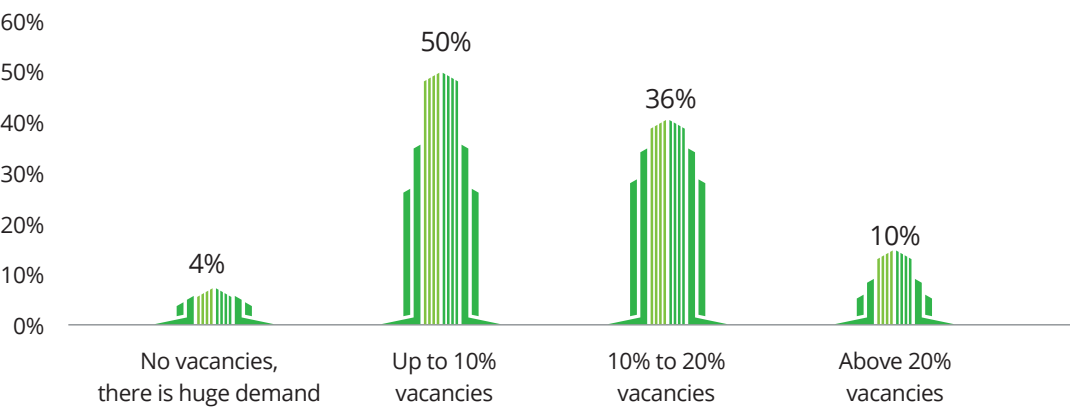
Renting over buying

For a long time, the rental landscape in India had been unstructured and non-transparent due to the lack of governing policies or guidelines and the existence of old and archaic laws. This has shone a spotlight on the rental market, coupled with the belief that the government’s vision of “housing for all” cannot be achieved without unlocking locked houses. **For the survey question, “What would millennials and Gen-Z end-users prefer in the residential sub-sector post COVID-19?”; 26 percent respondents indicated renting, while 74 percent respondents chose owning/buying a property post COVID-19.** Further, with growing acceptance of a circular or shared economy, renting may seem like an attractive option for many first-time home buyers. But the survey seems to indicate that buying a house still seems to be in vogue.

The government, on its part, approved the Model Tenancy Act, 2021, and has provided a model framework to regulate renting and to protect the interests of landlords and tenants. Under this Act, all state governments are required to set up an independent authority to register all rental agreements in the state and a Dispute Resolution Board to resolve disputes that may arise between landlords and tenants. This Act will also help attract developers’ interests to construct rent-yielding residential properties due to increased transparency and efficiency. There has been a growing trend amongst large developers and start-ups to invest in co-living properties as they expect a big rise in demand for such properties in the market. More than 75 organisations in India have invested in co-living, of which 20 start-ups have come up in the last three years.

The survey also highlights the responses on how the Model Tenancy Act helps organise rental space. Ninety eight percent respondents believe that the Act helps organise the rental space of which 60 percent believe that both the tenant and the owner will benefit from it. It also highlights that 94 percent believe that there is a growing trend of investing in co-living rental spaces.

Post COVID-19 there has been increase in vacant rental inventory in finished projects. Following are the survey responses highlighting the increase in vacancies.



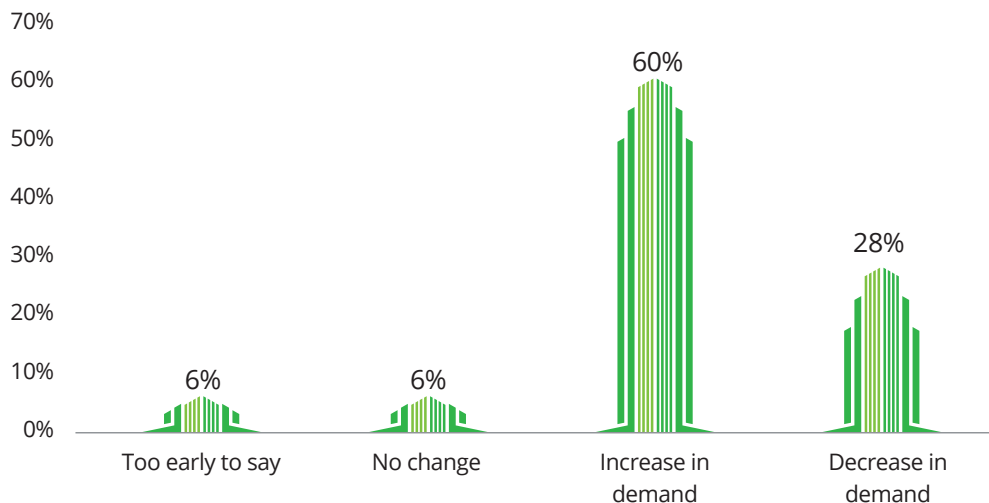


Commercial: Winds of change

Changing definitions

This pandemic has challenged the definition of office being “a place of work” and home “a personal space for living”. Per our global survey, approximately one-third of banking, insurance, and investment management respondents are looking to rationalise their real-estate footprint over the next 12 months. The exact impact on the Global Capability Centers in India is still unknown. With major companies deciding to have a flexible approach towards work from home and offices spaces, commercial real estate might see some changes when compared to the previous operating patterns. A survey of global millennials in 2020 indicated that more than 60 percent wanted the option to work remotely more frequently and a majority preferred video conferencing instead of working from office. However, our survey indicates that 60 percent **respondents indicated an increase in demand for the commercial sub sector —a positive indication for the sub-sector.**

What would the impact of COVID-19 be on commercial sub-sector (offices) in the medium term?



While the lockdown-related restrictions on commercial establishments are easing, organisations are looking beyond physical offices to mitigate the risk of impact to their business operations due to similar disruptive events in the future.

Evolving middle ground

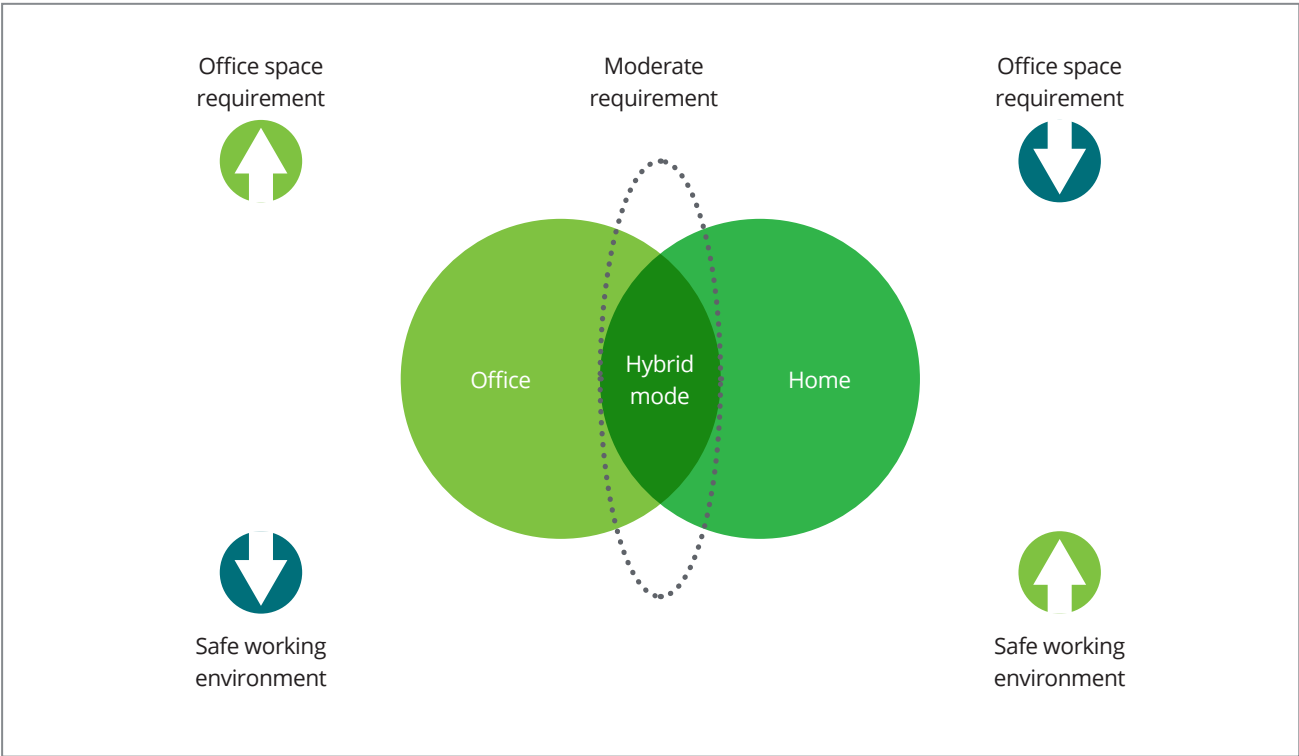
The pandemic necessitated the move from a traditional “work-from-office” model to “work-from-home” model. Although, India has reached the milestone of vaccinating 100-crore of its population and with a decrease in infection rates, employees may gradually return to office, we may still not see a complete “work-from-office” model as the practice used to be pre-pandemic. This would compel employers to relook at their office space requirements.

Work models are evolving and a hybrid work model has gained greater acceptance amongst both the employer and employee. This could allow employees to work from home for few days in a week and go to office for the rest of the week, while rotating their workforce to ensure the optimum use of office space.

From our recent survey, 96 percent respondents believed that proper sanitisation is a major concern in office spaces post COVID-19.

Adoption of hybrid work models may, in the short run, reduce the size of the office space requirement. Also, it could impact the uptake of newer office spaces that may become available. Hybrid models could be beneficial in maintaining a flexible working environment, while simultaneously improving operational profits due to cuts in operational expenses. In the long run, it is expected that the success of the hybrid model shall boost the growth of offsite working, which will increase the requirement for office spaces in service-centric countries such as India.

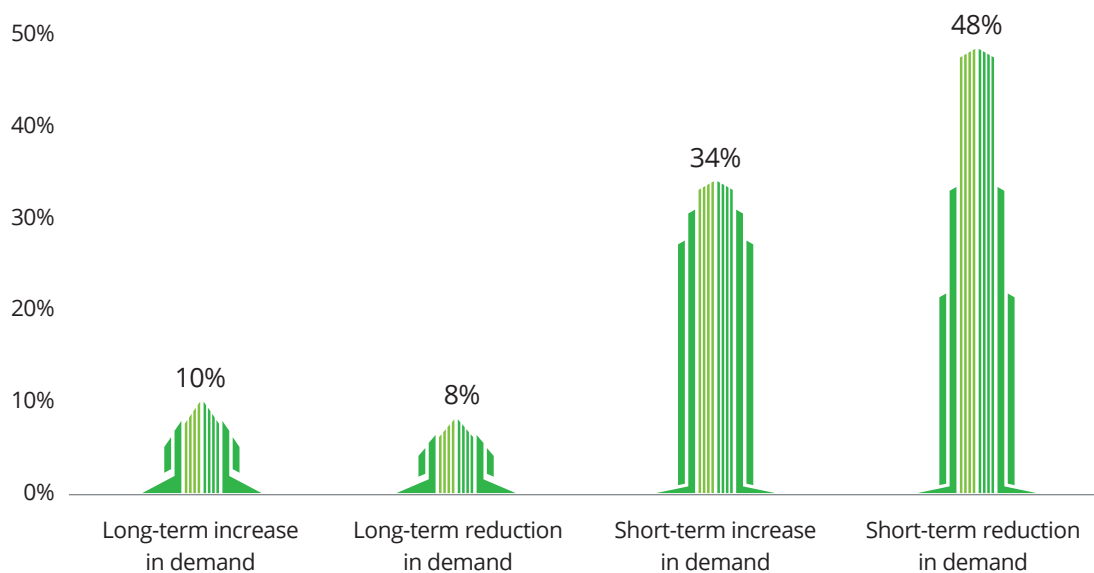
Diagram elucidating safe work-space environment



Existing workspaces would also need to undergo various physical and technological changes to adopt this model, while simultaneously focussing on employee well-being. Following social distancing norms at offices would demand higher spaces per employee; however, with hybrid working models in place, this could very well be adjusted with lower occupancy at offices at any given time.

The ease of adoption of hybrid work models varies depending on the nature of the business operations, including factors such as data sensitivity. Various industries were analysed and ranked, based on their data criticality and physical real estate needs for their operations. The IT sector, being highly resilient to disruptions in a physical work environment, has the highest suitability in adopting the hybrid work model, whereas the real estate construction sector, which involves high customer interactions, has the least suitability for adopting hybrid work models. Similarly, it may be difficult to adopt a hybrid work model in sectors such as entertainment, health care, manufacturing, and banking and financial services.

From the survey, 48 percent respondents believed that there will be a short-term reduction in demand for commercial office spaces post COVID-19 due to hybrid working model.



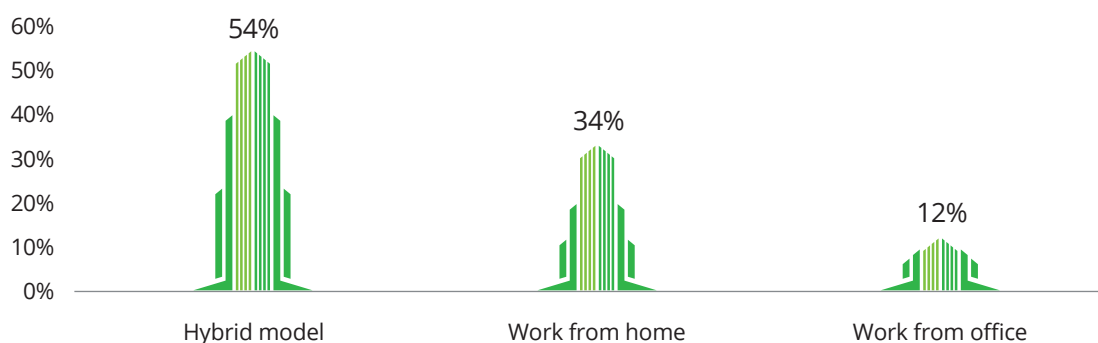
From working to co-working

With COVID-19 pushing remote working to be the new normal, co-working spaces have gained a new importance amongst those who face difficulties in accommodating work at their own homes or feel the need for physical collaborations. Co-working spaces are a good alternative to a traditional office space as they meet the requirements that a traditional office provides. They also create a conducive environment for professionals to work and connect with like-minded people. Entrepreneurs, freelancers, and several small and large organisations are adapting this flexible co-working space, owing to savings realised from lower operational costs. Co-working spaces are also a possible solution for companies looking at a wait-and-watch approach or concerned about committing large sums of money in setting up new facilities, given the current uncertainties.

Although co-working spaces witnessed a short-term setback owing to health and safety concerns, they are expected to witness a strong bounce back. With employees now being more cautious about work surroundings and safety, companies now prefer to have an open, spacious, and well-ventilated space. There has also been a growing emphasis on technology-enabled facilities such as contact-less attendance, automated doors, taps, and sanitisation rooms.

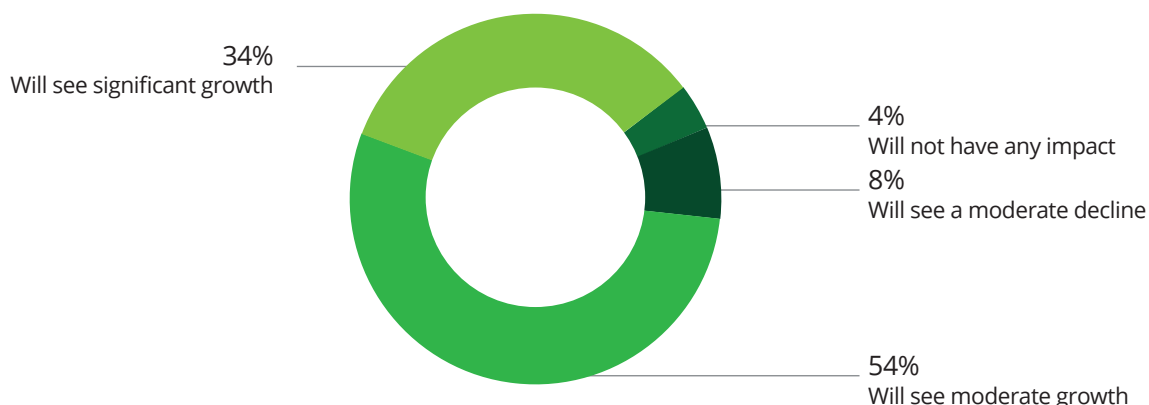
From the recent survey, 54 percent respondents agree to work in a hybrid working model post COVID-19

What does the proposed working model look like in the post COVID-19 environment?



Per the recent survey, 54 percent respondents agree that there will be moderate growth in co-working spaces after COVID-19.

Post COVID-19, will co-working spaces grow and emerge as an alternative to regular office spaces?





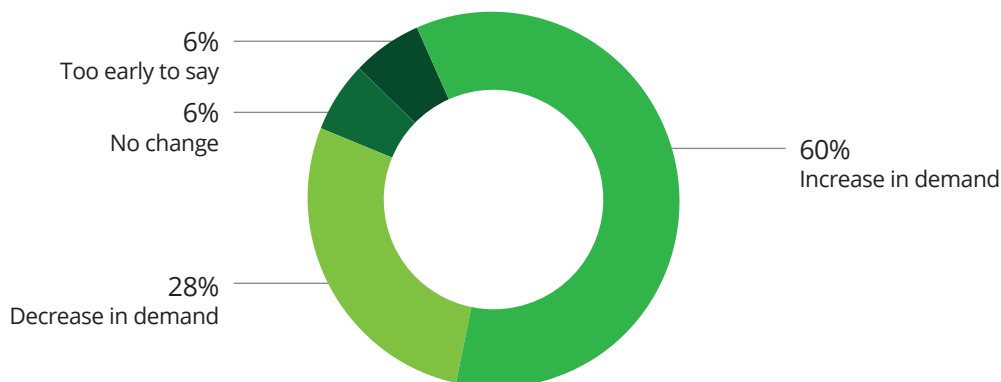
Retail: Awaiting footfall

On the path to metamorphosis

The habit of stepping out for shopping trickled down during the pandemic era. COVID-19 has considerably reduced the footfall on neighbourhood brick-and-mortar shops, as customers are now getting most things delivered right at their doorstep. It has been forecast that the demand for new brick-and-mortar shops would likely be reduced for a short span. Now, with decreasing positivity rates of COVID-19 in India, the retail sector is expecting a bounce back to pre-COVID-19 levels. While during the festive season of November–December 2020, the retail sector witnessed a shortfall from that of its previous year, the recent festive season of November 2021 saw stronger recovery across the nation.

60 percent respondents from the survey indicated an increase in demand in retail spaces in the short term, of which, 42 percent believed the increase to be up to 10 percent, while 28 percent respondents believed decrease in demand in retail space, of which, 14 percent believed the decrease to be up to 10 percent.

What would be the short-term impact of COVID-19 be on the retail sub-sector?



Post pandemic, the focus has shifted from long-term property leasing to a more flexible, short-term leasing arrangement, per the demands of tenants. Tenants are looking for bespoke leasing terms, which would help with early exits when compared with traditional long-term leases and fixed rate rents. Tenants are trying to sustain their physical presence through a dynamic and agile business model as the pandemic has limited the portfolio and consumer demands throughout the country.

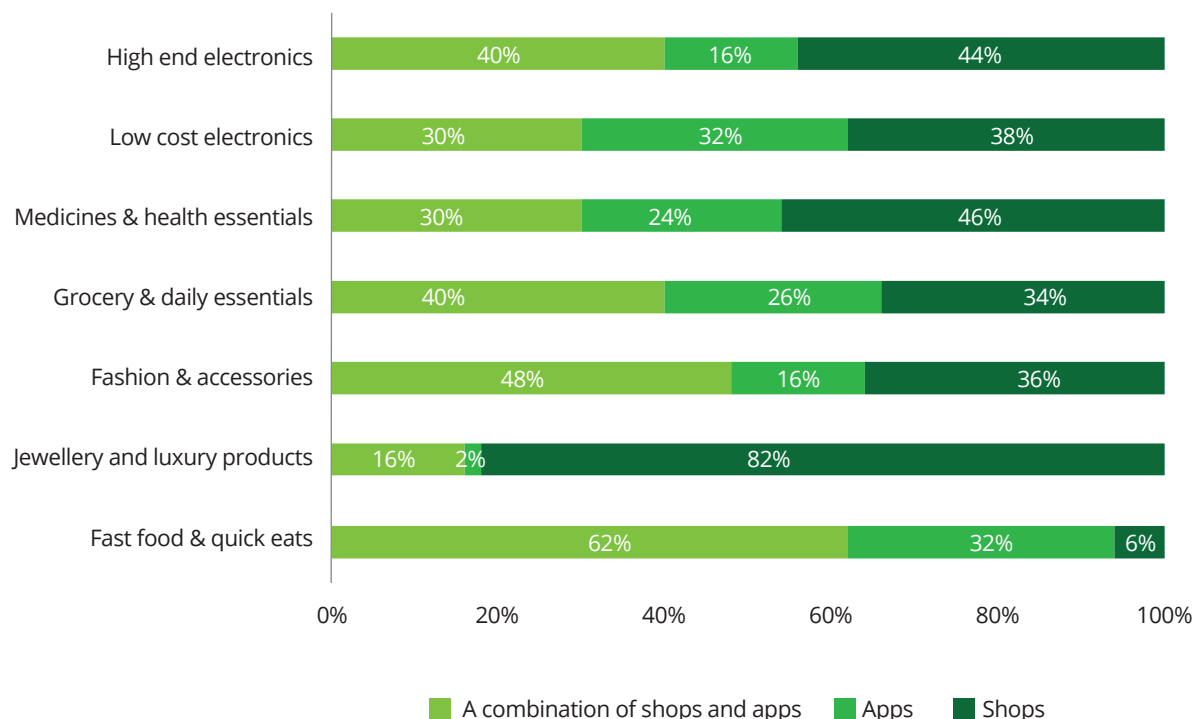
Shops vs. apps

For more than a year, consumers were largely forced to shop online due to the fear of infection and the lockdowns imposed since March 2020. The year-long pattern habituated consumers to plan and make their purchases online and get it delivered to the comfort and safety of their homes. This has instilled a strong habit that would be hard to shake off, even after the country has been vaccinated in totality. Going forward, even with easing restrictions and public movement, the comfort of shopping from the couch is expected to prevail for regular consumables such as medicines, groceries, food and beverages, and even low-cost electronics, where more or less the choices are clear. The brick-and-mortar shops catering to these items are expected to see a decline in footfall, in the future, which is expected to be a behavioural change amongst consumers. Apps are expected to win this tussle against shops as major players seem to be expanding their capabilities to deliver on time and right at the doorstep.

On the other end, purchases that are less frequent, expensive, and/or where buying decisions are made based on the five human senses, such as clothes, jewellery, fashion products and accessories, and high-end electronics, rely on the physical experience that a shop provides, which helps consumers conclude the purchase. Although these products are also being bought online, in the long run, shops are expected to be preferred over apps, as apps would not be able to deliver the “touch-and-feel” experience.

The survey also highlighted respondents' preferred medium of shopping between shops and apps across industries. The food industry, along with grocery, fashion, and accessories, is expected to continue growing with a combination of shops and apps in the majority votes. For jewellery and luxury products, shops are still the preferred medium of shopping post COVID-19.

Which is the preferred medium of shopping between shops and apps?



Mall of the future

It would be an understatement to say that the social life of the majority has been impacted since the beginning of 2020. Even with all the technological platforms that help us reach out to friends and families, in-person social interactions and gatherings were limited. Per the “Deloitte Global 2021 Millennial and Gen Z” survey, it was noted that 44 percent of those surveyed said that they would eat out at restaurants more often than before the pandemic. In such scenarios, malls could be a great setting for different social gatherings and services.

Malls of the future will not only cater to shopping needs but also growingly to social needs such as entertainment and amusement. While, clothing, fashion, electronics, jewellery, etc., will play a key role in increasing footfalls and revenue for malls, it will also be essential to ensure that malls focus on being the place of entertainment and amusement to ensure their sustenance and relevance in a world with growing competition from online stores. With the right safety norms and practices, there has been a notably strong footfall in malls, presently over the weekends, which goes on to reinforce the expectations from this sub-sector in the coming days.

The survey reveals that 84 percent respondents voted that malls would see increased utility as places of entertainment and social gatherings, as opposed to their traditional shopping clusters. Further, 48 percent respondents indicated that they expect a slight decrease in demand for malls post the pandemic.

Changing mailbox

Due to travel restrictions and lockdowns in most of the major cities, employees have evaluated their options of moving out of the densely populated cities and in most cases have chosen to relocate to their natives to be closer to their families in tier II and tier III cities. This essentially means that the purchasing power of tier II and tier III cities would see an increase when compared to the pre COVID levels. Products and services which were once only viable in tier I cities are now slowly seeing demand come up in tier II and tier III cities due to reverse migration. This essentially means that there is a growing demand for the retail sub-sector (malls and shopping centres) in these cities.

The survey reveals that 68 percent respondents believe that there will be an increase of up to 30 percent in the development of projects in tier II and tier III cities.



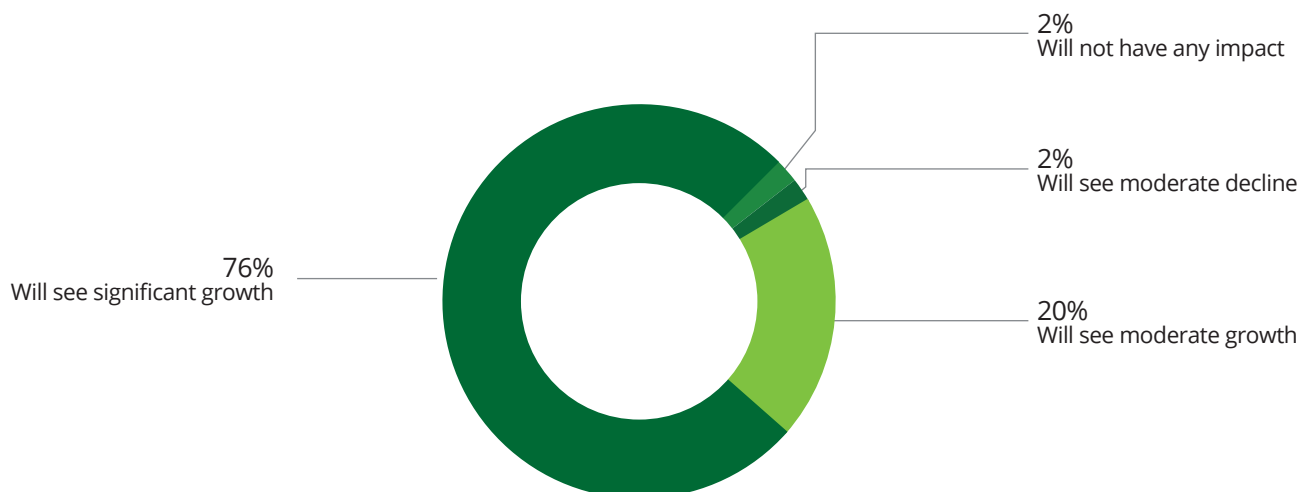
Warehousing: Building on demand

From recovery, on the path to growth

The warehouse sub-sector was the fastest to recover from the pandemic. Warehousing has not only dropped the tag of slow growth but has once again become the desired avenue for investment. Increase in online shopping has resulted in increased warehouse demands. Post COVID-19, operators have moved the stocking approach, which is in contrast to their Just-in-Time approach before the pandemic. The respondents to our survey firmly believe that the current increase in demand of warehousing real estate is going to sustain and this sub-sector will witness better days.

The survey highlights that 76 percent respondents voted that there would be significant growth in warehouses post COVID-19.

Post COVID-19, will warehouses see growth or decline?

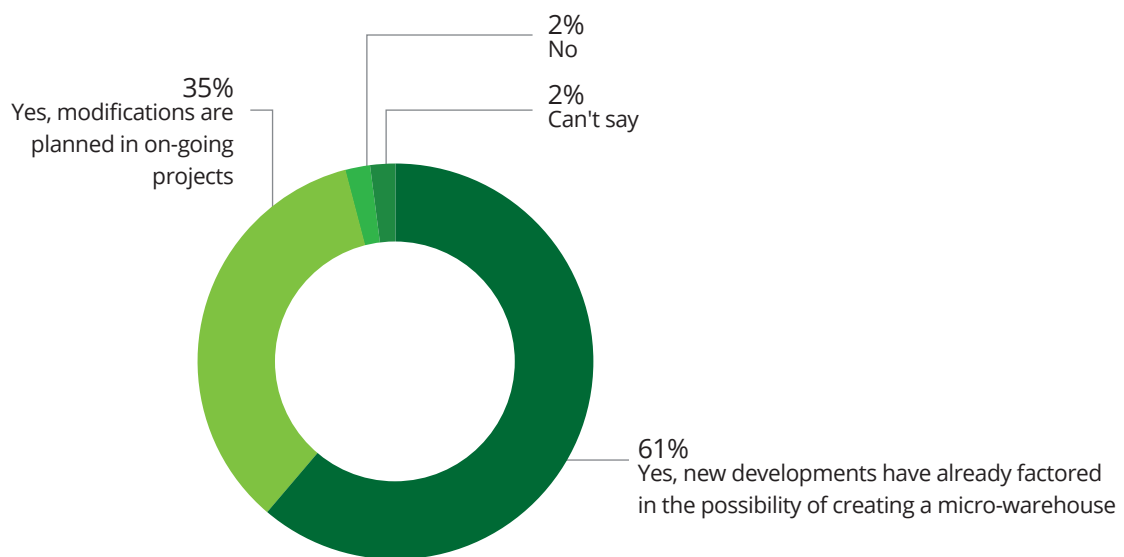


Unlocking the hidden potential

To shorten the delivery transit time, there has been an increased demand for micro-warehouses and smaller fulfilment centres near households. This has generated a new demand for warehousing in residential areas. The resizing of warehouses would yield more benefits for residential developers, who can take an early mover's advantage. This model will be helpful in cutting high warehousing costs and there is potential for larger synergies between warehouse operators and developers.

The survey reveals that 98 percent respondents believe that the demand for micro-warehouses will benefit residential areas, of which, 61 percent believe that new developments have already factored in the possibility of creating micro-warehouses.

Will residential pockets benefit from the growing demand for micro-warehousing post-COVID-19?



On the fast lane

Till now, there existed a notion of establishing warehouses in close proximity to tier-I cities because of proximity to consumption points and better infrastructure connectivity. However, due to the pandemic, a majority of the working population has migrated to Tier II & Tier III cities, causing a significant shift in demand from tier I to tier II and tier III cities. This has triggered the construction of warehouses/fulfilment centres in tier I and tier II cities which are expected to be future destinations for the development (setting-up) of the warehousing sub-sector.

Almost all respondents from the survey believe that there will be growth in micro and smaller warehouses post COVID-19 and there will be a rise in demand for new warehousing projects in tier II and tier III cities post COVID-19.



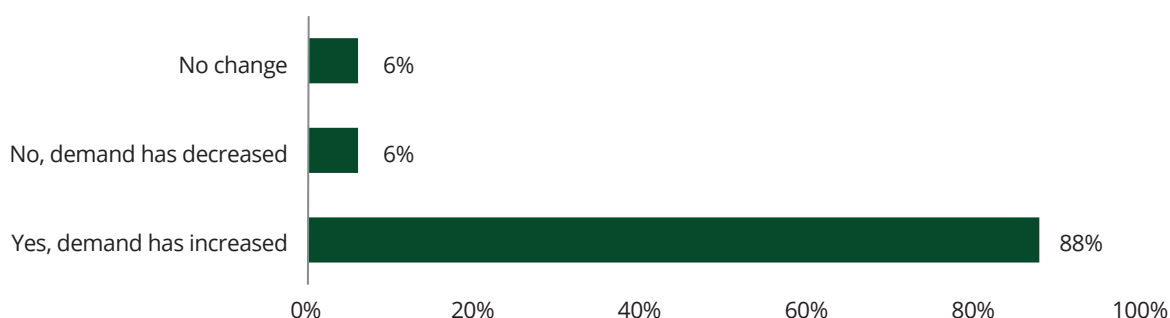
Data centres: In the spotlight

The rise and rise of data centres

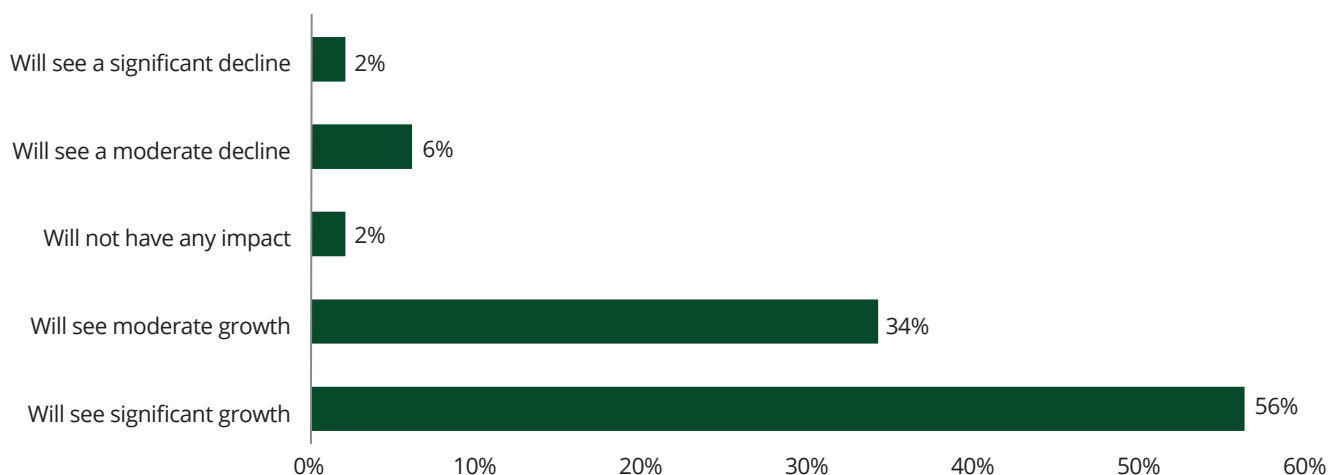
The data centre sub-sector has witnessed increased demand, as a result of the shift towards home and remote working. Data centre growth has been driven by increased organisational awareness of the benefits that cloud services can provide, increased pressure from the boards to provide more secure and robust IT environments, along with the setting up of local data centres across the region.

Eighty eight percent respondents indicated expected increase in demand for new data centres post COVID-19.

Has the demand for new data centres increased post-COVID-19?



Do you think this demand for newer data centres would see a slowdown in the medium to long term due to technological advancements?



An enabler in government support

Third-party data centres are estimated to grow many fold in capacity over the next few years. With the tremendous growth potential in this sector, it has become imperative for the government to bring out structured and positive policy reforms or initiatives to attract private as well as international players to invest in India by setting up world class data centres. With the huge data generating from India from sources such as Aadhar, ecommerce activity, and pandemic-induced data, it is pertinent to safeguard the privacy and security of the nation. The government has taken several steps in this direction to create a convenient atmosphere for investors, some of which are below:

Data Centre Policy, 2020 - The government is trying to develop this sub-sector by giving it the infrastructure status and incentivising investments made.

Personal Data Protection Bill, 2019 - Data privacy and data localisation policy reforms and initiatives by the government mandate India Inc. to focus on local establishments. Eighty-eight percent respondents anticipate significant growth in demand for newer data centres.

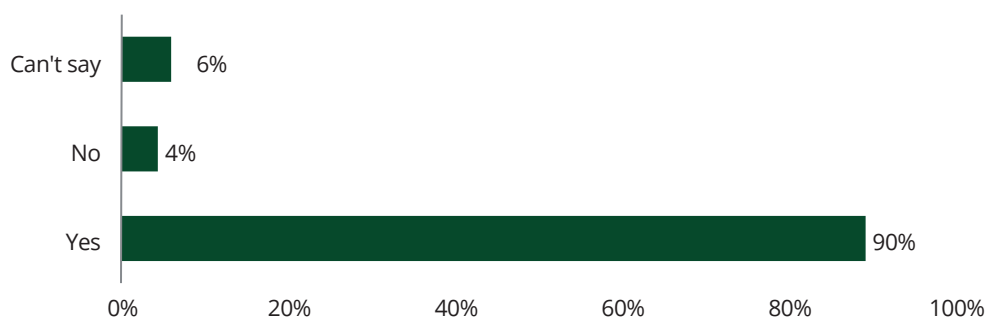
Setting up of a national portal for Artificial Intelligence (AI) - With the aim to develop AI footprint in India across sectors, a national portal for AI has been set up.

Setting up data centre parks/economic zones - The government aims to introduce data centre economic zones to create favourable working conditions for the development of R&D units, IT companies, cloud services, etc.

Extension of FDI limit in the telecom sector - Extending the FDI limit from 74 percent to 100 percent in the telecom sector will allow foreign investors to expand their business in the Indian landscape.

90 percent respondents said they witnessed increased focus from the government on developing data centres.

Post COVID-19, do you see an increased focus of the government on boosting the development of data centres?



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